Interim report for the period 1 January – 31 March 2014

Q1 LOSS-MAKING, PROFITABILITY IS EXCEPTED TO IMPROVE DURING THE REST OF THE YEAR

The financial period in brief (last year's reference figures inside brackets):

- Turnover for the financial period was EUR 6.1 million (2013: EUR 10.8 million), a change of −43.9 per cent.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) were EUR -2.3 million, -38.2 percent of turnover, (2013: EUR -1.2 million, -10.9 percent of turnover).
- Operating profit before non-recurring items was EUR −2.5 million, −41.9 per cent of turnover (2013: EUR -1.9 million, - 17.7 per cent of turnover).
- EBITDA for reporting period was burdened by non-recurring items of EUR 0.4 million related to lay-offs in Denmark and Slovakia.
- Operating profit was EUR −2.9 million (2013: EUR -1.9 million, -17.7 per cent of turnover), −48.1 per cent of turnover.
- Net profit was EUR −2.8 million (2013: EUR -1.6 million, -15.1 per cent of turnover), −46.0 per cent of turnover.
- Earnings per share were EUR -0.04 (2013: EUR -0.12).
- Net cash flow from operating activities was EUR −1.7 million (2013: EUR -3.1 million).
- Directed share issue and convertible bond strengthened the financial position and balance sheet.
- New remarkable owner to Ixonos

Future prospects in brief

- The turnover for the 2014 is expected to be in a range of EUR 26 – 34 million and EBITDA is expected to be positive.

Esa Harju, President and CEO:

"The first quarter of 2014 has taken us forward in our renewal process. Our monthly revenue levels have started to stabilize, although Q1 was still lower than the previous quarter. As stated earlier, we expect our revenue levels to start to grow again during 2014.

We continued to streamline our operations and costs, which will result in further cost savings during 2014. These actions brought some additional non-recurring costs into Q1.

We have structured our financing and strengthened our balance sheet with convertible bond and having directed share issue, as described in the announcements on 7 March and 31 March. With these actions we have improved our cash position, as well as brought in a new significant shareholder to our company.

As per our renewed strategy, we help our customer companies embrace digitalisation, Internet and mobility for productivity and unique user experiences for competitive advantage. Our renewed ixonos.com web pages also reflect this new focus and direction now.

We have closed several new deals during Q1 with important new customers. Many are delivering revenue already, and will have notable impact on our full-year development. We believe that our results will improve during the year."

OPERATIONS

Ixonos is a design-led technology company that provides creative digital solutions and services for customer companies in selected target industries. We help our customer companies embrace digitalisation, Internet and mobility for productivity and unique user experiences for competitive advantage.

Our core strength and unique differentiator is our ability to combine our world-class design capability with strong technical implementation skills, hence offering total end-to-end solutions that deliver strategic value to our customers.

Ixonos' design services cover digital, mobile, web design as well as service and industrial design. These holistic design services consist of design strategy, design and user research, design innovation and workshops, visual and interaction design, and prototyping for various connected devices and services and ranging to complete cross-platform design.

We excel in creative software development, both in embedded SW as well as in online SW. We utilise open standard technologies (e.g. Linux, Android). We combine the SW development capabilities with our world-leading technology knowledge and our deep understanding of user interface design and usability and excellent project management capabilities. This enables us to provide solutions for our customers with quality and agility. Our technology competences cover e.g. wireless connectivity, RF, audio, imaging and video technologies.

As per our sharpened strategy in October 2013 our focus business areas are:

- **Industrial Internet**: Providing embedded and creative digital solutions for the Industrial Internet. We help industrial companies to transform from proprietary technologies into standard open source technologies enabling increased productivity and value for their customers. We provide digital innovations that help them in their transformation to new digitally connected service business. Ixonos partners with leading chipset manufacturers, providing state-of the art platforms for our solutions. Our clientele in this segment consists of companies such as Kone, Outotec, Cargotec, Grundfos and Metso.

- **Media**: Helping TV broadcasters, studios, production companies and operators to offer increasingly interactive and personalised viewing experiences, as well as new business models, through innovations such as Ixonos TV Compass™ 2nd screen solution. Our clientele in this segment consists of companies such as Fox, ESPN, MBC Group, Warner Brothers and Turner Entertainment.

- **Retail & brands**: Helping consumer-facing retail and service brands to embrace Internet-based digital and mobile solutions for excelling in omni-channel retailing, customer experience, productivity and service innovation. Our clientele in this segment consists of companies such as Stockmann and Iittala.

- **Enterprise IT and ISVs**: Providing secure and robust cloud and managed hosting services with Ixonos Elastic Cloud™ solution. Ixonos virtual private cloud has been designed for demanding enterprise use. It combines the security of a private cloud with the scalability of the public clouds. Information is secured and stored in our machine rooms in Finland. Ixonos Elastic Cloud™ is also used as an operating platform for several end-to-end solutions. Our clientele in this segment consists of companies such as Fonecta, eZ Systems, Improlity, Efecte, Nokia and Propentus.

We continue to serve our customers also in other market segments, including:
- Smart Device OEMs, where our customers include Samsung, Huawei and Nokia.
- Automotive and Transportation, where our customers include Marcopolo, Luminator, AvMap and tier 1 car manufacturers.
- Finnish Public Sector, where our customers include Finland's Ministry of Finance, Finland's Ministry of Social Affairs and Health as well as Tiera.
- Defence & Security, where our customers include Cassidian and Savox Communications.
- Mobile Operators, where our customers include Orange, Vodafone and TeliaSonera.

Organisation

Our organisation consists of:
- **Sales & Marketing** function in charge of customer relationships, sales pipeline, order intake and profitable revenue generation.
- **Solution Creation** function in charge of customer project management and profitable delivery, as well as offering portfolio management and R&D.
- **Design** function in charge of the design capabilities that are a unique differentiator in our Dream Design Deliver approach.
- The whole organisation's operations are supported by support functions: **Finance & Control** and **Human Resources**.

Locations

Our offices are in Finland, Denmark, Great Britain, Slovakia, and the United States. Additionally we have employees in Estonia and Germany. The ramp down of locations in Denmark and South Korea is expected to be concluded during the spring 2014.
- Our Solution Creation sites are located in Finland and Slovakia.
- Our Design Studios are located in Finland, Great Britain, the United States and Slovakia.
- Our Sales offices are located in Finland, Great Britain, Germany and the United States.

SEGMENT REPORTING

Ixonos reports its operations as a single segment. According to the new strategy and organisational structure, Ixonos is seen to be one cash generating unit and segment.

TURNOVER

Turnover in the first quarter was EUR 6.1 million (2013: EUR 10.8 million), 43.9 per cent less than in the previous year.

During the review period, no single customer generated a dominating share of the turnover, or exceeded more than one fourth of the total turnover.

FINANCIAL RESULT

Operating profit for the first quarter was EUR −2.9 million (2013: EUR -1.9 million) and profit before tax was EUR −3.2 million (2013: EUR −2.0 million). Profit for the first quarter was EUR −2.8 million (2013: EUR −1.6 million). First -quarter earnings per share were EUR −0.04 (2013: EUR −0.12). Cash flow from operating activities per share in the first quarter was EUR -0.02 (2013: EUR -0.23).

RETURN ON CAPITAL

Consolidated return on equity (ROE) was −225.5 per cent (2012: -75.0 per cent) and return on investment (ROI) was −88.7 per cent (2012: -33.6 per cent).

INVESTMENTS

Investments during the review period totalled EUR 0.3 million (2013: EUR 0.2 million). Investments consist mainly of capitalisation of R&D expenditure.

BALANCE SHEET AND FINANCING

The balance sheet total was EUR 26.8 million (2013: EUR 32.1 million). Shareholders' equity was EUR 2.7 million (2013: EUR 9.9 million). The equity ratio was 10.0 per cent (2013: 30.8 per cent). The group's liquid assets at the end of the review period amounted to EUR 0.4 million (2013: EUR 0.7 million). Non-controlling interest of the equity was EUR 0.2 million.

At the end of the review period, the balance sheet showed EUR 10.9 million (2013: EUR 10.2 million) in bank loans. This amount includes overdraft in use.

In the arrangement, the financiers party to the Company's main financing agreement accepted a period free of instalments of the loans until 15 March 2015. Company announced its financial structuring on 7 March 2014.

The bank loans have covenants attached to them. These covenants are based on the equity ratio and on the proportion of interest-bearing bank loans to the 12-month rolling EBITDA. At 31 March 2014, the company did not meet the terms of the covenants. The company's non-current borrowings are therefore presented as current liabilities, in accordance with IFRS. Bank loans under the covenants were at 31 March 2014 EUR 6.4 million (2013: EUR 7.6 million).

The company has EUR 3.5 million of long-term convertible bond and EUR 1,0 million of conventional long-term loan from Turret Oy Ab. The terms of the convertible bond were announced on 7 March 2014.

GOODWILL

On 31 March 2014, the consolidated balance sheet included EUR 10.8 million in goodwill. This is EUR 1.6 million less than at the same time in 2013. The amount of goodwill has been reduced due to impairment recognized in September 2013.

The following parameters were used in the goodwill impairment testing:
- The review period of 4 years (instead of former 5 years).
- WACC discount rate 12% (remained).
- 1% growth estimate used for terminal value calculation (remained).

Due to the increased speed of development in technology the review period has been reduced to 4 years. The reduction of the review period led to the goodwill impairment recognized in September. The company made an impairment test on 31st March 2014. The present value of future cash flows exceeded the carrying value of assets by EUR 0.9 million and no impairment was recognized.

CASH FLOW

Consolidated cash flow from operating activities during the review period was EUR −1.7 million (2013: EUR -3.1 million). By 31 March 2014, the company had sold EUR 0.8 million (2013: EUR 2.2 million) in accounts receivable to reduce their turnaround time.

PERSONNEL

The number of personnel averaged 409 (2013: 568) during the review period. At the end of the period, the company had 378 (2013: 557) employees. Staff decreased in Finland as well as abroad. At the end of the review period, the Group had 268 employees (2013: 396) in Finnish companies, while Group companies in other countries employed 110 (2013: 161). During review period the number of employees decreased by 62.

SHARES AND SHARE CAPITAL

Share turnover and price

Share related indicators have been adjusted by share issues and de-splitt in 2013. During the financial period, the share issue adjusted highest price of the company’s share was EUR 0.16 (2013: EUR 0.47) and the lowest price was EUR 0.08 (2013: EUR 0.20). The closing price on 31 March 2014 was EUR 0.11 (2013: EUR 0.21). The weighted average time and de-split adjusted price was EUR 0.12 (2013: EUR 0.28). The number of shares traded during the review period was 19.437.517 (2013: 4.240.625), which corresponds to 25.6 per cent (2013: 12.0 percent) of the total number of shares at the end of the review period. The number of shares has been affected by rights issue in February 2013, de-split in November 2013 and second rights issue in 2013. According to the closing price 31 March 2014, the market value of the company’s shares was EUR 8.344.419 (2013: EUR 10.571.739).

Company decided to issue in a directed share issue 15.255.177 new shares to be subscribed for by Holdix Oy. The subscription price of the shares in the share issue was EUR 0.12 per share. The shares were registered on 4 April 2014. The new shares are estimated to be in trading approximately on 16 May 2014.

Share capital

At the beginning of the review period, the company's registered share capital was EUR 585,394.16 and the number of shares was 75,858,359. At the end of the review period, registered share capital was EUR 585,394.16 and the number of shares was 75,858,359. After the registration of directed share issue on 4 April 2014, the number of shares is 91.113.536.

Option plans 2011 and 2014

2011 plan
The Board of Directors of Ixonos Plc decided on 30 November 2011 to grant new options. This decision was based on the authorisation given by the Annual General Meeting on 29 March 2011.

The options were issued by 31 December 2011, free of charge, to a subsidiary wholly owned by Ixonos Plc. This subsidiary will distribute the options, as the Board decides, to employees of Ixonos Plc and other companies in the Ixonos Group, to increase their commitment and motivation. Options will not be issued to members of the Board of Directors of Ixonos Plc or to the Ixonos Group's senior management (Ixonos Management Invest Oy shareholders).

The options will be marked IV/A, IV/B and IV/C. A total of 600,000 options will be issued. According to the terms of the options, the Board of Directors decides how the options will be divided between option series and, if needed, how undistributed options will be converted from one series to another.

Each option entitles its holder to subscribe for one new or treasury share in Ixonos Plc. The shares that can be subscribed for with options comprise 3.82 per cent of all Ixonos Plc shares and votes on a fully diluted basis.

The exercise period for the IV/A options will begin on 1 October 2014, for the IV/B options on 1 October 2015 and for the IV/C options on 1 October 2016. The exercise periods for all options will end on 31 December 2018. The exercise price for each option series is a trade volume weighted average price at NASDAQ OMX Helsinki. The exercise prices will be reduced by the amount of dividends, and they can also be adjusted under other circumstances specified in the option terms.

In order to ensure the equal treatment of shareholders and the 2011 stock option holders and taking into account the adjustment made on 30 October 2013 following the consolidation of the company's shares, the Board of Directors of Ixonos has due to the Rights Offering adjusted the subscription ratio and the subscription price of the 2011 stock options in accordance with the terms and conditions of the 2011 stock options. As regards stock options IV/A, the subscription ratio shall be amended to 5.022 and the subscription price shall be amended to EUR 0.291 per share. As regards stock options IV/C, the subscription ratio shall be amended to 5.022 and the subscription price shall be amended to EUR 0.208 per share. The option plan's IV/B options have been cancelled.

The total amount of shares is rounded down to full shares in connection with subscription of the shares and the total subscription price is calculated using the rounded amount of shares and rounded to the closest cent. Due to the above adjustments concerning stock options IV/A, the adjusted maximum total number of shares to be subscribed for based on the 2011 stock options shall be 3.013.313.

2014 plan
The Board of Directors of Ixonos Plc decided to issue stock options on 18 February 2014, on the basis of the authorization granted by the Extraordinary General Meeting held on 30 October 2013.

The stock options will be offered to the global management team and certain key personnel of Ixonos Plc and its subsidiaries for the purpose of improving commitment and motivation. The stock options will be marked as series 2014A, 2014B and 2014C. The aggregate number of stock options is 5.000.000. The Board of Directors will, in accordance the terms and conditions of the stock options, decide on the allocation of the stock options between different series and, if necessary, on the conversion of stock options that has not been allocated into another series of stock options.

Each option entitles its holder to subscribe for one new or treasury share in Ixonos Plc. On 18 February 2014, the shares that can be subscribed for with options comprise 5.96 per cent of all Ixonos Plc shares and votes on a fully diluted basis.

The share subscription period with 2014A stock options starts on 1 March 2016, with 2014B stock options on 1 March 2017 and with 2014C stock options on 1 March 2018. The share subscription period ends with all stock options on 31 December 2018. The share subscription price for each series is the volume weighted average price of the company's share on the Helsinki Exchanges during the period 1 March to 31 May 2014 for 2014A, 1 January to 31 March 2015 for 2014B and 1 January to 31 March 2016 for 2014C. The subscription price may be decreased with e.g. the amount of dividends paid and may also otherwise be subject to change in accordance with the terms and conditions of the stock options.

Shareholders

On 31 March 2014, the company had 4.161 shareholders (2013: 3.348). Private persons owned 53.0 per cent (2013: 51.8 per cent) and institutions 47.0 per cent (2013: 48.2 per cent) of the shares. Foreign ownership was 4.0 per cent (2013: 9.0 per cent) of all shares.

Related-party transactions

The company has converted EUR 3.5 million short-term loans into long-term convertible loan and raised EUR 1.0 million long-term conventional interest bearing loan from Turret Oy Ab. As collateral for the conventional loan of 1.0 million the company has put up corporate mortgage bonds.

OTHER EVENTS DURING THE FINANCIAL PERIOD

Market events in the review period

Ixonos presented its capabilities in several leading industry events, including the Mobile World Congress in Barcelona, the CES in Las Vegas, and the 2nd Screen Summits in Las Vegas and Barcelona.
We organized the official opening of the San Francisco design studio in early February, and our focus towards the US and European markets has been clear in our activities. The demand for our services among the selected business areas is good and our value promise remains strongly relevant.

Especially the market around the Industrial Internet in the Nordics has evolved to the level of clear customer solution demands.

To accompany the sharpened focus on sales activities, the company's website and brand identity has been renewed. The launch of the new www.ixonos.com has gained positive feedback from many stakeholders.

2014 option plan

Ixonos has published stock exchange release of new option plan on 18th of February 2014. The terms of option plan has been published in stock exchange release.

Financing arrangements in March 2014

The board of directors of Ixonos Plc has, by virtue of the authority granted by the general meeting on 30 October 2013, decided to direct a convertible capital loan with a capital of 3.5 million euro and attached option rights or other special rights referred to in Chapter 10 Section 1(2) of the Finnish Limited Liability Companies Act (624/2006 as amended) to Turret Oy Ab for subscription in deviation from the pre-emptive subscription right of the shareholders of the Company. The Special Rights entitle Turret or the holder of the Special Rights to subscribe new shares of Ixonos in accordance with the terms and conditions concerning the Loan and the Special Rights.

The Loan and related Special Rights have been issued in order to strengthen the Company's position of liquid assets, self-sufficiency and working capital and to optimize the capital structure. Hence, there are weighty financial reasons for taking the Loan and granting the Special Rights. The Loan's issuing price and conversion price have been defined on market terms.

The main terms of the Terms and Conditions of the Loan and the Special Rights are the following:

- The amount of the Loan is EUR 3.5 million.
- A fixed annual interest of 6.75 per cent is paid on the principal of the Loan.
- The right of conversion attached to the Loan entitles to a maximum amount 21.875.000 of the Company's new shares.
- The rate of conversion is fixed at EUR 0.16, and it shall be revised as set out in the Terms and Conditions.
- The term of the Loan is 7 March 2014 – 7 March 2018.
- The Loan is a capital loan, described in Chapter 12 Section 1 of the Limited Liability Companies Act, the principal, interest and other reimbursement of which are subordinate to all other debts upon dissolving of the Company and bankruptcy of the Company.

The Loan and directing the attached Special Rights to Turret for subscription are related to the Company's plan, reported on on 8 October 2013, to gather, in addition to the capital received from the share issue between 19 November and 3 December 2013, a maximum of EUR 3.5 million by issuing shares or option rights or other special rights entitling to shares, defined in Chapter 10 Section 1 in the Limited Liability Companies Act, in a share issue not based on the pre-emptive subscription right of shareholders.

In connection with the share issue on 7 November 2013, Turret gave the Company an undertaking according to which Turret will at the earliest on 31 December 2014 require the Company to repay the short-terms loan granted by Turret, altogether around EUR 3.5 million, as the conditions of the Undertaking were otherwise met. According to the Undertaking accepted by the Company, Turret has the right, if they so demand, to convert the Debt in question in full or in part into share capital, a hybrid loan or another equity instrument pursuant to IFRS that is issued by Ixonos on arms' length terms. The instrument may include share subscription rights in the form of convertible capital loan or warrants or in other forms. In the event that the Debts remain fully or partially unpaid after 31 December 2013, Ixonos undertakes to also negotiate on the conditions of the Debt in order to make them market-based if Turret so requests.

Turret has subscribed the Loan and associated Special Rights on 7 March 2014 and the board of directors of the Company has accepted Turret's subscription. Turret has paid the Loan to the Company in full by setting off the principal of the Debts to Turret, amounting to altogether EUR 3.5 million.

The Company's board of directors has also decided to conclude a loan agreement on long-term complementary financing in borrowed capital terms of EUR 1.0 million and given some of the Company's business mortgages as collateral.

In the arrangement, the financiers party to the Company's main financing agreement accepted a period free of instalments of the loans of the year 2014 until 15 March 2015 in such a way that the instalment falling due during the period free of instalments are transferred to the end of the term of the loan into one bullet repayment without otherwise extending the term of the loan.

New working capital statement on 7 March 2014

The Company estimates that is has sufficient working capital for its operations for the next 12 months from the end of the financial reporting period, provided that sufficient measures are taken to strengthen the balance sheet and financial forecasts for year 2014 will materialize.

As part of this, the Company made certain agreements on 7 March 2014 with its creditors to strengthen the working capital position of the company, as announced above. The company will continue to take measures to strengthen its balance sheet and cash position and to streamline its costs and operational structures.

Measures which are at the Company's disposal to strengthen its balance sheet include: (i) additional financing, (ii) Board of Directors' authorization to issue new shares or similar stock issuance rights and mechanisms, (iii) actions around restructuring company operations for further efficiency, (iv) postponement of planned investments, (v) divestment of company assets or functions, or (vi) combinations of the above.

Directed share issue in March 2014

The Board of Directors of Ixonos Plc decided to issue in a directed share issue 15.255.177 new shares to be subscribed for by Holdix Oy in derogation from the pre-emptive subscription right of the shareholders on the authorisation of the Annual General Meeting on 24 April 2013 and the Extraordinary General Meeting on 30 October 2013. The subscription price of the Shares in the Share Issue was EUR 0.12 per Share. The subscription price has been defined as the mean price weighted with the trading amounts of the last three (3) months rounded to the nearest cent. The funds derived from the Share Issue will be used to strengthen the balance sheet and financial standing of the group and the Company, so there are weighty financial reasons for the Share Issue and for deviating from the pre-emptive right of the shareholders as described in the Finnish Limited Liability Companies Act.

Holdix Oy subscribed for the Share Issue in full on 31 March 2014. The Board of Directors of the Company has accepted Holdix Oy's share subscription. According to what was stated to the Company, the investment of Holdix Oy in the Company is meant to be a long-term investment. The Shares issued and subscribed for in the Share Issue are equivalent to approximately 16.74 per cent of all of the Company's shares and votes after the Share Issue.

EVENTS AFTER THE FINANCIAL PERIOD

Company held annual general meeting on 2 April 2014. The minutes of annual general meeting and decisions are presented in Company’s internet page www.ixonos.com .

RISK MANAGEMENT AND NEAR-FUTURE UNCERTAINTY FACTORS

Ixonos Plc’s risk management aims to ensure undisturbed continuity and development of the company’s operations, support attainment of the commercial targets set by the company and promote increasing company 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.

Changes in key customer accounts may have adverse effects on Ixonos’ operations, earning power and financial position. Should a major customer switch its purchases from Ixonos to its competitors or make forceful changes to its own operating model, Ixonos would have limited ability to acquire, in the short term, new customer volume to compensate for such changes.

Part of the company’s business operations is based on fixed-price project deliveries. Fixed-price projects may include risks related to their duration and content. These risks are being managed by means of contract management as well as project management.

The reduction and rationalisation of the company’s operations causes one-time expenses, such as redundancy payments in various countries. This increases the company’s need for short-term financing. 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 still be impaired should internal or external factors reduce the profit expectations of the company’s cash flow. Goodwill is tested during the final quarter of each year and, if necessary, at other times.

Deferred tax assets in company’s balance sheet are subject to future profit expectations. There is risk of impairment related to deferred tax assets if the profit expectations are not materialized.

The company’s financial agreements have covenants attached to them. A covenant breach may increase the company’s financial expenses or lead to a call for swift partial or full repayment of non-equity loans. The main risks related to covenant breaches are associated with EBITDA 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 these risks by negotiating with financiers and by maintaining readiness for various financing methods.

Although the company considers that it will be able to cover its need for working capital over the next twelve months through various means, there is no guarantee that the company will be able to ensure sufficient working capital under all circumstances. A shortage of working capital may have a substantial adverse effect on the company’s operations, result and financial position.

LONG-TERM GOALS AND STRATEGY

In the long term, Ixonos aims to achieve an operating profit of at least 10 per cent. To reach its long-term goals, Ixonos focuses its strategy on deepening the company’s product, solution and service operations as well as on new accounts in selected industries.

In accordance with its strategy, Ixonos continues to strengthen and expand its customer base by focusing on offering products, solutions and services in particular for industrial companies, media companies, retailers and brands, organisation IT and ISVs, and to other customers in Finland as well as internationally.

FUTURE PROSPECTS

-The turnover for the 2014 is expected to be in a range of EUR 26 – 34 million and EBITDA is expected to be positive.

NEXT REPORTS

The interim report for the period 1 January – 30 June 2014 will be published on Wednesday 30 July 2014.

IXONOS PLC
Board of Directors

For more information, please contact:
Ixonos Plc
- Esa Harju, President and CEO, tel. +358 40 844 3367, esa.harju@ixonos.com
- Teppo Talvinko, CFO, tel. +358 40 715 3660, teppo.talvinko@ixonos.com

Distribution:
NASDAQ OMX Helsinki
Main media

THE IXONOS GROUP

ABBREVIATED FINANCIAL STATEMENTS 1 January – 31 March 2014

Accounting policies

This interim report has been prepared in accordance with IAS 34 (Interim Financial Reporting) and the accounting policies for the annual financial statement of 31 December 2013. The IFRS amendments and interpretations that entered into force on 1 January 2014 have not affected the consolidated financial statements.

Preparing interim reports 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, judgement must be used in applying the accounting policies. As the estimates and assumptions are based on views prevailing at the time of releasing the interim report, they involve risks and uncertainty factors. Actual results may differ from estimates and assumptions.

The figures in the income statement and balance sheet are consolidated. The consolidated balance sheet includes all group companies as well as Ixonos Management Invest Oy, a company owned by members of Ixonos' management. 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.

Going Concern

This interim report has been made according to the going concern principle taking into account the planned financial arrangements, new strategy and financial estimations made up to the end of year 2014. The estimations take into consideration probable or foreseeable changes in future expectations in revenues as well as costs. There have been significant challenges after the company's most significant client changed its strategy during years 2011-2012. The profitability has been negative, even though the company has adopted its operations to meet significantly lower cost level and gained new customers. The company has further re-scoped its costs and this will continue. The company has taken and takes also further actions to reduce the level of fixed costs like site and office related costs. The ongoing cost saving actions will improve the cost structure and profitability during the 2014. The company has renewed its strategy during the 2013 and selected the customer focus segments where mobile internet technology is seen to change the earning fundamentals of Ixonos' target customer segments. The company views, that Ixonos' core competence has a great growth potential in the selected segments.

The Company estimates that is has sufficient working capital for its operations for the next 12 months from the end of the financial reporting period, provided that sufficient measures are taken to strengthen the balance sheet and financial forecasts for year 2014 will materialize. As part of this, the Company made certain agreements on 7 March 2014 with its creditors to strengthen the working capital position of the company, as announced. The company will continue to take measures to strengthen its balance sheet and cash position and to streamline its costs and operational structures.

If the above measures do not occur as planned, this may result a shortage of working capital, premature payback of loans with covenants and difficulties to continue company's operations during the following 12 months.

Deferred tax assets
The company has deferred tax assets EUR 4.9 million of which EUR 4.3 million arises from Finnish companies from two previous years. According to the current tax regulations in Finland, Ixonos has time to utilize tax assets up to 2023. The company views that it is going concern and it has sufficient possibilities with normal business assumptions to utilize the tax assets in the future.

The subsidiary in United Kingdom carries EUR 0.6 million deferred tax assets. The subsidiary was established in October 2011. The subsidiary in UK is part of Ixonos' new, design oriented strategy. The validity of deferred tax assets in UK has no time limit. Ixonos views that the subsidiary has probable possibilities to utilize tax assets during the time.

CONSOLIDATED INCOME STATEMENT, EUR 1.000

	1.1.–31.3.2014	**1.1.–31.3.2013**	**Change, per cent**	**1.1.–31.12.2013**
Turnover	6 055	10 799	-43.9 %	33 397
Operating expenses	-8 965	-12 715	-29.5 %	-45 197
OPERATING PROFIT BEFORE GOODWILL IMPAIRMENT	**-2 910**	**-1 916**	-51.9 %	**-11 799**
Goodwill impairment	0	0		-1 600
OPERATING PROFIT	**-2 910**	**-1 916**	-51.9 %	**-13 399**
Financial income and expenses	-259	-99	-161.6 %	-890
Profit before tax	-3 165	-2 015	-57.1 %	-14 289
Income tax	376	386	-2.6 %	1 854
PROFIT FOR THE PERIOD	**-2 790**	**-1 629**	-71.3 %	**-12 435**
Attributable to:				
Equity holders of the parent	-2 786	-1 711	-62.8 %	-12 511
Non-controlling interests	-3	82	-103.7 %	75

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, EUR 1.000

	1.1.–31.3.2014	1.1.–31.3.2013	Change, per cent	1.1.–31.12.2013
Profit for the period	-2 790	-1 629	-71.3 %	-12 435
Other comprehensive income				
Change in translation difference	-14	78	-117.9 %	-5
COMPREHENSIVE INCOME FOR THE PERIOD	**-2 804**	**-1 551**	-80.8 %	**-12 441**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, EUR 1.000

ASSETS	**31.3.2014**	**31.3.2013**	**31.12.2013**
NON-CURRENT ASSETS			
Goodwill	10 847	12 447	10 847
Other intangible assets	1 647	2 367	1 584
Property, plant and equipment	1 767	3 093	2 106
Deferred tax assets	4 945	3 207	4 517
Available-for-sale investments	14	19	14
TOTAL NON-CURRENT ASSETS	**19 220**	**21 133**	**19 069**
CURRENT ASSETS			
Trade and other receivables	7 185	10 257	6 278
Cash and cash equivalents	411	674	496
TOTAL CURRENT ASSETS	**7 595**	**10 931**	**6 774**
TOTAL ASSETS	**26 815**	**32 064**	**25 843**
EQUITY AND LIABILITIES	**31.3.2014**	**31.3.2013**	**31.12.2013**
SHAREHOLDERS' EQUITY			
Share capital	585	585	585
Share premium reserve	219	219	219
Invested non-restricted equity fund	30 580	24 171	28 794
Retained earnings	-26 172	-13 633	-13 664
Profit for the period	-2 786	-1 711	-12 511
Equity attributable to equity holders of the parent	**2 426**	**9 631**	**3 423**
Non-controlling interests	244	254	247
TOTAL SHAREHOLDERS' EQUITY	**2 669**	**9 885**	**3 670**
LIABILITIES			
Non-current liabilities	4 883	1 273	546
Current liabilities	19 263	20 906	21 626
TOTAL LIABILITIES	**24 146**	**22 179**	**22 173**
TOTAL EQUITY AND LIABILITIES	**26 815**	**32 064**	**25 843**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY, EUR 1.000

A: Share capital
B: Share premium reserve
C: Share Issue
D: Invested non-restricted equity fund
E: Translation difference
F: Retained earnings
G: Total equity attributable to equity holders of the parent
H: Non-controlling interests
I: Total equity

	A	B	C	D	E	F	G	H	I
Shareholders' equity at 1 January 2013	585	219	0	20 247	75	-13 810	7 317	172	7 489
Profit for the period						-1 711	-1 711	82	-1 629
Other comprehensive income:									
Change in translation difference					78		78		78
Transactions with shareholders:									
Share issue				4 229			4 229		4 229
Expenses for equity procurement				-305			-305		-305
Share-based remuneration						23	23		23
Shareholders' equity at 31 March 2013	585	219	0	24 171	153	-15 498	9 631	254	9 885
Shareholders' equity at 1 January 2014	585	219	0	28 794	70	-26 246	3 423	247	3 670
Profit for the period						-2 786	-2 786	-3	-2 789
Other comprehensive income:									
Change in translation difference					-14		-14		-14
Transactions with shareholders:									
Share issue				1 831			1 831		1 831
Expenses for equity procurement				-44			-44		-44
Share-based remuneration						17	17		17
Shareholders' equity at 31 March 2014	**585**	**219**		**30 581**	**56**	**-29 016**	**2 426**	**244**	**2 669**

CONSOLIDATED CASH FLOW STATEMENT, EUR 1.000

	1.1.- 31.3.2014	**1.1.- 31.3.2013**	**1.1.- 31.12.2013**
Cash flow from operating activities			
Profit for the period	-2 790	-1 629	-12 435
Adjustments to cash flow from operating activities			
Income tax	-376	-386	-1 854
Depreciation and impairment	594	736	4 385
Financial income and expenses	259	99	890
Other adjustments	23	-62	-78
Change in provisions	258	-545	-979
Cash flow from operating activities before change in working capital	**-2 031**	**-1 786**	**-10 071**
Change in working capital	496	-1 217	782
Interest received	35	116	288
Interest paid	-221	-219	-1 004
Tax paid	0	-34	326
Net cash flow from operating activities	**-1 721**	**-3 140**	**-9 680**
Cash flow from investing activities			
Investments in tangible and intangible assets	-314	29	-461
Dividends received	0	0	0
Net cash flow from investing activities	**-314**	**29**	**-461**
Net cash flow before financing	**-2 035**	**-3 111**	**-10 141**
Cash flow from financing activities			
Increase in long-term borrowings	4 500	0	0
Repayment of long-term borrowings	0	0	-800
Increase in short-term borrowings	0	0	5 500
Repayment of short-term borrowings	-2 506	-630	-3 002
Proceeds from share issue	0	4 229	9 045
Expenses for equity procurement	-45	-305	-584
Net cash flow from financing activities	**1 950**	**3 294**	**10 160**
Change in cash and cash equivalents	-85	196	19
Liquid assets at the beginning of the period	496	477	477
Liquid assets at the end of the period	411	673	496

Notes

Goodwill impairment

Ixonos made impairment test for goodwill as at 31 March 2014. Impairment test showed surplus of EUR 0.9 million in discounted cash flow compared to tested amount and no impairment was recognized. The carrying amount of goodwill is EUR 10.8 million. In the impairment test carried out in September 2013, the company recognized an impairment loss of EUR 1.6 million. The company has shortened the forecasting period used in value in use calculation from five to four years in 2013. This is due to a point of view that the space of change has increased in the business environment of Ixonos. The company has initiated a strategy process during the year 2013 to re-evaluate its business model. In the old business model use in 31 December 2012 there were two cash generating units, Online Solutions and Connected Devices. The old business model was based on services provided. In the new business model implemented in 2013 the Company has been reorganised into one cash generating unit. Based on new strategy the Company has one common Sales & Marketing function and common production and product development functions. These functions will serve all chosen customers. The company prepares its budgets and forecasts as one cash generating unit.

The impairment test of the Company is based on value in use. The forecasting period used in impairment testing as at 31 March 2014 included forecasted years Q2 2014 - Q1 2018. The impairment test is done by comparing the carrying value of assets to present value of future cash flow taking into consideration forecasted cash flows during the forecast period, discount factor and growth rate used in calculating terminal value. The discount factor used is 12 per cent p.a. and growth rate use in calculating terminal value is 1 per cent p.a. These are the same as use in goodwill impairment testing for year-end 2013. The impairment test is the most sensitive to growth rate used when calculating the terminal value and discount factor. If the growth rate had been lowered to 0.0 per cent instead of 1 per cent, it would have resulted in equal value of discounted cash flows and tested amount. If the discount factor had been 13 per cent instead of 12 per cent, the discounted cash flows have shoved deficit of EUR 0.3 million.

Loan covenants

In the arrangement, the financiers party to the Company's main financing agreement accepted a period free of instalments of the loans until 15 March 2015. EBITDA will be used as a covenant during the moratorium. Company announced its financial structuring on 7 March 2014.

Loans granted in 2012 by the company's financiers have covenants attached. Should the company not be within the limits of a covenant, the financiers are entitled to call in the loans to which that covenant applies. The covenant levels are adjusted semi-annually on a rolling twelve-month basis.

Depending on the point in time, the equity ratio must be at least 35 per cent. For some loans, the ratio of interest-bearing liabilities (i.e. interest-bearing liabilities in the balance sheet, including leasing liabilities) to EBITDA may not exceed 2.5 on 30 June 2013 onward. The ratios of interest-bearing liabilities to EBITDA as well as the ratio of interest-bearing net liabilities to EBITDA are calculated based on IFRS principles.

The amount of those financing loans that included covenants had a capital of EUR 6.4 million on 31 March 2014 (31 March 2013: EUR 7.6 million). On 31 March 2014 the company's equity ratio was 10.0 percent (2013: 30.8 percent) and the ratio of interest-bearing liabilities and the EBITDA was negative (2013: negative). Thus, the company does not fulfil the covenant terms on 31 March 2014 and the loans under covenant agreements are presented as short-term current liabilities. However, the company has received releasing covenant statements from its financiers until 31 December 2014.

Instalment scheme for borrowings under covenants

Period	Amount of instalment EUR 1.000
01.01. - 31.12.2014	353
01.01. - 31.12.2015	1.621
01.01. - 31.12.2016	1.621
01.01. - 31.12.2017	2.850

CONSOLIDATED INCOME STATEMENT, QUARTERLY, EUR 1.000

	Q1/2014 1.1.– 31.3.14	**Q4/2013** 1.10.– 31.12.13	**Q3/2013** 1.7.– 30.9.13	**Q2/2013** 1.4.- 30.6.13	**Q1/2013** 1.1.– 31.3.13
Turnover	6 055	7 009	5 477	10 112	10 799
Operating expenses	9	-9 537	-11 972	-10 973	-12 715
OPERATING PROFIT BEFORE GOODWILL IMPAIRMENT	-2 910	-2 528	-6 494	-861	-1 916
Goodwill impairment	0	0	-1 600	0	0
OPERATING PROFIT	-2 910	-2 528	-8 094	-861	-1 916
Financial income and expenses	-259	-286	-248	-257	-99
Profit before tax	-3 165	-2 814	-8 343	-1 117	-2 015
Income tax	376	-266	1 550	183	386
PROFIT FOR THE PERIOD	-2 790	-3 080	-6 793	-934	-1 629

CHANGES IN FIXED ASSETS, EUR 1.000

	Goodwill	Intangible assets	Property, plant and equipment	Available-for-sale investments	Total
Carrying amount at 1 January 2013	12 447	2 646	3 410	19	18 522
Additions		17	149		166
Changes in exchange rates			-1		-1
Disposals and transfers			-24		-24
Impairment					0
Depreciation for the period		-296	-440		-736
Carrying amount at 31 March 2013	12 447	2 367	3 094	19	17 927
Carrying amount at 1 January 2014	10 847	1 585	2 106	14	14 551
Additions		316			316
Changes in exchange rates			2		2
Disposals and transfers					
Impairment					
Depreciation for the period		-254	-341		-595
Carrying amount at 31 March 2014	**10 847**	**1 647**	**1 767**	**14**	**14 275**

FINANCIAL RATIOS

	1.1.–31.3.2014	1.1.–31.3.2013	1.1.–31.12.2013
Earnings per share, diluted, EUR	-0.03	-0.08	-0.51
Earnings per share, EUR	-0.04	-0.12	-0.65
Equity per share, EUR	0.03	0.27	0.05
Operating cash flow per share, diluted, EUR	-0.02	-0.16	-0.39
Operating cash flow per share, EUR	-0.02	-0.23	-0.51
Return on investment, per cent	-88.7	-33.6	-70.2
Return on equity, per cent	-225.5	-75.0	-231.6
Operating profit/turnover, per cent	-48.1	-17.7	-40.1
Net gearing from total equity, per cent	593.7	116.0	375.1
Equity ratio, per cent	10.0	30.8	14.2
Equity ratio, per cent, excluding non-controlling interest	9.0	30.0	13.2
EBITDA, 1000 EUR	-2 315	-1 180	-9 014

OTHER INFORMATION

	1.1.– 31.3.2014	1.1.– 31.3.2013	1.1.– 31.12.2013
PERSONNEL Employees, average	409	568	505
Employees, at the end of the period	378	557	442
COMMITMENTS, EUR 1,000			
Collateral for own commitments			
Corporate mortgages	23 300	19 800	23 300
Leasing and other rental commitments			
Falling due within 1 year	1 769	2 382	2 277
Falling due within 1–5 years	2 640	3 698	3 293
Falling due after 5 years		97	0
Total	4 409	6 177	5 570
Nominal value of interest rate swap agreement			
Falling due within 1 year		0	0
Falling due within 1–5 years	4 941	5 270	4 941
Falling due after 5 years		0	0
Total	4 941	5 270	4 941
Fair value	-46	-67	-47

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 = (profit before taxes + interest expenses + other financial expenses) ⁄ (balance sheet total − non-interest-bearing liabilities, average) × 100

Return on equity = net profit ⁄ shareholders' equity, average × 100

Net gearing from total equity= (interest-bearing liabilities – liquid assets) / shareholders' equity × 100