

NEDSENSE enterprises n.v.

**NedSense enterprises n.v.**  
Condensed consolidated  
Interim financial statements

30 June 2013

NedSense enterprises n.v.

Half-year Report 2013 (unaudited)

# Report of the Board of Directors

## First half of 2013

*This report covers the business activity and financial results of NedSense enterprises n.v. (the 'Company' or 'NedSense') for the half-year ended 30 June 2013.*

## Growth Strategy

The last 4 years, NedSense has laid the foundation for its growth strategy. The issue of ordinary shares as approved by the shareholders on the Annual General Meeting of Shareholders of June 11<sup>th</sup> 2013, has improved the financial structure of the Company significantly. The capital strengthening was a major milestone in the exploration of strategic options. As part of the investigation announced in June 2012 into the strategic options of the Company, the Board of Directors held talks with several parties in the course of 2012 and 2013. Based on the agreed strategic framework with the Supervisory Board all options and proposals of the parties have been assessed. The investment by a group of investors represented by Nantahala Capital Management fits well in this context, whereby in particular the contribution of business partners linked to the group of investors will be of strategic importance for the NedSense Loft division. NedSense will continue the strategic orientation with a particular focus on further partnerships for the Loft division.

After the successful launch of its highly innovative 3D customer experience technology LOFT, NedSense has continued its focus on the development of the LOFT suite of products. In the first half of 2013 NedSense was able to fully deliver scheduled projects based on the agreements which were signed with Carpet Court, Trendhopper and Crate and Barrel. The latter released a new iPad app of the 3D Home Designer platform it has been using for over 6 months (in-store and online). As a result of the implementation of LOFT, Crate and Barrel managed to triple its average order size. The launch of iPad app allows their omni-channel customer to experience Crate and Barrel 3D merchandise anywhere. In Q2, the Loft division contracted a few early adopters for its LOFT4Brands program, a cloud based and hosted solution that allows brands to showcase their products in combination with the products of others, with the 3D user experience LOFT@Web offers. The brands that use LOFT4Brands get an outsourced solution that offers benefits in e-commerce, social media and Business Intelligence to create an additional sales channel.

NedSenses' CAD-CAM division NedGraphics is operating in turbulent market circumstances as the economical and political conditions are still negatively influencing the Fashion and Textile industry. Nevertheless, NedGraphics continued to gain market share with the acquisition of a number of large clients and posted a profit before tax of €473 thousand in the traditionally slower first half of the year as compared to the second. NedGraphics is witnessing fragile market circumstances in traditionally strong textile countries such as Egypt, Italy and Portugal, while mature regions, including the US show a continued growth. The foundation of NedGraphics' strategy is to continue to act lean and to balance costs while remaining innovative.

As stated earlier this year, NedSense decided to discontinue the activities of the Dynamics Perspective (DPI) division as of June 30st 2013. The division provided integrated ERP and product life cycle solutions for the textile & apparel industry. After carefully weighing all options and given the current economic conditions, NedSense concluded that continuing the DPI activities was no longer viable.

NedSense believes all stakeholders are best served with the discontinuation of DPI, allowing the Company to further focus on its growth strategy.

## **Financial result**

NedSense ended the first half of 2013 with a net loss of €871 thousand (first half 2012: €1,057 thousand loss). Although the investments in LOFT have stabilized compared to 2012, the result in the first half of 2013 improved compared to the first half of 2012 mainly due to lower operating expenses of NedGraphics (€294 thousand).

NedSense realized a gross profit of €4,353 thousand compared to €4,308 thousand in the first half of 2012, a growth of 1%. Both divisions Loft and NedGraphics reported almost flat gross profit levels compared to the same period in 2012. As activities of subsidiary Dynamics Perspective Inc. have been discontinued per June 30st 2013, their operating results have been excluded from the Consolidated statement of comprehensive income.

NedGraphics' operating cost decrease of 8% compared to the similar period in 2012, had an immediate impact on the segment's earnings before tax, which increased from a profit of €213 thousand in the first half of 2012 to a profit of €473 thousand in the first half of 2013.

The Loft division reported sales of €277 thousand as compared to €282 thousand in the first half of 2012. Due to the increased operating expenses (in particular development costs and personnel costs), the operating segment result before tax was €431 thousand negative.

DPI showed a profit of €7 thousand in the first half of 2013 compared to a loss of €116 thousand in the first half of 2012.

Operating loss of the holding in the first half of 2013 increased by €93 thousand especially due to accrued costs associated with the write off loans granted to each of the 2 members of the executive board upon completion of the equity transaction as per AGM on June 11<sup>th</sup> 2013.

## **Cash flow**

The operational cash flow in the first half of 2013 amounted to €846 thousand positive (first half 2012: €414 thousand positive). The increase is mainly due to decreased operating expenses at NedGraphics. The cash flow from investments in the first half of 2013 was €1,400 thousand negative (first half 2012: €1,507 thousand negative), due to decreased investments in software development mainly in LOFT. The cash flow from financing in the first half of 2013 was €2,509 thousand positive (first half 2012: €772 thousand). The funding is related to the issue of ordinary shares finalized in June 2013 and the innovation grant from the Dutch Government.

The total change in cash and cash equivalents in the first half of 2013 amounted to €1,955 thousand positive (first half 2012: €321 thousand negative).

## **Balance sheet**

From 31 December 2012 intangible fixed assets increased from €10,595 thousand to €10,834 thousand. This increase is mainly due to the investments in software development for both the LOFT product line

and NedGraphics. The receivables were reduced from €3,874 thousand to €2,679 thousand as the Company was able to collect most of the outstanding maintenance invoices which were submitted at year end 2012. Due to the issue of ordinary shares in June 2013 combined with the net loss in the first half of 2013 of €871 thousand, total equity increased from €5,684 thousand per December 31<sup>st</sup> 2012 to €7,059 thousand per June 30<sup>th</sup> 2013.

Due to negative results in the past few years, NedSense has losses that may be carried forward. These tax assets are not capitalized in the balance sheet as management is currently not certain that sufficient taxable profits will be made in the near future to realize the value of these tax assets.

The solvency increased to 41,6% at 30 June 2013, from 35,6% at 31 December 2012 predominantly caused by the issue of ordinary shares in June 2013. The number of outstanding ordinary shares, with a nominal value of €0.10 each, was 28,596,496 as of 30 June 2013, an increase of 7,515,152 issued new shares versus the end of 2012.

## **Outlook**

In the second half of 2013, NedSense will continue to deploy its strategic growth plan. As the order pipeline for the Loft division has improved, NedSense expects revenue growth for the full year versus last year.

The fragile market circumstances in traditionally strong textile countries such as Egypt, Italy and Portugal are expected to continue. On the other hand some emerging regions such as Latin America and emerging countries like Turkey are still growing.

NedSense is focused on the further development and rollout of LOFT with several important milestones expected in 2013. Existing customers will launch their online- and mobile LOFT implementations, and new customers are expected to start LOFT implementations. The launch of LOFT4Brands, a shared platform plus the entrance in the real estate market are examples of new business development which are also planned in the second half of 2013.

Growth acceleration is essential to maintain the current competitive advantage and secure corporate autonomy.

NedSenses' strategy is to continue to develop its sales and marketing efforts, maintain our market knowledge, and sustain our customer base and maintenance contracts, while looking for more opportunities to expand beyond the niche in which we currently operate. We are building and investing in our knowledge heritage, so that we can innovate, lead, and create true economic value for our customers.

Pieter Aarts  
Jan-Hein Pullens  
Vianen, 26 August 2013

## **Board of Directors' statement on the condensed consolidated half-year financial statements and the interim management report**

We have prepared the half-yearly financial report 2013 of NedSense enterprises n.v. and the undertakings included in the consolidation taken as a whole in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Dutch disclosure requirements for half-yearly financial reports.

To the best of our knowledge it is our opinion that the condensed financial statements in this half-yearly financial report 2013 give a true and fair view of our assets and liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole at 30 June 2013, and of the result of our consolidated operations for the first half year of 2013 and has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

The interim management report in this half-yearly financial report includes a fair overview of the situation at the balance sheet date, the course of affairs during the first six months of the financial year of the company and the undertakings included in the consolidation taken as a whole, and the expected course of affairs for the second half of 2013 as well as an indication of important events that have occurred during the six months ended June 30, 2013, and their impact on the condensed consolidated interim financial statements, together with a description of the principal risks and uncertainties for the second half of 2013, and also includes the major related parties transactions entered into during the six months ended June 30, 2013.

Vianen, 26 August 2013

The Board of Management

Pieter Aarts, *Chief Executive Officer*

Jan-Hein Pullens, *Chief Operating Officer*

## Condensed consolidated statement of financial position

*In thousands of euro*

	Note	30 June 2013	31 december 2012
<b>Assets</b>			
Property, plant, and equipment	7	209	186
Intangible fixed assets	8	10.834	10.595
Trade and other receivables	9	445	435
<b>Total non-current assets</b>		<b>11.488</b>	<b>11.216</b>
Inventories		4	7
Trade and other receivables		2.679	3.874
Corporate income tax		0	0
Cash and cash equivalents		2.785	830
<b>Total current assets</b>		<b>5.468</b>	<b>4.711</b>
<b>Total assets</b>	<b>6</b>	<b>16.956</b>	<b>15.927</b>
<b>Equity</b>			
Issued capital	10	2.860	2.108
Share premium	10	37.569	36.167
Legal reserves		6.779	6.540
Translation reserves		131-	116-
Accumulated deficit		39.147-	37.599-
Current year's result	12	871-	1.416-
<b>Total equity</b>		<b>7.059</b>	<b>5.684</b>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	11	4.168	3.678
Employee benefits		117	119
<b>Total non-current liabilities</b>		<b>4.285</b>	<b>3.797</b>
Interest-bearing loans and borrowings	11	0	0
Trade and other payables		2.656	2.147
Deferred income		2.956	4.299
<b>Total current liabilities</b>		<b>5.612</b>	<b>6.446</b>
<b>Total liabilities</b>		<b>9.897</b>	<b>10.243</b>
<b>Total equity and liabilities</b>		<b>16.956</b>	<b>15.927</b>

*The notes are integral part of these condensed consolidated financial statements*

## Consolidated statement of comprehensive income

For the six months ended 30 June

In thousands of euro

	Note	2013	2012
Net revenue	6	4.466	4.478
Cost of sales		113-	170-
<b>Gross profit</b>		<b>4.353</b>	<b>4.308</b>
Wages and salaries		2.599	2.741
Social security, pension and other		609	624
Amortization and depreciation		1.072	986
Other operating costs		1.644	1.735
Capitalized production	8	916-	911-
<b>Profit (loss) from operations</b>		<b>655-</b>	<b>867-</b>
Finance income		24	1
Finance costs		262-	136-
<b>Net finance costs</b>		<b>238-</b>	<b>135-</b>
<b>Profit (loss) before income tax</b>	<b>6</b>	<b>893-</b>	<b>1.002-</b>
Income tax expense		15-	62-
<b>Profit (loss) for the period</b>		<b>878-</b>	<b>940-</b>
<b>Discontinued operation</b>			
Income (loss) from discontinued operation		7	117-
<b>Profit (loss) for the period</b>		<b>871-</b>	<b>1.057-</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations		15-	37
<b>Other comprehensive income for the period, net of income tax</b>		<b>15-</b>	<b>37</b>
<b>Total comprehensive income (loss) for the period</b>		<b>886-</b>	<b>1.020-</b>
<b>Profit (loss) attributable to:</b>			
Owners of the Company		871-	1.057-
<b>Profit (loss) for the period</b>		<b>871-</b>	<b>1.057-</b>
<b>Total comprehensive income (loss) attributable to:</b>			
Owners of the Company		886-	1.020-
<b>Total comprehensive income (loss) for the period</b>		<b>886-</b>	<b>1.020-</b>
<b>Earnings per share</b>			
Basic earnings per share (in euros)		0,03-	0,05-
Diluted earnings per share (in euros)		0,03-	0,05-

The notes are integral part of these condensed consolidated financial statements

**Condensed consolidated statement of changes in equity**  
**For the 6 months year ended 30 June**

*In thousands of euro*

Attributable to equity holders of the Company						
Notes	Share capital	Share premium	Trans- lation reserve	Accum- ulated deficit	Other legal reserves	Total
Balance at 1 January 2012	2.108	35.882	135-	37.300-	6.088	6.643
<b>period</b>						
Profit or (loss)	0	0	0	1.061-	0	1.061-
<b>Other comprehensive income</b>						
Foreign currency translation differences	0	0	37	0	0	37
Total other comprehensive income	0	0	37	0	0	37
Total comprehensive income (loss) for the period	0	0	37	1.061-	0	1.024-
<b>in equity</b>						
<b>Contributions by and distributions to owners</b>						
Issue of convertible notes net of taxes	0	206	0	0	0	206
Share-based payments	0	0	0	22	0	22
Total contributions by and distributions to owners	0	206	0	22	0	228
Total transactions with owners	0	206	0	22	0	228
Transfer to other reserves	0	0	0	515-	515	0
Balance at 30 June 2012	2.108	36.088	98-	38.854-	6.603	5.847
Balance at 1 January 2013	2.108	36.167	116-	39.015-	6.540	5.684
<b>period</b>						
Profit or (loss)	0	0	0	871-	0	871-
<b>Other comprehensive income</b>						
Foreign currency translation differences	0	0	15-	0	0	15-
Total other comprehensive income	0	0	15-	0	0	15-
Total comprehensive income (loss) for the period	0	0	15-	871-	0	886-
<b>in equity</b>						
<b>Contributions by and distributions to owners</b>						
Issue of new shares (net of transaction costs)	752	1.401	0	0	0	2.153
Share-based payments	12 0	0	0	107	0	107
Total contributions by and distributions to owners	752	1.401	0	107	0	2.260
Total transactions with owners	0	0	0	107	0	107
Transfer to other reserves	0	0	0	239-	239	0
Balance at 30 June 2013	2.860	37.568	131-	40.018-	6.779	7.058

*The notes are integral part of these condensed consolidated financial statements*



## Condensed consolidated statement of cash flows

### For the 6 months year ended 30 June

*In thousands of euro*

	Notes	2013	2012
Profit (loss) from operations		636-	961-
Adjustments for:			
Amortization and depreciation		1.072	988
Change in inventories		3	3
Change in trade and other receivables		1.185	2.159
Change in trade and other payables		509	196-
Change in provisions and employee benefits		2-	5-
Change in deferred income		1.343-	1.469-
Equity settled share based payment		107	36
Net finance costs		49-	152-
Corporate income tax		0	10
<b>Cash flow from (used in) operating activities</b>		<b>846</b>	<b>414</b>
Investments:			
Intangible fixed assets	8	1.326-	1.455-
Property, plant, and equipment	7	56-	89-
Disposals:			
Property, plant, and equipment	7	0	0
Other		18-	37
<b>Cash flow from (used in) investment activities</b>		<b>1.400-</b>	<b>1.507-</b>
Net proceeds of issuance of shares		2.153	0
Granted loans	2, 11	356	772
Proceeds from issue of convertible notes		0	1.000
Redemption loans		0	1.000-
<b>Cash flow from (used in) financing activities</b>		<b>2.509</b>	<b>772</b>
<b>Change in liquid assets</b>		<b>1.955</b>	<b>321-</b>
Cash and cash equivalents		830	1.118
<b>Balance at 1 January</b>		<b>830</b>	<b>1.118</b>
Cash and cash equivalents		2.785	797
<b>Balance at 30 June</b>		<b>2.785</b>	<b>797</b>
<b>Change in liquid assets</b>		<b>1.955</b>	<b>321-</b>

*The notes are integral part of these condensed consolidated financial statements*

# Notes to the condensed consolidated interim financial statements

## 1. Reporting entity

NedSense enterprises n.v. (the “Company”) is domiciled in the Netherlands with registered office at Laanakkerweg 2b, 4131 PA Vianen, the Netherlands. The condensed consolidated interim financial statements of the Company as of and for the six months ended 30 June 2013 are comprised of the Company and its subsidiaries (together referred to as the “Group”). The Company is a holding company which holds 100% of companies providing integrated, specialized design, production, and planning software to the global textile and apparel industries.

As activities of its subsidiary Dynamics Perspective Inc. have been discontinued per June 30st 2013, their operating results have been excluded from the Consolidated statement of comprehensive income.

The consolidated financial statements of the Group as of and for the year ended 31 December 2012 are available at [www.nedsense.com](http://www.nedsense.com).

## 2. Going Concern

In June 2013, additional funding of € 2,480 thousand was raised through the issue of 7.515.152 new shares. As of June 30, 2012 the Company has a solvency rate of 41,6%. In 2012, the Company received a grant from the Dutch Government of in total € 1.7 million of which total € 1.565 thousand have been received. Based on the Company’s financial position, the scheduled invoicing of maintenance contracts and the resulting cash inflow in the fourth quarter of 2013 and first quarter of 2014, its assets and the current outlook of the financial performance for the forthcoming year, the condensed consolidated interim financial statements have been prepared based on the going concern assumption.

All aspects of the Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as of and for the year ended 31 December 2012. We continue to tightly manage our cash balance. The uncertainty of sales is the main risk of the Company.

## 3. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as of and for the year ended 31 December 2012. These condensed consolidated interim financial statements were approved by the Board of Directors on 21 August 2013.

## 4. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended 31 December 2012. These condensed consolidated interim financial statements have not been audited or reviewed. Management has analyzed new IFRS standards and determined that they do not impact the Group.

## 5. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended 31 December 2012.

## 6. Operating Segments

**segment reporting**  
For the 6 months year ended 30 June

Operating segments Profit, loss, assets and liabilities	NedGraphics 2013 2012		Loft 2013 2012		DPI 2013 2012		Other 2013 2012		Elimination 2013 2012		Total 2013 2012	
External revenues	4.189	4.196	277	282	185	298	0	0	0	0	4.651	4.776
Inter-segment revenue	0	0	0	0	0	0	0	0	0	0	0	0
Segment operating profit (loss) before income tax	473	213	431-	372-	7	116-	930-	837-	0	0	881-	1.112-
Intangible segment assets	4.586	4.747	2.668	2.332	0	0	3.579	3.579			10.833	10.658
Other segment assets	8.900	7.292	1.337	1.104	31	127	1.923	1.046	6.068-	5.763-	6.123	3.806
total segment assets*	13.486	12.039	4.005	3.436	31	127	5.502	4.625	6.068-	5.763-	16.956	14.464

\* as of 30 June 2013 and 30 June 2012

## 7. Property, plant and equipment

### Acquisitions and disposals

During the six months ended 30 June 2013 the Group acquired assets with a cost of €56 thousand (six months ended 30 June 2012: €89 thousand).

No assets with a carrying amount were disposed of during the six months ended 30 June 2013 (carrying amount disposed of during the six months ended 30 June 2012: none). No gains or losses on disposals were realized during the six months ended 30 June 2013 or 30 June 2012.

## 8. Intangible fixed assets

Investments for the six months ended 30 June 2013 comprised capitalized production of €1,326 thousand (six months ended 30 June 2012: €1,455 thousand). Capitalized production included both in-house and third party expenses incurred to develop intangible fixed assets (software). For the six months ended 30 June 2013, such in-house expenses amounted to €916 thousand and third party expenses amounted to €410 thousand (six months ended 30 June 2012: €911 thousand and €544 thousand, respectively).

## 9. Non-current receivables

In 2011, management invested € 500 thousand in the share capital of the Company. At the same time the Company provided a loan to management of € 500 thousand with an interest rate of 2.5%. These loans have been recognized at fair value taking the market interest rate into account (7.5%). Cash flows to be received (at 2.5%) and the total sum have been discounted over the expected life time of the loan . With the assumptions, the initial value of the receivables is € 435 thousand, the current value is € 445 thousand with an expected life time of another 3.5 years. Costs associated with the write off of 20% of all loans (loans and interest) granted to each of the 2 members of the executive board upon completion of the

equity transaction per AVA June 11<sup>th</sup> 2013, are preliminary and subject to final determination of tax and valuation details.

## **10. Share capital**

At 30 June 2013, the issued share capital comprised 28,598.495 ordinary shares (31 December 2012 21,083.343) with nominal value of €0.10, which have been fully paid up.

## **11. Loans and borrowings**

The Company has received €356 thousand from the Dutch Ministry of Economic Affairs. This is the 5th tranche of the total grant of €1,7 million which will be paid in several installments until mid 2013. (Total received € 1,565 thousand) Repayment will take place in 2014 to 2017. Interest rate is 6.5% and will be accrued and paid in 2017.

## **12. Share-based payment**

At 30 June 2013 the Group has the following share-based payment arrangements:

### *Plan C (Management)*

The vesting period of share option program (equity settled) plan C is expired.

### *Plan D (Key employees)*

For share option program (equity settled) Plan D, in 2009 100% of the first package (in December 2009), amounting to 3% of the outstanding shares of the Company, was granted to key employees. In 2010, 100% of the second package (in December 2010), amounting to 3% of the outstanding shares of the Company, was granted to key employees by formal approval of the Supervisory Board and Shareholders at the Annual General Meeting of Shareholders in May 2011. The remaining option package (4% of outstanding shares) has been granted at the Annual General Meeting of Shareholders in June 2012. These options have a vesting period of 3 years.

The expected costs of the Plan D options are valued using the Black-Scholes and binomial models and amortized over the vesting period.

The company issued a new bonus remuneration plan based on certain financial and personal performance criteria which was approved at the shareholders meeting in June 2012. For the Board of Directors 50% of the maximum payout (respectively 100% and 80% of the respective annual salaries of CEO and COO) was granted and approved at the Annual General Meeting of Shareholders in June 2013. As the company is not cash flow positive yet, the payout is 100% in performance shares with a vesting period of 3 years.

Given the current developments, estimated costs of €107 thousand has been booked in the first half of 2013.