

Q1

enfo

Enfo Oyj

Interim report

January 1 – March 31, 2018

ENFO GROUP'S INTERIM REPORT

January 1 – March 31, 2018

Enfo Q1: Turnaround following the plan

Key points of the interim report

- Turnover was EUR 32.1 (33.6) million in January–March. Turnover was slightly below last year as expected, growth is expected in H2, with the competence management and recruiting platforms up and running.
- The operating margin was EUR 1.1 (1.8) million in January–March. Operating profit (EBIT) was EUR 0.0 (0.4) million in January–March, after three negative quarters in 2017.
- Profit for the review period decreased to EUR -1.0 million in January–March (EUR 0.0 million in corresponding period 2017 without profit of sales of divested business). Profit before taxes in January–March amounted to EUR -0.8 (0.1) million.
- Earnings per share in January–March were EUR -2.3 (EUR -1.0 in corresponding period 2017 without the profit of sales of divested business).
- Cash flow from operating activities totaled EUR 0.2 (-2.5) million in January–March.
- At the end of March, Enfo Group employed a total of 893 (916) people.
- Enfo started executing its refined strategy in the beginning of the year. Enfo's renewed strategy is based on information management and integrations in dispersed data platforms, enabling data-driven business transformation.

Outlook for 2018

The Group's operating margin and turnover are expected to increase in 2018 compared to 2017. Improvement is based on enhancement of competence acquisition and management, development of offering, deepening of customer relations, as well as operational efficiency.

Risks and uncertainties

Competition for experts is a major factor in terms of growth, and the main short-term risks are related to recruiting and retaining employees. Enfo's growth in the long-term will be impacted by markets' moves towards bringing together new data assets in digital services with companies' existing data assets, as well as the pace of the shift towards cloud.

CEO's review

CEO **Seppo Kuula**, who took up his position in beginning of the year 2018, comments on the review period:

“The year 2018 started off swiftly as we started executing on our renewed strategy, which is based on enabling data-driven business transformation for a more intelligent Nordics. The shift begins in internal operations, then turns towards customer operations, and will finally be visible as positive results in the investor information. I was happy to see operational efficiency improve month by month during Q1, creating a good baseline for Q2. Critical tool development for enabling modern competence-driven operational management was launched, and results will be seen in the second half of the year.

Towards 2020, Enfo takes the role of a platform-agnostic data integrator that brings together old and new data assets on- and off-premises, in public and private cloud. We see that going forward, data is driving

digital transformation in all forms, and data management is becoming more and more complex in a cross-data platform environment. Our own long history proves our data management and enterprise software system support capabilities, and our rapidly increasing cloud-based Digital transformation business shows our expertise in state-of-art cloud solution creation and management. We have the capability to both build and run – backing our customers in orchestrating the whole scene, from infrastructure to business development and new digital services. The amount of data is increasing exponentially. At the same time, more and more of the data relevant to an individual company is stored in different platforms. Increasingly, the crucial integration of new and old data assets will take place in cloud, allowing for new data-driven business models that connect the entire supply chain with the customers and their ecosystems. In this disruption we want to be a forerunner in supporting customers mastermind complexity. Our strength is cross-platform competence and we aim to be a leading cloud service provider in the Nordics towards 2020. Almost everything we do with our customers on- and off-premises can be done in cloud. It is all about bringing together data for more intelligent operations.

During Q1 we set up a Service Development function, for developing our internal operational excellence with the aim of enhancing both employee and customer experience, answering to our development needs, and prioritizing focus on our refined strategy's must-win battles. Enfo's must-win battles towards 2020 are: a workplace to love; collaborative, integrated value creation; and to be the trusted partner. As a part of the Service development function, we set up a new unit, People operations, to focus on competence acquisition and development. Furthermore, work to enhance our internal steering mechanisms started. We launched our renewed intranet and focused internal communications on Enfo's refined strategy and values: collaboration, trust, continuous development and expertise.

In addition, we commenced the process to simplify our legal structure in Sweden. With a history of growth through company acquisitions, Enfo has had many legal entities in Sweden, which are now merged into two legal entities. The process is estimated to take up to six months. Our aim is to bring everything together; one name, one company, one culture.

During the review period Enfo had three business areas: IT Transformation, Business Transformation and Digital Transformation. The business area IT Transformation accomplished to both acquire new customers and renew agreements during the period. Hans Sollerman took over the position as head of Business Transformation in January and Lena Eineving was appointed COO of the business area in March. The organization of Business Transformation was simplified. Business Transformation renewed important contracts during the period, but attrition is a challenge for the business area. Within the business area Digital Transformation we leveraged further Evolve, central to our ambition of developing our customer relationships towards a co-creation approach, where we create value in deep cooperation with the customer and its ecosystem.

We are currently developing new cloud operations, which together with our data center operations will build the basis for all our business area operations, with the same level of customer support competence. Thus, we will provide customers with an efficient, future-proof cross-platform environment.

In all three business areas competence acquisition is challenging, and we are thus strengthening our efforts in recruiting. We are building centralized processes for competence acquisition, aiming for modern in-bound recruiting.

Throughout 2018, our focus is on profitability and building a sustainable business foundation.”

Turnover and result

Enfo Group's turnover decreased by 4.3%, compared to the corresponding period last year, to EUR 32.1 (33.6) million in January–March. Turnover was slightly below last year as expected, growth is expected in H2, with the competence management and recruiting platforms up and running. EUR 12.7 million of the turnover was accrued in Finland and EUR 19.5 million came from Sweden. The operating margin was EUR 1.1 (1.8) million in January–March. The operating profit for the period was EUR 0.0 (0.4) million, representing 0.0% (1.3%) of turnover.

Profit before taxes was EUR -0.8 (0.1) million in January–March. The Group's net financing costs amounted to EUR 0.8 (0.3) million during Q1. Profit for the review period decreased to EUR -1.0 million in January–March (EUR 0.0 million in corresponding period 2017 without profit of sales of divested business). Earnings per share in January–March were EUR -2.3 (EUR -1.0 in corresponding period 2017 without profit of sales of divested business).

Financing and investments

Enfo's net investments in January–March totaled EUR 0.5 (2.1) million. The company's equity ratio was 47.0% (48.8%) at the end of the review period. Interest-bearing net liabilities at the end of March amounted to EUR 30.8 (19.9) million and net gearing was 60.7% (30.8%). The Group is in breach of one of the covenants of its financiers' agreement requiring the Group's interest-bearing net liabilities/operating margin to be less than 5, and thus the Group has classified the loans covered by the covenant as current liabilities in Q1 interim report. In February 2018, the Group received approval from its financiers for the covenant breach.

Changes in management team

Seppo Kuula took up his position as Enfo's CEO at the beginning of 2018. Hans Sollerman (EVP, Business Transformation) and Lina Tjerneld (EVP, Marketing and Communications) were appointed as members of the management team in January and February 2018. Sollerman succeeds Mats Eliasson in this position. Lars Aabol took over responsibility for the new function Service development in April, while Seppo Kuula took lead of Sales function.

Personnel

In January–March, Enfo Group employed an average of 893 (916) personnel. At the end of March, the Group employed a total of 890 (925) personnel. During the review period, Enfo employed an average of 310 (317) people in Finland and 583 (599) in Sweden.

Shares

On March 31, 2018, Enfo Oyj had a total of 670,349 shares, of which Enfo held 13,386 treasury shares. The company has one series of shares, which has been incorporated to the book-entry account system maintained by Euroclear Finland Oy. The company's ten largest shareholders at the end of the period were: Osuuskunta KPY, Ilmarinen Mutual Pension Insurance Company, Rongo Cap Oy, the Gösta Serlachius Fine Arts Foundation, Keskiuomalainen Oyj, Einari Vidgrén Oy, Lululemon Oy, Hannu Isotalo Oy, Kallax Oy, and the Saastamoinen Foundation. Osuuskunta KPY holds 84.67% of Enfo Oyj's shares.

Annual General Meeting

Enfo Oyj's Annual General Meeting was held on March 27, 2018 in Kuopio. In accordance with a proposal made by the Board of Directors, the Annual General Meeting decided to authorize the Board of Directors to decide in its discretion on the distribution of dividend. The total amount of the distribution based on this authorization shall not exceed EUR 3 million, approximately EUR 4.50 per share based on the number of shares on date of notice to the General Meeting. The authorization is valid until the Annual General Meeting of 2019.

Anssi Lehtikainen, Lauri Kerman, Kaisa Olkkonen and Mikko Laine were re-elected as members of the Board of Directors, and Susanna Rahkamo and Claes Wallnér were elected as new members of the Board of Directors. At the organization meeting held after the Annual General Meeting, the Board of Directors elected Anssi Lehtikainen as the Chairman and Kaisa Olkkonen as the Deputy Chairman.

Timetable for financial reporting in 2018

The interim report for Q1/2018 is published on April 26, 2018, Q2 on August 23, 2018, and Q3 on October 26, 2018.

Accounting principles

This interim report has been prepared using the same measurement and accrual principles as in the annual financial statements, but this interim report has not been prepared according to the IAS 34 standard.

Turnover as well as materials and services are adjusted (decreased) by applying IFRS 15 standards. The effects introduced by IFRS 15 were applied retrospectively. The effect in Q1/2017 was EUR 0.4 million and for full year 2017 EUR 1.2 million.

The figures in the tables have been rounded to the nearest million euros so they may not add up to precise totals. The figures presented in the tables are unaudited.

Consolidated income statement

EUR million	1.1-31.3.2018	1.1-31.3.2017	1.1-31.12.2017
Turnover	32,1	33,6	131,7
Other operating income	0,1	0,0	0,0
Materials and services	-7,2	-7,6	-31,7
Employee benefit expenses	-19,1	-19,8	-78,2
Depreciation, amortization and impairment	-1,1	-1,3	-9,1
Other operating expenses	-4,9	-4,5	-17,9
Operating profit	0,0	0,4	-5,1
Financial income	0,4	0,1	1,2
Financial expenses	-1,2	-0,4	-2,1
Profit before taxes	-0,8	0,1	-6,1
Income taxes	-0,1	-0,1	-1,1
Profit for the period for continued operations	-1,0	0,0	-7,2
Profit for the period for discontinued operations	0,0	18,0	15,5
Profit for the period	-1,0	18,0	8,4
Attributable to			
Ow ners of the parent company	-1,5	17,4	6,6
Non-controlling interests	0,5	0,7	1,8
Earnings per share, continuing operations EUR	-2,3	-1,0	-13,5
Earnings per share, EUR	-2,3	26,1	9,9

Consolidated comprehensive income statement including discontinued operations

EUR million	1.1-31.3.2018	1.1-31.3.2017	1.1-31.12.2017
Profit for the period	-1,0	18,0	8,4
Exchange rate differences caused by net investments in foreign subsidiaries	-0,7	0,1	-0,5
Other translation differences	0,2	0,0	-0,1
Comprehensive income for the period	-1,5	18,1	7,8
Attributable to			
Ow ners of the parent company	-2,0	17,4	6,1
Non-controlling interests	0,5	0,7	1,7

Consolidated balance sheet

EUR million	31.3.2018	31.3.2017	31.12.2017
Assets			
Non-current assets			
Tangible assets	3,1	3,7	3,5
Goodwill	67,5	76,1	69,5
Other intangible assets	5,0	7,8	5,3
Available-for-sale investments	0,1	0,1	0,1
Receivables	0,8	0,3	0,8
Deferred tax assets	1,5	1,4	1,6
Total non-current assets	78,0	89,4	80,8
Current assets			
Inventories	0,0	0,1	0,0
Trade receivables	24,1	27,2	25,3
Other receivables	3,1	2,7	3,2
Tax assets based on the period's taxable income	2,1	3,9	1,7
Available-for-sale investments	0,0	0,0	0,0
Cash and cash equivalents	1,1	10,2	1,9
Total current assets	30,4	44,2	32,1
Total assets	108,4	133,6	112,9
Equity and liabilities			
Equity			
Share capital	0,3	0,3	0,3
Share premium account	0,0	13,3	0,0
Other reserves	25,0	12,7	25,4
Retained earnings	23,4	35,9	25,1
Total equity attributable to owners of the parent company	48,6	62,2	50,8
Non-controlling interests	2,2	2,5	1,7
Total equity	50,8	64,7	52,5
Non-current liabilities			
Interest-bearing liabilities	11,2	21,1	11,5
Other liabilities	0,4	0,7	0,9
Deferred tax liabilities	0,8	1,2	0,9
Total non-current liabilities	12,4	23,0	13,3
Current liabilities			
Interest-bearing liabilities	20,8	9,1	20,6
Trade payables	5,4	5,8	6,0
Other liabilities	19,1	31,0	20,5
Total current liabilities	45,2	45,8	47,1
Total liabilities	57,6	68,9	60,4
Total equity and liabilities	108,4	133,6	112,9

Condensed statement of cash flows including discontinued operations

EUR million	1.1-31.3.2018	1.1-31.3.2017	1.1-31.12.2017
Cash flow from operations			
Profit for the period	-1,0	18,0	8,4
Adjustments to the profit for the period	2,0	-17,0	-6,7
Change in working capital	-0,3	-2,7	4,5
Interest paid and received	-0,1	-0,1	-0,8
Taxes paid	-0,4	-0,7	-1,5
Net cash flow from operations	0,2	-2,5	3,8
Cash flow from investments			
Acquisition of subsidiaries less cash and cash equivalents on the acquisition day	0,0	-0,7	-0,7
Investments in tangible and intangible fixed assets	-0,3	0,0	-0,8
Sales of tangible and intangible fixed assets	0,0	0,1	0,1
Investments: Investments accounted for using the equity method	0,0	0,0	-2,4
Sale of subsidiary less cash and cash equivalents on the sale date	0,0	20,0	19,0
Loans issued	0,0	0,0	-0,5
Net cash flow from investment activities	-0,3	19,5	14,8
Cash flow from financing activities			
Changes in loans	0,9	-13,0	-9,9
Changes in equity	-0,7	0,3	-10,3
Repayment of financial leasing liabilities	-0,6	-0,7	-2,7
Net cash flow from financing activities	-0,4	-13,3	-23,0
Changes in cash and cash equivalents	-0,5	3,7	-4,4
Effect of exchange rate changes on cash and cash equivalents	-0,4	0,0	-0,2
Cash and cash equivalents at the beginning of the period	1,9	5,0	5,0
Cash of the discontinued operations at the beginning of the period	0,0	1,5	1,5
Cash and cash equivalents at the end of the period	1,1	10,2	1,9

Changes in shareholders' equity

EUR million

	Share capital	Share premium account	Treasury shares	Translation differences	Value change and other funds	Retained earnings	Total	Non-controlling interests	Total equity
Equity on 1 Jan 2017	0,3	13,3	-0,1	0,7	8,0	30,9	53,0	1,9	54,9
Profit/loss for the period						17,4	17,4	0,7	18,0
Comprehensive income									
Other comprehensive income items									
Exchange rate differences caused by net investment in foreign subsidiaries				0,0			0,0	0,0	0,0
Other comprehensive income items for the period after taxes				0,1	0,0	0,0	0,0	0,0	0,1
Comprehensive income for the period				0,1	0,0	17,4	17,4	0,7	18,1
Transactions with owners									
Distributed dividends					-7,9	-0,7	-8,5		-8,5
Share issue					0,3		0,3		0,3
Sale of treasury shares			0,0				0,0		0,0
Total transactions with owners	0,0	0,0	0,0	0,0	-7,6	-0,7	-8,3	0,0	-8,3
Transfers between items					11,8	-11,8			
Equity on 31 March 2017	0,3	13,3	-0,2	0,7	12,1	35,9	62,2	2,5	64,7

	Share capital	Share premium account	Treasury shares	Translation differences	Value change and other funds	Retained earnings	Total	Non-controlling interests	Total equity
Equity on 1 Jan 2018	0,3	0,0	-0,4	-0,3	26,1	25,1	50,8	1,7	52,5
Profit/loss for the period						-1,5	-1,5	0,5	-1,0
Comprehensive income									
Other comprehensive income items									
Exchange rate differences caused by net investment in foreign subsidiaries				-0,7			-0,7	0,0	-0,7
Other translation differences				-0,6		0,9	0,3	-0,1	0,2
Other comprehensive income items for the period after taxes		0,0	0,0	-1,4	0,0	0,9	-0,4	-0,1	-0,5
Comprehensive income for the period	0,0	0,0	0,0	-1,4	0,0	-0,6	-1,9	0,5	-1,5
Transactions with owners									
Purchase of treasury shares			-0,7				-0,7		-0,7
Redemption obligation						0,5	0,5		0,5
Total transactions with owners	0,0	0,0	-0,7	0,0	0,0	0,5	-0,2	0,0	-0,2
Equity on 31 March 2018	0,3	0,0	-1,1	-1,7	26,1	25,0	48,6	2,2	50,8

Key figures, continued operations

	1.1-31.3.2018	1.1-31.3.2017	1.1-31.12.2017
Turnover, EUR million	32,1	33,6	132,9
Operating profit, EUR million	0,0	0,4	-5,1
% of turnover	0,0	1,3	-3,8
Profit before taxes, EUR million	-0,8	0,1	-6,1
% of turnover	-2,6	0,3	-4,6
Profit for the period, EUR million	-1,0	18,0	-7,2
% of turnover	-3,0	53,6	-5,4
Earnings per share, continuing operations, EUR	-2,3	-1,0	-13,5
Earnings per share, discontinuing operations, EUR	0,0	27,1	23,4
Earnings per share, EUR	-2,3	26,1	9,9
Return on investment, %	1,9	2,1	-4,2
Return on equity, %	-5,3	0,0	-9,2
Equity ratio, %	47,0	48,8	46,6
Net gearing, %	60,7	30,8	57,4
Interest-bearing net debt, EUR million	30,8	19,9	30,1
Equity per share, EUR	74,0	93,9	76,2
Average number of employees	893	916	911
Number of shares	670 349	664 361	670 349

Profit from discontinued operations

EUR million	1.1-31.3.2018	1.1-31.3.2017	1.1-31.12.2017
Turnover	0,0	4,1	6,6
Expenses	0,0	-4,6	-8,8
Profit before tax	0,0	-0,5	-2,2
Taxes	0,0	0,0	0,0
Profit after taxes	0,0	-0,5	-2,3
Capital gain from subsidiaries after taxes	0,0	18,5	17,8
Profit from discontinued operations	0,0	18,0	15,5

Changes in tangible fixed assets

EUR million	1.1-31.3.2018	1.1-31.3.2017	1.1-31.12.2017
Carrying amount at the beginning of the period	3,5	4,4	4,4
Increases	0,2	0,0	1,7
Decreases	-0,1	-0,3	-0,3
Depreciation and amortisation	-0,5	-0,6	-2,3
Carrying amount at the end of the period	3,1	3,7	3,5

Commitments and contingencies

EUR million	31.3.2018	31.3.2017	31.12.2017
Leasing liabilities	4,6	5,7	4,1
Other rental liabilities	7,6	7,7	9,3
Other contract liabilities	0,2	0,0	0,3
Bank guarantees	0,3	0,3	0,3
Total other liabilities	12,7	13,7	14,0

Enfo

Data-driven business transformation

Enfo is a Nordic IT service company enabling its customers' data-driven business transformation. We bring together old and new data assets on- and off-premises, in public and private cloud. We both build and run – backing our customers in orchestrating the whole scene, from hybrid platforms to business applications and new digital services. We are 900 niched experts working for a more intelligent world, with technology empowering people, businesses and societies.

For more information, visit enfogroup.com

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