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enfo

Interim report

1 January – 31 March 2017



ENFO GROUP'S INTERIM REPORT 1 January–31 March 2017

On 1 February 2017, Enfo Oyj sold the entire share capital of its subsidiary, Enfo Zender Oy, to Ropo Capital.

The sold business is reported as a discontinued operation. The figures below reflect continuing operations with comparison data unless otherwise stated.

Key points of the interim report

- Turnover increased by 8.3% in January–March in accordance with the growth strategy and stood at EUR 34.6 (31.9) million. Growth is restricted by the availability of IT professionals in Sweden.
- Operating margin was EUR 0.9 (1.1) million in January–March. The decline mainly resulted from increased recruitment costs in Sweden.
- Operating profit (EBIT) decreased by 46.5% in January–March and stood at EUR -0.6 (-0.4) million.
- Profit before taxes in January–March amounted to EUR -0.9 (-0.6) million.
- Profit for the period decreased by 79.8% in January–March, to EUR -0.9 (-0.5) million.
- Earnings per share in January–March were EUR -2.52 (-1.68). The earnings per share including discontinued operations were EUR 26.06 (-0.96).
- Cash from operating activities in January–March stood at EUR -2.5 (0.1) million.
- In January–March, Enfo Group employed an average of 972 people (859). At the end of March, the Group's continuing operations employed a total of 978 people (856).
- At the beginning of February 2017, Enfo Oyj sold the entire share capital of its subsidiary Enfo Zender Oy, which provides communication services, to a Kuopio-based invoicing and payment monitoring services company, Ropo Capital. In connection with the sale of shares, an EUR 18.9 million profit from discontinued operations was recorded for the period under review.

Outlook for 2017

The Group's 2017 turnover from continuing operations is expected to grow. The Group's operating margin excluding non-recurring items from continuing operations is expected to remain on the level of 2016.

Risks and uncertainties

Short-term risks and uncertainties are associated with maintaining competitive prices in all of the Group's business areas. Recruitment problems, particularly in the Stockholm area, may weaken the otherwise good growth prospects of the Business Solutions business area. In addition, the turnover and profitability of new business may develop weaker than planned.

The largest long-term uncertainties are associated with a decrease in demand for traditional IT services and the schedule for implementing changes as part of Enfo's revised strategy. Non-recurring expenses related to strategy changes reduce the short-term profitability.

Arto Herranen, CEO:

During the period under review, there were no major changes in the general economic situation in Finland and Sweden.

Enfo Group's turnover continued to follow a growth path, particularly due to the consolidation of e-man AB, a company specializing in integration solutions, which Enfo acquired in November 2016. Demand in the Business Solutions business area in Sweden is very strong. Meanwhile, the availability of competent IT professionals in Sweden is hampering the entire sector, and we are clearly behind our recruitment targets. As a result of this, we did not achieve our organic growth target. On the other hand, an exceptionally high staff turnover increases our recruitment costs, which in turn decreases profitability. Furthermore, price competition in traditional IT services and investments in new businesses reduced the operating profit compared to last year.

Enfo's aim is to enable digitalization for our customers through comprehensive, integrated business solutions and continuous IT services. We are true specialists in all of our areas of expertise, and work with the best partners to provide customers with business-oriented solutions.

In 2017, we will invest in services with great growth potential. Meanwhile, we will face profitability challenges in our traditional services. We will have to implement savings measures in order to achieve cost benefits. We will also take maximum advantage of automation in those functions where it is possible. The two-speed Enfo is the main theme of the current year: we are accelerating and braking at the same time.

Developments in Enfo's business areas

We continue to see the market shift towards digitalization. Businesses and IT are moving closer to each other. At the same time, our discussions with customers are increasingly moving to a solution- and business-oriented direction. Enfo's main business areas are IT Transformation, Consultancy/Business Solutions and Financial Process Services.

In the IT Transformation business area, customer field digitalization and disruption can be seen clearly, and customers' need for a knowledgeable IT partner is significant. For a service provider like Enfo IT Transformation, the changing business environment is setting new kinds of demands. As a service provider, we need to be more agile than before, replace old competencies with new ones, invest in training and even accomplish specific changes in our company culture. During the past quarter, IT Transformation won new customers e.g. related to the new General Data Protection Regulation (GDPR) and renewed its existing contracts, for example with Are Oy.

In the Business Solutions business area, Enfo's Digital Dimension market message has presented us with many opportunities as well as challenges. Our focus on the manufacturing sector has taken off well and we are now also starting to work more with companies within the service sector where we see the next wave of interesting opportunities. In the past quarter, Business Solutions won several important new customers in the digitalization domain. Even more importantly, we are working with our existing customer base in order to proactively support them in their initiatives. As a result of digitalization, we are seeing more and more predictive and data science requests coming up – one good example of this is the Coop customer insight project. Another area showing rapid growth is AppCare, which addresses customers with a fast application development track but with a need to make their apps a long-term solution; here AppCare can help secure uptime. Digitalization of business processes is also gaining ground quickly in the market, and we are seeing that in this area our concept All the Way to Value has a good fit with predefined best practice processes.

In January, the Financial Process Services business area completed the divestment of the information logistics business. The divestment has enabled Financial Process Services to fully focus its resources on the development of outsourcing services for medium-sized enterprises – an emerging market that is growing fast. During the past quarter, Financial Process Services signed two new customer agreements. Loiste outsourced its contract and energy management related business, including six highly competent energy business process specialists, to Enfo. The agreement extended Enfo's services to cover Loiste's back-end business processes from electricity meter information to invoicing. In addition, Keravan Energia signed a contract to renew and adopt Enfo's Microsoft Dynamics based financial system as a service and to utilize Enfo's best practice financial processes. Enfo Financial Process Services expects its net sales to grow by more than 50% compared to last year.

Timetable for financial reporting 2017

The interim report for Q2/2017 will be published on 25 August 2017 and Q3 on 26 October 2017.

Enfo's Business

Enfo Oyj is the parent company of Enfo Group. Enfo is a Nordic IT service company offering business solutions, financial processes and managed IT services. Our passion is helping customers in the digital dimension by creating innovative digital solutions that develop, innovate and improve our customers' business. Enfo group consists of 1.000 niched experts in Finland and Sweden.

Turnover and result

The Group's turnover for continuing operations increased January–March in accordance with the growth strategy by 8,3% and stood at EUR 34.6 (31.9) million. The turnover was affected by the growing demand for services related to digitalization. In addition, in November 2016 acquired e-man AB which specializes in integration solutions increased the turnover. Enfo Group's profitability for continuing operations was EUR - 0,6 (-0,4) million comprising -1,6% of turnover.

The Group's profit before taxes in January–March for continuing operations stood at EUR -0,9 (-0,6) million. The Groups financing costs in January-March were EUR 0.3 (0.3) million. The result in January-March including divested business was 18.0 (-0.1) million. Earnings per share in January – March for continuing operations was EUR -2.52 (-1.68). Earnings per share in January – March including divested business was EUR 26.06 (-0.96).

Financing, investments and acquisitions

Enfo's net investments in January–September totalled EUR -0,1 (0,6) million. The company's equity ratio was 48,8 % (42,0). Interest-bearing net liabilities at the end of March amounted to EUR 19,9 (30,1) million and net gearing was 30,8 % (58,9).

The sale of Enfo Oyj's subsidiary, Enfo Zender, an information logistics services provider, to Ropo Capital was concluded on the 1st of February 2017.

Personnel

In January – March Enfo Group employed an average of 972 employees (859). At the end of March, the Group employed a total of 978 (856) people. During the review period, Enfo's personnel in Finland amounted in average to 373 (374) and in Sweden to 599 (485).

Shares

On 31 March 2017, Enfo Oyj had a total of 664,361 shares. At the end of March the company had a total of 116 shareholders. The company has one series of shares. At the end of March 2017, Enfo owned 1,887 treasury shares. At the end of March 2017, the company's ten largest shareholders were: Osuuskunta KPY, Ilmarinen Mutual Pension Insurance Company, Enfo Oyj's Personnel Fund HR, Rongo Cap Oy, Keski-suomalainen Oyj, Einari Vidgrén Oy, Pohjois-Savon Osuuspankki, Hannu Isotalo Oy, Kallax Oy and Arto Herranen. Osuuskunta KPY holds 85.32% of Enfo's shares.

Annual General Meeting and administration

On 30 March 2016, Enfo Oyj's Annual General Meeting decided, in accordance with the proposal of the Board of Directors that a dividend of EUR 0.99 per share is paid for the financial period 2016 and that the shareholders are paid an equity repayment of EUR 11.91 per share from the invested unre-stricted equity fund. Distributable dividend amounts to approximately 0.7 million euros and equity repayment to approximately 7.8 million euros, approximately 8.5 million euros in aggregate. In addition, the Annual General Meeting authorised the Board of Directors to decide in its discretion on the distribution of additional dividend as follows: The total amount of the distribution based on this authorization shall not exceed EUR

4.55 per share in dividend, approximately 3 million euros in aggregate. The authorization is valid until the opening of the next Annual General Meeting.

According to the proposal of the Nomination Committee, Lauri Kerman, Timo Kärkkäinen, Anssi Lehtikoinen, Soili Mäkinen and Kaisa Olkkonen were re-appointed as members of the Board of Directors. Mikko Laine was selected as a new member.

At the organisation meeting held after the Annual General Meeting, the Board of Directors elected Anssi Lehtikoinen as the Chairman.

The Annual General Meeting decided that the share premium reserve, being part of restricted equity, as set forth in the parent company's balance sheet as at 31 December 2016 shall be decreased by transferring all funds recorded therein, amounting to EUR 13 316 335.37, to the Company's invested un-restricted equity fund. In addition the AGM decided that the other reserve, being part of un-restricted equity, as set forth in the parent company's balance sheet as at 31 December 2016 shall be decreased by transferring all funds recorded therein, amounting to EUR 11 755 792,51, to the Company's invested unrestricted equity fund.

The AGM authorised the Board of Directors to decide upon the issuance of new shares through a rights issue. The authorisation concerns the issuance of a maximum of 175,000 shares. Shares can be conveyed in order to obtain assets required in connection with a company or business acquisition. The Board of Directors decides on the subscription price and other terms and conditions of the share issue.

In addition, the Annual General Meeting authorised the Board of Directors to decide on conveying new or treasury shares through a directed rights issue. The authorisation applies to the assignment and/or issue of no more than 60,000 shares. Shares can also be conveyed and/or issued in order to finance or complete any business transactions, or as part of the company's salary and incentive scheme for the company's personnel and the personnel fund. The Board of Directors decides on the subscription price and other terms and conditions of the share issue.

Furthermore, the Board of Directors was authorized to decide on the acquisition of the company's treasury shares using the company's unrestricted equity. The authorisation applies to the acquisition of a maximum of 10,000 shares at a minimum share price of EUR 1.00 and a maximum share price of EUR 150. The shares can be purchased for use as consideration when the company acquires assets for its business operations, for any business acquisitions, as part of the company's salary or incentive system, or in order to fulfil the company's share repurchase commitments and for cancellation. The Board of Directors can decide upon the acquisition price and other acquisition terms. The authorisations are valid until the end of the next Annual General Meeting.

Accounting principles

This financial statements bulletin has been prepared in accordance with the recognition and measurement principles of the International Financial Reporting Standards (IFRS) and the accounting principles published in the 2016 financial statements. The figures in the tables have been rounded to the nearest million euros and may not add up to exact totals. The figures presented in the tables are unaudited.

Consolidated income statement

EUR million	1.1-31.3.2017	1.1-31.3.2016	1.1-31.12.2016
Turnover	34,6	31,9	127,6
Other operating income	0,1	0,0	0,1
Materials and services	-8,3	-8,1	-33,3
Employee benefit expenses	-20,7	-18,8	-70,7
Depreciation and amortisation	-1,4	-1,4	-5,7
Other operating expenses	-4,9	-4,1	-17,8
Operating profit	-0,6	-0,4	0,1
Financial income	0,1	0,0	0,1
Financial expenses	-0,4	-0,3	-1,1
Profit before taxes	-0,9	-0,6	-0,8
Income tax	0,0	0,1	0,2
Profit for the period for continued operations	-0,9	-0,5	-0,7
Profit for the period for discontinued operations	18,9	0,4	1,8
Profit for the period	18,0	-0,1	1,2
Attributable to			
Equity holders of the parent company	17,4	-0,6	-1,0
Non-controlling interests	0,7	0,5	2,1
Earnings per share, continued operations EUR	-2,52	-1,68	-4,64
Earnings per share, EUR	26,06	-0,96	-1,60

Statement of comprehensive income including discontinued operations

EUR million	1.1-31.3.2017	1.1-31.3.2016	1.1-31.12.2016
Profit for the period	18,0	-0,1	1,2
Exchange rate differences caused by net investments in foreign subsidiaries	0,1	-0,1	-0,7
Other translation differences	0,0	0,0	-0,4
Net investment hedging	0,0	0,0	-0,1
Cash flow hedging	0,0	0,0	0,1
Comprehensive income for the period	18,1	-0,2	0,1
Attributable to			
Equity holders of the parent company	17,4	-1,2	-2,0
Non-controlling interests	0,7	1,0	2,1

Consolidated statement of financial position

EUR million	31.3.2017	31.3.2016	31.12.2016
Assets			
Non-current assets			
Tangible assets	3,7	4,2	4,4
Goodwill	76,1	72,3	77,8
Other intangible assets	7,8	8,4	6,3
Available-for-sale investments	0,1	0,1	0,1
Receivables	0,3	0,1	0,3
Deferred tax assets	1,4	1,2	1,5
Total non-current assets	89,4	86,4	90,4
Current assets			
Inventories	0,1	0,2	0,1
Trade receivables	27,2	25,6	26,5
Other receivables	2,7	4,1	3,3
Tax assets based on the period's taxable income	3,9	2,2	2,9
Available-for-sale investments	0,0	0,0	0,0
Cash and cash equivalents	10,2	3,6	5,0
Total current assets	44,2	35,7	37,8
Assets for discontinued operations			5,4
Total assets	133,6	122,1	133,6
Equity and liabilities			
Equity			
Share capital	0,3	0,3	0,3
Share premium account	13,3	13,3	13,3
Other reserves	12,7	4,7	8,5
Retained earnings	35,9	31,0	30,9
Equity attributable to equity holders of the parent company, total	62,2	49,3	53,0
Non-controlling interests	2,5	1,9	1,9
Total equity	64,7	51,1	54,9
Non-current liabilities			
Interest-bearing liabilities	21,1	22,7	21,5
Other liabilities	0,7	5,1	1,1
Deferred tax liabilities	1,2	1,0	0,8
Non-current liabilities, total	23,0	28,8	23,3
Current liabilities			
Interest-bearing liabilities	9,1	11,0	22,4
Trade payables	5,8	8,4	7,1
Other liabilities	31,0	22,7	23,0
Current liabilities, total	45,8	42,1	52,5
Total liabilities	68,9	70,9	75,9
Liabilities for discontinued operations			2,9
Total equity and liabilities	133,6	122,1	133,6

Condensed statement of cash flows including discontinued operations

EUR million

	1.1-31.3.2017	1.1-31.3.2016	1.1-31.12.2016
Cash flow from operating activities			
Profit for the period	18,0	-0,1	1,2
Adjustments to the profit for the period	-17,0	1,8	7,6
Change in working capital	-2,7	-1,0	-0,3
Interest paid and received	-0,1	-0,1	-0,8
Taxes paid	-0,7	-0,4	-2,3
Cash flow from operating activities	-2,5	0,1	5,5
Cash flow from investment activities			
Acquisition of subsidiaries less cash and cash equivalents on the acquisition date	-0,7	-2,1	-11,8
Investments in tangible and intangible assets		-0,1	-0,4
Gain from business transactions	0,1		
Gain from other investments	20,0		
Cash flow from investment activities	19,5	-2,2	-12,3
Cash flow from financing			
Changes in loans	-13,0	0,7	10,5
Changes in equity	0,3	-0,8	0,3
Repayment of financial leasing liabilities	-0,7		-3,3
Cash flow from financing	-13,3	-0,1	7,5
Changes in cash and cash equivalents	3,7	-2,1	0,8
Impact of exchange rate changes on cash and cash equivalents	0,0	0,0	0,1
Cash and cash equivalents at the beginning of the period	5,0	5,7	5,7
Cash of the discontinued operations	1,5		-1,5
Cash and cash equivalents at the end of the period	10,2	3,6	5,0

Key figures, continued operations

EUR million

	1.1-31.3.2017	1.1-31.3.2016	1.1-31.12.2016
Turnover (EUR million)	34,6	31,9	127,6
Operating profit (EUR million)	-0,6	-0,4	0,1
% of turnover	-1,6	-1,2	0,1
Profit before taxes (EUR million)	-0,9	-0,6	-0,8
% of turnover	-2,6	-2,0	-0,6
Profit for the period (EUR million)	-0,9	-0,1	-0,7
% of turnover	-2,6	-0,2	-0,5
Earnings per share, continued operations EUR	-2,5	-1,7	-4,6
Earnings per share, discontinued operations EUR	28,6	0,7	3,0
Earnings per share, EUR	26,1	-1,0	-1,6
Return on investment, %	-1,9	-1,7	0,3
Return on equity, %	-6,7	-4,6	-2,9
Equity ratio, %	48,8	42,0	41,5
Net gearing, %	30,8	58,9	68,1
Interest-bearing net liabilities (EUR million)	19,9	30,1	38,9
Equity/share, EUR	93,9	82,2	80,5
Average number of employees	972	859	876
Number of shares	664 361	600 883	660 761

Information on sold business operations

EUR million

2017

Received compensation	21,2
Bookvalue of the sold net assets	-2,3
Expenses associated to the sale	-0,4
Profit before tax	18,5
Tax on sales profit	0,0
Sales profit after tax	18,5

Operating profit, discontinued operations

EUR million

	1.1-31.3.2017	1.1-31.3.2016	1.1-31.12.2016
Turnover	3,2	8,0	30,2
Expenses	-2,7	-7,4	-27,9
Profit before tax	0,5	0,5	2,3
Taxes	-0,1	-0,1	-0,5
Result after taxes	0,4	0,4	1,8

EUR million

	Share Capital	Share premium account	Treasury shares	Translations differences	Value change and other funds	Retained earnings	Total	Non-controlling interests	Total equity
Equity on 1 Jan 2016	0,3	13,3	-0,1	2,1	2,9	35,1	53,5	1,4	54,9
Profit/loss for the period						-0,6	-0,6	0,5	-0,1
Comprehensive income									
Other comprehensive income items									
Exchange rate differences caused by net investment in foreign subsidiaries				-0,1			-0,1		-0,1
Net investment hedging									
Other translation differences				-0,1		0,0	0,0		0,0
Cash flow hedging									
Other comprehensive income items for the period after taxes	0,0	0,0	0,0	-0,1	0,0	0,0	-0,1	0,0	-0,1
Comprehensive income for the period				-0,1	0,0	-0,5	-0,7	0,5	-0,2
Business operations with owners									
Distributed dividends						-3,5	-3,5		-3,5
Total	0,0	0,0	0,0	0,0	0,0	-3,5	-3,5	0,0	-3,5
Equity on 31 March 2016	0,3	13,3	-0,1	1,9	2,9	31,0	49,3	1,9	51,1

	Share Capital	Share premium account	Treasury shares	Translations 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
Net investment hedging							0,0		0,0
Other translation differences				0,0			0,0		0,0
Cash flow hedging				0,0	0,0		0,0		0,0
Other comprehensive income items for the period after taxes	0,0	0,0	0,0	0,1	0,0	0,0	0,1	0,0	0,1
Comprehensive income for the period				0,1	0,0	17,4	17,4	0,7	18,1
Business operations with owners									
Distributed dividends					-7,9	-0,7	-8,5		-8,5
Emission					0,3		0,3		0,3
Purchase of treasury shares							0,0		0,0
Sale of treasury shares			0,0				0,0		0,0
Share of non-controlling interests associated with the acquisition of subsidiaries							0,0		0,0
Management incentive scheme							0,0		0,0
Redemption obligation							0,0		0,0
Total		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

Changes in tangible fixed assets

EUR million	1.1-31.3.2017	1.1-31.3.2016	1.1-31.12.2016
Carrying amount at the beginning of the period	4,4	4,4	4,4
Increases	0,0	0,5	3,3
Decreases	-0,3	0,0	-0,7
Depreciation and amortisation	-0,6	-0,6	-2,5
Carrying amount at the end of the period	3,7	4,2	4,4

Commitments and contingencies

EUR million	31.3.2017	31.3.2016	31.12.2016
Debts and their securities			
Loans from financial institutions	16,3	19,2	29,3
Other liabilities			
Leasing liabilities	5,7	5,9	4,7
Other rental liabilities	7,7	8,5	9,2
Other contingent liabilities	0,0	0,0	0,1
Bank guarantees	0,3	0,3	0,3
Total other liabilities	13,7	14,7	14,3

Enfo

Simpler, smoother, smarter business in the Digital Dimension

Enfo creates innovative digital solutions that develop, innovate and improve operations for our customers. With business awareness, technical expertise and proven work methods, we refine information flows and develop IT solutions so that our clients take the initiative in a digitalized world and are able to deliver results and experiences to their clients.

The group employs approximately 1,000 specialized experts in Finland and Sweden.

For more information, visit enfogroup.com

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