

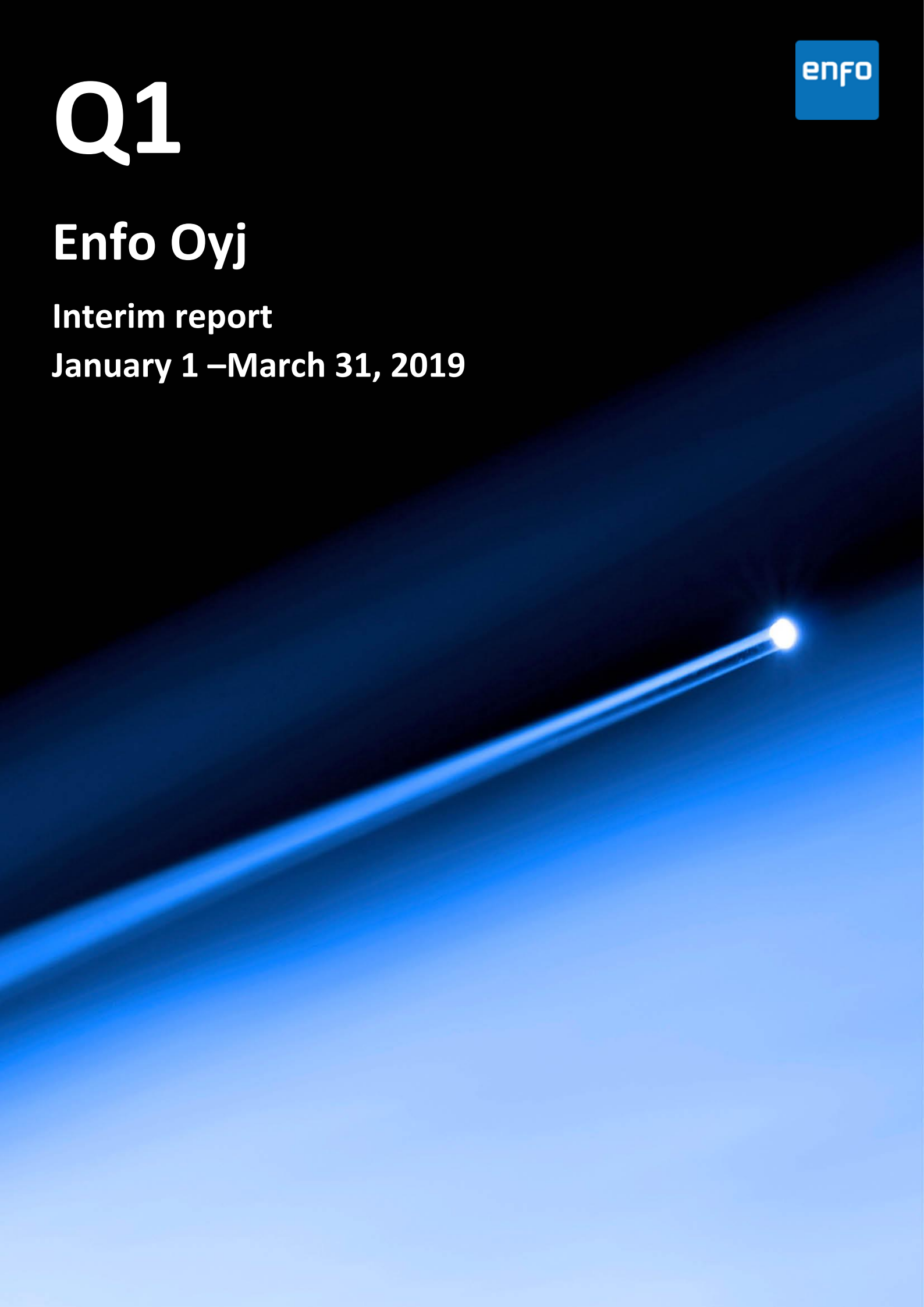


Q1

Enfo Oyj

Interim report

January 1 – March 31, 2019



ENFO GROUPS'S INTERIM REPORT

January 1 – March 31, 2019

Enfo Q1: Transformation continuing

Key points of the interim report

- Turnover was EUR 31.3 (32.1) million in January–March. Corresponding figures without business unit Care Transform Karlskrona, which Enfo decided to close down in 2018, are EUR 30.9 (30.3) million.
- The operating margin (EBITDA) was EUR 1.7 (1.1) million in January–March. Corresponding figures without business unit Care Transform Karlskrona are EUR 2.0 (0.9) million.
- Operating profit (EBIT) was EUR -0.3 (0.0) million in January–March.
- Profit before taxes in January–March amounted to EUR -0.8 (-0.8) million.
- Profit for January–March was EUR -1.0 (-1.0) million.
- Earnings per share in January–March were EUR -2.3 (-2.3).
- Cash flow from operating activities totaled EUR 0.7 (0.2) million in January–March.
- At the end of March, Enfo employed a total of 908 (890) people.

Enfo continued its transformation in the first quarter of 2019 after building a sustainable business foundation in 2018. Indicating Enfo is back on the right track, there was an increase as compared to Q1/2018 in both turnover and operating margin (EBITDA) comparing figures without business unit Care Transform Karlskrona, which Enfo has decided to close down in the end of the year 2018 and during H1/2019. In Q1, Enfo took actions to further align sales operations and businesses both in Finland and Sweden. The market responded positively to the offering developed in 2018, especially in Finland. Profitability was affected by higher than anticipated costs related to closing down the data center in Karlskrona as well as efficiency challenges in certain business units following on transformation.

Enfo's business

Enfo Oyj is the parent company of Enfo Group. Enfo is a Nordic IT service company enabling data-driven business transformation. Enfo builds and runs data-driven solutions and services with its customers and employs approximately 900 experts in Finland and Sweden.

Outlook for 2019

The Group's turnover and operating margin (EBITDA) are expected to increase in 2019. The improvement is based on the enhancement of competence acquisition and management, alignment of Sales and Business Areas, as well as improvement of operational efficiency and steering mechanisms.

Risks and uncertainties

Competition for experts is a major factor in terms of growth, and the main short-term risks are related to the recruiting and efficient onboarding of employees. The internal capability to develop competence management, advance tools for maneuverability, and continue to execute renewed story, offering and structure is essential in the short term. Enfo's growth in the long term will be impacted by the markets' moves towards bringing together data assets, as well as the pace of the shift towards cloud.

CEO's review

Seppo Kuula, Enfo's CEO, comments on the review period:

"After building a sustainable business foundation through a shared story and common offering as well as a structure supporting these in 2018, we are moving to the second phase of transformation in 2019. Indicating Enfo is back on the right track, there was an increase as compared to Q1/2018 in both turnover and operating margin (EBITDA) comparing figures without business unit Care Transform Karlskrona, which we decided to close down in 2018 (closing down will be finalized within H1 this year). This is a good outcome considering attrition was challenging especially in H1/2018.

This year, our focus is on getting profitability up to a proper level. We will improve profitability by placing emphasis on utilization, aligning of our sales and business management and by focused actions to ensure efficiency. We aim to be the leading cross-platform integrator in the Nordics, and thus also to increase cloud-related revenue considerably. Naturally, we are continuing our endeavor to be a workplace to love, continuing to work to be the best employer to all Enfonians, both existing and new ones, and to fight attrition.

I have been pleased to see the positive market response to our cross-platform approach, enabling our customers' business-critical enterprise software system transition to the digital age, combining legacy, new digital services and multi-cloud platforms. Our current customers as well as new customers have approached us for support in mastering complexity on their journey to cloud and since Christmas we have closed new agreements worth almost EUR 25 million in Finland alone.

Operational efficiency developed positively in 2018, and we need to put effort into continuing that trend. An empowered organization requires clearly defined goals, and clear goals require reliable business control. Because of the roll-back of financial process and tools from an external partner in 2018, this development is taking time, but by the end of H1 this year we will have the basic toolset in use. In H2, we will also get the competence management system to support maneuverability.

We have altogether 16 business units, which mostly are doing decent business results. Last year, we fixed the biggest leaks, but in some business units we still have efficiency challenges and need to speed up change adaption. In the first quarter of the year, we took action to further align our sales operations and business management both in Finland and Sweden, with the aim of increasing co-creational, pull-driven customer centricity. We further empowered key customer management for gaining trusted partner status with a wider customer base and brought specialist sales closer the businesses to ensure the steadiness of demand flow.

Prioritizing profitability, we decided to steer our Norwegian sales operations from Sweden. In addition, we decided to take into use mobile office spaces in Espoo, bringing more encounters for collaboration as well as efficiency in use of facilities. We continued to work for strengthening a common culture by communications measures as well as by planning training to support leadership. In the UK, we have begun establishing operations focusing on enabling and delivering cloud services. We opened a new office in Norrköping in Sweden, with focus on e-health and delivery to local customers.

Developing competence management, competence acquisition, competence development and financial processes and tools to enhance proactive transparency and maneuverability are priorities in 2019. Throughout the year, we aim at increasing business operations related to cloud and information management and continuing to develop trusted partnerships with our customers."

Turnover and profit

Enfo Group's turnover was EUR 31.3 (32.1) million in January–March. EUR 13.5 million of the turnover was accrued in Finland and EUR 17.8 million came from Sweden. The operating margin (EBITDA) was EUR 1.7 (1.1) million in January–March. The operating profit (EBIT) for the period was EUR -0.3 (0.0) million, representing -0.9% (0.0%) of turnover.

Profit before taxes was EUR -0.8 (-0.8) million in January–March and profit for the review period amounted to EUR -1.0 (-1.0) million. The Group's net financing costs amounted to EUR 0.5 (0.8) million during Q1. Earnings per share in January–March were EUR -2.3 (-2.3).

Financing and investments

Enfo's net investments in January–March totaled EUR 11.5 (0.5) million. The effect on net investments of applying IFRS16 at start of the year was EUR 8.7 million. In addition, the effect on investments caused by applying IFRS16 standard during the period January–March was EUR 2.8 million. The company's equity ratio was 39.4% (47.0%) at the end of the review period. Interest-bearing net liabilities at the end of March amounted to EUR 42.9 (30.8) million and net gearing was 95.2% (60.7%). Net debt increased by EUR 8.7 million at the start of the year due to appliance of IFRS16 standard and the net effect on debt caused by applying IFRS16 standard in 2019 was EUR 1.0 million. The Group is in breach of one of the covenants of its financiers' agreement requiring the Group's interest-bearing net liabilities/operating margin EBITDA to be less than 3.5, and thus the Group has classified the loans covered by the covenant as current liabilities on the balance sheet date. The Group has received an approval from its financiers for the covenant breach. The Group and the consortium of existing and new lenders have agreed on the key terms of the new financing package. The financing package includes re-financing of existing long-term bank financing and repayment of the EUR 10 million multi-issuer bond due in June 2019.

Changes in the Management Team

Björn Arkenfall joined Enfo Group's Management Team on February 1, 2019, in the role of EVP, Applications, succeeding Hans Sollerman.

From February 2019, the Group's Management Team comprises: Seppo Kuula (CEO), Lars Aabol (EVP, Care), Nina Annila (EVP, Data platforms), Björn Arkenfall (EVP, Applications), Erik Brügge (EVP, Sales), Antti Hemmilä (General Counsel), Christian Homén (CFO), Sami Kähkönen (EVP, Information management) and Henrik Norell (EVP, People operations).

Personnel

In January–March, Enfo employed an average of 895 (893) employees. At the end of March, the Group had a total of 908 (890) employees. During the review period, Enfo employed an average of 343 (310) in Finland and 549 (583) in Sweden.

Shares

On March 31, 2019, Enfo Oyj had a total of 679,251 shares. According to the company's list of owners, the company had a total of 134 shareholders at the end of the review period, including the company itself. However, this figure does not include foreign shareholders whose shares are nominee-registered. At the end of March, the company held 13,386 treasury shares (1.97% of all the shares). The company has one series of shares, and the shares are connected to Euroclear Finland Oy's book-entry system.

At the end of the review period, the company's ten largest shareholders were Osuuskunta KPY, Ilmarinen Mutual Pension Insurance Company, Rongo Cap Oy, the Gösta Serlachius Fine Arts Foundation, Seppo Kuula, Keski-suomalainen Oyj, Einari Vidgrén Oy, Lululemon Oy, Hannu Isotalo Oy and Kallax Oy. Osuuskunta KPY holds 83.56% of Enfo s shares.

Annual General Meeting

Enfo Oyj's Annual General Meeting was held on March 27, 2019 in Kuopio. In accordance with the proposal made by the Board of Directors, the Annual General Meeting decided that no dividend is paid for the year 2018.

Anssi Lehtikainen, Lauri Kerman, Mikko Laine, Kaisa Olkkonen, Susanna Rahkamo and Claes Wallnér were re-elected as 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. The AGM approved the Nomination Board's proposal to establish an Audit Committee and after the AGM the Board of Directors made the decision to establish an Audit Committee based on the proposal.

Timetable for financial reporting in 2019

The interim report for Q1/2019 will be published on April 24, Q2 on August 27, and Q3 on October 24, 2019.

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.

Enfo has applied the standard IFRS16 starting January 1, 2019. Assets were valued to an amount corresponding to the lease agreement debt at the time of the implementation of the standard. The exemption of the standard IFRS16, according to which leases of less than 12 months that do not include purchase option are not recognized to on the balance sheet, was applied. In addition, the Group did not recognize immaterial contracts on the balance sheet.

The application of the standard IFRS16 increased fixed assets and debt by EUR 8.7 million. Of the debt, EUR 3.6 million was booked as short term and EUR 5.1 million as long term. Of lease costs amounting to EUR 1.1 million, EUR 1.1 million was booked as depreciation and EUR 0.1 million as finance costs.

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	1.1-31.3.2019	1.1-31.3.2018	1.1-31.12.2018
Turnover	31,3	32,1	125,6
Other operating income	0,0	0,1	0,7
Materials and services	-7,5	-7,2	-30,3
Employee benefit expenses	-18,6	-19,1	-73,4
Depreciation, amortization and impairment	-2,0	-1,1	-6,2
Other operating expenses	-3,6	-4,9	-18,8
Operating profit	-0,3	0,0	-2,5
Financial income	0,2	0,4	2,0
Financial expenses	-0,8	-1,2	-3,2
Profit before taxes	-0,8	-0,8	-3,6
Income taxes	-0,2	-0,1	-0,8
Profit for the period	-1,0	-1,0	-4,5
Attributable to			
Ow ners of the parent company	-1,5	-1,5	-6,1
Non-controlling interests	0,5	0,5	1,6
Earnings per share, EUR	-2,3	-2,3	-9,2

Consolidated comprehensive income statement

EUR million	1.1-31.3.2019	1.1-31.3.2018	1.1-31.12.2018
Profit for the period	-1,0	-1,0	-4,5
Exchange rate differences caused by net investments in foreign subsidiaries	-0,2	-0,7	-0,6
Other translation differences	0,1	0,2	-0,1
Comprehensive income for the period	-1,1	-1,5	-5,2
Attributable to			
Ow ners of the parent company	-1,6	-2,0	-6,8
Non-controlling interests	0,5	0,5	1,6

Consolidated balance sheet

EUR million	31.3.2019	31.3.2018	31.12.2018
Assets			
Non-current assets			
Tangible assets	12,4	3,1	2,8
Goodwill	65,5	67,5	66,1
Other intangible assets	4,1	5,0	4,2
Available-for-sale investments	0,1	0,1	0,1
Receivables	0,9	0,8	0,9
Deferred tax assets	1,5	1,5	1,5
Total non-current assets	84,4	78,0	75,5
Current assets			
Inventories	0,0	0,0	0,0
Trade receivables	24,5	24,1	24,4
Other receivables	4,0	3,1	3,6
Tax assets based on the period's taxable income	1,5	2,1	1,8
Available-for-sale investments	0,0	0,0	0,0
Cash and cash equivalents	0,2	1,1	0,2
Total current assets	30,2	30,4	30,0
Total assets	114,7	108,4	105,5
Equity and liabilities			
Equity			
Share capital	0,3	0,3	0,3
Share premium account	0,0	0,0	0,0
Other reserves	25,6	25,0	25,6
Retained earnings	17,0	23,4	18,6
Total equity attributable to owners of the parent company	42,9	48,6	44,5
Non-controlling interests	2,2	2,2	1,6
Total equity	45,0	50,8	46,1
Non-current liabilities			
Interest-bearing liabilities	7,0	11,2	1,2
Other liabilities	0,4	0,4	0,4
Deferred tax liabilities	0,6	0,8	0,7
Total non-current liabilities	8,0	12,4	2,3
Current liabilities			
Interest-bearing liabilities	36,1	20,8	31,0
Trade payables	4,1	5,4	4,9
Other liabilities	21,4	19,1	21,2
Total current liabilities	61,7	45,2	57,1
Total liabilities	69,6	57,6	59,4
Total equity and liabilities	114,7	108,4	105,5

Condensed statement of cash flows

EUR million

	1.1-31.3.2019	1.1-31.3.2018	1.1-31.12.2018
Cash flow from operations			
Profit for the period	-1,0	-1,0	-4,5
Adjustments to the profit for the period	2,7	2,0	7,9
Change in working capital	-0,7	-0,3	1,4
Interest paid and received	-0,2	-0,1	-0,7
Taxes paid	-0,1	-0,4	-1,9
Net cash flow from operations	0,7	0,2	2,3
Cash flow from investments			
Acquisition of subsidiaries less cash and cash equivalents on the acquisition day	0,0	0,0	0,0
Investments in tangible and intangible fixed assets	-0,3	-0,3	-1,1
Sales of tangible and intangible fixed assets	0,0	0,0	0,1
Investments: Investments accounted for using the equity method	0,0	0,0	0,0
Sale of subsidiary less cash and cash equivalents on the sale date	0,0	0,0	0,0
Loans issued	0,0	0,0	0,0
Net cash flow from investment activities	-0,3	-0,3	-1,0
Cash flow from financing activities			
Changes in loans	1,2	0,9	1,0
Changes in equity	0,0	-0,7	-1,6
Repayment of financial leasing liabilities	-1,6	-0,6	-2,3
Net cash flow from financing activities	-0,4	-0,4	-2,9
Changes in cash and cash equivalents	0,1	-0,5	-1,6
Effect of exchange rate changes on cash and cash equivalents	0,0	-0,4	-0,1
Cash and cash equivalents at the beginning of the period	0,2	1,9	1,9
Cash and cash equivalents at the end of the period	0,2	1,1	0,2

Key figures	1.1-31.3.2019	1.1-31.3.2018	1.1-31.12.2018
Turnover, EUR million	31,3	32,1	125,6
Operating profit, EUR million	-0,3	0,0	-2,5
% of turnover	-0,9	0,0	-2,0
Profit before taxes, EUR million	-0,8	-0,8	-3,6
% of turnover	-2,5	-2,6	-2,9
Profit for the period, EUR million	-1,0	-1,0	-4,5
% of turnover	-3,2	-3,0	-3,6
Earnings per share, EUR	-2,3	-2,3	-9,2
Return on investment, %	neg	1,9	neg
Return on equity, %	neg	neg	neg
Equity ratio, %	39,4	47,0	43,8
Net gearing, %	95,2	60,7	69,5
Interest-bearing net debt, EUR million	42,9	30,8	32,0
Equity per share, EUR	64,4	74,0	66,8
Average number of employees	895	893	884
Number of shares	679 251	670 349	679 251

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 Jan 1, 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 March 31, 2018	0,3	0,0	-1,1	-1,7	26,1	25,0	48,6	2,2	50,8

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 Jan 1, 2019	0,3	0,0	-1,1	-1,6	26,7	20,1	44,5	1,6	46,1
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				-0,2			-0,2		-0,2
Other translation differences				0,1			0,1		0,1
Other comprehensive income items for the period after taxes		0,0	0,0	-0,1	0,0	0,0	-0,1	0,0	-0,1
Comprehensive income for the period	0,0	0,0	0,0	-0,1	0,0	-1,5	-1,6	0,5	-1,1
Transactions with owners									
Purchase of treasury shares							0,0		0,0
Redemption obligation							0,0		0,0
Total transactions with owners	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Equity on March 31, 2019	0,3	0,0	-1,1	-1,6	26,7	18,6	42,8	2,2	45,0

Changes in tangible fixed assets

EUR million	1.1-31.3.2019	1.1-31.3.2018	1.1-31.12.2018
Carrying amount at the beginning of the period	2,8	3,5	3,5
Increases	2,5	0,2	1,7
Decreases	-0,1	-0,1	-0,2
Increases based on standard change	8,7	0,0	0,0
Depreciation and amortisation	-1,5	-0,5	-2,2
Carrying amount at the end of the period	12,4	3,1	2,8

Commitments and contingencies

EUR million	31.3.2019	31.3.2018	31.12.2018
Leasing liabilities	0,4	4,6	3,7
Other rental liabilities	0,0	7,6	5,8
Other contract liabilities	0,0	0,2	0,2
Bank guarantees	0,3	0,3	0,3
Total other liabilities	0,7	12,7	9,9

Enfo

Data-driven business transformation

Enfo is a Nordic IT service company enabling its customers' data-driven business transformation. With our niched expertise in hybrid platforms, information management and applications, we bring together relevant data for more intelligent operations. We both build and run digital solutions – supporting our customers in mastering the complexity. We are 900 experts working for a more intelligent world, with technology empowering people, businesses and societies.

For more information, visit enfogroup.com

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