



PRESS RELEASE

Stockholm, April 26, 2017

Enea (NASDAQ OMX Nordic: ENEA)

Interim report January-March 2017

Satisfactory quarter considering our transformation

First quarter 2017

- Revenue in the first quarter was SEK 141.0 (120.8) million, equivalent to a 17 percent increase.
- Operating profit for the first quarter decreased to SEK 23.5 (26.9) million, corresponding to an operating margin of 16.7 (22.3) percent.
- Earnings per share decreased to SEK 1.19 (1.38) for the first quarter.
- Cash flow from operating activities was SEK 30.4 (38.8) million for the quarter. Cash and cash equivalents and financial investments amounted to SEK 285.1 (227.8) million at the end of the quarter.
- The Board of Directors is proposing that the Annual General Meeting resolves on a transfer to shareholders corresponding to SEK 2.00 (4.20) per share via an automatic redemption program.

January to March 2017

(first quarter previous year in brackets)

- Revenue, SEK 141.0 (120.8) million
- Revenue growth, 17 (3) %
- Revenue growth, currency adjusted, 15 (3) %
- Operating profit, SEK 23.5 (26.9) million
- Operating margin, 16.7 (22.3) %
- Net profit after tax, SEK 19.7 (21.9) million
- Earnings per share, SEK 1.19 (1.38)
- Change in earnings per share*, -14 (16) %
- Cash flow (from operating activities), SEK 30.4 (38.8) million
- Cash and cash equivalents and financial investments, SEK 285.1 (227.8) million

*Compared with the same quarter last year.



Anders Lidbeck, President and CEO comments:

“A new era

The first quarter 2017 is the start of a new era for us in a number of ways. Our new product offering in network intelligence provides an additional cornerstone, and is already making a very positive contribution to operations with total revenue up by 17 percent year over year. At the same time, business with our largest customer presents a growing challenge, decreasing by more than 15 percent on the corresponding period last year. This remains our primary challenge over the coming quarters. We need to offset the decline in existing business with major customers with growth in new areas.

Facing multiple challenges

Unfortunately, our US service sales continued to make negative progress in the period, with year over year revenue decreasing by more than 20 percent for the second quarter running. Service sales in the US are heavily exposed to the aerospace and defense industries, making it sensitive to delays in projects where the end customer is a government agency. The major service deals we expected to be completed in the first quarter 2017 did not materialize as planned. Our estimate now is that the negative trend will continue for a few more quarters. However, service sales in Europe made positive progress in the first quarter 2017 and in 2016, a trend which is expected to continue over the coming quarters. With the exception of key customers and network intelligence, our global software operations also made weak year over year progress in the first quarter 2017. We do not see any clear signs of an imminent recovery in this area, and will need to implement major operational and structural changes to improve sales in global operations.

The negative trend for Key Accounts and global software sales is mainly due to the increasing use of open source code. This development presents both threats and opportunities for Enea, and open source solutions are already a natural part of our portfolio. Network virtualization is one example of an area where we are very active and well positioned in the OPNVF project. We recently presented our solution for virtualization of customer-premises equipment, i.e. units at the edge of the network, at the Mobile World Congress. After four intensive days in Barcelona, we are now able to conclude that our message and focus are well in line with market progress. The trend towards virtualized communication networks is stronger than ever, and Enea is well positioned to face the challenges and opportunities it raises.

In order to satisfy the new market conditions, we are continuing to develop our product portfolio, including both open and proprietary solutions. The acquisition of Qosmos completed in December was a key step in this direction, and in the first quarter we operated as a single company under the Enea brand for the first time. Qosmos is now a business unit within Enea and network intelligence a new product area in our portfolio. Overnight, Enea has become a name to be reckoned with in a number of new areas. In February, we participated in the RSA Cyber Security Conference where we demonstrated the latest version of our ixEngine product. ixEngine 5.3 generates opportunities for additional sales to existing customers, and improves our ability to assist customers with signatures for customer-specific protocols and solutions. We will tirelessly continue to strengthen our position in the areas where we perceive demand and where the world of tomorrow is being built.

Satisfactory profit given our transformation and extraordinary costs

We have now experienced five years of profit and margin growth, and the coming period will mainly focus on realigning our business operations. During this shift, our focus will be more on establishing a market position than margin expansion. As previously communicated, it will be a challenge to retain the margins generated in previous years. It should also be noted that the companies acquired in 2016 returned margins well below the 20 percent-plus that Enea has delivered in recent years. This means that we can expect it to take several quarters before returning to a 20 percent operating margin, while our ambition remains to achieve an operating margin of 20 percent by the end of 2017. This means that we will continue to review our cost structure in parallel with strengthening our market position. As I wrote in my comment on Q4 2016, future margin gains will mainly come from focusing on fewer areas and streamlining unprofitable business segments without clear



potential. Against this background, our first-quarter operating margin of close to 17 percent and operating profit of SEK 23.5 million, are satisfactory despite the year over year decrease of SEK 3.4 million. Earnings per share of SEK 1.19 (1.38) and cash flow of SEK 30.4 million (38.8) are also down on the corresponding period in the previous year, but remain satisfactory given our transformation.

The significant dispute with a major customer regarding the interpretation of contractual terms, generated substantial legal costs in the quarter, which burdened Q1 2017 profit by SEK 2.2 million. The dispute has increased in scope and now also encompasses a one-sided price reduction the customer wants to enforce. This means that we cannot rule out increasing legal expenses during the year. We also benefitted from reduced costs of SEK 1.6 million Q1 2016 in the form of repayment of social security contributions for an earlier research and development project in France, which made a positive contribution to operating profit in Q1 2016. Adjusted for these two non-recurring items totaling SEK 3.8 million, operating profit for Q1 2017 increased year over year.

Future prospects

We are continuing to build a larger and stronger company with increased values for our customers, employees and shareholders. The transformation process currently underway is fundamentally positive for Enea, and reduces dependence on a single product and a limited number of major customers. Acquisitions that strengthen our market position and long-term earnings ability are a key part of this process, and despite our expectation of reduced income from our largest customers, our objective remains to expand with good profitability and sound cash flow. However, we cannot rule out the risk that increasing non-recurring costs associated with this process will burden profit for 2017.

Our objective for the full year 2017 is to achieve double-digit revenue growth, and improved operating profit compared to 2016 before non-recurring costs. We expect the improvement of operating profits to occur in the second half-year 2017.”

Press and analyst meeting

Press and financial analysts are invited to a press and analyst meeting where Anders Lidbeck, President and CEO, will present and comment on the report.

Time: Wednesday April 26 at 08:30 am CEST

Link: <https://wonderland.videosync.fi/enea-q1-report-2017>

Phone number: SE: +46856642663, UK: +442030089803

The full report is published at www.enea.com/investors

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About Enea

Enea is a global supplier of network software platforms and world class services, with a vision of helping customers develop amazing functions in a connected society. We are committed to working together with customers and leading hardware vendors as a key contributor in the open source community, developing and hardening optimal software solutions. Every day, more than three billion people around the globe rely on our technologies in a wide range of applications in multiple verticals – from Telecom and Automotive, to Medical and Avionics. We have offices in Europe, North America and Asia, and are listed on Nasdaq Stockholm. Discover more at www.enea.com and start a conversation at info@enea.com.

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