Transcom

# Q3 | 2019

Quarterly Report July 1 – September 30

# Third Quarter 2019 Results

## Q3 2019

- **Revenue** unchanged at 130.5 (130.5)
- **EBITA** excluding non recurring items increased to 8.7 (5.7)
- **EBITA margin** excluding non-recurring items increased to 6.6% (4.4%)
- **Operating cash flow** improved to 12.5 (-3.7)
- **Net debt/EBITDA** decreased to 4.8 (6.6)

## Jan-Sep 2019

- **Revenue** essentially unchanged at 399.6 (400.6)
- **EBITA** excluding non recurring items increased to 26.3 (18.1)
- **EBITA margin** excluding non-recurring items increased to 6.6% (4.5%)
- **Operating cash flow** increased to 30.1 (1.0)

# Comments by the CEO

### Another quarter of improved performance

During the third quarter, EBITA excluding non-recurring items increased to €8.7 million (5.7), and the margin increased to 6.6% (4.4%). Non-recurring items declined and totaled €-0.8 million (-4.3) and operating cash flow improved to €12.5 million (-3.7).

The improved operational performance is again driven by our program People, Passion, and Performance (PPP), our repositioning towards attractive customer segments and last year's acquisition of Awesome OS. The annual realized run rate savings of PPP increased from €23.5 million end of Q2 to €27.1 million end of Q3.

During the third quarter, we continued to grow in attractive industry sectors such as e-tail/e-commerce, financial services and logistics. We added several new clients during the quarter, for example Danske Bank and GetYourGuide. At the same time, INPS, our largest Italian client, has now declared their intent to pursue the shift to a new joint venture of which Transcom is not part. Our appeal against the decision will be tried in court on January 9, 2020.

Our investments in offshore, nearshore, and multilingual sites continued with new offices in Elblag, Poland, and Pasig, Philippines. Since our new site in Zagreb is already running at full capacity, we have decided to expand the site, mainly to provide services in German and Spanish. Moreover, we will shortly open our new site in Tunis, adding capacity and quality to our clients for Italian and French services.

During the quarter, we officially launched T:Labs, our global hub for rapid innovation and experimentation. With T:Labs, we will jointly with our clients develop digital customer service solutions, for increased customer satisfaction and productivity.

We expect Transcom to continue on the journey of improved profitability, although with lower revenues in the short to medium term.

Michael Weinreich
CEO

# Group financial overview

| (€m) | 2019 Q3 | 2018 Q3 | Change Y-o-Y | 2019 Jan-Sep | 2018 Jan-Sep* | Change Y-o-Y | 2019 LTM | 2018 Jan-Dec* | Change Y-o-Y |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 130.5 | 130.5 | 0.0% | 399.6 | 400.6 | -0.2% | 542.6 | 543.6 | -0.2% |
| EBITDA excl. non-recurring items | 10.6 | 7.8 | 2.9 | 32.2 | 23.7 | 8.4 | 47.6 | 39.2 | 8.4 |
| EBITDA margin excl. non-recurring items | 8.1% | 5.9% | 2.6pp | 8.1% | 5.9% | 2.6pp | 8.8% | 7.2% | 1.8pp |
| EBITA excl. non-recurring items | 8.7 | 5.7 | 3.0 | 26.3 | 18.1 | 8.2 | 39.8 | 31.6 | 8.2 |
| EBITA margin excl. non-recurring items | 6.6% | 4.4% | 2.2pp | 6.6% | 4.5% | 2.1pp | 7.3% | 5.8% | 1.5pp |
| Operating cash flow | 12.5 | -3.7 | 16.1 | 30.1 | -1.0 | 31.1 | 33.6 | 2.5 | 31.1 |
| Net debt | 206.0 | 206.2 | -0.2 | 206.0 | 206.2 | -0.2 | 206.0 | 207.8 | -1.8 |
| Net debt/EBITDA excl. non-recurring items | 4.8 | 6.6 | -1.8 | 4.8 | 6.5 | -1.7 | 4.3 | 5.3 | -1.0 |

**2018 includes the consolidation of Awesome OS Group since July 28, 2018*

# Q3 2019

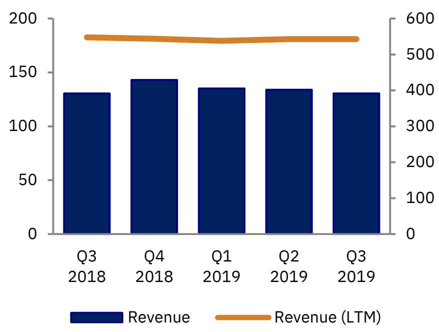
## Income and profit

Revenue amounted to €130.5 million (130.5) which is in line with last year. Last year's acquisition of Awesome is positively contributing with €3.9 million, countereffected by the closure of loss-making contracts and the divestment of parts of the Spanish business.

EBITA excluding non-recurring items increased to €8.7 million (5.7) with margin improvements to 6.6% (4.4%). The main drivers of increased profitability are the PPP program, the acquisition of Awesome and a positive mix towards contracts with higher profitability. Non-recurring items continued to decline and amounted to €-0.8 million (-4.3).

Net financial items is in line with the same period last year and amounted to €-4.2 million (-4.0).  Tax expenses in the period amounted to €-1.5 million (-0.5). The tax expenses are affected by losses for which no deferred tax asset can be recognized.

### Revenue

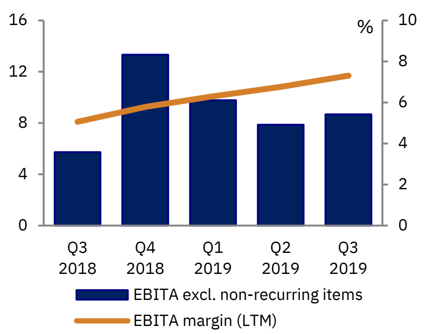



## Cash flow and financial position

Operating cash flow improved to €12.5 million (-3.7), as a result of improved working capital compared to last year. Cash flow from investing activities amounted to €-11.6 million (-36.1) and included earnout-payment for the Awesome acquisition and investments in a new site in the Phillippines. Cash flow from financing activities amounts to €-12.8 million (35.5), explained by €7.8 million lower usage of credit facility. Cash flow totalled €-11.9 million (-4.2).

Net debt/EBITDA improved to 4.8 (6.6), driven by increased EBITDA. Net debt is flat compared to last year, €206.0 million (206.2). Financing in the Group includes five-year €180 million Senior Secured Fixed Rate Notes, a €10 million Senior Secured Fixed Rate Notes, as well as a €45 million Super Senior Revolving Credit Facility Agreement (SSRCF). As per Q3 2019, €21.6 million of the SSRCF was utilized in loans, excluding guarantees and credit facility usage. Unused credit facilities totalled €16.4 million.

### EBITA excl. non-recurring items



# January – September 2019

## Income and Profit

Revenue amounted to €399.6 million (400.6) and is essentially in line with last year. Revenue is positively driven by last year's acquisition of Awesome but countereffected by the closure of loss-making contracts and the divestment of parts of the Spanish business.

EBITA excluding non-recurring items increased to €26.3 (18.1) and the margin increased to 6.6% (4.5%). The main drivers of increased profitability are the PPP program, the acquisition of Awesome and a positive mix towards contracts with higher profitability.

Non-recurring items amounted to €-7.9 million (-31.0) and consisted of operational non-recurring items of €-8.2 million and transaction-related non-recurring items of positive €0.3 million. The reduction of non-recurring items develops according to plan.

Net financial items is slightly lower compared to last year, €12.6 million compared to €15.8 million last year. Tax expenses in the period amounted to €-5.8 million (-1.9). The tax expense is affected by losses for which no deferred tax asset can be recognized.

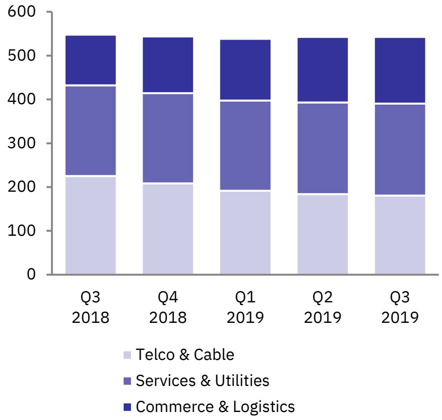
## Industry segment development

We are continuing our growth within Commerce & Logistics and decreasing our exposure in the Telco & Cable sector, in line with our strategy. As a result, overall profitability for the group is impacted positively due to a more favourable mix. Moreover, the profitability in Telco & Cable is improving due to operational improvments and exits from unprofitable contracts.

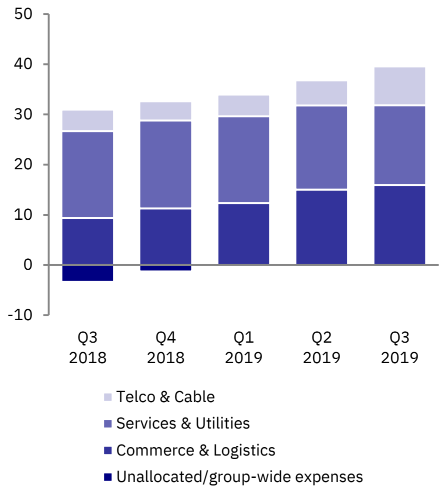
## Cash flow

Operating cash flow improved and amounted to positive €30.1 million (-1.0). This is mainly a result of higher profit and improved working capital compared to last year. Cash flow from investing activities amounted to €-11.0 million (-39.4) and included earnout-payment for the Awesome acquisition and investments in new sites in Philippines and Tunisia. In addition, a positive cash effect of €6.5 million from the divestment of part of our business in Spain contributes positively. Cash flow from financing activities amounted to €-19.9 million (38.5) and is explained by both higher interest costs and payment of leases as a result of implementation of the new leasing standard, IFRS 16. Cash flow totalled €-0.7 million (-1.8).

### Revenue by industry segment (LTM)




### EBITA excl. non-recurring items by industry segment (LTM)

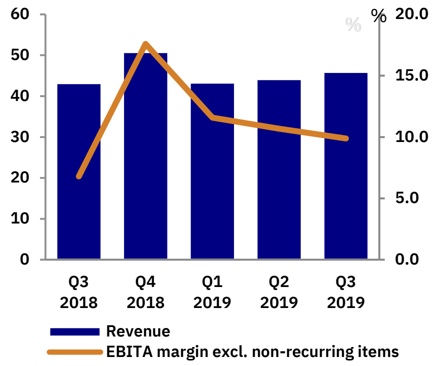


# Quarterly development by geographical segment

## English-speaking region

Revenue increased to €45.9 million (43.2). Main driver is the acquisition of Awesome July 27 2018, adding revenue of €8.5 million (4.6). Closure of low profitability clients in line with strategy, has reduced the revenue.

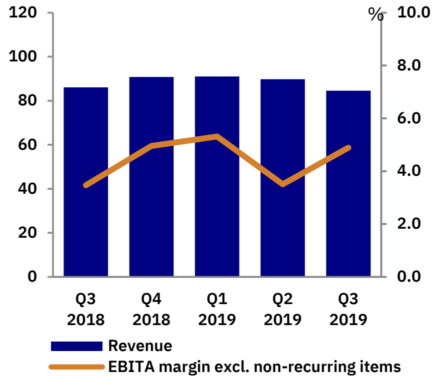
EBITA excl. non-recurring items amounted to €4.5 million (2.9). Main driver of improvement is Awesome and successful execution on the PPP program.




## European region

Revenue amounted to €84.6 million (86.0) as a result of divestment of part of the Spanish operations (€1.8 million), and reduced revenue from contracts with lower profitability. The acquisition of ASA contributed to revenue with €0.7 million.

EBITA excl. non-recurring items amounted to €4.1 million (3.0) as a result of continued focus of improving the mix towards contracts with higher profitability and increased savings from PPP program.



# Other information

## Earnings call

Transcom will host a conference call at 9.00 CET (8.00 BST) on November 7, 2019. The conference call will be held in English. The presentation will be available on https://transcom.com/en/investor-relations.

To ensure that you are connected to the conference call, please register using the link below 5-10 minutes before the start in order to obtain the dial-in numbers and pin code for the call.

Online registration link: http://emea.directeventreg.com/registration/3877155

## Financial calendar

Transcom's Q4 2019 report will be published on February 14, 2020.

## Other information

The interim report has not been reviewed by the company's auditor.

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## Transcom Group - Condensed consolidated income statement

| (€ '000) | Notes | 2019 Q3 | 2018 Q3 | 2019 Jan-Sep | 2018 Jan-Sep | 2019 LTM | 2018 Jan-Dec |
|---|---|---|---|---|---|---|---|
| Revenue | 4,5 | 130,502 | 130,546 | 399,626 | 400,610 | 542,649 | 543,633 |
| Cost of sales | 5 | -101,976 | -105,544 | -318,895 | -340,562 | -430,820 | -452,488 |
| **Gross profit** | | **28,526** | **25,002** | **80,732** | **60,048** | **111,829** | **91,145** |
| Marketing expenses | | -655 | -680 | -2,405 | -2,216 | -3,255 | -3,066 |
| Administrative expenses | | -23,139 | -24,451 | -69,126 | -76,343 | -91,816 | -99,032 |
| Net gain/loss on disposal of business | | - | - | -826 | 95 | -826 | 95 |
| Other operating income/expenses | | 424 | -537 | 1,865 | -633 | 805 | -1,693 |
| **Operating profit/loss** | 4,5 | **5,156** | **-667** | **10,240** | **-19,049** | **16,739** | **-12,551** |
| Net financial items | | -4,164 | -4,033 | -12,593 | -15,813 | -16,453 | -19,674 |
| **Profit/loss before tax** | | **992** | **-4,698** | **-2,352** | **-34,862** | **284** | **-32,226** |
| Income tax expense | | -1,497 | -541 | -5,842 | -1,951 | -2,623 | 1,268 |
| **Profit/loss for the period attributable to equity holders of the parent** | | **-505** | **-5,239** | **-8,194** | **-36,813** | **-2,339** | **-30,957** |

## Transcom Group - Condensed consolidated statement of comprehensive income

| (€ '000) | 2019 Q3 | 2018 Q3 | 2019 Jan-Sep | 2018 Jan-Sep | 2019 LTM | 2018 Jan-Dec |
|---|---|---|---|---|---|---|
| Profit/loss for the period attributable to equity holders of the parent | -505 | -5,239 | -8,194 | -36,813 | -2,339 | -30,957 |
| **Other comprehensive income:** | | | | | | |
| Exchange differences on translation of foreign operations | 2,785 | 878 | 665 | -686 | 1,534 | 183 |
| Net gain/loss on cash flow hedges | -584 | 268 | -61 | -1,202 | 1,142 | 1 |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods** | **2,201** | **1,146** | **604** | **-1,888** | **2,676** | **184** |
| Actuarial profit/loss on post-employment benefit obligations | - | - | - | - | -40 | -40 |
| **Other comprehensive income not to be reclassified to profit or loss in subsequent periods** | **-** | **-** | **-** | **-** | **-40** | **-40** |
| **Other comprehensive income for the period, net of tax** | **2,201** | **1,146** | **604** | **-1,888** | **2,636** | **144** |
| **Total comprehensive income for the period, net of tax, attributable to equity holders of the parent** | **1,696** | **-4,093** | **-7,590** | **-38,701** | **298** | **-30,813** |

## Transcom Group - Condensed consolidated statement of financial position

| (€ '000) | Notes | 2019 Sep 30 | 2018 Sep 30 | 2018 Dec 31 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill | 6 | 205,264 | 227,078 | 210,352 |
| Other intangible assets | 6 | 104,663 | 89,153 | 112,115 |
| Tangible assets | 10 | 49,957 | 18,402 | 17,923 |
| Deferred tax assets | | 3,584 | 275 | 2,416 |
| Other receivables | | 2,461 | 2,954 | 2,163 |
| | | **365,930** | **337,863** | **344,968** |
| **Current assets** | | | | |
| Trade receivables | | 57,377 | 66,791 | 71,123 |
| Income tax receivables | | 5,719 | 4,882 | 4,450 |
| Other receivables | | 13,486 | 12,115 | 10,839 |
| Prepaid expenses and accrued income | | 45,591 | 41,391 | 37,845 |
| Cash and cash equivalents | | 13,143 | 15,888 | 12,884 |
| | | **135,316** | **141,067** | **137,141** |
| **TOTAL ASSETS** | | **501,246** | **478,930** | **482,109** |
| | | | | |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to equity holders of the parent** | | **98,136** | **97,839** | **105,726** |
| | | | | |
| **Non-current liabilities** | | | | |
| Interest-bearing liabilities | 7 | 203,048 | 212,281 | 216,725 |
| Employee benefit obligations | | 2,217 | 2,657 | 2,632 |
| Leasing liabilities | 10 | 21,381 | - | - |
| Provisions | 6 | 13,788 | 17,502 | 18,074 |
| Deferred tax liabilities | 6 | 25,181 | 21,763 | 27,269 |
| Other liabilities | | - | 0 | - |
| | | **265,615** | **254,202** | **264,700** |
| **Current liabilities** | | | | |
| Interest-bearing liabilities | 7 | 13,837 | 7,150 | 1,285 |
| Leasing liabilities | 10 | 9,133 | - | - |
| Provisions | 5,6 | 24,520 | 23,209 | 22,514 |
| Trade payables | | 15,430 | 17,296 | 23,761 |
| Income tax payables | | 6,509 | 5,525 | 2,344 |
| Other liabilities | | 21,622 | 22,380 | 21,100 |
| Accrued expenses and prepaid income | | 46,480 | 51,329 | 40,678 |
| | | **137,495** | **126,889** | **111,683** |
| **Total liabilities** | | **403,110** | **381,092** | **376,382** |
| **TOTAL EQUITY AND LIABILITIES** | | **501,246** | **478,930** | **482,109** |

## Transcom Group - Condensed consolidated statement of changes in equity

| (€ '000) | Notes | Total number of shares ('000) | Equity attributable to equity holders of the parent<br>Share capital | Share premium reserve | Other reserves and Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Balance, Jan 1, 2018** | | **11,939** | **8** | **20,501** | **107,497** | **128,004** |
| Profit/loss for the period | | - | - | - | -36,813 | -36,813 |
| Other comprehensive income, net of tax | | - | - | - | -1,888 | -1,888 |
| Shareholder contribution | | - | - | - | 8,535 | 8,535 |
| **Balance, Sep 30, 2018** | | **11,939** | **8** | **20,501** | **77,330** | **97,838** |
| Profit/loss for the period | | - | - | - | 5,856 | 5,856 |
| Issue of bonus shares | | - | 47 | - | -47 | - |
| Other comprehensive income, net of tax | | - | - | - | 2,032 | 2,032 |
| **Balance, Dec 31, 2018** | | **11,939** | **55** | **20,501** | **85,172** | **105,726** |
| Profit/loss for the period | | - | - | - | -8,194 | -8,194 |
| Other comprehensive income, net of tax | | - | - | - | 604 | 604 |
| **Balance, Sep 30, 2019** | | **11,939** | **55** | **20,501** | **77,581** | **98,136** |

## Transcom Group - Condensed consolidated statement of cash flows

| (€ '000) | Notes | 2019 Q3 | 2018 Q3 | 2019 Jan-Sep | 2018 Jan-Sep | 2018 Jan-Dec |
|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | |
| Profit/loss before tax | | 992 | -4,698 | -2,352 | -34,862 | -32,226 |
| Adjustments to reconcile profit before tax to net cash: | | | | | | |
| Adjustments for non cash items | | 8,492 | 12,106 | 27,712 | 30,802 | 30,050 |
| Net financial items | | 4,164 | 4,033 | 12,593 | 15,813 | 19,674 |
| Income taxes paid | | -2,239 | 526 | -5,074 | -775 | -2,288 |
| **Cash flows from operating activities before changes in working capital** | | **11,408** | **11,966** | **32,878** | **10,978** | **15,211** |
| Changes in working capital | | 1,087 | -15,618 | -2,733 | -11,942 | -12,716 |
| **Cash flow from operating activities** | | **12,495** | **-3,652** | **30,146** | **-964** | **2,495** |
| Investments and disposals of tangible assets | | -5,327 | -3,667 | -8,366 | -6,469 | -8,496 |
| Investments and disposals of intangible assets | | 335 | 441 | -1,809 | -172 | -307 |
| Acquisition of subsidiaries, net of cash acquired | 6 | -6,591 | -32,987 | -6,591 | -32,987 | -34,033 |
| Disposals of business, net of cash | 6 | -57 | - | 5,879 | - | - |
| Changes in other non-current assets | | -1 | 32 | -238 | 131 | 922 |
| Interest received | | - | 126 | 153 | 126 | 126 |
| **Cash flow from investing activities** | | **-11,641** | **-36,056** | **-10,971** | **-39,372** | **-41,788** |
| Proceeds from borrowings | 7 | 3,113 | 30,075 | 17,955 | 275,104 | 219,146 |
| Repayment of borrowings | 7 | -11,477 | -3,667 | -20,050 | -242,674 | -181,558 |
| Payment of lease liabilities | 10 | -3,247 | - | -8,871 | -2 | -2 |
| Shareholder contribution | | - | 8,535 | - | 8,535 | 8,535 |
| Interest and other financial costs paid | | -1,158 | 561 | -8,923 | -2,441 | -12,049 |
| **Cash flow from financing activities** | | **-12,770** | **35,505** | **-19,890** | **38,522** | **34,072** |
| **Cash flow for the period** | | **-11,915** | **-4,203** | **-715** | **-1,814** | **-5,222** |
| Cash and cash equivalents at beginning of the period | | 24,099 | 20,290 | 12,884 | 17,249 | 17,249 |
| Cash flow for the period | | -11,915 | -4,203 | -715 | -1,814 | -5,222 |
| Exchange rate differences in cash and cash equivalents | | 959 | -199 | 974 | 453 | 856 |
| **Cash and cash equivalents at end of the period** | | **13,143** | **15,888** | **13,143** | **15,888** | **12,884** |

## Transcom Holding AB (publ) - Condensed income statement

| (€ '000) | Notes | 2019 Q3 | 2018 Q3 | 2019 Jan-Sep | 2018 Jan-Sep | 2018 Jan-Dec |
|---|---|---|---|---|---|---|
| Revenue | | 358 | - | 1,122 | - | 978 |
| Cost of sales | | - | - | - | - | - |
| **Gross profit** | | **358** | **-** | **1,122** | **-** | **978** |
| Administrative expenses | | -570 | -184 | -1,313 | -3,855 | -4,179 |
| Other operating income/expenses | | -0 | -8 | -22 | -69 | - |
| **Operating profit/loss** | | **-213** | **-191** | **-212** | **-3,924** | **-3,201** |
| Result from participations in Group companies | | - | - | - | 56,474 | 56,474 |
| Net financial items | | -1,945 | -3,517 | -5,583 | -10,910 | -12,118 |
| **Profit/loss before tax** | | **-2,158** | **-3,708** | **-5,795** | **41,640** | **41,155** |
| Income tax expense/income | | - | - | - | - | - |
| **Profit/loss for the period*** | | **-2,158** | **-3,708** | **-5,795** | **41,640** | **41,155** |

**Profit/loss for the period corresponds with total comprehensive income.*

## Transcom Holding AB (publ) - Condensed balance sheet

| (€ '000) | Notes | 2019 Sep 30 | 2018 Sep 30 | 2018 Dec 31 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Investments in Group companies | | 278,919 | 278,912 | 278,919 |
| Receivables from Group companies | | 90,943 | 92,135 | 90,959 |
| | | **369,862** | **371,047** | **369,878** |
| **Current assets** | | | | |
| Receivables from Group companies | | 1,252 | 792 | 4,014 |
| Other receivables | | 460 | 747 | 590 |
| Cash and cash equivalents | | 158 | 35 | 10 |
| | | **1,870** | **1,575** | **4,614** |
| **TOTAL ASSETS** | | **371,732** | **372,622** | **374,492** |
| | | | | |
| **EQUITY AND LIABILITIES** | | | | |
| Restricted equity | | 55 | 8 | 55 |
| Unrestricted equity | | 170,275 | 176,582 | 176,070 |
| | | **170,330** | **176,589** | **176,125** |
| **Non-current liabilities** | | | | |
| Interest-bearing liabilities | 7 | 185,397 | 188,964 | 195,222 |
| | | **185,397** | **188,964** | **195,222** |
| **Current liabilities** | | | | |
| Interest-bearing liabilities | 7 | 10,000 | - | - |
| Liabilities to Group companies | | - | 23 | 9 |
| Other liabilities | | 6,004 | 7,046 | 3,136 |
| | | **16,004** | **7,069** | **3,145** |
| **Total liabilities** | | **201,402** | **196,033** | **198,367** |
| **TOTAL EQUITY AND LIABILITIES** | | **371,732** | **372,622** | **374,492** |

# Notes to the condensed financial statements

The accompanying notes are an integral part of the interim condensed consolidated financial statements. Amounts are in thousands of Euro, unless otherwise stated.

## 1. General

The Group's Parent Company, Transcom Holding AB (publ), is a registered company domiciled in Stockholm, Sweden. The address of the Company's headquarter is Hälsingegatan 40, 15th floor, SE-113 43 Stockholm. The parent Company is responsible for corporate management and administration and holding functions.

## 2. Accounting principles

The interim report for the Group has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. Application of IFRS complies with the accounting principles set out in the Group's annual financial statements as at December 31, 2018.

IFRS 16 Leases came into effect as of January 1, 2019. The Group has adopted the new standard. For the IFRS 16 transition, Transcom decided to apply the simplified retrospective approach and has not restated comparative amounts for 2018, the year prior to first adoption. The leasing debt at the adoption was the discounted future leasing costs as per January 1, 2019. The Group is using the recognition exemption for short-term leases and low-value leases, e.g. office equipment are classified as low-value assets and hence not included them in the balance sheet. The leasing agreements recorded according to the new standard, mainly refers to rental agreement of sites and offices. Leasing cost that earlier, according to IAS 17, was reported as costs in the income statement are replaced by depreciations on the leasing tangible assets and an interest cost on the leasing debt. For further information, please see note 10.

## 3. Risk management

The Group's activities expose it to a variety of business and financial risks, market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of the Group's business objectives. The condensed consolidated financial statements do not include all risk management information and should be read in conjunction with the Group's annual financial statements as at December 31, 2018. There have been no material changes in risks, the risk management policy and procedures during the period compared to what was presented in the annual financial statements as at December 31, 2018.

## 4. Segment information

| (€ '000) Jan-Sep 2019 | English speaking | Europe | Latin America | **Group** |
|---|---|---|---|---|
| Revenue from external customers | 133,332 | 265,427 | 867 | 399,626 |
| EBITA excl. non-recurring items | 14,297 | 12,092 | -75 | 26,314 |
| Transaction-related amortization | | | | -8,191 |
| Non-recurring items | | | | -7,883 |
| **EBIT** | | | | **10,240** |
| Net financial items | | | | -12,593 |
| **Profit/loss before tax** | | | | **-2,352** |

| (€ '000) Jan-Sep 2018 | English speaking | Europe | Latin America | **Group** |
|---|---|---|---|---|
| Revenue from external customers | 115,613 | 280,804 | 4,193 | 400,610 |
| EBITA excl. non-recurring items | 6,007 | 12,586 | -487 | 18,106 |
| Transaction-related amortization | | | | -6,196 |
| Non-recurring items | | | | -30,959 |
| **EBIT** | | | | **-19,049** |
| Net financial items | | | | -15,813 |
| **Profit/loss before tax** | | | | **-34,862** |

As of January 1, 2019 there was a minor organization change in the Group, a movement between English speaking and Europe segment, why 2018 have been restated accordingly.
In March 2019 the Chilean operation was divested, and de-consolidated from that date. The transaction concludes the divestment of Transcom's operations in the Latin America segment.

## 5. Items affecting comparability

| (€ '000) | 2019 Q3 | 2018 Q3 | 2019 Jan-Sep | 2018 Jan-Sep | 2018 Jan-Dec |
|---|---|---|---|---|---|
| Operational non-recurring items | -512 | -1,419 | -8,193 | -24,769 | -28,278 |
| Transaction-related non-recurring items | -288 | -2,903 | 310 | -6,189 | -6,297 |
| **Total** | **-800** | **-4,322** | **-7,883** | **-30,959** | **-34,575** |

The table below shows where the items effecting comparability is presented in the Group's income statement.

| (€ '000) | 2019 Q3 | 2018 Q3 | 2019 Jan-Sep | 2018 Jan-Sep | 2018 Jan-Dec |
|---|---|---|---|---|---|
| Cost of sales | -684 | -567 | -5,476 | -15,169 | -15,958 |
| Marketing expenses | - | 0 | - | -170 | -419 |
| Administrative expenses | -605 | -3,272 | -3,342 | -15,137 | -16,711 |
| Net gain/loss on disposal of business | - | - | -826 | - | - |
| Other operating income/expenses | 489 | -483 | 1,760 | -483 | -1,487 |
| **Total** | **-800** | **-4,322** | **-7,883** | **-30,959** | **-34,575** |

The YTD figures includes the in Q2 2019 transaction-related non-recurring items of €2.8 million, relating to Transcom's divestment of part of the business in Spain.

In Q2 2018 a provision of €8.0 million was recorded in the capture Cost of Sales relating to that the Group has an ongoing dispute in Spain with legal professionals hired as consultants where the social security inspection claims that they should be considred as employees. The relevant Group Company is currently in discussions with the social security inspection.

## 6. Acquisitions and disposals

During Q2 Transcom divested parts of the business in Spain, with a cash effect of €6.5 million and a net gain of €2.8 million from the Spanish divestment was recorded in the capture Other operating income. The divested business had a turnover of €8 million and 169 employees. Divested net assets amounted to €3.4m, including Goodwill and Customer relationship asset values.

In March 2019 the Chilean operation was divested with a cash effect €-0.6 million. The transaction concludes the divestment of Transcom's operations in Latin America. The divested unit had a turnover of €5.6 million in 2018 and approximately 540 employees.

On July 27, 2018, the Group acquired Awesome OS, which was consolidated from July 28, 2018. In July 2019 earnout was paid out of €6.7 million. In addition, in the final review of the acquired net assets, an adjustment was made amounting to €2.9 million, affecting Goodwill with the same amount. The cash-flow effect and purchase price allocation for the acquisition of Awesome OS is as follows:

| (€ '000) | 2018-2019 Sep 30* | 2019 Jan-Sep | 2018 Dec 31* |
|---|---|---|---|
| Consideration paid in cash | 42,328 | 6,726 | 35,602 |
| Cash acquired | -1,569 | - | -1,569 |
| **Cash flow from acquisitions of subsidiaries, net of cash acquired** | **40,759** | **6,726** | **34,033** |
| **Value of the shares *** | **58,262** | **-** | **58,262** |
| Purchase price allocation: | | - | |
| Acquired net assets | 7,415 | 2,851 | 4,564 |
| Goodwill | 32,834 | -2,851 | 35,685 |
| Customer relationship | 25,864 | - | 25,864 |
| Deferred tax liability | -7,851 | - | -7,851 |
| **Total** | **58,262** | **-** | **58,262** |

**2018 includes consideration paid in cash (€35.602 thousand) and a provision for maximum potential earnouts (with a fair value amounting to €22.660 thousand). As per September 2019 consideration paid is €42.328 thousand and the remaining provisions are amounting to €20.106 thousand (including both fair value revaluation and foreign exchange effect).*

## 7. Interest-bearing liabilities

On March 15, 2018, Transcom replaced the previous financing agreement by €180,000 thousand Senior Secured Fixed Rate Notes (SSFRN), maturing in March 2023, as well as on the 19th of March 2018 a €45,000 thousand Super Senior Revolving Credit Facility (SSRCF) Agreement with Nordea and Danske Bank both held by the Parent company, maturing in September 2022. Interest rates in the revolving facility are based on LIBOR, STIBOR and EURIBOR plus margins. For the SSRCF the Company is committed to meet certain test conditions. There are share pledges in material companies (€204 million) used as security for the financing. A part of the SSRCF is used to cover bank guarantees and cash pool limits. These new facilities replaced the previous facility agreement with Danske Bank of €85,000 thousand and SEK 1,708,157,500.

In addition to the acquisition of Awesome OS, on July 24, 2018, a Senior Unsecured Fixed Rate Notes (SUFRN) of €10,000 thousand was issued. The maturity date is July, 2020.

As at September 30, 2019 the loan under the SSRCF amounted to €21,582 thousand (all non-current) of which €6,200 thousand is held by the Parent company. This excludes guarantees and credit facility usage. Unused credit facilities totalled €16,431 thousand.

## 8. Contingent liabilities

As at September 30, 2019, seven Group entities are subject to tax audits. Some of these have resulted in reassessments, while others are still at an early stage and no reassessments have yet been raised. As at September 30, 2019 the provision related to tax audits amounts to €4,413 thousand (December 31, 2018 €4,026 thousand).

The group has no material contingent liabilities as at September 30, 2019. In addition to the above tax risks, the Group may be subject to other tax claims for which the risk of future economic outflows is currently evaluated to be remote.

## 9. Financial instruments

Classification of the Group's financial assets and liabilities:

| (€ '000) | Financial instruments at amortized cost | Financial instruments at fair value to the P&L* | Derivatives for cashflow hedges | **Sep 30, 2019 Carrying amount** | **Sep 30, 2019 Fair value** | Financial instruments at amortized cost | Financial instruments at fair value to the P&L* | Derivatives for cashflow hedges | **Dec 31, 2018 Carrying amount** | **Dec 31, 2018 Fair value** |
|---|---|---|---|---|---|---|---|---|---|---|
| Total non-current assets | 2,461 | - | - | **2,461** | **2,461** | 2,163 | - | - | **2,163** | **2,163** |
| Total current assets | 123,295 | - | 559 | **123,854** | **123,854** | 128,311 | - | 297 | **128,608** | **128,608** |
| **Total financial assets** | **125,756** | **-** | **559** | **126,315** | **126,315** | **130,474** | **-** | **297** | **130,771** | **130,771** |
| Total non-current liabilities | 224,568 | 13,648 | - | **238,216** | **283,196** | 216,871 | 17,929 | - | **234,799** | **293,055** |
| Total current liabilities | 106,679 | 6,458 | - | **113,137** | **113,175** | 85,219 | 6,275 | - | **91,494** | **91,559** |
| **Total financial liabilities**** | **331,247** | **20,106** | **-** | **351,353** | **396,371** | **302,090** | **24,204** | **-** | **326,294** | **384,614** |

* The fair values of the Financial instruments at fair value to the P&L have been estimated using a DCF model. The nominal amount is USD 31,545 thousand. The provision was recorded to the value of €22,660 thousand as per July 2018. In July 2019 the first earnout of €6,726 thousand was paid out, and the provision has since been revalued to €20,106 thousand as per September 2019 (including both fair value revaluation and foreign exchange effect).

** 2019 Financial liabilities includes the new Leasing liabilities according to IFRS 16.

## 10. Leasing

The Group has implemented the new standard, IFRS 16 Leases, and the following table shows the effect on Transcoms income statement and balance sheet.

| (€ '000) | 2019 Jan-Sep |
|---|---|
| Reversed cost (EBITDA effect) | 10,480 |
| Depreciations | -9,514 |
| **Operating profit/loss** | **966** |
| Net financial items | -1,609 |
| Income tax expense | 130 |
| **Profit/loss for the period** | **-513** |
| Leased assets, included in Tangible assets | 29,477 |
| Leasing liabilities, non-current | 21,381 |
| Leasing liabilities, current | 9,133 |

## 11. Events after the reporting period

No events have taken place after the end of the interim period which require disclosure or amendment of these interim condensed financial statements.

## ALTERNATIVE PERFORMANCE MEASURES

The purpose of Transcom's alternative performance measurements is to disclose additional information to support a more comprehensive year-on-year comparison and provide an indication of the Group's performance and financial position. These alternative performance measurements defined below are considered to be widely accepted.

EBIT: corresponds to the Operating profit/loss presented in the Condensed Consolidated Income Statement.

EBITA: is defined as Operating profit/loss, adding back the recorded transaction-related amortization.

Non-recurring items: are defined as rare events or activities that are not part of normal business operations, mainly restructuring activities.

EBITA excluding non-recurring items: is calculated by excluding the non-recurring items and the recorded transaction-related amortization from Transcom's Operating profit/loss. The purpose of disclosing Transcom's EBITA excluding non-recurring items is to provide more transparent year-on-year comparison excluding events that are not considered part of Transcom's normal business, such as restructuring cost and net gain or loss from disposed business.

EBITDA: is defined as Operating profit/loss, adding back the recorded depreciation on fixed assets and amortization.

EBITDA excluding non-recurring items: is defined as EBITDA excluding the non-recurring items as defined above. It is calculated excluding the effect of IFRS 16 Leases.

Net debt: is defined as interest-bearing liabilities and employee benefit obligations, excluding leasing debt according to IFRS 16, less cash and cash equivalents per balance sheet day.

Net debt/EBITDA excl non-recurring items: is defined as interest-bearing liabilities and employee benefit obligations, less cash and cash equivalents as per balance sheet day divided by EBITDA excl non-recurring items (LTM).

LTM: refers to the timeframe of the immediately preceding last twelve months.

### Other definitions

English speaking region: services delivered to multinational clients predominantly domiciled in US and UK.

European region: services delivered to clients based in Europe.

Latin American region: services delivered to clients based in Latin America (Chile have been divested and deconsolidated after February 2019. The divestment in Chile concluded the divestment of Transcom's operations in Latin America segment).

## ABOUT TRANSCOM

Transcom is a global customer experience specialist, providing customer care, sales, technical support and collections services through our extensive network of contact centers and work-at-home agents. We are 27,000 customer experience specialists at 50 contact centers across 20 countries, delivering services in 33 languages to international brands in various industry verticals.