INNOFACTOR®

Annual Report 2011

INNOFACTOR GROUP
ANNUAL REPORT 2011

INNOFACTOR IN BRIEF

Innofactor is the largest Microsoft-focused IT service provider in Finland and Microsoft Country Partner of the year 2011. Innofactor's clients include major companies and public administration organizations.

Innofactor has approximately 190 employees working at six locations across Finland. The net sales for 2011 were about EUR 17.2 million, increase of 74.5 percent on the previous year.

Innofactor is the fastest growing IT company in the NASDAQ OMX Helsinki, with a proven track record of profitable growth.

- Growth of net sales in 2006–2011: 52 % annually on average (CAGR)
- Operating profit 2006–2011: 13 % of net sales on average
- Growth of operating profit 2006–2011: 31 % annually on average (CAGR)

Innofactor operates as a system integrator and also develops software products of its own. Innofactor offers solutions in five main areas:

- Web and Communication Systems
- eServices and eCommerce Solutions
- Document and Case Management
- CRM, ERP and Operational Solutions
- Business Intelligence and Enterprise Search Solutions.

Innofactor Plc's shares are quoted in the main list of NASDAQ OMX Helsinki Ltd. Innofactor has about 12,000 shareholders.

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Note: This English version is only a translation of the Finnish version, and is provided for reference only. In the event of any conflict or discrepancy between the Finnish and English versions, the Finnish version shall prevail and be treated as the correct version.

THE FASTEST GROWING IT COMPANY IN THE FINNISH STOCK EXCHANGE

In 2011, Innofactor continued its strong and profitable growth. The net sales increased by 74.5 percent, of which the organic growth was about 21.4 percent and non-organic growth about 53.1 percent, due to the acquisition of Westend ICT Plc and Visual Management Ltd. Innofactor's group structure was reformed in 2011 and the organizational structure was changed as from the beginning of 2012 to support the development of the chosen solution areas, growth and internationalization in a more efficient manner. During 2011, Innofactor made heavy investments in the development of cloud services for the global markets, where the Company sees significant market potential. On July 10, the Company published its new cloud services at the Worldwide Microsoft Partner Conference in Los Angeles, USA.

In June 2011, Innofactor was awarded Microsoft Country Partner of the Year, which further strengthened Innofactor's position as Microsoft's key partner. Sami Ensio, Innofactor's founder and CEO, was awarded Software Entrepreneur of the Year 2011. Innofactor was ranked in the Deloitte Technology Fast 500 EMEA 2011 Program as one of the 500 fastest growing technology companies.

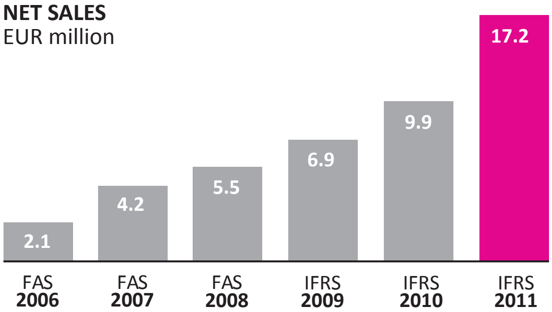
In 2011, Innofactor's net sales were EUR 17,205 thousand (2010: 9,862), increase of 74.5 percent. The operating profit before depreciation and amortization (EBITDA) was EUR 1,443 thousand (2010: 980 thousand), increase of 47.2 percent. The share of EBITDA of the net sales was 8.4 percent (2010: 9.9 %). The operating profit was EUR 904 thousand (2010: EUR 702 thousand). The operating profit accounted for 5.3 percent of the net sales (2010: 7.1 %).

Innofactor's business operations took place mainly in Finland, and about 98 percent of the net sales were generated in Finland. The rest, about 2 percent of the net sales, was derived from emissions trading solutions for EU member states, and from services provided to certain Swedish parishes and to some Finnish companies for their foreign operations. In 2011, Innofactor updated its strategy and added mobile services to its offering. The cooperation between Microsoft and Nokia is seen to offer Innofactor new possibilities for providing value-added services for mobile devices.

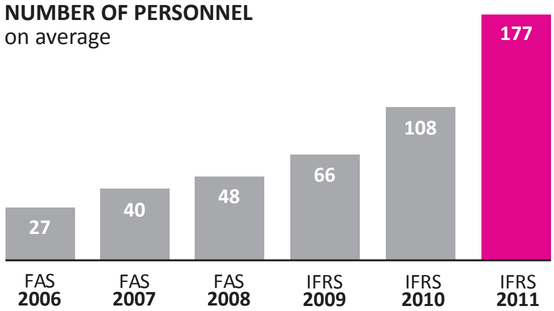
Innofactor reformed its group structure on May 1, 2011 and the organizational structure at the end of the year. The new organizational structure, which took effect on January 2, 2012, increases the productivity of the operations and the meaningfulness of the work. The new organization also allows increasing flexibility in the integration of the companies acquired on the basis of the growth strategy in the company, and it also promotes the internationalization of the company.

	2011	2010	2009
Net sales, EUR thousand	17,205	9,862	6,920
Growth %	74.5 %	42.5 %	26.7 %
Operating profit before depreciation and amortization (EBITDA), EUR thousand	1,443	980	1,309
percentage of net sales	8.4 %	9.9 %	18.9 %
Operating profit, EUR thousand (EBIT)	904	702	1,165
percentage of net sales	5.3 %	7.1 %	16.8 %
Earnings, EUR thousand	687	505	875
percentage of net sales	4.0 %	5.1 %	12.6 %
Equity, EUR thousand	12,905	12,218	2,597
Interest bearing liabilities, EUR thousand	0	0	0
Cash and cash equivalent, EUR thousand	696	1,714	1,650
Deferred tax assets, EUR thousand	7,895	8,132	0
Return on equity	5.5 %	6.8 %	40.5 %
Return on investment	7.2 %	9.7 %	54.9 %
Net gearing	-5.4 %	-14.0 %	-63.5 %
Equity ratio	74.5 %	68.2 %	56.1 %
Research & development, EUR thousand (no activations)	2,086	1,173	680
percentage of net sales	12.1 %	11.9 %	9.8 %
Personnel on average	177	108	66
Personnel at the end of the review period	189	171	89
Earnings per share	0.02	0.03	0.05
Shareholders' equity per share	0.44	0.42	0.15

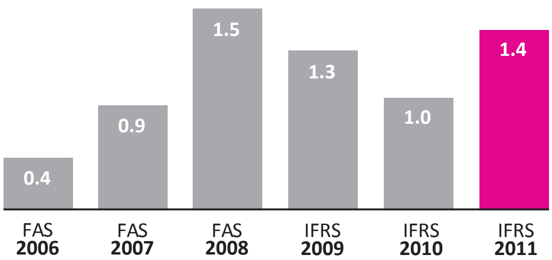
NET SALES
EUR million



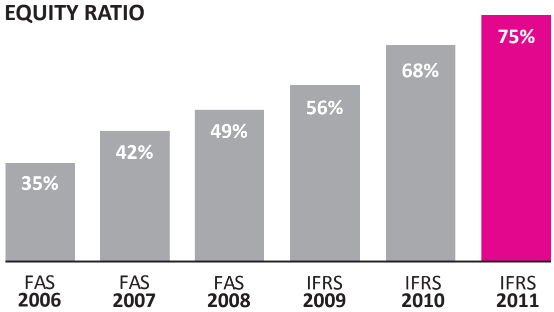
NUMBER OF PERSONNEL
on average



EBITDA
EUR million



EQUITY RATIO



LONG-TERM PARTNERSHIPS ARE THE KEY TO SUCCESS

The Year 2011 was a year of growth and renewal for Innofactor. Our net sales increased by 74.5 percent to EUR 17.2 million. Our client promise was condensed to ”Your Partner. Your Solution™” to emphasize Innofactor's ability and desire to act as a long-term and added value creating partner for its clients. The new organization, which took effect on January 2, 2012, enhances Innofactor's ability to focus on its core competence areas, clarify its offering and continue improving its customer service.

Sami Ensio, CEO, Innofactor Plc

In 2011, Innofactor continued deepening cooperation with its clients and partners. We concluded a cooperation agreement with e.g. ProAgria on the delivery of a comprehensive CRM and ERP solutions, and with the City of Kuopio and the Parish Union of Helsinki on the delivery of document and case management systems. I would like to extend our thanks to all our clients and partners for the trust they have shown Innofactor.

Innofactor's strategy aims at strong growth in the global cloud and mobile solutions markets. Software "dinosaurs" are being replaced by smaller, more flexible modules and cloud components which are combined in accordance with the needs of the clients. The cloud provides a platform that allows genuinely global software.

International success requires solid know-how and specialization, but it also requires cooperation with other actors in the field. The partnership with Microsoft has deepened further at all levels of our companies. In recognition of our long-term and committed partnership and the results of the cooperation, Microsoft nominated Innofactor Microsoft Country Partner of the Year 2011. I would like to thank Microsoft for this award.

The Microsoft Ecosystem partners in Finland and abroad have played a central role in Innofactor's internationalization process. It is through cooperation that we are able to serve our global clients in the best possible way and to give active contribution to the development of the Finnish software market. I sincerely thank all our partners for a great year. Let us continue our cooperation on the road to the top.

Innofactor's most important resource is competent and motivated employees. We want to make significant investments in the development of our personnel. The new organization, which took effect on January 2, 2012, enhances Innofactor's ability to focus on its core competence areas, which will clarify the offering and improve our client service. I am proud of the energy and excitement that our personnel have shown in working as members of the new organization and in utilizing the means that the change has provided to improve client satisfaction, work efficiency and productivity. I would like to extend my thanks to each one of you.

Together with our clients, partners and competent employees, we will be able to create solutions that utilize the best possibilities offered by modern technology. We look forward to the future with enthusiasm and confidence.

"Even if we have already achieved a lot at Innofactor, we are still at the beginning of our journey. Growth and internationalization are means to assure our clients, partners and employees of our ability to stay in the forefront of development in the future, as well. Success requires visions and courage to do things."

Microsoft Partner Network

2011 COUNTRY PARTNER OF THE YEAR
Finland
Winner

OUR MISSION IS

- To help our clients offer their customers increasingly better services and improve their operations.
  - by providing globally significant value-added services for the Microsoft cloud and mobile environments, and
  - by creating packaged solutions for our clients in Finland and its neighboring countries.
- To provide our employees and partners with an innovative and supportive environment in which they can continue to develop themselves.

OUR VISION IS TO BECOME

Microsoft's #1 Independent Software Vendor (ISV) Partner in value-added cloud and mobile solutions globally,

and

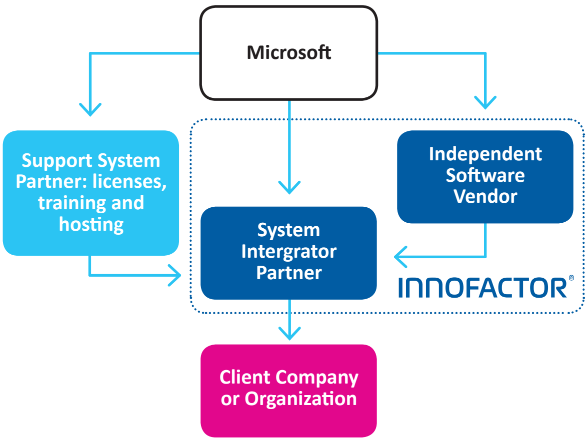
Microsoft's #1 System Integrator (SI) Partner in selected markets, first in Scandinavia.

STRATEGY OF PROFITABLE GROWTH

In line with its strategy, Innofactor aims at being the leading provider of Microsoft solutions – #1 in value-added cloud and mobile solutions globally, and #1 System Integrator in Scandinavia. In Finland, Innofactor has gained a significant position as a supplier of Microsoft solutions. By focusing on Microsoft solutions, Innofactor has been able to create superior know-how and competence and win significant clients. Innofactor aims at long-term value-added partnerships with its clients. In addition to organic growth, Innofactor's strategy is to pursue growth through mergers and acquisitions. The aim is to continue to grow profitably and, in line with the strategy, reach an average annual growth of 30–40 percent in 2011–2015.

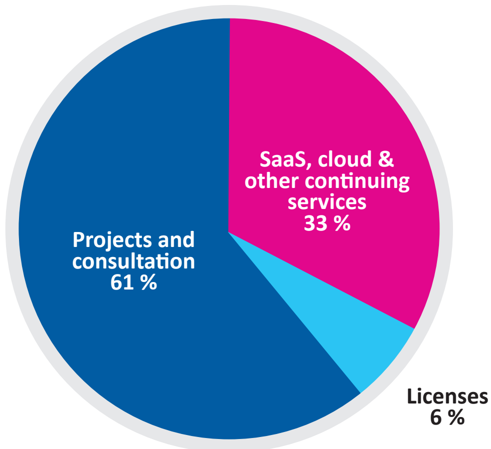
Innofactor's business Idea

Innofactor operates as a system integrator and also develops software products of its own. The following chart describes Innofactor's position in the Microsoft Ecosystem.



Innofactor provides Microsoft's business solutions in five main areas: Web and Communication Systems, eServices and eCommerce, Document and Case Management, CRM, ERP and Operational Solutions, as well as Business Intelligence and Enterprise Search Solutions.

The solutions can be installed on the clients' own servers or provided as services implemented through Innofactor's service center or through the Microsoft Cloud. Continuing, typically annually or monthly charged Software-as-a-Service (SaaS), cloud and other service contracts play an important role in Innofactor's business operations and also reduce cyclical effects. The following chart describes the distribution of net sales concerning the above services in 2011.



At the moment, Innofactor operates mainly in Finland but it also offers solutions for the global market.

Innofactor aims at expanding its operations to the neighboring countries through e.g. mergers and acquisitions.

Innofactor also offers value-added cloud solutions for the global markets by utilizing several distribution channels. Traditional providers of system integrator services can also serve as distribution channels. This is one of the reasons why software business was made a separate business unit.

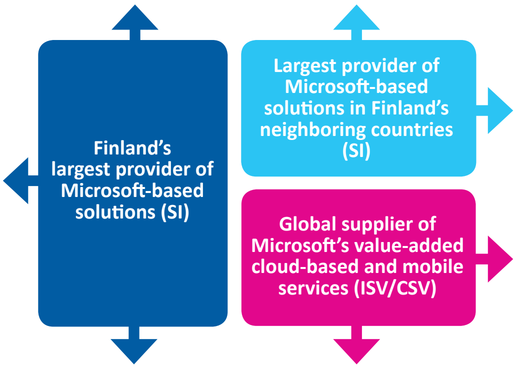
Markets and clients

Due to the uncertainties in economic situation, it is impossible to make a reliable estimate of the development of the IT market. During the previous recession, the IT market reacted to the change less radically than many other sectors. It can therefore be assumed that in a possible new recession, the impacts will not be very dramatic.

The IT market is experiencing a clear turning point. One of the major trends is the consumerization of information technology: an increasingly larger share of the IT purchases made by companies is based on the requirements of the consumer market. Company and corporate clients tend to purchase software that can be used on phones, tablets and computers. Another trend is the ability of public clouds to offer software in a scalable and global form to a wide range of end users and for all devices, including mobile phones. Innofactor believes that Microsoft is a strong player in this situation: it holds the leading position in the business software market and invests heavily in mobile devices.

For companies like Innofactor, which is strongly committed to Microsoft, this development creates growing global markets in the long term both as a traditional system integrator as well as a provider of cloud and mobile solutions. Innofactor sees that strong commitment to Microsoft brings significant competitive advantages. As the companies which are focusing purely on Microsoft products are typically small, Innofactor believes that they are likely to be consolidating in larger units, and this will offer Innofactor expansion opportunities.

Innofactor aims at growing in three main markets.

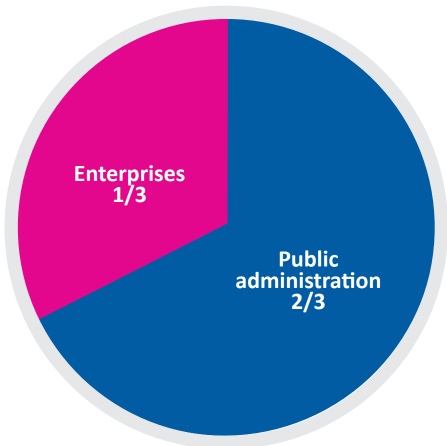


Microsoft integrator in Finland

The operations as a Microsoft integrator in Finland account for the majority of the Group's net sales. Innofactor's 1,500 clients consist of enterprises, public administration, cities, municipalities and municipal federations, parishes and parish unions, as well as various non-governmental organizations.

In 2011, enterprises accounted for about one third of the net sales. Innofactor focuses on Finland's 1,000 largest companies or such smaller enterprises that have the same requirements as large companies regarding their IT purchases. The share of enterprises of the net sales is growing rapidly.

Public administration and the third sector account for about two thirds of the net sales. Innofactor's public administration clients include several ministries and agencies. In the municipal and parish sectors, Innofactor is a market leader in several solution areas. The large share of public administration has created certain stability for our operations during the global economic crisis and reduced cyclical effects.



Microsoft integrator in Finland's neighboring countries

Activities as a Microsoft integrator in Finland's neighboring countries still represent a minor share of the net sales. Innofactor has several clients in Sweden and individual clients in the EU area. They are all served from Finland. Innofactor's strategy is, however, to expand to the neighboring countries through e.g. mergers and acquisitions.

Global delivery of Microsoft's cloud and mobile solutions

So far, the global delivery of Microsoft's cloud and mobile solutions has not generated significant net sales. At the moment, Innofactor is carrying out sales and marketing as well as research and product development in this area, as it is seen to provide significant business opportunities for Innofactor. The plan is to provide cloud and mobile services mainly through value-added distribution channels.

Partners

Cooperation with other actors in the industry is an essential part of Innofactor's business operations. The most important partner is Microsoft. Innofactor's offering is based on Microsoft's software solutions and the two companies have significant cooperation in marketing and deliveries. In 2011, Innofactor was awarded Microsoft Country Partner of the Year, which further strengthened Innofactor's position as Microsoft's key partner. Apart from Finland, Innofactor is cooperating with Microsoft in Scandinavia, the rest of Europe, and globally.

In addition to Microsoft, Innofactor's partners include Microsoft Partner Network companies in Finland and abroad.

Other significant partners also include IBM, whose Premium Business Partner Innofactor is, as well as Oracle and Software Innovation.

Competition

Innofactor has a unique competitive advantage. Innofactor is a leading supplier of Microsoft-based solutions in Finland. The cooperation between Microsoft and Nokia makes these solutions especially interesting. Innofactor has a large, balanced client base in the business sector and in public administration, as well as a proven track as a provider of various Microsoft-based solutions and services. This creates a sufficient critical mass and ability to meet the needs of both small and large companies. Innofactor's operational model and its organizational structure create mutual synergies for the Company's system integration and software business operations. An excellent track record of fast and profitable growth and successful mergers and acquisitions make Innofactor an attractive partner in the consolidation of the industry in Scandinavia.

Innofactor's major competitors in Finland include about seven largest IT service providers. As certain sectors, such as organizations and parishes, there are software suppliers that specialize in these sectors. There are also suppliers that specialize in certain solutions, such as websites, case management and CRM systems.

Innofactor considers that it is able to provide competitive solutions compared with its competitors. This estimate is based on the Company's successful business operations in the current competitive situation.

Financial goals

Innofactor's financial goal is to grow profitably and to reach an average growth rate of 30–40 percent in 2011–2015 through both organic growth and mergers and acquisitions, and an annual operating profit of 10–15 percent before depreciation and amortization (EBITDA) in relation to the net sales. Innofactor aims at maintaining a positive cash flow and financial solvency in all situations.

CLIENTS

Innofactor has about 1,500 clients, mainly leading Finnish companies and public administration organizations. Future growth potential is also sought on the global markets. Innofactor aims at long-term value-added partnerships with its clients. Our operations are based on knowing the clients' operations, listening to their wishes, understanding their needs, finding optimal solutions, choosing the right technical alternatives and products, finding a suitable implementation, managing projects efficiently, and ensuring a successful deployment. During the past year, Innofactor acted as a partner in several projects that were strategically significant for the clients.

State Treasury

– The Citizen's Account brings flexibility to people's everyday lives

Today, Finnish citizens are able to receive official messages, decisions and other documents from government authorities electronically. The service was opened on January 28, 2011 as part of the Suomi.fi Portal.

The Citizen's Account is a secure service provided by the Government IT Shared Service Centre of the State Treasury for electronic communication between the authorities and the public. It is a channel for receiving official messages, decisions and other documents from public administration organizations. People can also use the Citizen's Account to submit documents to authorities, e.g. additional information concerning a decision to be made. The aim of the Citizen's account is to speed up and enhance interaction between authorities and their clients and add to the ways in which people can communicate with authorities.

Based on competitive bidding, Innofactor was selected as the expert partner for the development of the network services of the State Treasury. Major cooperation projects include the delivery of the Citizen's Account Service and consultation on the development of the strategic web services of the State Treasury. The Citizen's Account is implemented as a scalable Software-as-a-Service (SaaS) solution. Innofactor also provides software that can easily and cost-efficiently be integrated with the Citizen's Account.

Close cooperation with the State Treasury continues on the delivery, further development and marketing of the Citizen's Account Service.

The State Treasury is a multidisciplinary government agency with 550 employees. It produces internal corporate services for central government, such as financial, personnel administration and IT services, administers state funds and loans and is responsible for the government's central bookkeeping, and also grants crime damage and accident compensations. The State Treasury also handles statutory employment pension, accident and indemnity insurances and insurance-related employer services of government agencies and supports activities to maintain employees' ability to work.

"The Citizen's Account is an important milestone in the development of eServices in Finland"
Tapani Tölli, Minister of Public Administration and Local Government at the publication event of the Citizen's Account on January 28, 2011

Veho

– High-quality information supports the development of a comprehensive service concept.

Veho is a service company and its operations are based on customer satisfaction. A strong belief in high-quality information, advanced reporting methods and analytical competence has made Veho one of the leading companies utilizing business intelligence in Finland.

Veho and Innofactor have had cooperation related to Microsoft-based business intelligence solutions since 2006. Owing to Innofactor's strong competence in Microsoft-based solutions and its experience in BI solutions, Veho chose Innofactor as one of its major providers of IT services.

Innofactor helps Veho create a reporting strategy which is built on a solid basis with an up-to-date data store, high-quality reporting, and a SharePoint-based distribution channel.

"Veho's aim of utilizing technology to provide better service plays a key role in the mutually beneficial cooperation between Veho and Innofactor."
Hannu Harjula
CIO, Veho Group

Veho is Finland's leading motor vehicle dealer. The company also operates in the Baltic States and in Sweden. Veho was established in 1939 as a Mercedes-Benz dealer in Finland. Today the group has several dealerships, and its business activities cover the imports as well as retail and maintenance services of cars and commercial vehicles. In 2010, the Group's net sales were EUR 910 million. At the end of 2010, the number of personnel was 2,102.

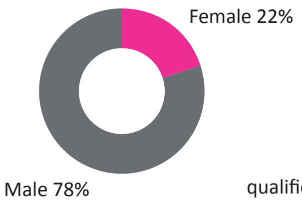
PERSONNEL

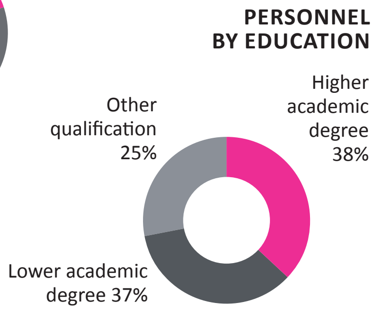
Innofactor's growth and development rely on growth and development oriented personnel. Innofactor's strategic goal is to continually increase the work wellness and satisfaction of its personnel. Growth and internationalization set challenges to the competencies of the personnel but they also offer possibilities to international career paths inside Innofactor.

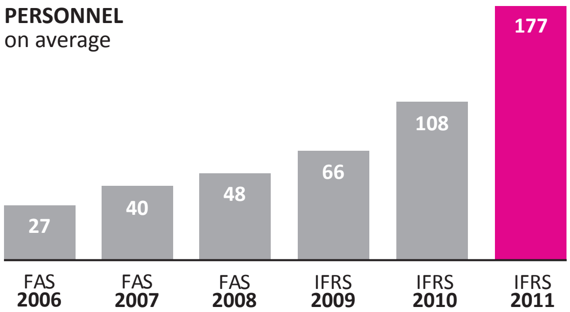
During 2011, the average number of personnel was 177 (2010: 108), an increase of 63.9 percent. At the end of the review period, the number of personnel was 189 (2010: 171), an increase of 10.5 percent. Women accounted for 22 percent and men for 78 percent. The share of women increased by 2.1 percentage points from 2010.

At the end 2011, the average age of the personnel was 37.0 years. A total of 38.4 percent of the personnel has a higher academic degree, 36.8 percent a lower academic degree or are studying for a higher academic degree, and 24.8 percent some other degree/qualification.

PERSONNEL BY GENDER







Supporting the growth of the IT sector in Finland

Sami Ensio, Innofactor's founder and CEO, was awarded Software Entrepreneur of the Year 2011. "The Software Entrepreneur of the Year" Title is awarded to a successful software entrepreneur who has promoted the growth of Finnish software business and inspired entrepreneurship-based development.

In summer 2011, Innofactor opened a new unit in Savonlinna. The unit focuses on software development and production, and on quality assurance. At the moment, the unit's personnel consist of about 10 experts. The operations of the unit will be developed further in 2012. The employees have been trained at the SharePoint Academy in Savonlinna. SharePoint Academy is a training program provided jointly by Microsoft, individual companies, ICT educators, the Centre for Economic Development, Transport and the Environment, and the Savonlinna Region Services. The aim of the program is to help companies recruit competent personnel and to strengthen business activities in the industry.

Work satisfaction and wellness in focus

Innofactor is committed to promoting an atmosphere of openness and trust. Trust enhances the preparedness of the personnel to take on and bear responsibility, and this is of utmost importance for a growing company. Innofactor's values have been created in cooperation with the personnel, and they have been internalized as part of Innofactor's ways to operate and be part of society.

Competition for competent personnel is a shared challenge in the IT industry, and therefore work satisfaction and wellbeing are important development areas. Work satisfaction is measured annually and quarterly. The personnel actively participate in the maintenance and development of work satisfaction by making plans related to work satisfaction both at team and unit levels.

In 2011, Innofactor established an HR Board, which consists of representatives from the various units and locations. The HR Board meets twice a month on average and deals with current personnel related issues from the personnel's point of view with the aim of developing Innofactor an even better workplace than before.

The work wellbeing of the personnel is supported by means of occupational health care services, lunch and sports vouchers, and flexible working hours. Innofactor's FunClub organizes different kinds of recreational events and free time activities.

Learning and self-development

Innofactor's wide range of clients requires that the company is able to learn, create and develop new things.

Therefore Innofactor emphasizes the importance of personnel development and training, learning while working, and job rotation. The aim of the performance development reviews is to monitor the development of the personnel's competencies and needs. The reviews are utilized in personnel development plans.

Innofactor's personnel also actively participate in the training programs organized by Microsoft. In 2011, the members of the personnel acquired several new competencies in the Microsoft Partnership Program. The competencies guarantee the ability of the personnel to produce solutions that are based on the latest technologies.

Innofactor aims at seeking growth both at national and international levels. When an organization grows and changes, its internal working methods and cultures take new forms. The responsibility of the Human Resources Administration is to support the growth of the personnel in the best possible way by harmonizing, developing and improving the processes and working methods.

When an organization grows, change management plays an important role. The superiors are supported in the change process by providing them with training and by developing internal communications. Open communication and interaction will play a key role also in the future in the best possible utilization of the opportunities created by growth.

Microsoft Partner

Gold Application Integration
Gold Business Intelligence
Gold Content Management
Gold Customer Relationship Management
Gold Data Platform
Gold Digital Marketing
Gold Independent Software Vendor (ISV)
Gold Portals and Collaboration

SOLUTIONS PROVIDED BY INNOFACTOR

For years, Innofactor has worked with its clients to develop solutions that meet their changing needs and utilize the new possibilities offered by technology. Innofactor provides solutions for enterprises and public administration in five main areas: Web and Communication Systems, eServices and eCommerce, Document and Case Management, CRM, ERP and Operational Solutions, as well as Business Intelligence and Enterprise Search Solutions. In addition to the main solution areas, Innofactor provides industry- and client-specific customized solutions. The systems that we provide can be installed on the clients' own servers or provided as services implemented through Innofactor's service center or through the Microsoft Cloud.

Web and Communications Systems

The Web and Communication Systems that Innofactor provides are based on uncomplicated content production and efficient content distribution. Communication takes place in real-time in all situations, serves various user groups and adapts to different channels. Innofactor's solutions include internet, extranet, intranet and mobile websites, event calendars, image, material and brand banks, as well as solutions that utilize multichannel communications.

eServices and eCommerce Solutions

Electronic service systems are Innofactor's key competence area. The reliable and secure solutions that Innofactor implements increase the speed and cost-efficiency of services. Innofactor provides several eService and eCommerce solutions to all industries and public organizations. The solutions include eService accounts, identification and payment services, eService forms and other self-service solutions, reservation and registration services, and online store services.

Document and Case Management Solutions

Innofactor's data management solutions ensure that the important documents of organizations and the information they contain can be stored in a secure way and accessed easily in all situations. The offering covers solutions for document, data, archive, and quality management. The quality management solutions can be expanded to data security and environmental management.

CRM, ERP and Operational Solutions

An essential question in view of the efficiency of an organization's operations and its competitiveness is how well the different processes work, how well data and information move between them, and how efficiently they can be utilized. The CRM system that Innofactor provides offers a solution for the maintenance and development of client and customer relationships. The system collects all the information on the customers in one, controlled place, where it is easily available to the sales and customer service personnel. Innofactor's ERP solution improves the operational and financial efficiency of organizations. The system supports the processes of the enterprise from production and sales to deliveries and invoicing.

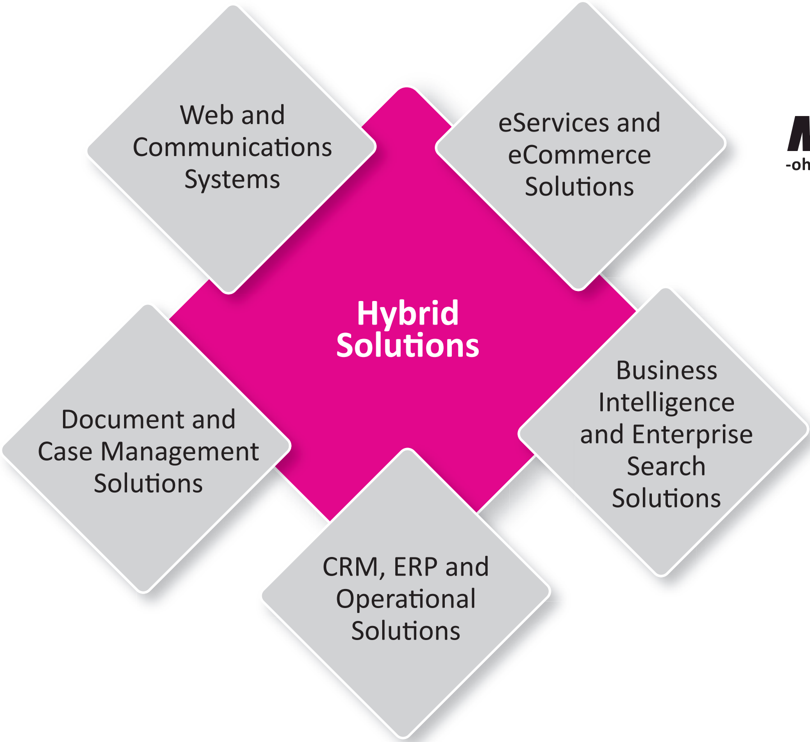
Business Intelligence and Enterprise Search Solutions

Innofactor's Business Intelligence and Enterprise Search Solutions efficiently make all the information that is essential for decision making available to the persons who make decisions. The solution consists of data storage and search functions, as well as forecasting, budgeting and reporting tools.

Industry- and client-specific Solutions

Innofactor also regularly implements industry-specific solutions developed in cooperation with the leading actors in the various industries. Our customized solutions ensure that the special features of the various industries are taken into consideration in such a way that the solutions serve the clients in the best possible way.

Microsoft -ohjelmistot ja järjestelmät



Innofactor's own software

Innofactor® Cloud&Mobile™ Product Family
is a series of components and applications that make it possible to publish the information stored in the systems of organizations or distribute it via the Microsoft Cloud. Innofactor's cloud solutions include Innofactor® Content Distribution Service™ and Innofactor® Multicom Service™.

Innofactor® Prime™ Product Family
is a versatile software package that can be used to support organizations' essential functions, such as implementation of websites and web-based communication systems, eService and eCommerce, customer relationship and resource management, as well as industry- and client-specific special solutions.

Innofactor® Dynasty™ Product Family
is a versatile software package for document, case and archive management. It allows the implementation of comprehensive data management projects. The processes can be adapted easily to the needs of different industries.

Innofactor® Quality First™ Product Family
is a modular quality management solution for easy management of ISO 9001 based documentation, as well as data security and environmental documentation. The solution can also be integrated with the organization's other systems.

Microsoft software delivered by Innofactor

Microsoft Office 365, SharePoint and Lync Product Families
are overall communications solutions for organizations. They contain the essential communication tools, such as email, calendars, team tools, contact information management and office software.

Microsoft Dynamics Product Family
contains applications for resource and customer relationship management.

Software of other partners represented by Innofactor

Dynasty 360°
is a Microsoft SharePoint-based software developed by Norwegian Software Innovation for the special requirements of various industries.

Prophix
is a software package developed by Canadian Prophix Software for budgeting, planning, financial monitoring, forecasting and reporting.

WEB COMMUNICATIONS EFFICIENCY FROM THE CLOUD

Most of the communications in organizations takes place over the web. The cloud-based solutions offered by Innofactor simplify organizations' traditionally complicated and time consuming processes. Cloud-based services help content producing professionals focus on their core competence – production and maintenance of up-to-date information, and customer service. The Microsoft Windows Azure platform makes it possible to utilize the services in an efficient and versatile way – wherever and whenever.

Added value for Microsoft business systems

Innofactor's cloud and mobile solutions provide services and components that bring added value for Microsoft's business solutions:

- better user experience
- additional functionality
- easier integration
- more cost-efficient implementation

The solutions suit many different clients:

- system integrators that wish to improve their own profitability
- advertizing agencies that wish play a bigger role in the value chain
- tele operators that wish to expand their own service offering
- end-user clients that wish to secure their services at peak hours

"In high labor cost countries, things have to be done more efficiently than in other countries. Competitive advantage can also be gained by simplifying procedures."

Aino-Maija Gerdt
Vice President, Cloud and Mobile Solutions, Innofactor Plc

Innofactor® Content Distribution Service™

is a solution designed for web-based communications. It allows the publishing of web pages direct from the organization's own, familiar systems. The solution scales according to the current needs and it can be integrated with the existing systems of the organization. The Content Distribution Service offers a secure and stable operation environment for communication that takes place over the web.

Innofactor® Multicom Service™

is an application developed for increasing the efficiency of communication that takes place through different channels. The service allows sending messages from the different systems of the organization to both single recipients and to large groups without worries about server capacity.

SERVICES

The purpose of the services that Innofactor provides is to ensure a fluent and cost-effective implementation, successful deployment and easy maintenance of software packages. The services include specification, planning and consultation, user experience and design, project management, testing, documentation, deployment, hosting through a public or private cloud, as well as support and maintenance.

Specification, Planning and Consultation

Innofactor provides its clients extensive specification, design and consultation services that cover the entire product acquisition process, from pre-project work to implementation.

User Experience and Design

Easy-to-use products and design solutions that increase productivity guarantee the best possible user experience. Innofactor provides various user and usability studies, concept design, as well as user interface design to companies and organizations.

Project Management

Innofactor provides project management services as part of its software and system deliveries. Innofactor has developed its project management systems and trained its personnel to follow through demanding information technology projects.

Testing

In addition to the software functionality testing, Innofactor performs availability and capacity testing, as well as security testing via its partners.

Documentation

Innofactor provides documentation services as part of its software and system deliveries. Proper documentation ensures long-term maintainability of the systems.

Deployment and Training

Innofactor provides its clients with support that covers the entire software life cycle. The aim of deployment planning, implementation and user training is to ensure that the solution delivered to the client can be utilized efficiently from the very beginning.

Hosting through Public or Private Clouds

Innofactor's hosting services include a continuous troubleshooting service and an availability guarantee. When clients' capacity requirements change, the hosting services can be expanded in a flexible way.

Support and Maintenance

Innofactor's support and maintenance services include telephone and email support provided for the administrators. By separate agreement, we also offer a 24/7 on-call service.

CORPORATE RESPONSIBILITY

Innofactor's operations are guided by the company's strategy, values, quality system, environmental policy, and legislation. In line with our values, we strive to act in a responsible, committed, communicative and collaborative way.

Environment and sustainable development

Innofactor adheres to the principles of sustainable development and the environmental guidelines of the Federation of Finnish Technology Industries. Through the electronic solutions Innofactor has developed, the Group has helped its clients reach their environmental goals and contributed to the sustainable development of society. Electronic document and case management solutions and eServices decrease paper consumption in organizations. Solutions that aim at providing services over the web have improved the cost efficiency of public administration, developed the service processes and enhanced the networking of services and thereby led to more comprehensive services. The emissions trading systems that Innofactor has delivered to several European countries also contribute to the efforts to curb the climate change.

Constructive cooperation

Innofactor strives to establish long-term added value creating partnerships with its clients and partners, partnerships in which the competences of the actors complement each other and create new solutions. Innofactor also strives to provide its employees with an innovative and supportive environment in which they can continue to develop themselves. Innofactor actively cooperates with other Finnish ICT companies with the aim of creating partner networks to lower the internationalization barrier and thereby contribute to the development of the Finnish software business.

CORPORATE GOVERNANCE

Innofactor Plc is a Finnish public limited company. In its decision-making and administration, the Company complies with the Finnish Companies Act, other regulations concerning public companies, and it's Articles of Association.

Innofactor Plc complies with the recommendations of the Corporate Governance Code 2010 for Finnish listed companies, published by the Securities Market Association. The only deviation from the recommendation is that Innofactor Plc's Board of Directors does not include representatives of both genders. Innofactor Plc complies with the guidelines for insiders drawn up by the Helsinki Stock Exchange and follows a consistent communications policy.

Innofactor maintains a public insider register of persons obliged to declare insider holdings, as required under the Securities Markets Act. Innofactor also maintains a permanent internal and a project-specific insider registers of such parties who receive inside information. Innofactor has instructions for insider trading in Innofactor's shares.

The General Meeting is the highest decision-making body in Innofactor Plc. The General Meeting is convened by the Board of Directors. According to the Articles of Association, Annual General Meetings are held annually within six months from the end of each year on a date specified by the Board of Directors. An Extraordinary General Meeting is held if the Board of Directors considers it necessary or if either the Auditors or shareholders holding a minimum of one tenth of the shares have submitted a written request to have a specified matter to be dealt with in an Extraordinary General Meeting.

The General Meeting elects the Board of Directors. The tasks and responsibilities of the Board of Directors are based on the Finnish Companies Act and on Innofactor's Articles of Association. The Board of Directors has general authority to decide and act in all such matters that are not reserved by the Companies Act or Articles of Association to other corporate governing bodies. The Board of Directors is responsible for organizing the company effectively and for monitoring the management of the company according to the best interests of the company and its shareholders.

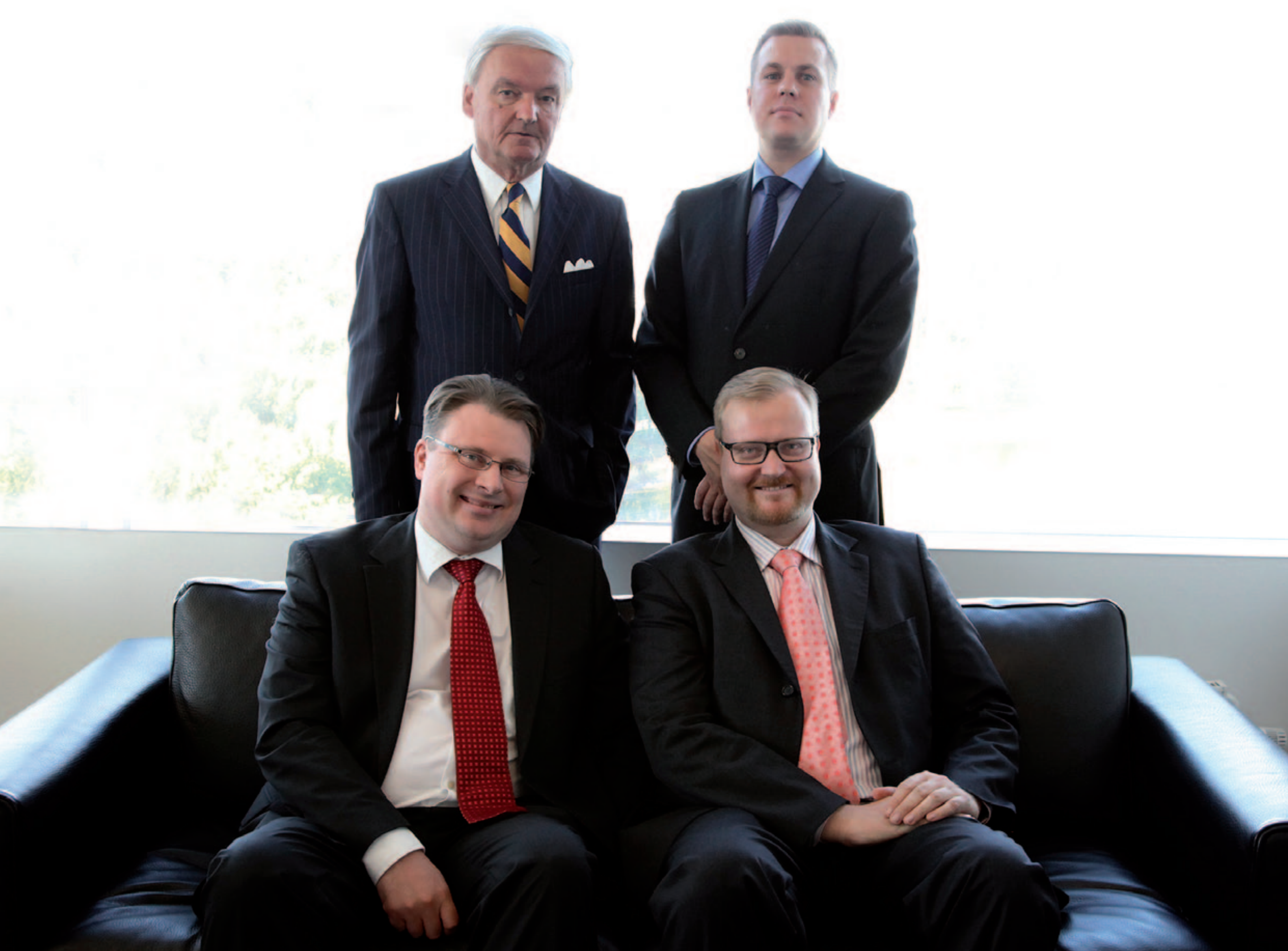
The duty of Innofactor Plc's Board of Directors is to ensure that the monitoring of the Group's accounting and financial management is arranged in an appropriate manner. The internal monitoring in the Group is implemented by the Board of Directors together with the CEO. For monitoring purposes, the Company has a reporting system for producing information on the Group's business operations and subsidiaries. The responsibilities of the Board of Directors and its members are described in further detail in the Board of Directors' rules of procedure.

The Board of Directors appoints a CEO, who is responsible for the daily management of the Company, consisting of managing and controlling the Company's business in accordance with the instructions and decisions issued by the Board of Directors. The Board of Directors appoints an Executive Board, whose task is to assist the CEO in everyday business.

Innofactor Plc's Corporate Governance was last updated on February 27, 2012. Innofactor's report on the Corporate Governance, which has been drawn up in accordance with the Securities Markets Act and the recommendations of the Corporate Governance Code 2010 for Finnish listed companies published by the Securities Market Association, is issued separately from the Company's Annual Report.

INNOFACTOR PLC'S BOARD OF DIRECTORS

In the front from the left: Sami Ensio and Juha Koponen; at the back from the left: Pyry Lautsuo (Chairman) and Pekka Puolakka.



PYRY LAUTSUO

(born in 1946) Chairman

Pyry Lautsuo, M.Sc. (Tech.): in 1970–2006, held various positions in IBM, the latest of which was CEO of the Finnish unit. Lautsuo has an extensive experience on software business both in Finland and globally. Has acted as a member of the Board of Directors of Affecto Plc and as Chairman of the Board in the Finnish Information Processing Association (FIPA). Lautsuo is an acting member of Tectia Plc Board of Directors. Lautsuo has been Innofactor Plc's Chairman of the Board of Directors since 2011.

SAMI ENSIO

(born in 1971)

CEO of Innofactor Plc, previously CEO of Innofactor Ltd and a member of the Board of Directors since 2000. Member of the Board of Directors of Innofactor Plc since 2010. Ensio has strong and extensive knowledge of the software industry and strong experience on the strategic and operative management in the field.

PEKKA PUOLAKKA

(born in 1971)

Pekka Puolakka, LL.M, Attorney, has held several positions in various law firms. He is Managing Partner at Law Firm SORAINEN, which operates in the Baltic States. Previously he was a member of Innofactor Plc's Board of Directors, to which he contributed his expertise in law and international business. Puolakka has been a member of Innofactor Plc's Board of Directors since 2011.

JUHA KOPONEN

(born in 1972)

Juha Koponen, D.Sc. (Tech.), currently works as CEO of the Internet service company Netcycler Ltd. Before that, over 10 years of experience in globalizing software companies at First Hop Ltd, where he served in various duties in the Management Team. He has been a member of Innofactor Plc's Board of Directors since 2011.

Ilpo Santala 1940–2011

Ilpo Santala, Innofactor's long-standing Chairman of the Board, died after serious illness in fall 2011. Santala acted as Chairman of Innofactor's Board of Directors in 2003-2011, which was a time of strong growth and development for Innofactor. Santala actively participated in Innofactor's daily life and was a frequently seen and welcome visitor to Innofactor's Head Office in Espoo. Ilpo will be remembered as an empathic and inspiring sparring partner.

EXECUTIVE BOARD

In the front from the left: Anneli Saarikoski, Sami Ensio (CEO) and Aino-Maija Gerdt. At the back from the left: Henrikki Hervonen, Mikko Lampi, Mika Nurmi, Janne Martola, Mikko Myllys and Petteri Kekkonen.

SAMI ENSIO
(born in 1971)

(born in 1971) CEO, Chairman of the Executive Board

CEO of Innofactor Plc since 2010; before that CEO of Innofactor Ltd since 2000. Further details in the information on the Board of Directors.

AINO-MAIJA GERDT
(born in 1955)

M.Sc. (Econ) Director of Innofactor's Cloud and Mobile Solutions Unit. At Innofactor since 2011. Previous posts include CEO of Frends Technology Ltd., Strategic Customer Manager in EDS Finland/Nordic and Business Unit Executive in Siemens-Nixdorf Ltd. Gerdt is also a Board Member of QPR Software Plc.

PETTERI KEKKONEN
(born in 1968)

MBA Director of Innofactor's Web Communications and eCommerce Unit. At Innofactor since 2011. Previous posts include a member in the Country Board of Directors of Enfo Finland and Service Production Manager at Enfo Finland IT Services. Worked earlier for Tieto Plc, the latest position being Vice President and CEO of Tieto Plc foreign subsidiaries.

HENRIKKI HERVONEN
(born in 1971)

M.Sc. (Econ) Director of Innofactor's Productivity and Operational Solutions Unit. At Innofactor since 2010. Previously CEO of Visual Management Ltd, also held development roles in Affecto and the Enator Group.

MIKA NURMI
(born in 1966)

M.Sc. (Tech.) Director of Innofactor's Document and Case Management Unit. At Innofactor since 2009. Previously a Manager at Tieto Plc with responsibility for service production, development, growth and profitability.

MIKKO MYLLYS
(born in 1976)

Student (theology & philology) Director of Innofactor's Third Sector Solutions Unit. At Innofactor since 2005. Worked previously in the administrative department of the Parish Union of Helsinki. Member of the Board of Directors of the Finnish Evangelical Lutheran Mission (FELM).

JANNE MARTOLA
(born in 1974)

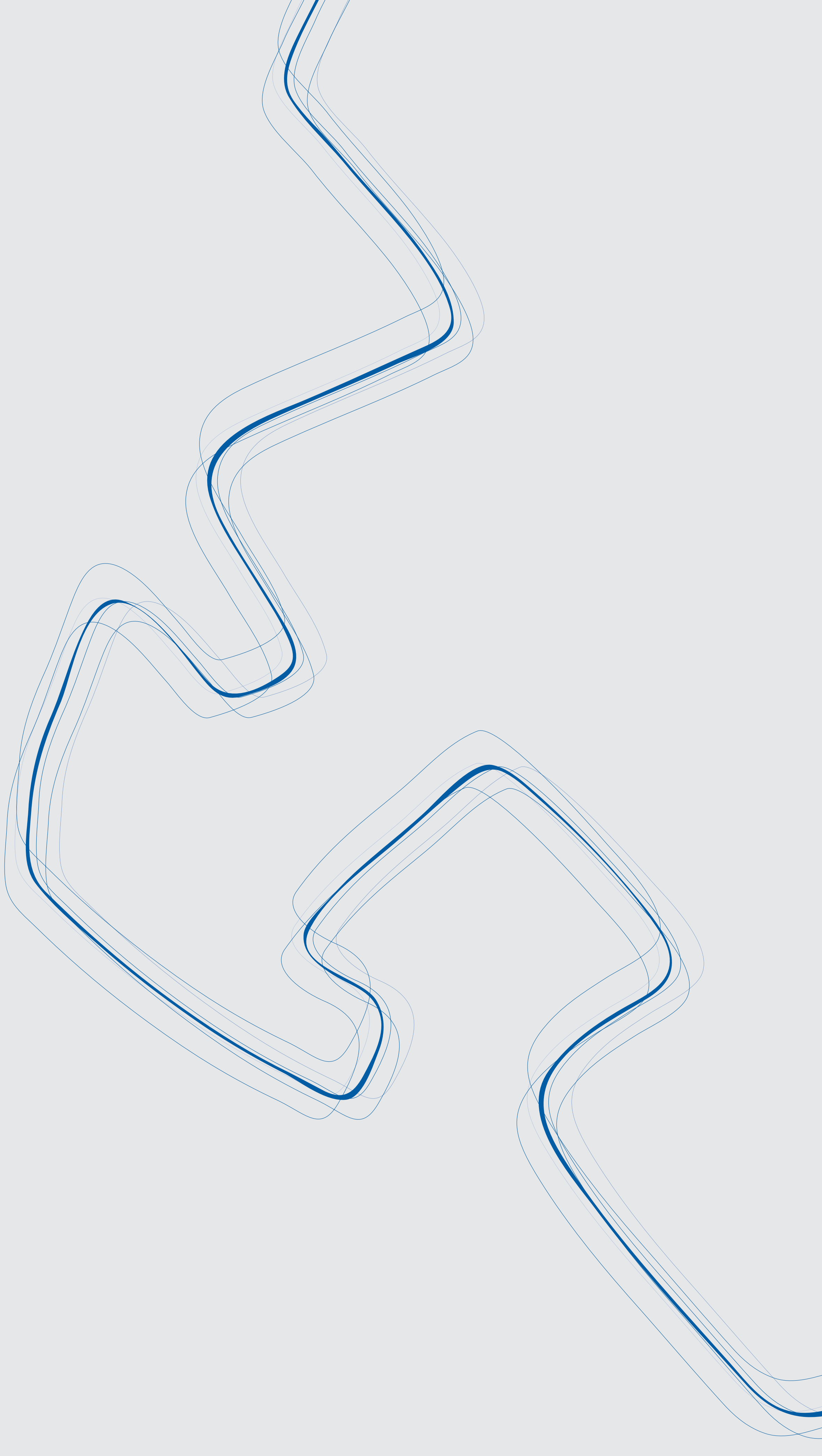
M.Sc. (Tech.) Responsible for Innofactor Plc's internationalization in Finland's neighboring countries and for acquisitions. At Innofactor since 2011. Previously Investment Director in a private equity company CapMan Plc. Board Member in Global Intelligence Alliance and IT2 Treasury Solutions.

MIKKO LAMPI
(born in 1977)

M.Sc. (Tech.) CTO and Deputy Managing Director of Innofactor. At Innofactor since 2001. Board Member of the Finnish Software Entrepreneurs Association.

ANNELI SAARIKOSKI
(born in 1955)

M.Sc. (Econ. & Bus. Adm.) CFO of Innofactor Plc. Responsible for Innofactor Plc's (and its predecessor's) financial administration since 1999. Previous positions include e.g. Financial Manager at Micronas Semiconductor Holding AG.



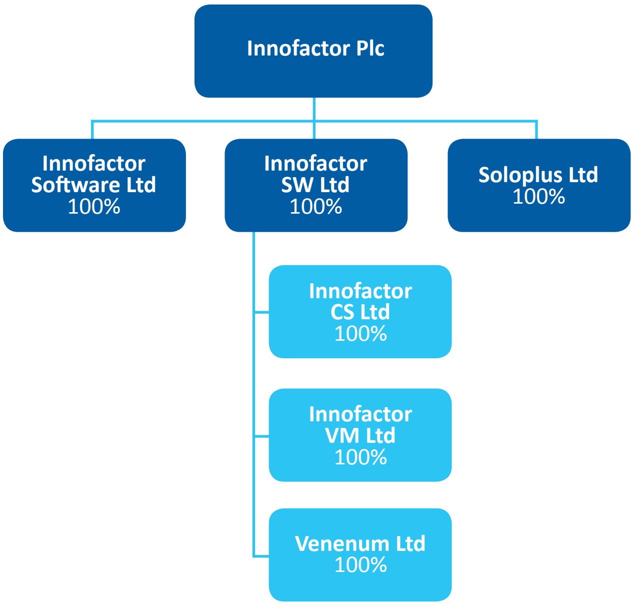
INNOFACTOR FINANCIAL REVIEW
JANUARY 1–DECEMBER 31, 2011

INNOFACTOR PLC, REPORT OF THE BOARD OF DIRECTORS 2011

Innofactor Group

Innofactor Group is the largest supplier of Microsoft-based solutions in Finland. Innofactor's offering covers Microsoft's major business solutions. e.g. Web and Communication Systems, eServices and eCommerce, Document and Case Management, CRM, ERP and Operational Solutions, as well as Business Intelligence and Enterprise Search Solutions. Innofactor mainly operates in Finland but intends to expand its operations to international markets.

Innofactor's group structure at the end of the financial period is shown below.



At the end of the financial period, Innofactor consisted of the following companies:

- Innofactor Plc, Finland (parent company)
- Innofactor Software Ltd, Espoo, Finland, 100%
- Innofactor SW Ltd, Espoo, Finland, 100%
- Innofactor CS Ltd, Turku, Finland, 100%
- Innofactor VM Ltd, Espoo, Finland, 100%
- Venenum Ltd, Espoo, Finland, 100%
- Soloplus Ltd, Espoo, Finland, 100%

The mergers and acquisitions that took place during the financial period are described later in this report.

Result development and financial standing

Key figures of the Group	2011	2010	2009
Net sales, EUR thousand	17,205	9,862	6,920
Operating profit before depreciation and amortization (EBITDA), EUR thousand*	1,443	980	1,309
percentage of net sales*	8.4 %	9.9 %	18.9 %
Operating profit, EUR thousand (EBIT)*	904	702	1,165
percentage of net sales*	5.3 %	7.1 %	16.8 %
Earnings before taxes, EUR thousand*	886	696	1 182
percentage of net sales*	5.1 %	7.1 %	17.1 %
Earnings, EUR thousand*	687	505	875
percentage of net sales*	4.0 %	5.1 %	12.6 %
Equity, EUR thousand	12,905	12,218	2,597
Return on equity	5.5 %	6.8 %	40.5 %
Return on investment	7.2 %	9.7 %	54.9 %
Net gearing	-5.4 %	-14.0 %	-63.5 %
Equity ratio	74.5 %	68.2 %	56.1 %
Balance sheet, total, EUR thousand	18,324	19,517	5,355
Research and development, EUR thousand	2,086	1,173	680
percentage of net sales	12.1 %	11.9 %	9.8 %
Personnel on average during the review period	177	108	66
Personnel at the end of the review period	189	171	89
Number of shares at the end of the review period**	29,261,800	29,261,849	16,756,659
Earnings per share (EUR)**	0.0235	0.0274	0.054
Shareholders' equity per share (EUR)**	0.441	0.418	0.15

* The figures include one-off costs related to the relisting and consolidation of shares for 2011, amounting to about EUR 300 thousand.

** Owing to the reverse acquisition as per IFRS 3, the calculation of the number of shares before December 27, 2010 is based on Innofactor SW Ltd's number of shares. In accordance with the decision of the Innofactor Plc's General Meeting of April 28, 2011, twenty old shares were consolidated into one new share (entered in the Trade Register on May 7, 2011), and consequently the total number of shares decreased to 1/20 of the previous number.
In the table, the key figures have been adjusted to the current number of shares.

Net sales

In 2011, Innofactor's net sales were EUR 17,205 thousand (2010: 9,862), increase of 74.5 percent.

In 2011, the organic growth was about 21.4 percent and non-organic growth about 53.1 percent due to the acquisition of Westend ICT and partly to the acquisition of Visual Management Ltd.

Result development

In 2011, Innofactor's operating profit before depreciation and amortization (EBITDA) was EUR 1,443* thousand (2010: 980), increase of 47.2 percent. EBITDA accounted for 8.4 percent of the net sales (2010: 9.9 %).

In 2011, Innofactor's operating profit (EBIT) was EUR 904* thousand (2010: 702), increase of 28.8 percent. The operating profit accounted for 5.3 percent of the net sales (2010: 7.1 %).

* The figures include one-off costs related to the relisting and consolidation of shares, amounting to about EUR 300 thousand.

In 2011, research and development costs were EUR 2,086 thousand.

Financial position, liquidity and investments

Innofactor's balance sheet total at the end of the review period was EUR 18,324* thousand (2010: 19,517). The Group's liquid assets totaled EUR 696 thousand (2010: 1,714), consisting totally of cash funds.

* The decrease in the balance sheet total compared with 2010 is due to a change in the invoicing practice: certain maintenance fees for 2012 were invoiced in January 2012, whereas a year before they were invoiced in December 2010.

The operating cash flow in the review period of January 1–December 31, 2011 was EUR -798 thousand (2010: 167). The investment cash flow was EUR -220 thousand (2010: 100).

At the end of the review period, the equity ratio was 74.5 percent (2010: 68.2%) and the net gearing -5.4 percent (2010: -14.0 %).

At the end of the review period, the amount of current interest bearing liabilities was EUR 0.00 (2010: EUR 0.00).

The return on investment in October 1–December 31, 2011 was 3.7 percent (2010: 5.7 %); in January 1–December 31, 2011 it was 7.2 percent (2010: 9.7 %).

The return on equity in October 1–December 31, 2011 was 2.8 percent (2010: 3.9 %); in January 1–December 31, 2011 it was 5.5 percent (2010: 6.8 %).

At the end of the review period, Innofactor's non-current assets amounted to EUR 11,101 thousand, consisting of the following:

- Tangible assets EUR 459 thousand
- Goodwill value EUR 1,207 thousand
- Other intangible assets EUR 1,534 thousand
- Deferred tax assets EUR 7,895 thousand

In the review period January 1–December 31, 2011, Innofactor's gross investments in tangible assets were EUR 201 thousand (2010: 314), consisting of normal additional and replacement investments required by growth.

According to the impairment tests carried out, there are no impairments. The write-offs on intangible assets were EUR 329* thousand (2010: 126).

* The write-offs have increased compared with 2010 due to the acquisition of the goodwill of Westend ICT Plc on December 27, 2010.

Mergers, acquisitions and changes in the group structure

On April 21, 2011, the companies in the Innofactor Group agreed on an arrangement on the basis of which all the business operations of Innofactor Software Ltd, Innofactor Visual Management Ltd and Innofactor Customer Solutions Ltd were transferred to Innofactor Documenta Ltd on May 1, 2011. At the same time, it was agreed that the name of Innofactor Documenta Ltd would be changed to Innofactor Software Ltd. After this arrangement, the Group's actual business operations were carried on by Innofactor Software Ltd. The purpose of this arrangement was to make the group structure more consistent with Innofactor's current strategy and operations and to achieve savings in general costs and costs related to financial management. Innofactor aims at a group structure where the parent company has only one company engaged in business operations in each country. Under the arrangement, the personnel were transferred to Innofactor Documenta Ltd as old employees, and the arrangement had no negative effects on either the workforce or client relationships.

During the review period, no other acquisitions or changes in the group structure took place.

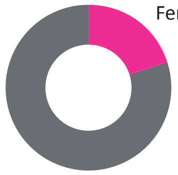
Personnel

The average number of personnel at Innofactor in October 1–December 31, 2011 was 184 (2010: 133), increase of 38.3 percent; in January 1–December 31, 2011, the average number was 177 (2010: 108), increase of 63.9 percent.

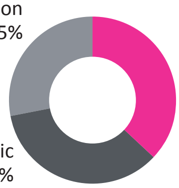
At the end of the review period, the number of personnel was 189 (2010: 171), increase of 10.5 percent.

At the end of the review period, the average age of the personnel was 37.0 years. A total of 38.4 percent of the personnel had a higher academic degree, 36.8 percent a lower academic degree or were studying for a higher academic degree, and 24.8 percent some other degree/qualification. Women accounted for 22 percent of the personnel and men for 78 percent.

PERSONNEL BY GENDER



PERSONNEL BY EDUCATION



Strategy

Innofactor published its updated strategy on August 26, 2011 in a stock exchange release. The main points of Innofactor's updated strategy are the following:

Innofactor provides its clients with software, systems and related services. Innofactor focuses on the supply of solutions for the Microsoft environment. Innofactor's clients are enterprises and organizations. At the moment, Innofactor operates mainly in Finland but it also offers solutions for the global market. Innofactor aims at expanding its operations to the neighboring countries through e.g. mergers and acquisitions. Innofactor also offers value-added cloud solutions for global markets by utilizing several distribution channels.

Innofactor's mission is:

- to help our clients offer their customers increasingly better services and improve their operations.
  - by providing globally significant value-added services for the Microsoft cloud and mobile environments, and
  - by creating packaged solutions for our clients in Finland and its neighboring countries.
- to provide our personnel and partners with an innovative and supportive environment in which they can continue to develop themselves.

Innofactor's vision is to become:

- Microsoft's #1 Independent Software Vendor (ISV) Partner in value-added cloud and mobile solutions globally, and
- Microsoft's #1 System Integrator (SI) Partner in selected markets, first in Scandinavia.

Innofactor's strategy is to differentiate itself from the competitors as the leading provider focused on Microsoft solutions, and the most important strategic choices related to this are:

- maintain the ability to produce the best innovative solutions in the market
- effectively pursue a client-oriented operating model
- offer the clients a one-stop service for the best selection of Microsoft solutions
- operate in a cost-efficient manner, e.g. by utilizing software created by Innofactor, Microsoft and third parties, and available resources in an optimal way.

In the implementation of its strategy, Innofactor will focus on ensuring that regardless of possible mergers and acquisitions, Innofactor's offering and operations will remain clear and simple to manage.

Innofactor's goal is to grow profitably:

- Achieve an average annual growth of 30–40 % in 2011–2015 through both organic growth and company acquisitions
- Achieve an average annual operating profit of 10–15 % before depreciation and amortization (EBITDA) in relation to the net sales in 2011–2015
- Keep the cash flow positive and secure good financial standing in all situations

Business operations

The Innofactor Group implemented software solutions that support the operations of enterprises and organizations. The core offering consisted of software and systems in five solution areas: Web and Communication Systems, eServices and eCommerce, Document and Case Management, CRM, ERP and Operational Solutions, as well as Business Intelligence and Enterprise Search Solutions. Innofactor implemented both industry-independent and industry-specific solutions in these areas. If necessary, the solutions were customized. Innofactor's value added services consisted of Specification, Planning and Consultation, User Experience (UX) and Design, Project Management, Testing, Documentation, Deployment and Training, Hosting through Public and Private Clouds, as well as Support and Maintenance.

Innofactor's business operations took place mainly in Finland, and about 98% of the net sales for January 1–December 31, 2011 were generated in Finland. The rest, about 2% of the net sales, was derived from emissions trading solutions for EU member states, and from services provided to certain Swedish parishes and to some Finnish companies for their foreign operations.

The distribution of Innofactor's net sales during the review period January 1–December 31, 2011 was approximately:

- 61 % from system integrator services (incl. system deliveries and smaller alteration and further development projects)
- 6 % from licenses, of which the share of third party license income was about 3 %.
- 33 % from ongoing service agreements (incl. maintenance agreements, SaaS, cloud and hosting services).

Innofactor's 10 largest clients accounted for about 20 % of the net sales during the review period January 1–December 31, 2011.

Major events in the financial period

The change of the company name to Innofactor Plc came into effect on January 5, 2011, when the new trade name was entered in the Trade Register. The decision on changing the name had been made by the Extraordinary General Meeting on December 27, 2010.

- Innofactor Plc published its new strategy on January 10, 2011, according to which the company strives to continue its growth as Finland's largest software provider focused on Microsoft solutions. In addition, Innofactor seeks growth in the neighboring countries and through global cloud applications.

- On March 11, 2011 Innofactor Plc submitted to NASDAQ OMX Helsinki a report on fulfilling the listing criteria and an application for listing new shares. On March 16, 2011, Innofactor submitted a prospectus to the Financial Supervisory Authority. The new shares subscribed for on December 27, 2010, total of 409,665,891, in Innofactor Plc's directed issue connected with the acquisition of Westend ICT Plc and Innofactor Ltd were admitted for public trading in Nasdaq OMX Helsinki Ltd as of March 22, 2011, together with the total of 175,571,096 old shares. As of March 22, 2011, a total of 585,236,987 shares were subject to public trading.

- On April 4, 2011, Innofactor Plc acquired 987 of its own shares through stock exchange at a total price of EUR 78.96. These shares were canceled and the cancellation was entered in the Trade Register on April 15, 2011. The cancellation resulted in a divisible number for the consolidation of shares decided on by the General Meeting on April 28, 2011.

- On April 21, 2011, the companies in the Innofactor Group agreed on an arrangement, according to which all the business operations of Innofactor Software Ltd, Innofactor Visual Management Ltd and Innofactor Customer Solutions Ltd were transferred to Innofactor Documenta Ltd on May 1, 2011. At the same time, it was agreed that the name of Innofactor Documenta Ltd would be changed to Innofactor Software Ltd. After this arrangement, the Group's actual business operations were carried on by Innofactor Software Ltd. The purpose of this arrangement was to make the group structure more consistent with Innofactor's current strategy and operations, and to achieve savings in general costs and costs related to financial management. Innofactor aims at a group structure where the parent company has only one company engaged in business operations in each country. Under the arrangement, the personnel were transferred to Innofactor Documenta Ltd as old employees, and the arrangement had no negative effects on either the workforce or client relationships.

- The General Meeting elected a new Board of Directors for Innofactor Plc on April 28, 2011. Sami Ensio, M.Sc. (Tech.), CEO of Innofactor Plc, and Pekka Puolakka, LL.M, were re-elected; Juha Koponen, D.Sc. (Tech.), and Pyry Lautsuo, M.Sc. (Tech.) were elected as new members. At the organizing meeting held immediately after the General Meeting, the Board of Directors elected Pyry Lautsuo as Chairman of the Board. Ernst & Young Ltd, auditing firm authorized by the Central Chamber of Commerce, continues as the auditor for the Company, with Juha Hilmola, Authorized Public Accountant, as the responsible auditor.

- On April 28, 2011, Innofactor Plc's General Meeting approved the Board's proposal according to which the number of the Company's shares could, without reducing equity, be reduced through a consolidation of twenty (20) old shares into one (1) new share on May 6, 2011 for purposes provided by Chapter 15, Section 9 of the Companies Act and in accordance with the procedure prescribed by the same Act. The purpose of consolidating the shares was to improve the reliability of the share price formation. At the same time, it was decided that the Board's authorization granted on June 18, 2009 for a share issue and for the issue of special rights to shares, as well as for the acquisition of the company's own shares would be reduced in the same proportion.

- Innofactor Plc's shares were consolidated in accordance with the decision of May 6, 2011, and the cancellation of shares related to the consolidation was entered in the Trade Register on May 7, 2011. Trading in the 29,261,800 new shares started on May 9, 2011.

- On May 18, 2011, Innofactor Documenta Ltd was selected in a public procurement procedure to deliver a comprehensive document and case management system to the City of Kuopio. The delivery consists of the implementation of a document and case management system and the services related to deployment, support and maintenance. The value of the contract is EUR 808,100.

- At its meeting on August 8, 2011, the Board of Directors of Innofactor Plc decided to increase the equity of Innofactor Software Ltd, a subsidiary of the group, by EUR 5 million. The equity was increased by having Innofactor Software Ltd offer new shares to Innofactor Plc for subscription at a total subscription price of EUR 5,000,000, of which EUR 4,997,600 was recognized in Innofactor Software Ltd's fund for invested unrestricted equity and EUR 2 400 in the share capital. The subscription price was fully paid through an offset of EUR 5,000,000 of Innofactor Plc's receivables from Innofactor Software Ltd. This equity increase was related to the arrangement reported earlier, in which the Innofactor Group's business operations were taken on by Innofactor Software Ltd. The amount of Innofactor Software Ltd's equity is significant, especially for certain public-sector procurement contracts, in which it may be considered as one of the grounds for awarding a contract.

- On August 25, 2011, Innofactor Plc's Board of Directors decided to update the Group's strategy and draw up a dividend distribution policy for the Company. Innofactor's updated strategy includes the production of value-added services for mobile devices, as the partnership between Microsoft and Nokia opens up new opportunities for this. Innofactor's updated vision is to become Microsoft's most important partner in value-added cloud and mobile services at a global level, and Microsoft's most important integrator in selected markets.

- In addition to the strategy changes, Innofactor's Board of Directors made a decision on the dividend distribution policy. According to the decision, Innofactor's aim is to provide an opportunity for the shareholders to distribute, from the part of the operating profit before depreciation and amortization (EBITDA) that exceeds 10 percent, the maximum dividend allowed by the current state of the business. Innofactor had no previous dividend distribution policy.

- As stated in the stock exchange release of November 25, 2011, Innofactor Plc's subsidiary Innofactor Software Ltd was selected in a public procurement procedure to deliver a comprehensive document and case management system to the Parish Union of Helsinki. The project consists of the licenses and the delivery of a document and case management system and the services related to deployment, support, maintenance and development. The value of the contract is approximately EUR 660,000. According to the implementation plan, the procurement is divided into two main stages with the first stage ending at the end of 2012 and the second at the end of 2014. The contract strengthens Innofactor's position as a provider for the parish sector in Finland. The solution is based on the Microsoft SharePoint platform, which is part of Innofactor's core competence.

- On December 15, 2011, Innofactor decreased its profit forecast for 2011. Innofactor had previously estimated that the operating profit before depreciation and amortization (EBITDA) would be higher both in euros and in percentage than in 2010. According to the new estimate, the operating profit before depreciation and amortization (EBITDA) would be higher in euros but lower in percentage than in 2010. The re-evaluation of Innofactor' operating profit guidance for 2011 was based on a lower operating profit in November than was previously estimated. Based on this, there was a reason to expect that the operating profit for the fourth quarter would be lower than had previously been estimated.

- On December 22, 2011, Innofactor Plc's subsidiary Innofactor Software Ltd signed a contract concerning the delivery of a comprehensive CRM and ERP system to the Agricultural Data Processing Centre Ltd (ProAgria). The solution also contains a document management and a member register management system. The project consists of the licenses and the delivery, as well as the services related to deployment, support and maintenance. The value of the contract for the following three years is approximately EUR 1 million. The project strengthens Innofactor's position as a provider of CRM, document and case management, and ERP systems to expert organizations in Finland. The solution is based on the Microsoft technology-based Innofactor® Prime™ and Innofactor® Dynasty 360° data management software.

Major events after the financial period

- Innofactor reformed its organization as of January 2, 2012. The Innofactor Group's operations were previously organized into four business units: business clients, public administration and third sector clients, software and systems, and services. In the new organization, the system integrator function (SI) and the software business (Independent Software Vendor, ISV) are separated into different units. The system integration function is organized into country-specific units; at the moment, there is only a unit in Finland. The software business is organized into a global Cloud and Mobile Solutions Unit. In the new organization, the system integrator unit in Finland is divided into four business units, i.e. Web Communications and eCommerce, Productivity and Operational Solutions, Document and Case Management, and Third Sector Solutions. The organizational change did not include any lay-offs or other similar personnel arrangements.

- On January 2, 2012, Mikko Lampi, M.Sc. (Tech), was appointed Deputy Managing Director and Chief Technology Officer. Mikko Lampi has been employed by the Company since March 1, 2001, the latest position being Vice President of Software and Systems Unit.

- On January 2, 2012, based on the authorization granted to it by the General Meeting, the Board of Directors of Innofactor Plc announced its decision concerning a new share-based incentive plan for the Group's personnel ("Personnel Issue") in order to commit the personnel to the company and its goals. The incentive plan includes a maximum of 2,000,000 new shares ("Personnel Shares") which are included in the amount authorized by the General Meeting and which are offered for subscription to the entire current personnel of the Innofactor Group, deviating from the shareholders' pre-emptive subscription rights. At the time of the decision, on January 2, 2012, Innofactor Plc had a total of 29,261,800 shares. If all the offered Personnel Shares were subscribed for in the Personnel Issue, the number of shares would increase to a maximum of 31,261,800 shares, of which a maximum of 2,000,000 Personnel Shares would account for a maximum of 6.4 percent of the total post-issue number of shares and votes. The purpose of the directed Personnel Issue is to increase the personnel's commitment to the Company, and therefore a weighty financial reason as per the Companies Act exists for waiving the pre-emptive rights of shareholders. The subscription price for the Personnel Shares is EUR 0.542 per share. The weighted average price of the Innofactor Plc shares was approximately EUR 0.601 per share between December 1, 2011 and December 30, 2011. The subscription price of the Personnel Shares is therefore approximately 10 % lower than the weighted average share price in December 2011. The subscription price in total will be recognized as an increase in the company's fund for invested unrestricted equity. To cover the subscription price of the Personnel Shares, Innofactor grants loans to its personnel. The loan term is 10 years. The loan is granted as part of the distributable funds of the company. The interest rate of the loan is the 12-month Euribor at the time of the subscription period and is adjusted annually. The loan repayments and interest are deducted from the employees' monthly net salaries. The Personnel Shares must be subscribed for and the loans taken out between March 12, 2012, and March 16, 2012, after the Company's Financial Statements for the year 2011 have been published. When subscribing for Personnel Shares, the subscriber has to undertake to not to resign from the Company during a six month period. The trading of the issued Personnel Shares on the Helsinki Stock Exchange (NASDAQ OMX) is estimated to start on March 23, 2012. The Personnel Shares are subject to a sale and transfer restriction for 12 months starting from the date on which the increase in the share capital related to the Personnel Issue is entered in the Trade Register. The company will publish the final results of the Personnel Issue in a stock exchange release around March 20, 2012.

- After the end of the review period, the business operations have continued as expected and there have been no other significant one-off events.

Future outlook

As to the outlook for 2012, there are significant uncertainties that are due to the instability of the global economy. Therefore, no detailed forecast for 2012 can be provided. In 2012, Innofactor's organic growth is estimated to continue (2011: net sales EUR 17,205 thousand). The profitability of the business operations is expected to remain positive.

Major risks and uncertainties

Innofactor's operations, finances and shares involve risks that may be significant for the Company and its share value. These risks are assessed by the Board of Directors four times a year as part of the strategy and business planning process.

Risks related to operations

The risks related to the operations of the Innofactor Group are primarily business risks related to its subsidiary, Innofactor Software Ltd, which carries on its business operations.

Profitability of the projects: A large part of Innofactor's net sales comes from project business. Profitable implementation of Innofactor's delivery projects requires that project calculation and planning before submitting a tender are performed successfully as regards the amount of work and the delivery schedule, and also that the deliveries can be made in a cost-effective manner. It is possible that Innofactor fails to estimate the profitability of a project correctly, with the result that the project causes losses to the company. On the other hand, it is also possible that projects have to be sold at a lower price because of competition, which leads to lower profit margins. In 2012, Innofactor will pay special attention to the profitability of its project business.

Availability of competent personnel: The development of Innofactor's operations and deliveries depend greatly on the Group having competent personnel and being able to recruit suitable resources to replace employees who leave the Company. In Innofactor's field of business, there is a shortage of and competition for certain personnel resources. Failure to motivate the personnel, maintain the personnel's competence level high, and keep the personnel could cause problems to Innofactor's business operations. The success of the Group depends heavily on its current key personnel and their success in their work. In 2012, Innofactor will invest especially in the development of the competencies of its personnel.

Increase in personnel costs: Most of Innofactor's costs consists of personnel costs (in 2011, about 67%). Currently, all of Innofactor's own employees work in Finland, whereas some competitors rely heavily on foreign workforce. If personnel costs continue rising in Finland at the same rate as before (e.g. due to framework agreements) and if the prices paid for IT services do not rise correspondingly, the situation will cause a risk for Innofactor. Innofactor will monitor the situation and aims at increasing the share of outsourcing both in Finland and abroad.

Competition: Innofactor's main competitors are companies offering traditional information technology services and software in Finland. Some competitors have larger financial resources, wider product selection, cheaper workforce and larger existing client bases than Innofactor, and they can use them when competing with Innofactor for the same deliveries. The price competition in the field is expected to remain tough. If the competition becomes tougher, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor continuously strives to improve its competitiveness.

Research and product development: In Innofactor's operations, research and product development play a central role. In 2011, about 12% of the net sales were used for R&D. Each research and product development project carries the risk that the end results are not as financially successful as planned and that the investment in the project does not pay itself back. By reorganizing its operations, Innofactor aims at minimizing the risks involved in research and product development.

Globalization: In line with its strategy, Innofactor also seeks growth in the global markets. Global operations typically always involve higher risks than operations in the domestic market. Especially in the beginning, it is difficult to carry on global business operations profitably. It is therefore probable that global business operations are unprofitable in the near future. Innofactor strives to make sure that the investments in international operations will not be so high that they would jeopardize the Group's ability to make profits and to grow.

Changes in technology: Fast technological development is characteristic for Innofactor's field of business. Fast changes in the clients' requirements and choices concerning software technology are highly possible. An important change under way is the transfer of software to cloud technologies. Inability to react to the technology challenges may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor strives to actively invest in new technologies.

Reaching the growth goals: Realizing the desired organic growth requires a growth rate that is clearly faster than the growth in the market. This involves a risk that the goals cannot be reached in the same way as before. Realizing the growth plays an important role in planning Innofactor's operations and goal setting.

Uncertainties related to mergers and acquisitions: The growth estimates are partly based on acquisitions. Acquisitions involve uncertainties about finding suitable targets on the desired price level and schedule. If acquisitions cannot be made as planned, the growth goal may be jeopardized. Innofactor invests in high-level acquisition related know-how.

Risks related to acquisitions: Each acquisition, after it has been made, carries risks concerning e.g. the integration process and the formation of the business value and consequent need for possible write-offs. Innofactor's strategy is primarily based on integrating the acquired companies in the organizational structure in the country concerned as fast as possible. Innofactor invests in the integration process.

Financial risks

General economic uncertainty and changes in the clients' financial situations affect their investment decisions and purchasing policies. It is possible that the general economic uncertainty will be reflected in Innofactor's clients' software purchases as delayed decision making or purchases.

Financing risks: In its normal business operations, the Innofactor Group is susceptible to usual financing risks. The goal of managing financing risks is to minimize the negative effects caused by changes in the financial markets. At Innofactor, risk management has been centralized to the financial department, which is responsible for the Group's financing and regularly reports to the Company's Executive Board and Board of Directors. It is possible that in the future, the Group will not get the financing it needs and this will have a negative impact on the Group's business operations and its development, especially on mergers and acquisitions.

Risks related to liquidity: The Innofactor Group manages the liquid assets by means of centralized payment transactions and cash management. The Group continually monitors and estimates financing in order to ensure that the Group has sufficient liquid assets available. Excess cash balance is placed on savings accounts or funds with capital guarantee.

Credit risk: Credit decisions related to sales receivables are monitored by the Group's management. A large part of Innofactor's cash flow comes through established client relationships as payments from the public sector and companies. These payments have not involved essential credit risks in the past. The group has not had significant amounts of outstanding sales receivables. The realization of credit risks would weaken the Group's financial standing and liquidity. Sales receivables are monitored regularly.

Risks related to shares

The trading volume of the Innofactor Plc shares during the review period continued to be fairly low. Low trading activity typically results in a liquidity risk for the share and its price formation. Innofactor Plc strives to improve the liquidity of the share and decrease the related liquidity risk by its strategy of increasing the shareholder value and by active investor communications. In 2011, however, the trading volume of Innofactor's shares in relation to the average number of shares increased on the previous year, which has decreased the liquidity risk related to the share.

Corporate Governance report

Innofactor Plc complies with the recommendations of the Finnish Corporate Governance Code 2010 published by the Securities Market Association.

At the General Meeting on April 28, 2011, the number of the members of the Board of Directors was confirmed as four. The General Meeting decided to approve the proposal to appoint Sami Ensio, Juha Koponen, Pyry Lautsuo and Pekka Puolakka members of the Board of Directors. Pyry Lautsuo was elected Chairman of the Board by the Board members.

The General Meeting approved the proposal to appoint Ernst & Young Ltd, auditing firm authorized by the Central Chamber of Commerce, as the auditor for the company, with Juha Hilmola, Authorized Public Accountant, as the responsible auditor.

Innofactor has prepared a separate Corporate Governance report for the financial period of 2011 in accordance with Recommendation 51 of the Finnish Corporate Governance Code and with Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance report is issued separately from the Company's Annual Report.

Research and product development

Innofactor's research and development costs recognized in the profit and loss statement for December 31, 2011 were EUR 2, 086 thousand (2010: EUR 1,173 thousand and 2009: EUR 680 thousand), which accounts for 12.1 percent of the net sales (2010: 11.9% and 2009: 9.8%).

Corporate environmental and social responsibility

Innofactor's operations are guided by the Company's strategy, values, quality system, environmental policy, and legislation. The Group is committed to operating profitably and increasing its net sales while taking environmental impacts into account.

Innofactor takes care of the well-being of its personnel by maintaining a stable, safe and communicative atmosphere and by building a reliable development path into the future.

In its operations, Innofactor adheres to the principles of sustainable development and the environmental guidelines of the Federation of Finnish Technology Industries. Through the solutions it has developed, the Group has helped its clients reach their environmental goals and contributed to the sustainable development of society. Electronic case and document management solutions and eService solutions are examples of Innofactor's solutions that reduce adverse effects on the environment. The emissions trading systems provided for several European countries also contribute to the efforts to curb the climate change.

Innofactor strives to establish long-term cooperation with its clients and partners and thereby create networks in which complementary expertise produces new kinds of solutions. In accordance with its mission, the Group aims at offering its employees and partners an innovative and supportive environment in which they can continue to develop themselves.

Share and shareholders

At the end of the review period, Innofactor Plc's share capital was EUR 2,100,000.00 and the total number of shares was 29,261,800. Innofactor Plc has one series of shares. Each share is entitled to one vote.

In the period of January 1–December 31, 2011, the highest price of the Company's share was EUR 3.20* (2010: EUR 1.80*), the lowest price was EUR 0.56* (2010: EUR 0.80*). The average** price was EUR 1.35 (2010: EUR 1.25*).

The closing price for the review period on December 31, 2011, was EUR 0.60 (2010: EUR 1.60*).

Innofactor Plc's entire Corporate Governance and reports are available on the company's web site at
http://www.innofactor.fi/investors/corporate_governance

*In accordance with the decision of the Innofactor Plc's General Meeting of April 28, 2011, twenty old shares were consolidated into one new share (entered in the Trade Register on May 7, 2011), and consequently the total number of shares decreased to 1/20 of the previous number. Before the consolidation, the share prices were adjusted by multiplying them by 20.

**The average share price was calculated by taking the total value of share trading in the stock exchange in the said period and dividing the value by the number of shares traded in the stock exchange in the said period.

In public trading in January 1–December 31, 2011 a total of 2,092,354 shares were traded (2010: 654,049 shares), which represents 7.2 percent (2010: 8.2%) of the average number of shares in the said period. In January 1–December 31, 2011, the average number of shares was 29,261,814* (7,951,147* in 2010). The volume increased by 219.9 percent compared with the corresponding period in 2010.

*In accordance with the decision of the Innofactor Plc's General Meeting of April 28, 2011, twenty old shares were consolidated into one new share (entered in the Trade Register on May 7, 2011), and consequently the total number of shares decreased to 1/20 of the previous number. The number of shares in the table has been adjusted to the current number of shares historically as well by dividing the number of shares by 20.

The market value of the share capital at the closing rate of the review period, EUR 0.60, on December 31, 2011, was EUR 17,557 thousand (2010: 46,818,959), decrease of 62.5 percent.

On December 31, 2011, the Company had 12,257 shareholders (2010: 12,617), including the administrative registers (8). The share of administratively registered shares was 0.4 percent of the total number of shares. A total of 6.2 percent of the shareholders were companies operating in Finland, 0.4 percent financing and insurance companies, 92.2 percent Finnish households, and 1.3 percent foreign shareholders.

The Board of Directors of Innofactor Plc has the authorization, granted by the General Meeting of December 27, 2010, to purchase 50,000,000 of the Company's own shares. On April 4, 2011, Innofactor Plc acquired 987 of its own shares in public trading for the total price of EUR 78.96. These shares were canceled and the cancellation was entered in the Trade Register on April 15, 2011. The cancellation resulted in a divisible number for the consolidation of shares decided on by the General Meeting on April 28, 2011. Innofactor Plc or the companies belonging to the same Group held no other Innofactor Plc shares during the review period. By the decision of the General Meeting on April 28, 2011, which consolidated 20 shares into 1, the authorization granted to the Board of Directors on December 27, 2010 to purchase the Company's own shares was changed to a maximum of 2,500,000 shares.

On June 18, 2009, the General Meeting of Innofactor Plc authorized the Board of Directors to decide by December 31, 2012, on a share issue and on granting special rights entitling to shares. A maximum of 60,000,000 new shares may be issued on the basis of the authorization. By the decision of the General Meeting of April 28, 2011, which consolidated 20 shares into 1, the authorization granted to the Board of Directors on June 18, 2009 for a share issue and for granting special rights entitling to shares was changed to a maximum of 3,000,000 shares. This authorization has not been used.

Innofactor Plc published no flagging notifications during the review period.

According to the share register maintained by Euroclear Finland Ltd, the persons belonging to the public insider register on December 31, 2011, held Company's shares as follows:

Board of Directors:

- Pyry Lautsuo, 13,760 shares, 0.05 %
- Sami Ensio, 7,370,000 shares, 25.20 %
  - Sami Ensio, 5,196,240 shares, 17.76 %
  - Minor under guardianship, 724,588 shares, 2.48 %
  - Minor under guardianship, 724,586 shares, 2.48 %
  - Minor under guardianship, 724,586 shares, 2.48 %
- Juha Koponen, 9,173 shares, 0.03 %
- Pekka Puolakka, 84,843 shares, 0.29 %
  - Hillside Ou, 75,670 shares, 0.26 %
  - Pekka Puolakka, 9,173 shares, 0.03 %

Managing Director:

- Sami Ensio, 7,370,000 shares, 25.20 %
  - Sami Ensio, 5,196,240 shares, 17.76 %
  - Minor under guardianship, 724,588 shares, 2.48 %
  - Minor under guardianship, 724,586 shares, 2.48 %
  - Minor under guardianship, 724,586 shares, 2.48 %

Executive Board:

- Aino-Maija Gerdt, 0 shares, 0.00 %
- Henrikki Hervonen, 133,880 shares, 0.46 %
- Mikko Lampi, 995,543 shares, 3.40 %
- Janne Martola, 0 shares, 0.00 %
- Mika Nurmi, 139,553 shares, 0.48 %
- Tuomas Riski, 995,543 shares, 3.40 %
- Anneli Saarikoski, 116 shares, 0.0004 %
- Vesa Tiirikainen, 125,750 shares, 0.43 %

Auditors:

- Juha Hilmola, 0 shares, 0.0 %

According to the share register maintained by Euroclear Finland Ltd, the share ownership of the 20 largest Innofactor Plc shareholders at the end of the review period on December 31, 2011, was as follows:

	Name	Number of shares	Percentage of the share capital
1.	Ensio Sami	7,370,000	25.20 %
	Ensio Sami	5,196,240	17.76 %
	Minor under guardianship	724,588	2.48 %
	Minor under guardianship	724,586	2.48 %
	Minor under guardianship	724,586	2.48 %
2.	Tilman Tuomo Tapani	2,886,777	9.87 %
	Tilman Tuomo Tapani	2,747,492	9.39 %
	Mpire Capital Oy	139,285	0.48 %
3.	Salminen Jyrki Kalle Tapio	2,747,492	9.39 %
4.	Laiho Rami Tapani	1,474,713	5.04 %
5.	Linturi Risto	1,397,011	4.77 %
	R. Linturi Oyj	1,369,707	4.68 %
	Linturi Risto	27,304	0.09 %
6.	Mäki Antti-Jussi	1,310,201	4.48 %
7.	Lampi Mikko Olavi	995,543	3.40 %
8.	Riski Tuomas Mikael	995,543	3.40 %
9.	Luostarinen Juha Markku T	929,438	3.18 %
10.	Ärje Matias Juhanpoika	896,378	3.06 %
11.	Jokinen Klaus Antero	667,156	2.28 %
12.	Muukkonen Teemu Heikki	507,468	1.73 %
13.	Järvenpää Janne-Olli	372,804	1.27 %
14.	Kukkonen Heikki-Harri	362,281	1.24 %
15.	Ementor Norge As	269,299	0.92 %
16.	Laiho Jari Olavi	266,851	0.91 %
17.	Salminen Petri Juhani	166,795	0.57 %
18.	Death Estate Santala Ilpo	139,553	0.48 %
19.	Nurmi Mika	139,553	0.48 %
20.	Mattila Aleksi Mikael	135,621	0.46%

Board of Directors and Management

Board of Directors

In 2011, the members of the Board of Directors were as follows:

- Ilpo Santala (Chairman until April 28, 2011)
- Pyry Lautsuo (Chairman as from April 28, 2011)
- Sami Ensio
- Pekka Puolakka
- Juha Koponen (as from April 28, 2011)
- Mikko Salminen (until April 28, 2011)

Innofactor Plc's subsidiaries have the same Board of Directors as the parent company.

CEO

The CEO of Innofactor Plc is Sami Ensio. He also acts as CEO for all the Innofactor Group companies.

Executive Board

Members of the Innofactor Executive Board in 2011:

- Sami Ensio, CEO, Chairman of the Executive Board
- Henrikki Hervonen, Corporate client relationships
- Tuomas Riski, Public administration and third sector client relationships
- Mikko Lampi, Software and systems business
- Mika Nurmi, Service business
- Aino-Maija Gerdt, Cloud and Mobile services (as from April 1, 2011)
- Janne Martola, Global expansion; mergers and acquisitions (as from June 2, 2011)
- Anneli Saarikoski, CFO
- Aleksi Mattila, Internal support services (until March 31, 2011)
- Vesa Tiirikainen, Business development and company acquisitions

Auditors

Innofactor Plc's auditor is Ernst & Young Ltd, auditing firm authorized by the Central Chamber of Commerce, Juha Hilmola as the responsible auditor.

Board of Directors' proposal on the distribution of profits

Innofactor is a growth company which intends to use its operating profit on measures to promote growth, e.g. by the implementation of mergers and acquisitions. Innofactor has defined a dividend distribution policy according to which the aim of the Board of Directors is to provide an opportunity for the shareholders to distribute, from the part of the operating profit before depreciation and amortization (EBITDA) that exceeds 10 percent, the maximum dividend allowed by the current state of the business. For 2011, EBITDA was less than 10 percent. In making the proposal on the distribution of dividends, the Board of Directors takes into account the company's financial situation, profitability and short-term outlook.

At the end of the financial period of 2011, the distributable assets of the Group's parent company were EUR 28,535,337.36

The Board of Directors proposes that no dividend be distributed for the financial period of 2011.

CONSOLIDATED FINANCIAL STATEMENTS

KEY FIGURES PER SHARE

	2011	2010
Earnings per share (EUR)	0.0235	0.0274
Equity/share attributable to equity holders of the parent company (EUR)	0.441	0.420
Highest price of the share (EUR)	3.20	1.80
Lowest price of the share (EUR)	0.56	0.80
Market value of the shares (EUR thousand)	17,557	46,818
Turnover of shares	2,092,354	654,049
Turnover of shares (%)	7.2	8.2
Weighted average adjusted number of shares during the financial period	29,261,814	18,451,972
Weighted average adjusted number of shares at the end of the financial period	29,261,800	29,261,849

CONSOLIDATED PROFIT AND LOSS STATEMENT, IFRS

EUR thousand	Note	2011	2010
Net sales	4	17,205	9,862
Other operating income		109	4
Materials and services		-1,516	-557
Employee benefits/expenses (–)	7	-10,936	-6,230
Depreciations (–)	6	-539	-278
Other operating expenses (–)	5	-3,418	-2,099
Operating profit		904	702
Financial income	9	5	17
Financial expenses (–)	10	-23	-22
Profit before taxes		886	696
Income taxes	11	-199	-191
Profit for the period		**687**	**505**
Other comprehensive income		0	0
Total comprehensive income		**687**	**505**
Distribution of the profit and comprehensive income			
To equity holders of the parent company		687	505
Earnings per share calculated from the result of parent company shareholders:			
Basic earnings per share (EUR)	12	0.0235	0.0274
Diluted earnings per share (EUR)		*)	*)

*) Diluted earnings per share have not been calculated, because it has been agreed that the stock option program related to Innofactor Software Ltd will be compensated in connection with the Westend ICT acquisition.

CONSOLIDATED BALANCE SHEET, IFRS

EUR thousand	Note	Dec. 31, 2011	Dec. 31, 2010
ASSETS			
Non-current asset			
Tangible assets	13	459	472
Goodwill		1,207	1,322
Other capitalized expenditure	14	1,534	1,840
Deferred tax assets	15	7,895	8,132
		11,095	**11,766**
Current assets			
Trade and other receivables	16, 20	6,455	5,825
Current tax assets		78	212
Cash and cash equivalents	17	696	1,714
		7,229	7,751
TOTAL ASSETS		**18,324**	**19,517**

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR thousand	Note	Dec. 31, 2011	Dec. 31, 2010
TANGIBLE ASSETS			
Equity attributable to equity holders of the parent company			
Share capital	18	2,100	2,100
Share premium reserve	18	72	72
Other reserves	18	59	59
Fund for invested unrestricted equity	18	8,344	8,344
Retained earnings		2,330	1,643
Total shareholders' equity		**12,905**	**12,218**
Long-term liabilities			
Deferred tax liabilities	15	420	459
		420	**459**
Current liabilities			
Trade and other payables	21	5,000	6,841
Current tax liabilities		0	0
Current financial liabilities		0	0
		5,000	**6,841**
Total liabilities		**5,419**	**7,300**
Total shareholders' equity and liabilities		**18,324**	**19,517**

CONSOLIDATED CASH FLOW STATEMENT, IFRS

EUR thousand	Note	2011	2010
Cash flow from operating activities			
Operating profit		904	702
Amendments:			
Depreciations	22	539	278
Change in working capital			
Change in trade or other receivables (+/-)		-338	-1,242
Change in trade and other payables (+/-)		-1,807	626
Interests paid (–)		-23	-22
Interests received		5	17
Taxes paid (–)		-78	-191
Cash flow from operating activities, total		**-798**	**167**
Cash flow/investments			
Investment in subsidiaries		0	558
Investments in intangible and tangible assets (–)		-220	-458
Cash flow/investments total		**-220**	**100**
Cash flow/financing			
Payments received from share issues		0	441
Purchase of own shares		0	-20
Paid dividends (–)		0	-623
Cash flow/financing, total		**0**	**-202**
Change in liquid funds (+/–)		**-1,018**	**65**
Liquid funds, opening balance		1,714	1,650
Liquid funds, closing balance		**696**	**1,714**

STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY, IFRS

		Equity attributable to equity holders of the parent company						
EUR thousand	**Note 18**	**Share capital**	**Share premium reserve**	**Reserve fund**	**Fund for invested unrestricted equity**	**Own shares**	**Retained earnings**	**Total share-holders' equity**
Shareholders' equity Jan. 1, 2011		2,100	72	59	8,344	-20	1,663	12,218
Comprehensive income								
Profit for the financial period							687	687
Total comprehensive income		0	0	0	0	0	687	687
Transactions with owners								
Distributed dividend								
Share issue								
Exercised share options								
Reverse acquisition entries								
Purchase of own shares								
Transactions with owners, total		0	0	0	0	0	0	0
Shareholders' equity Dec. 31, 2011		**2,100**	**72**	**59**	**8,344**	**-20**	**2,350**	**12,905**

		Equity attributable to equity holders of the parent company						
EUR thousand	**Note 18**	**Share capital**	**Share premium reserve**	**Reserve fund**	**Fund for invested unrestricted equity**	**Own shares**	**Retained earnings**	**Total share-holders' equity**
Shareholders' equity Jan. 1, 2010		12	72	59	275	0	2,179	2,597
Comprehensive income								
Profit for the financial period								505
Total comprehensive income		0	0	0	0	0	505	505
Transactions with owners								
Distributed dividend							-1,022	
Share issue					766			
Exercised share options					307		1	
Reverse acquisition entries		2,088			6,995			9,083
Options settled in shares								
Purchase of own shares						-20		
Transactions with owners, total		2,088	0	0	8,069	-20	-1,021	9,083
Shareholders' equity Dec. 31, 2010		**2,100**	**72**	**59**	**8,344**	**-20**	**1,663**	**12,218**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Note 1. Basic information on the Group

Innofactor Plc is a Finnish public company established in accordance with Finnish legislation. The domicile of the parent company is Espoo and its registered address is Keilaranta 19, 02150 Espoo.

The Innofactor Group is a leading provider of electronic services and solutions in Finland. We provide our clients with comprehensive solutions in the Microsoft-based environment. The solutions are based on the latest web-based technologies.

A copy of the consolidated financial statements is available at www.innofactor.fi or at the Company's head office, address Keilaranta 19, 02150 Espoo, Finland.

Innofactor Plc's Board of Directors has approved these financial statements for publishing in its meeting on February 27, 2012. According to the Finnish Companies Act, shareholders may approve or reject the financial statements at a General Meeting held after the publication. The Meeting may also decide to amend the financial statements.

Note 2. Accounting policies

Accounting policies

Innofactor Plc's consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), observing the IAS and IFRS standards, as well as SIC and IFRIC interpretations valid on December 31, 2011. In the Finnish Accounting Act and provisions issued thereunder, International Financial Reporting Standards refer to standards and related interpretations approved for adoption within the EU in accordance with the procedure laid down in regulation (EC) No. 1606/2002. The notes to the consolidated financial statements also comply with the provisions of Finnish accounting and corporate legislation, which supplement the IFRS provisions.

The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated in the accounting policies. The consolidated financial statements are presented in euros unless otherwise stated. As the figures are presented in euros, rounding may cause differences.

On December 2010, Innofactor SW Ltd and Westend ICT Plc concluded an agreement on the merger of the companies into Innofactor Plc. The General Meeting of Westend ICT Plc approved the merger on December 27, 2010.

In 2010, the acquisition was recognized as a reverse acquisition as per IFRS 3. This means that in the consolidated financial statements, the acquirer was the old Innofactor Ltd (current Innofactor SW Ltd) and the acquiree was the legal parent company of the Group, i.e. the old Westend ICT Plc (current Innofactor Plc).

The consolidated financial statements for 2010 were prepared under the legal parent company, but in consolidated accounts continuity only concerns the consolidated financial statements of the old Innofactor SW Ltd. The financial period is 12 months.

As from 1 January 2011, the Group has applied the following amended standards and interpretations:

Amended IAS 24 Related party disclosures. The aim of the amendment is to clarify and simplify the definition of related party. Certain disclosure requirements for government-related entities have been changed. The Group estimates that the amended standard does not affect the Group's financial statements.

The amendments made on the IFRS Standards are effective in financial periods after July 1, 2010.

The minor and less urgent amendments to be made to the standards through the Annual Improvement procedure will be combined into one project and implemented once a year. The amendments in the project concern a total of seven standards. The effects of the amendments vary by standard, but the changes have not affected the consolidated financial statements.

Application of the new and amended IFRS norms

The Group will adopt the below standards as from the effective date of each standard.

Amendment to IAS 12, *Income taxes*, effective on January 1, 2012 and in the subsequent financial periods.

IAS 12 previously required an entity to estimate which part of the carrying amount of an item measured at fair value is recovered through use and which part through sale. The amendment introduces a presumption that certain assets measured at fair value are recovered entirely by sale. The presumption applies to deferred taxes arising from the investment properties, tangible assets and intangible assets that are measured using the fair value model or revaluation model. The standard is still subject to EU endorsement.

Amendments to IAS 1: *Presentation of Financial Statements*, effective on 1 July 2012 or in the subsequent financial periods.

The most essential amendment is the requirement of the grouping of the other items of the comprehensive income statement as items that will not be reclassified subsequently to profit or loss or as items that might be reclassified subsequently to profit or loss when specific conditions are met. The standard is still subject to EU endorsement.

The preparation of financial statements in accordance with the IFRS standards requires that the management makes certain judgment-based assessments and solutions. Information on the judgment-based solutions which the management has used when applying the accounting policies and which have the most significant impact on the figures presented in the financial statements is under *Section Critical Accounting Judgments and Key Sources of Estimation Uncertainty*.

Segment structure

The Innofactor Group provides comprehensive solutions in the Microsoft-based environment. The Group has one reportable segment. The operations are reviewed as a whole to estimate the profitability and to manage the resources.

Accounting policies for the consolidated financial statements

Subsidiaries

Subsidiaries are companies over which the Group exercises control. This control derives from the Group holding more than half of the voting rights or otherwise being in a position to exercise control. Also the existence of a potential control is taken into account when the instruments entitling to potential voting rights are currently exercisable. Control also refers to the right to stipulate the principles of the company's finances and business operations to gain from its operations.

Intra-group shareholding is eliminated through an acquisition method. The consideration transferred and the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. The acquisition costs, excluding the costs to issue debt or equity securities, have been recognized as a cost.

The consideration transferred does not include transactions treated separately from the acquisition. The impact of these is recognized in profit or loss in connection with the acquisition.

Possible contingent additional consideration has been recognized at fair value at the acquisition date and has been classified as liability or equity. Contingent additional consideration classified as debt is measured at fair value in profit or loss at closing date, and the gain or loss arising is recognized either in profit or loss or in other comprehensive income. Contingent additional consideration classified as equity is not re-measured.

The acquired subsidiaries are consolidated from the date when control commenced, and the subsidiaries disposed of are included in the consolidated financial statements until the control ceases. All inter-company income and expenses, receivables, liabilities and unrealized profits arising from inter-company transactions, as well as distribution of profits within the Group are eliminated in the consolidation process. If a business combination is achieved in stages, the previously held equity interest is measured at fair value, and the resulting gain or loss is recognized in profit or loss. If the Group no longer has a controlling stake in a subsidiary, the remaining asset is recognized at fair value at the date when the transaction takes place and the resulting gain or loss is recognized in profit or loss.

Tangible assets

Tangible assets have been measured at acquisition value less accumulated depreciations and impairment losses.

If an asset is made up of several parts with different economic lives, the parts are treated as separate items. When the part is renewed, the cost relating to the new part is capitalized, and the possible remaining carrying amount is written off. In other cases, subsequent costs are included in the carrying amount of the asset only when it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the acquisition cost of the item can be determined reliably. Other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation of assets is calculated using the straight-line method over the estimated useful lives. The estimated useful lives are as follows:

Machinery and equipment 3-9 years

The residual values and useful lives of assets are reviewed at the end of each financial period and, if necessary, adjusted to reflect the changes in the expected economic benefits.

The sales gains or losses from the sale or disposition of tangible assets are recognized in profit or loss under other operating income or expenses. The sales gain is defined as the difference between the sales price and the remaining purchase price.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset.

Public subsidies

Public subsidies received for incurred costs are recognized in profit or loss as income for the period that the grant is receivable. These grants are recognized in other income.

Intangible Assets

Goodwill

For business combinations, the excess of the consideration transferred, the amount of non-controlling interests in the acquired entity, and previous held equity interest in the acquiree over the fair value of the Group's share of identifiable net assets acquired is recognized as goodwill.

Goodwill is not written off but tested annually for impairment. For this purpose, goodwill has been allocated to cash-generating units or is included in the purchase price in the case of an associate. Goodwill is measured at cost less accumulated impairment losses.

Research and development costs

Research and development costs are recognized as costs in profit or loss. The development costs incurred by the design of new or advanced products are capitalized in the balance sheet as intangible assets from the date on which the product is regarded as technically feasible, commercially utilizable and able to generate comparable economic benefits. Capitalized development costs include the material, work and testing expenses that result directly from completing an asset for the intended purpose. The development costs recognized as expenses are not capitalized later. Depreciation is recognized from the date the asset is ready for use. Assets that are not ready for use are tested annually for impairment. After initial recognition, capitalized development expenditure is measured at cost less accumulated depreciation and impairment losses. The useful life of capitalized development costs is 3 years, during which time capitalized costs are amortized on a straight-line basis. In 2010 and 2011, no development costs were capitalized as the requirements were not met.

Other intangible assets

An intangible asset is recognized in the balance sheet at original cost if the cost can be reliably determined and it is likely that the expected economic benefit from the asset will flow to the company.

Intangible assets with a limited useful life are recognized in profit or loss at purchase price and depreciated on a straight-line basis over their useful life.

Other intangible assets have the following depreciation periods:

Client agreements and related client relationships	5-9 years
Software	3-5 years.

Leases

Group as a lessee

Leases where the lessor retains the risks and rewards of ownership are treated as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease period. Received incentives are deducted from the paid leases in accordance with the duration of the benefit.

Impairment of tangible and intangible assets

The Group assesses at each closing date whether there is any indication of impairment of assets. If there are such indications, the asset's recoverable amount is estimated. In addition, the recoverable amount is estimated annually for the following assets regardless of there being any indications of impairment: goodwill, intangible assets with an infinite useful life, and unfinished intangible assets. The need for impairment is assessed at the level of the cash-generating units, i.e. the lowest individual unit level that is mainly independent of the other units and whose cash flows can be separated from other cash flows.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use refers to the estimated future net cash flows, discounted to their present value, expected to be derived from the said asset or cash-generating unit. The discount rate used is the interest rate before tax that represents the market's view of the time value of money and special risks associated with the asset.

An impairment loss is recognized if the carrying amount of the asset is higher than its recoverable amount. The impairment loss is recognized in profit or loss. An impairment loss of a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets of the unit pro rata. In connection with the recognition of an impairment loss, the useful life of the depreciated asset is re-evaluated. An impairment loss recognized for an asset is reversed if a change has taken place in the estimates used to determine the recoverable amount of the asset. However, the maximum reversal of an impairment loss amounts to the carrying amount of the asset had no impairment loss been recognized. An impairment loss recognized for goodwill is not reversed in any situation. No impairment losses were recognized in 2010 and 2011.

Employee benefits

Pension obligations

Pension arrangements are classified as benefit pension plans or contribution plans. In contribution plans, the Group makes fixed payments to an external insurance company. The Group does not have a legal or constructive obligation to make additional payments, if the recipient is not able to pay the pension benefits concerned. All such arrangements that do not meet these conditions are benefit pension plans.

The Group's pension arrangements are based on contribution plans and managed through a pension insurance company. In the contribution plan arrangement, payments are recognized in the profit and loss statement during the period to which the payment applies.

Share-based payments

The Group has incentive arrangement in which the payments are carried out as equity-settled instruments. The benefits granted through the system are measured at fair value at the grant date and recognized as expenses evenly over the vesting period. The effect of the arrangements on profit and loss is presented in the profit and loss account under employee benefit expenses, the counter item being retained earnings.

The cost defined at the moment of granting the options is based on the Group's estimate of the amount of the options to which rights are expected to arise at the end of the vesting period. The Group updates the expected final amount of options at closing date. Changes in estimates are recognized in profit or loss. The fair value of the option arrangements is defined on the basis of the Black-Scholes option pricing model.

When option rights are exercised, the obtained payments based on share subscriptions, adjusted to reflect possible transaction costs, are recognized in the shareholders' equity. Assets from share subscriptions of options arrangements decided upon after the new Companies Act became effective are recognized in the invested non-restricted equity fund in accordance with the conditions of the arrangements, with adjustments for possible transaction costs.

Taxes based on taxable income and deferred taxes for the financial period

Tax expenses comprise taxes on taxable income and deferred taxes for the financial period. Taxes are recognized in profit or loss, except when they are directly connected with items recognized in equity or other items of the comprehensive income. In this case, also the tax is recognized in the items concerned. The tax based on taxable income for the financial period is calculated according to the tax base in the country concerned.

Deferred taxes are calculated on the temporary differences between the carrying amount and taxable value. However, deferred tax liabilities are not recognized if they arise from the initial recognition of an asset or liability in a transaction, other than a business combination, which at the time of the transaction, affects neither accounting nor taxable profit or loss.

The largest temporary differences arise from the depreciation of tangible assets, unused tax losses, and adjustments based on fair value made in connection with acquisitions.

Deferred taxes are determined by using the tax base in force at closing date or the enacted tax base at the time of tax base transition.

Deferred tax assets are recognized to the amount of expected future taxable profit against which the temporary difference can be utilized. An estimate is made at closing date on whether the conditions for recognizing a deferred tax asset are met.

Revenue recognition principles

Revenue from the sale of services, software user rights, and hardware is presented as turnover measured at fair value and adjusted for indirect taxes, discounts and exchange rate differences from sales in foreign currencies.

Sold services

Revenues from services are recognized when the service is completed and it is likely that the financial benefit associated with the transaction will accrue to the company. Work by personnel is recognized monthly as it is completed.

Long-term projects

Long-term fixed-price projects are recognized using the percentage of completion method when the business result can be assessed reliably. The stage of completion is defined on the basis of the share of the costs caused by work performed by the reporting date of the estimated total costs of the project concerned.

If the estimate is changed, the recognized sales are changed in the financial period during which the change can be estimated and is known for the first time. An expected loss on a long-term project is recognized in profit or loss immediately when it is identified and can be estimated reliably.

Maintenance fees

Maintenance fees are recognized over the contract period.

Cash and cash equivalents

Cash comprises bank deposits.

Impairment of financial assets

The Group recognizes an impairment loss on sales receivables when there is objective evidence that the receivable cannot be recovered in full. Significant financial difficulties of the debtor, probability of bankruptcy, defaults on payment or delayed payment for more than 90 days are indications of the impairment sales receivables. The amount of impairment loss recognized in profit or loss is determined as the difference between the receivable's carrying amount and the current value of estimated future cash flows discounted with the effective interest rate. If the amount of impairment loss decreases during a future financial period and the deduction can be objectively considered to be related to a transaction taking place after the impairment recognition, the recognized loss will be reversed in profit or loss.

Financial liabilities

Initially the financial liabilities are recognized at fair value. Transaction costs are included in the original carrying amount of financial liabilities measured at amortized cost. After the original recognition, all financial liabilities are measured at amortized cost, using the effective interest method. Financial liabilities are classified as current if the Group does not have an unconditional right to defer the settlement of the liability for at least twelve months after closing date.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognized as part of the cost of that asset if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the costs can be determined reliably. Other borrowing costs are recognized as an expense in the period in which they incur. Transaction fees related to loan commitments are recognized as transaction costs to the extent that it is probable that the loan commitment will be utilized fully or in part. In this case, the fee is recognized in the balance sheet until the loan is raised. When the loan is taken out, any related transaction fees are recognized as part of transaction costs. To the extent that it is probable that the loan commitment will not be utilized, transactions fees are recognized as prepayments for liquidity services and amortized as expenses during the loan commitment. At December 31, 2011, the Group only had current financial liabilities.

Shareholders' equity

Equity shares are presented as share capital. Costs relating to the issue or acquisition of equity instruments are presented as deductable items under equity. If the Company repurchases own equity instruments, the purchase price of such instruments is deducted from equity.

Operating profit

IAS Standard 1 *Presentation of Financial Statements* does not define operating result. The Group has defined the concept as follows: Operating result is the net total which is formed when other operating income is added to net sales and the following items are deducted: materials and services, cost of employee benefits, depreciation and possible impairment losses, and other operating expenses. All the other items of the profit and loss statement are presented below the operating result. Exchange differences are included in the operating result if they arise from business related items. Otherwise they are recognized in financial items.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of financial statements requires estimates and assumptions concerning the future. The end results may deviate from these estimates and assumptions. The application of the accounting principles also requires judgment.

The estimates made in the preparation of the financial statements are based on the best view of the management at closing date. The estimates are based on previous experiences and on assumptions concerning the future that are considered the most probable at closing date. They may be related to the expected development of the Group's financial operating environment in terms of sales and cost level. The Group regularly monitors the realization of the estimates and assumptions and the factors behind them by using several both internal and external sources of information. Possible changes in the estimates and assumptions are recognized in the financial period during which the estimate or assumption is corrected and in the subsequent financial periods.

The key assumptions concerning the future and those key sources of estimation uncertainty on the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are presented later in this report. The Group management considers these sections of the financial statements the most essential because the accounting policies concerning them are the most complicated and their application requires most significant use of estimates and assumptions concerning e.g. the measurement of financial assets. In addition, the impact of possible changes in the assumptions and estimates used in these sections of the financial statements is estimated as the most significant.

Determining the fair value of assets acquired in business combinations

The estimation of the fair value of intangible assets is based on an estimate of the cash flows related to the assets as there is no information available in the market concerning purchases of similar assets. Additional information on the measurement of intangible assets acquired in business combinations is presented in Note 3, Business acquisitions.

The Group management believes that the used estimates and assumptions are sufficiently exact for determining fair value. In addition, the Group examines at least at every closing date if there are any indications of impairment in tangible and intangible assets.

Impairment testing

The Group carries out annual impairment testing on goodwill and unfinished intangible assets with infinite useful life and estimates the indications of impairment in accordance with the accounting policies presented above. The recoverable amounts of the cash-generating units have been determined on the basis of value in use. These calculations require the use of estimates.

Revenue recognition

As described under the revenue recognition principles, revenue and expenses from long-term projects are recognized using the percentage of completion method when the outcome of a long-term project can be estimated reliably. The percentage of completion method is based on estimates of the total expected project revenue and costs, as well as on reliable measurement of the progress made towards completing the project. If the estimate of the outcome of a project changes, recognized project revenue and profit is changed in the period in which the change is identified for the first time and can be estimated reliably. An expected loss on a long-term project is recognized as a loss immediately.

Note 3. Business acquisitions

In the financial period 2011, the Group made no business acquisitions.

Acquisitions in financial period 2010

Reverse acquisition

On December 2010, Innofactor SW Ltd and Westend ICT Plc concluded an agreement on the merger of the companies into Innofactor Plc. The General Meeting of Westend ICT Plc approved the merger on December 27, 2010. Westend ICT Plc issued 409,665,891 new shares in exchange for Innofactor SW Ltd's 3,375,869 shares. The exchange ratio was 121.35 Westend ICT Plc's shares for 1 Innofactor SW Ltd's share. All Innofactor's shareholders implemented the exchange. Before the share issue, Westend ICT Plc had 175,571,096 shares. After subscriptions, the shareholders of SW Ltd held 70 percent of the issued shares.

In the Group, the acquisition was recognized as a reverse acquisition as per IFRS 3. This means that in the consolidated financial statements, the acquirer was the old Innofactor Ltd (current Innofactor SW Ltd) and the acquiree was the legal parent company of the Group, i.e. old Westend ICT Plc (current Innofactor Plc). The consolidated financial statements for 2010 were prepared under the legal parent company, but in consolidated accounts continuity only concerns the consolidated financial statements of the old Innofactor SW Ltd.

In the consolidated financial statements, the subscription date, December 27, 2010, was determined as the acquisition date. The value of the consideration was determined on the basis of the share price of Westend ICT Plc (current Innofactor Plc), EUR 0.0532/share, which is based on the stock exchange volume in 1.1.–27.12.2010 (12,483,140 shares; EUR 765,055) and significant trading outside the stock exchange in April 2010 (32,000,000 shares; EUR 1,600,000). The acquisition cost was therefore EUR 9,340,382.

The carrying amounts of assets acquired and liabilities assumed at acquisition:

The values are based on the updated acquisition cost allocation carried out in connection with the preparation of the Interim Report of March 31, 2011. The updated acquisition cost allocation with comparisons to the preparatory estimates is presented below.

EUR thousand	Recognized values
Tangible assets and investment property	95
Acquired clients	530
Technology	692
Other intangible assets	25
Deferred tax assets	7,925
Trade and other receivables	1,987
Cash and cash equivalents	371
Total assets	11,625
Deferred tax liabilities	-318
Advances received	-1,064
Trade and other payables	-1,730
Total liabilities	-3,112
Net assets	8,513
Acquisition cost	9,340
Goodwill	827

Updated acquisition cost allocation

Business acquisitions

EUR thousand	Preparatory	Updated	Change
Tangible assets	95	95	0
Acquired clients	3,168	530	-2,638
Technology	2,970	692	-2,278
Other intangible assets	25	25	0
Deferred tax assets	0	7,925	7,925
Trade and other receivables	1,987	1,987	0
Cash and cash equivalents	371	371	0
Total assets	**8,616**	**11,625**	**3,009**
Deferred tax liabilities	-1,596	-318	1,278
Advances received	-1,064	-1,064	0
Trade and other payables	-1,730	-1,730	0
Total liabilities	**-4,390**	**-3,112**	**1,278**
Net assets	**4,226**	**8,513**	**4,287**
Acquisition cost	9,340	9,340	0
Goodwill	5,114	827	-4,287

The change in the measurement of acquired clients and technology was based on the more accurate analysis of the situation at acquisition, according to which there was uncertainty concerning the durability of client relationships and this was seen to reduce the level of probability and indicate shorter customer relationships. Another realization was that the technological life cycle was shorter than expected.

In the revised acquisition cost allocation, EUR 7,925 thousand was recognized in deferred tax assets on the basis of the positive advance information from the tax authorities on the use of losses from previous financial periods.

On June 2, 2010, the Group purchased the share stock of Visual Management Ltd (name change to Innofactor VM Ltd on May 31, 2010). Visual Management is the leading supplier of Microsoft Business Intelligence solutions in Finland, a pioneer in the Finnish BI market. The purchase increased Innofactor's expertise in electronic data management and knowledge refinement. The purchase price was EUR 623 thousand, and it was paid in full by Innofactor's shares. The purchase price does not include contingent consideration.

The client contracts included in other intangible assets and the related fair value (EUR 410 thousand) have been determined on the basis of estimated duration and the discounted net cash flows from existing clients. On the basis of expected synergy benefits, the acquisition was estimated to create a Goodwill of EUR 244 thousand.

Visual Management's net sales for seven months, EUR -31 thousand, is included in the Group's consolidated profit and loss statement for 2010. In 2010, the Group's net sales would have been EUR 10.6 million, if the company acquisition that took place during the financial period had been included in the consolidated profit and loss statement as from the beginning of 2010.

Consideration transferred	
Fair value of issued shares	623
Total acquisition cost	623

Carrying amounts of assets acquired and liabilities assumed at acquisition:

EUR thousand	
Intangible Assets	413
Tangible assets	43
Investments	6
Trade and other receivables	235
Cash and cash equivalents	187
Total assets	884
Deferred tax liabilities	107
Other liabilities	398
Total liabilities	505
Net assets	379
Acquisition cost	623
Goodwill	244
Purchase price paid in cash	0
Cash funds of acquired subsidiary	187
Cash flow effect	187

Note 4. Net sales

EUR thousand	2011	2010
Revenue from services	11,626	6,520
Revenue recognized from long-term projects	5,579	3,342
Total	**17,205**	**9,862**

At the closing date, a total of EUR 7.3 million (2010: EUR 5.2 million) of realized revenue had been recognized from ongoing long-term projects.

The balance sheet included advance payments for ongoing long-term projects amounting to EUR 122 thousand (December 31, 2010: EUR 114 thousand).

Net sales by country of clients

EUR thousand	2011	2010
Finland	16,768	9,596
Europe	437	266
Total net sales	**17,205**	**9,862**

Note 5. Other operating expenses

EUR thousand	2011	2010

The following table shows three of the most significant items included in other operating expenses:

Business premises expenses	749	525
Voluntary indirect employee expenses	448	329
Marketing expenses	295	296
Total	**1,492**	**1,150**
Other unspecified operating expenses	1,926	949
Other operating expenses, total	**3,418**	**2,099**

Remuneration of the Auditors

EUR thousand	2011	2010
Auditing	50	21
Certificates and statements	2	0
Tax consultancy	19	0
Other services	97	35
Total	**168**	**56**

Note 6. Depreciation and impairment

EUR thousand	2011	2010
Depreciation by asset group		
Intangible assets	328	140
Total	**328**	**140**
Tangible assets		
Machinery and equipment	211	138
Total	**211**	**138**
Depreciation, total	**539**	**278**

Note 7. Employee expenses

EUR thousand	2011	2010
Wages and salaries	9,058	5,093
Pension expenses – contribution-base plans	1,471	908
Share-based payments	0	1
Other indirect employee costs	407	228
Total	**10,936**	**6,230**

Group's personnel, average in the financial period	2011	2010
Group, total	177	108
Group's personnel, total at closing date	**189**	**171**

Information on management benefits in Note 25, *Related party transactions*

Note 8. Research and development costs

In 2010, the research and development costs recognized as expenses totaled EUR 2,086 thousand (2010: EUR 1,173 thousand).

Note 9. Financial income

EUR thousand	2011	2010
Other financial income	5	17
Total	**5**	**17**

Note 10. Financial expenses

EUR thousand	2011	2010
Other financial expenses	-23	-22
Total	**-23**	**-22**

Note 11. Income taxes

EUR thousand	2011	2010
Current income tax on operations	0	-71
Deferred tax related to temporary differences	-237	-120
Deferred tax related to the change in the tax base	38	0
Total	-199	-191

Reconciliation between the income tax expense recognized in the income statement and the taxes using the 26% tax base valid in the Group's home country:

EUR thousand	2011	2010
Result before taxes	886	696
Taxes using the domestic tax base	-230	-181
Non-deductible expenses	0	-3
Current year losses for which no deferred tax assets were recognized	0	1
Change in deferred taxes due to change in the tax base	38	0
Other	-7	-8
Tax in the profit and loss statement	-199	-191

Note 12. Earnings per share

The basic earnings per share is calculated by dividing the profit/loss for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the financial year.

	2011	2010
Profit/loss for the year attributable to equity holders of the parent (EUR)	687,080	505,145
Weighted average adjusted number of shares during the financial period	29,261,814	18,451,972
Basic earnings per share (EUR)	0.0235	0.0274

The capital structure to be presented in the consolidated financial statements that follow the reverse acquisition reflects the capital structure of the legal acquirer, old Westend ICT Plc (current Innofactor Plc), i.e. acquiree in terms of accounting. This also applies to the equity interests that the legal acquirer issued to implement the business combination.

When the weighted average number of ordinary shares outstanding (denominator in the calculation of earnings per share) is calculated for the period during which the reverse acquisition took place:

(a) The number of ordinary shares outstanding from the beginning of the period concerned to the acquisition date has been calculated in such a way that the weighted average of the ordinary shares outstanding of the legal acquiree (acquirer in terms of accounting) during the period is multiplied by the exchange rate given in the acquisition contract; and

(b) The number of ordinary shares outstanding from the acquisition date to the end of the financial period is the real number of ordinary shares outstanding of the acquirer (acquiree in terms of accounting).

The basic earnings per share for the reference period have been calculated by dividing:

(a) The profit/loss of the legal acquiree belonging to the holders of the ordinary shares for each period

(b) The weighted average of the realized number of ordinary shares outstanding of the legal acquiree, which average has been multiplied by the exchange ratio given in the acquisition contract.

Note 13. Tangible assets

EUR thousand	Machinery and equipment	Total
Acquisition cost, Jan. 1, 2011	610	610
Increases	198	198
Acquisition cost, Dec. 31, 2011	808	808
Accumulated depreciations and impairments, Jan. 1, 2011	-138	-138
Depreciations	-211	-211
Carrying amount, Jan. 1, 2011	472	472
Carrying amount, Dec. 31, 2011	**459**	**459**
Acquisition cost, Jan. 1, 2010	295	295
Increases	179	179
Business combination	136	136
Acquisition cost, Dec. 31, 2010	610	610
Depreciations	-138	-138
Carrying amount, Jan. 1, 2010	472	295
Carrying amount, Dec. 31, 2010	**472**	**472**

Note 14. Intangible assets

EUR thousand	Goodwill	Other intangible assets	Total
Acquisition cost, Jan. 1, 2011	1,395	1,928	3,323
Increases	0	22	22
Acquisition cost, Dec. 31, 2011	1,395	1,950	3,345
Accumulated depreciations and impairments, Jan. 1, 2011	-73	-88	-161
Depreciations and impairments	-115	-328	-443
Accumulated depreciation and impairments, Dec. 31, 2011	-188	-416	-604
Carrying amount, Jan. 1, 2011	1,322	1,840	3,162
Carrying amount, Dec. 31, 2011	**1,207**	**1,534**	**2,741**
Acquisition cost, Jan. 1, 2010	259	286	545
Increases	1,136	1,642	2,778
Acquisition cost, Dec. 31, 2010	1,395	1,928	3,323
Accumulated depreciations and impairments, Jan. 1, 2010	-19	-2	-21
Depreciations	-54	-86	-140
Accumulated depreciations and impairments, Dec. 31, 2010	-73	-88	-161
Carrying amount, Jan. 1, 2010	259	284	543
Carrying amount, Dec. 31, 2010	**1,322**	**1,840**	**3,162**

Intangible Assets

Impairment testing

The Group has one cash-generating unit, software business, to which all the goodwill created in business acquisitions is allocated.

In impairment testing, all the recoverable amounts are determined on the basis of value in use. The cash flow forecasts are based on the forecasts approved by the management and they cover a period of three years. The cash flows after the forecast period approved by the management have been extrapolated by using a growth factor of 0%.

The other essential variables in the calculation of value in use are the following:

1. **Budgeted gross margin** – determined on the basis of the realized average gross margin of the last three years. The value of the variable is based on the realized development. During the forecast period, no essential changes are expected in the gross margin.
2. **Discounting rate** – determined by using weighted average cost of capital (WACC), which indicates the overall cost of equity and debt, taking the special risks concerning the items into consideration. The discounting rate has been determined before taxes. The discounting rate used in the calculations is 11.8%
3. **Growth rate in the forecast period** – The used growth factor represents the realized long-term growth in the industries concerned.

According to the impairment testing, all the recoverable amounts exceed the corresponding balance sheet values. In 2011 and 2010, no impairment losses were recognized.

According to the sensitivity analysis that the Group carried out on goodwill, the decrease of 54% in the net sales compared to the estimated net sales of 2012 or the decrease of 84% in profitability compared with the estimated net sales of 2012 do not give cause to write-downs. On the basis of the sensitivity analysis, a significant change in the discounting rate does not give cause to write-downs.

Recognition of goodwill

EUR thousand	2011	2010
Software business		
Goodwill	**1,207**	**1,322**

Note 15. Deferred tax assets and liabilities

Changes in deferred taxes in 2010:

EUR thousand	Dec. 31, 2009	Recognized in profit or loss	Recognized in compre-hensive income	Recognized in equity	Reclassified from equity to profit and loss statement	Rate differences	Acquired/ sold operations	Dec. 31, 2010
Deferred tax assets								
Confirmed losses	324	-117	0	0	0	0	7,925	8,132
Other items	0	0	0	0	0	0	0	0
Total	**324**	**-117**	**0**	**0**	**0**	**0**	**7,925**	**8,132**
Deferred tax liabilities								
Measurement of intangible and tangible assets at fair value in business combinations	-23	5	0	0	0	0	-413	-431
Combination transactions	-14	-14	0	0	0	0	0	-28
Other items	0	0	0	0	0	0	0	0
Total	**-37**	**-9**	**0**	**0**	**0**	**0**	**-413**	**-459**

Deferred tax assets and liabilities

Changes in deferred taxes in 2011:

EUR thousand	Dec. 31, 2010	Recognized in profit or loss	Recognized in compre-hensive income	Recognized in equity	Reclassified from equity to profit and loss statement	Rate differences	Acquired/ sold operations	Dec. 31, 2011
Deferred tax assets								
Confirmed losses	8,132	-230	0	0	0	0	0	7,902
Impact of the change in the tax base *	0	-8	0	0	0	0	0	-8
Total	**8,132**	**-238**	**0**	**0**	**0**	**0**	**0**	**7,894**
Deferred tax liabilities								
Measurement of intangible and tangible assets at fair value in business combinations	-431	0	0	0	0	0	0	-431
Combination transactions	-28	0	0	0	0	0	0	-28
Change in deferred taxes caused by change in tax base	0	39	0	0	0	0	0	39
Total	**-459**	**39**	**0**	**0**	**0**	**0**	**0**	**-420**

* The impact of the change in the tax base of deferred tax assets has been taken into account in the acquisition cost calculation.

Note 16. Trade and other receivables

EUR thousand	2011	2010
Trade and other receivables		
Sales receivables	3,786	3,899
Receivables from clients for long-term projects	2,497	1,552
Accrued income	250	524
Other receivables	0	62
Total	**6,533**	**6,037**

EUR thousand		
Not past due	3,166	3,485
Past due		
Past due 1-30 days	111	270
Past due over 30 days	509	144
Total	**3,786**	**3,899**

There is no significant credit risk concentrations related to the receivables. Balance sheet values correspond best to the sum which is the maximum amount of the credit risk, excluding the fair value of collateral, in cases where the other parties to the agreement are unable to fulfill their obligations related to financial instruments. The Group's operating practice does not include the acquisition of collateral for sales and other receivables.

Note 17. Cash and cash equivalents

The cash and cash equivalents as per cash flow statement:

EUR thousand	2011	2010
Bank accounts	696	1,714
Total	**696**	**1,714**

In the cash flow statement, the items classified as cash and equivalents have a maximum of three months' maturity from the acquisition date.

Note 18. Notes concerning shareholders' equity

EUR thousand	Number of shares (1 000)	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Total
Dec. 31, 2009	128,493	2 570	0	0	0	0	2,570
Conversion of convertible loan	15,078						0
Directed share issue							0
Reduction of share capital to cover losses		-1,767					-1,767
Dec. 27, 2010	**175,571**	**803**	**0**	**0**	**0**	**0**	**803**
Impact of inverted acquisition	409,666	1,297	72	59	8,344	0	9,772
Dec. 31, 2010	**585,237**	**2,100**	**72**	**59**	**8,344**	**0**	**10,575**
Share consolidation 20:1	29,262	2,100	72	59	8,344	0	10,575
Dec. 31, 2011	**29,262**	**2,100**	**72**	**59**	**8,344**	**0**	**10,575**

Innofactor has one share type. The share has no nominal value. All the issued shares have been paid in full.

The equity funds are described below:

Share premium reserve

In the cases in which the options have been decided upon while the old Companies Act (29.9.1978/734) was in force, the cash payments received for subscriptions have been recognized in the share capital and share premium reserve in accordance with the conditions of the arrangement, with the transaction costs deducted.

Reserve fund

The reserve fund is a fund for invested unrestricted equity formed on the basis of the decision of the General Meeting.

Fund for invested unrestricted equity

The fund for invested unrestricted equity contains other investments similar to equity and the subscription price of the shares for the part that is not recognized in share capital as per specific decision. After the new Companies Act (21.7.2006/624) entered into force (September 1, 2006), the fees for subscriptions based on option plans are recognized in full in the fund for invested unrestricted equity.

Dividends

In 2011, no dividends were distributed (in 2010 a total of EUR 222 thousand, EUR 1.61 per share, was distributed on the basis of a decision of the General Meeting, and a total of EUR 800 thousand, EUR 5.79 per share, on the basis of a decision of the Extraordinary Meeting. In the financial period of January 1–December 31, 2011, The Board of Directors has proposed that no dividends be distributed.

Note 19. Share-based payments

Conditions of share-based incentive schemes

At the end of the financial period on December 31, 2011, the Group had two different share-based incentive schemes implemented in January 1–December 31, 2010 and directed to the key personnel of Innofactor SW Ltd (old Innofactor Ltd). In accordance with the conditions of the incentive schemes, the options are granted without monetary compensation. All the incentive schemes of the Group are conditional. The essential conditions of the arrangements, e.g. vesting conditions are presented below:

Scheme	C	D
Date of granting	**Dec. 16, 2008–May 24, 2010**	**Dec. 15, 2010**
Number of granted instruments as shares		
Series 1	44,500	35,269
Series 2	44,500	35,268
Series 3	44,500	35,269
Series 4	44,500	35,269
Subscription price, EUR	3.00	6.00
Share price on granting date, EUR		
Series 1	1.11	1.50
Series 2	1.12	1.50
Series 3	1.12	1.50
Series 4	1.12	1.50
Date of subscription		
Series 1	July 1, 2009–July 1, 2014	July 1, 2011–July 1, 2016
Series 2	July 1, 2010–July 1, 2014	July 1, 2012–July 1, 2016
Series 3	July 1, 2011–July 1, 2014	July 1, 2013–July 1, 2016
Series 4	July 1, 2012–July 1, 2014	July 1, 2014–July 1, 2016
Vesting conditions	Employment until subscription date	Employment until subscription date
Implementation	As shares	As shares

Outstanding options

The changes in the outstanding options during the financial period and the weighted average exercise prices are as follows:

	2011		2010	
	Exercise price, weighted average EUR/share	Number of options	Exercise price, weighted average EUR/share	Number of options
Opening balance	4.2	235,775	2.4	230,760
Granted new options	0	0	5.8	152,075
Exercised options	0	0	2.3	-135,560
Returned options	3	-30,325	3	-11,500
Closing balance	**4.2**	**205,450**	**4.2**	**235,775**
Exercisable options, opening balance	**1.8**	**116,013**	**1.8**	**12,700**

The compensations amounting to EUR 307 thousand for the exercised options of the Group in 2010 were recognized in full in equity.

The below table shows the fluctuation range of the exercised prices of the outstanding options at the end of the financial period and the weighted average of the remaining time as per agreement:

	Exercised price (EUR)	Validity (years)	Number of shares
2011	1.5 - 6.0	3.1	205,450
2010	1.5 - 6.0	4.1	235,775

Determination of fair value

The Group has four series in both the option schemes C and D. Of these, a subscription right has already arisen on the basis of the B1 and B2 series options on the IFRS transfer date on January 1, 2009. The determination of the fair value has been performed on series B3, B4, C1-C4 and D1-D4 B3 by using the Black-Scholes option pricing model. The market price of the Company's share has been determined on the basis of realized sale prices. The volatility has been determined on the basis of the historical volatility of four reference companies on the Helsinki Exchange IT list.

Assumptions used in the determination of the fair value in financial periods 2011 and 2010:

Scheme	C		D	
	2011	2 010	2011	2010
Expected volatility	30%	30%	35%	35%
Expected validity of the option on granting date (years)				
Series 1	2.9	2.9	3.0	3.0
Series 2	3.4	3.4	3.5	3.5
Series 3	3.9	3.9	4.0	4.0
Series 4	4.4	4.4	4.5	4.5
Risk-free interest				
Series 1	2.60%	2.60%	1.43%	1.43%
Series 2	2.79%	2.79%	1.79%	1.79%
Series 3	2.83%	2.83%	1.79%	1.79%
Series 4	3.10%	3.10%	2.15%	2.15%
Expected dividends				
(dividend yield)	5.5 %	5.5 %	5.5 %	5.5 %
Fair value of the instrument determined on granting date				
Series 1	0.008	0.008	0.003	0.003
Series 2	0.012	0.012	0.006	0.006
Series 3	0.016	0.016	0.009	0.009
Series 4	0.021	0.021	0.013	0.013

Note 20. Management of financing risks

In its normal business operations, the Group is susceptible to several financing risks. The goal of the Group's risk management is to minimize the negative effects of the changes in the financial markets on the result of the Group. The main financing risks are credit risks. The general principles of the Group's risk management are approved by the Board of Directors and the practical implementation is the responsibility of the Group's financial department.

Credit risk

Credit risk management and control has been concentrated in the Group's financial department. The clients' credit standing is established by means of a credit rating system and credit is only granted to clients with an impeccable credit rating.

The Group has no significant credit concentration in receivables, as it has a wide spectrum of clients, and no single client or group of clients is significant for the Group in terms of risks. The aging analysis of the sales receivables is presented in Note 16, *Trade and other receivables*.

Liquidity risk

The Group continually estimates and monitors the amount of financing required for the business operations by e.g. analyzing cash flow forecasts monthly to ensure that the Group has sufficient liquid funds to finance its operations.

The Group regularly analyzes and checks the liquidity forecasts.The Group has not recognized significant liquidity risk concentrations in the financial assets.

EUR thousand	**Balance sheet value**	**0-6 months**	**6-12 months**
Dec. 31, 2011			
Maturity distribution of financial liabilities			
Trade and other payables	4,999	4,496	503

Management of capital assets

The shareholders' equity in the consolidated balance sheet is managed as the capital assets. The goal of the management of the Group's capital assets aims at ensuring normal company operation and increasing shareholder value in the long term. The capital structure can be affected through decisions concerning dividend distribution, acquisition and surrender of own shares, and share issues. The Group has no specific dividend distribution policy, and there are no limitations to the distribution of dividends. The shareholders' equity in the consolidated balance sheet is managed as the capital assets. The company has no interest-bearing debt or issued covenants.

The capital structure of the Group is monitored regularly by means of Net Gearing.

The group has not had interest-bearing debt at December 31, 2011 or December 31, 2010. As the Group has not interest-bearing debt, the net gearing is calculated by dividing the financial assets by the amount of shareholders' equity.

	2011	2010
Cash and cash equivalents	- 696	-1,714
Total shareholders' equity	12,905	12,218
Net Gearing	-5.4 %	-14.0 %

Note 21. Fair value of financial assets and liabilities

The below table shows the fair value and carrying amount of each item in financial assets and liabilities.

EUR thousand		Dec. 31, 2011		Dec. 31, 2010	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	16	6,533	6,533	6,037	6,037
Cash and cash equivalents	17	696	696	1,714	1,714
Total		**7,229**	**7,229**	**7,751**	**7,751**
Trade and other payables		4,999	4,999	5,778	5,778
Deferred tax liabilities	15	420	420	1,063	1,063
Total		**5,419**	**5,419**	**6,841**	**6,841**

Trade and other receivables

The original carrying amount of the receivables corresponds to their fair values, as the effect of discounting is not essential considering the maturity of the receivables.

Trade and other payables

The original carrying amount of the trade and other payables corresponds to their fair values, as the effect of discounting is not essential considering the maturity of the payables.

Note 22. Adjustments to cash flows

	2011	2010
Non-cash transactions		
Depreciations	539	278
Total	**539**	**278**

Note 23. Operating leases

Minimum lease payments on non-cancellable operating leases:

Group as a lessee

The Group has leased the premises it uses. The average lease period is 2-4 years, normally with an option to renew the lease after the original date of expiry. The Group has also leased motor vehicles on maintenance lease agreements. The normal duration of maintenance lease agreements is three years.

EUR thousand	2011	2010
Within one year	708	659
Within more than one but less than five years	932	833
Total	**1,640**	**1,492**

Note 24. Contingent liabilities and assets and acquisition commitments

Collateral

EUR thousand	2011	2010
Collateral given for own commitments		
Rental guarantees	152	123
Business mortgages	1,000	300
Business mortgages given as collateral for credit limit		
Bank guarantees	18	18

Bank guarantee has been given as collateral for a client delivery.

Corporate litigation and legal transactions

The Group has no open or ongoing litigations.

Operating leases

The liabilities from the Group's operating leases area presented in Note 23, *Operating leases*.

Note 25. Related party disclosures

The Group's related parties comprise the parent company and the subsidiaries. The related parties also include the members of the Board of Directors, including the CEO.

The parent company and the subsidiaries of the Group are as follows:

Company	Domicile	Group holding (%)	Group voting (%)
Parent company Innofactor Plc	Finland		
Innofactor Software Ltd	Finland	100%	100%
Innofactor SW Ltd	Finland	100%	100%
Innofactor CS Ltd	Finland	100%	100%
Innofactor VM Ltd	Finland	100%	100%
Soloplus Ltd	Finland	100%	100%
Venenum Ltd	Finland	100%	100%

Management compensation

EUR thousand	2011	2010
Remuneration paid to the CEO and Group management during the financial period, including fringe benefits, was as follows		
Salaries and other short-term employee benefits	1,138	547
Total	**1,138**	**547**

EUR thousand		2011	2010
Salaries and bonuses paid to the CEO and members of the Board			
CEO		262	160
Board members and deputy members			
Lautsuo Pyry	Chairman of the Board of Directors	30	0
Koponen Juha	Board Member	20	0
Puolakka Pekka	Board Member	24	6
Santala Ilpo	Former Chairman of the Board	10	20
Linturi Risto	Former board member	0	8
Salminen Mikko	Former board member	4	0
Tiirikainen Vesa	Former board member	0	4
Korhonen Olli	Former board member	0	0
Total		**350**	**197**

The CEO's retirement age and the basis for calculating the pension comply with the effective Employee Pensions Act. The mutual term of notice of the CEO is 6 months. If the company terminates the CEO's contract, the CEO will be paid the salary for the period of notice and also, as a compensation for the termination, a one-time payment equaling to the CEO's salary for 12 months.

Related party transactions

In 2010, the Group granted the management of the parent company 44 900 share options. No new share options were granted in 2011. The options granted to the management are subject to the same terms as the options granted to the employees. The fair value of the options is determined in Note 55, Share-based payments.

	Dec. 31, 2011	Dec. 31, 2010
Granted options	41,600	44,900
of which exercisable	20,400	6,000
Total number of shares to which the options held by the management entitle the holders to subscribe for	41,600	44,900

Note 26. Events after the closing date

Share-based incentive scheme

On January 2, 2012, the Board of Directors of Innofactor Plc announced its decision, based on the authorization granted to it by the General Meeting, concerning a new share-based incentive plan for all of the Group's personnel ("Personnel Issue") in order to commit the personnel to the company and its goals. The incentive plan includes a maximum of 2,000,000 new shares ("Personnel Shares") which are included in the amount authorized by the Annual General Meeting and which will be offered for subscription to the entire current personnel of the Innofactor Group, deviating from the shareholders' pre-emptive subscription rights. At the time of the decision, on January 2, 2012, Innofactor Plc had a total of 29,261,800 shares.

If all the offered Personnel Shares are subscribed for in the Personnel Issue, the number of shares will increase to a maximum of 31,261,800 shares, of which a maximum of 2,000,000 Personnel Shares will account for a maximum of 6.4 percent of the total post-issue number of shares and votes. The purpose of the directed Personnel Issue is to increase the personnel's commitment to the Company, and therefore a weighty financial reason as per the Companies Act exists for waiving the pre-emptive rights of shareholders. The subscription price for the Personnel Shares is EUR 0.542 per share. The weighted average price of the Innofactor Plc shares was approximately EUR 0.601 per share between December 1, 2011 and December 30, 2011.The subscription price of the Personnel Shares is therefore approximately 10% lower than the weighted average share price in December 2011. The subscription price in total will be recognized as an increase in the company's fund for invested unrestricted equity.

To cover the subscription price of the Personnel Shares, Innofactor grants loans to its personnel. The loan term is 10 years. The loan is granted as part of the distributable funds of the company. The interest rate of the loan is the 12-month Euribor at the time of the subscription period and is adjusted annually. The loan repayments and interest are deducted from the employees' monthly net salaries. The Personnel Shares must be subscribed for and the loans taken out between March 12, 2012, and March 16, 2012, after the Company Financial Statements for the year 2011 have been published. When subscribing for Personnel Shares, the subscriber has to undertake to not to resign from the Company during a six month period. The trading of the issued Personnel Shares on the Helsinki Stock Exchange (NASDAQ OMX) is estimated to start on March 23, 2012. The Personnel Shares are subject to a sale and transfer restriction for 12 months starting from the date on which the increase in the share capital related to the Personnel Issue is entered in the Trade Register. The company will publish the final results of the Personnel Issue in a stock exchange release around March 20, 2012.

Parent company financial statement FAS

EUR

PARENT COMPANY FINANCIAL STATEMENT	Note	Jan. 1–Dec. 31, 2011	Jan. 1–Dec. 31, 2010
		12 months	12 months
NET SALES	**1**	**438,000**	**95,000**
Other operating income	2	4,653	319,897
Materials and services		0	20,758
Personnel expenses	3	730,372	311,411
Depreciations			
Planned depreciations	4	6,994	5,596
Other operating expenses		517,781	476,650
OPERATING PROFIT (-LOSS)		**-812,494**	**-399,517**
Financial income and expenses	5		
Income from other investments held as non-current assets		0	2,194
Interest and financial income		175	6,254
Interest and other financial expenses		-599	-69,182
PROFIT (-LOSS) BEFORE EXTRAORDINARY ITEMS		**-812,919**	**-460,251**
Extraordinary items			
Extraordinary income	6	31,367,942	0
Extraordinary expenses	6	-16,648,822	0
PROFIT (-LOSS) FOR THE FINANCIAL PERIOD		**13,906,201**	**-460,251**

Innofactor Plc Balance Sheet, FAS

EUR

ASSETS	Note	Dec. 31, 2011	Dec. 31, 2010
NON-CURRENT ASSETS			
Intangible assets			
Intangible rights	1	0	5,210
Tangible assets			
Machinery and equipment	1	6,874	8,658
Investments			
Shares in group companies	2	7,405,715	19,054,537
TOTAL NON-CURRENT ASSETS		7,412,590	19,068,405
CURRENT ASSETS			
Receivables			
Current receivables	3		
Trade receivables		538,740	9,840
Other receivables		26,367,942	0
Accrued income		40,108	24,470
Cash and bank receivables		396,737	118,906
TOTAL CURRENT ASSETS		27,343,528	153,215
ASSETS		**34,756,117**	**19,221,621**
LIABILITIES			
SHAREHOLDERS' EQUITY	4		
Share capital		2,100,000	2,100,000
Revaluation reserve		2,000,000	2,000,000
Fund for invested unrestricted equity		15,089,373	15,089,373
Profit from the previous financial periods		-460,238	13
Profit for the period		13,906,201	-460,251
Total shareholders' equity		**32,635,337**	**18,729,136**
LIABILITIES	5		
Current			
Trade payables		58,767	128,824
Other liabilities		1,977,464	7,230
Accrued liabilities		84,549	356,431
TOTAL LIABILITIES		2,120,780	492,485
LIABILITIES		**34,756,117**	**19,221,621**

Parent company cash flow statement

EUR	Jan. 1–Dec. 31, 2011	Jan. 1–Dec. 31, 2010
Cash flow from operating activities		
Operating profit/loss	-812,494	-399,517
Amendments:		
Non-cash transactions	0	-319,897
Depreciations	6,994	5,596
Change in working capital		233,057
Change in trade or other receivables	4,455,462	
Change in trade and other payables	-246,839	
Received interests and dividends	175	6,254
Paid interests and other financing expenses	-599	-69,182
Cash flow from operating activities, total	**3,402,698**	**-543,689**
Cash flow/investments		
Investments in subsidiaries	-5,000,000	0
Investments in tangible and intangible assets	0	-10,541
Cash from other investments	0	27,101
Cash flow/investments, total	**-5,000,000**	**16,560**
Cash flow before financing	**-1,597,302**	**-527,130**
Cash flow/financing		
Changes in short-term and long-term loans	1,875,134	-501,702
Received group contributions	0	730,700
Cash flow/financing, total	**1,875,134**	**228,998**
Change in cash and cash equivalents as per cash flow statement	**277,832**	**-298,132**
Change in cash and cash equivalents	**277,832**	**-298,132**
Cash and cash equivalents, opening balance	118,906	417,038
Cash and cash equivalents, closing balance	396,737	118,906

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

Accounting policies for the parent company financial statements

The financial statements of Innofactor Plc (former Westend ICT Plc, name changed to Innofactor Plc) for the financial period of 2011 have been prepared in accordance with the provisions of the Finnish Accounting Act (FAS).

Intangible and tangible assets

The intangible and tangible assets have been recognized at cost less straight-line depreciation. Planned depreciations have been calculated on the basis of the assets' economic lives as follows:

- Intangible assets 5-9 years
- Tangible assets 3-5 years

Securities included in financial assets

Securities included in financial assets have been measured at the acquisition price or the market price, whichever is lower.

Items in foreign currency

Items in foreign currencies have been converted using the weighted average rate quoted by the European Central Bank at closing date.

Notes to the financial statements (EUR)

1. Net sales (EUR) by market area	**2011**	**2010**
Finland	438,000	95,000
Total	438,000	95,000

2. Other operating income	**2011**	**2010**
Profit from the GROUP Business Software AG shares	0	319,897
Retroactive employment pension contribution refund	4,653	0
Total	4,653	319,897

3. Personnel expenses	**2011**	**2010**
Wages and salaries	622,693	268,034
Pension expenses	84,545	20,964
Other indirect employee costs	23,135	22,412
Total	730,372	311,411
Management's salaries and bonuses	349,953	139,500
Average number of personnel	5	3

4. Planned depreciations	**2011**	**2010**
for immaterial assets	5,210	4,214
Machinery and equipment	1,783	1,382
Total	6,994	5,596

5. Financial income and expenses	2011	2010
Financial income		
Dividend income	0	2,194
Other interests	175	2,670
Other financial income	0	3,584
Financial expenses		
Interest expenses	-599	-62,856
Other financial expenses	0	-6,326
Financial income and expenses, total	**-425**	**-60,733**

6. Extraordinary income and expenses	2011	2010
Extraordinary income		
Group contribution	31,367,942	0
Extraordinary expenses		
Write-down of subsidiary shares	-16,648,822	0
Extraordinary income and expenses	14,719,121	0

Notes to the balance sheet (EUR)

1. Intangible and tangible assets	2011	2010
Intangible Assets		
Opening balance	3,843,645	3,837,245
Increases	0	6,400
Acquisition cost	3,843,645	3,843,645
Accumulated depreciation, opening balance	-3,838,434	-3,834,221
Depreciations for the period	-5,210	-4,214
Accumulated depreciations, closing balance	-3,843,645	-3,838,434
Closing balance for the period	**0**	**5,211**
Tangible assets		
Opening balance	8,657	5,898
Increases	0	4,141
Acquisition cost	8,657	10,039
Depreciations for the period	-1,783	-1,382
Closing balance for the period	**6,874**	**8,657**

2. Investments	2011	2010
Opening balance	19,054,537	3,310,339
Increases	5,000,000	16,648,822
Decreases	-16,648,822	-904,624
Closing balance	**7,405,715**	**19,054,537**

Shares and holdings of the parent company

Subsidiary shares	Domicile	Country	Country	Carrying amount
Innofactor Software Ltd	Espoo	Finland	Finland	7,405,715
Soloplus Ltd	Helsinki	Finland	Finland	0
Innofactor SW Ltd	Espoo	Finland	Finland	0
Total				**7,405,715**

3. Receivables	2011	2010
Receivables from group companies:		
Sales receivables Innofactor Software Ltd	538,740	0
Accrued income, group contribution	26,367,942	0
Total	**26,906,682**	**0**

4. Shareholders' equity	2011	2010
Shareholders' equity, opening balance	2,100,000	2,569,854
Reduction of share capital to cover losses	0	-2,469,854
Increase of share capital, share issue	0	2,000,000
Shareholders' equity, closing balance	**2,100,000**	**2,100,000**
Revaluation reserve, opening balance	2,000,000	2,000,000
Revaluation reserve, closing balance	**2,000,000**	**2,000,000**
Unrestricted equity		
Fund for invested unrestricted equity, opening balance	15,089,373	0
Share issue May 18, 2010	0	3,956,000
Cover for losses	0	-3,956,000
Reduction of share capital	0	702,738
Increase of share capital and share issue December 31, 2010	0	14,386,636
Fund for invested unrestricted equity, closing balance	**15,089,373**	**15,089,373**
Profit/loss from the previous periods, opening balance	13	-5,723,116
Reduction of share capital to cover losses	0	1,767,129
Use of the fund for invested unrestricted equity to cover losses	0	3,956,000
Profit/loss from the previous periods, closing balance	**-460,238**	**13**
Profit for the financial period	**13,906,201**	**-460,251**
Total unrestricted equity	**28,535,337**	**14,629,136**
Total shareholders' equity	**32,635,337**	**18,729,136**

The amount of the revaluation of subsidiary shares at December 31, 2009 is based on a measurement carried out by an independent outside expert.

Calculation of distributable assets	2011	2010
Loss from the previous financial periods	-460,238	13
Profit/loss for the financial period	13,906,201	-460,251
Fund for invested unrestricted equity	15,089,373	15,089,373
Total	**28,535,337**	**14,629,136**

5. Liabilities	2011	2010
Current liabilities		
Trade payables	58,767	128,824
Other liabilities	102,330	7,230
Accrued liabilities	84,549	356,431
Liabilities to group companies		
Loans, Innofactor Software Oy	1,875,134	0
Trade payables	0	2,645
Total current liabilities	**2,120,780**	**492,485**

Board of Directors' proposal on the distribution of profits

At the end of the financial period of 2011, the distributable assets of Innofactor Plc were EUR 28,535,337.36. The Board of Directors proposes that no dividend be distributed for the financial period of 2011.

Company shares

Innofactor Plc has one series of shares. The number of shares is 29,261,800. The share has no nominal value. One share has one vote at the General Meeting. All shares entitle their holders to dividends of equal value. Innofactor Plc's share capital, paid in full and entered in the Trade Register, is EUR 2,100,000.00.

Used books of accounts

General ledger in electronic format
Journal ledger in electronic format
Accounts payable ledger in EDP print
Accounts receivable ledger in EDP print
Balance book for the financial period in bound format

Voucher types

General ledger vouchers
Purchase vouchers
Sales vouchers
Bank vouchers

Storage of the books of accounts

Innofactor Plc, Keilaranta 19, 02150 Espoo

INNOFACTOR PLC

SIGNATURES FOR THE REPORT OF THE BOARD OF DIRECTORS AND FOR THE FINANCIAL STATEMENTS

Espoo, February 27, 2012

Pyry Lautsuo
Chairman of the Board of Directors

Sami Ensio
CEO, Board Member

Pekka Puolakka
Board Member

Juha Koponen
Board Member

AUDITOR’S NOTE

The report on the audit has been issued today.

Helsinki, February 27, 2012

Ernst & Young Oy
Authorized Public Accountant Firm

Juha Hilmola, Authorized Public Accountant

Additional information

Shareholding

On December 31, 2011, Innofactor Plc had 12,257 shareholders (2010: 12,617), including the administrative registers (8). The share of administratively registered shares was 0.4 percent of the total number of shares.

Distribution of shareholding at December 31, 2011

Number of shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-100	9,130	74.49	250,025	0.85
101-1 000	2,514	20.51	930,181	3.18
1 001-10 000	524	4.28	1,525,624	5.21
10 001-100 000	58	0.47	1,718,589	5.87
over 100 000	31	0.25	24,837,381	84.88
Total	**12,257**	**100.0**	**29,261,800**	**100.0**

Shareholders by shareholder group December 31, 2011 (% of the shares)	
Other foreign	1.33
Administratively registered	0.36
Enterprises	6.15
Public entities	0.00
Non-profit organizations	0.01
Private households	92.16
Total	**100.00%**

Innofactor Plc's Annual Summary 2011

January

05.01.2011	Stock Exchange Release	The change of business name to Innofactor Plc comes into effect
05.01.2011	Stock Exchange Release	Innofactor Plc's new trading code correction
10.01.2011	Stock Exchange Release	Innofactor Plc's strategy and new investor pages
10.01.2011	Stock Exchange Release	Preliminary plan for Innofactor Plc's Annual General Meeting

February

25.02.2011	Stock Exchange Release	Innofactor Plc Annual Summary 2010

March

01.03.2011	Stock Exchange Release	Innofactor Plc financial statement 2010
01.03.2011	Stock Exchange Release	Information on business operations prior to the merger on 27 December 2010
01.03.2011	Stock Exchange Release	Innofactor Plc share consolidation
11.03.2011	Stock Exchange Release	Innofactor Plc submits to the stock exchange a report on fulfilling the listing criteria and an application for admitting the new shares to public trading
14.03.2011	Stock Exchange Release	Change in the publishing time of the Innofactor Annual Report
16.03.2011	Stock Exchange Release	Innofactor Plc publishes its Annual Report for 2010
16.03.2011	Stock Exchange Release	Innofactor Plc publishes its prospectus
22.03.2011	Stock Exchange Release	Admitting the new shares of Innofactor Plc into public trading
31.03.2011	Stock Exchange Release	Noting in the acquisition cost calculation the Innofactor Plc's losses confirmed in the taxation

April

05.04.2011	Stock Exchange Release	Aquistion of own shares April 4, 2011
05.04.2011	Stock Exchange Release	Innofactor Plc Notice to the Annual General Meeting
19.04.2011	Stock Exchange Release	Invalidation of own shares
21.04.2011	Stock Exchange Release	Reorganizing the structure of the Innofactor group
28.04.2011	Stock Exchange Release	Decisions of the Innofactor Plc's Annual General Meeting
28.04.2011	Stock Exchange Release	Changes in the Board of Directors of Innofactor Plc

May

07.05.2011	Stock Exchange Release	The new number of the Innofactor Plc registered in the Trade Register
10.05.2011	Stock Exchange Release	Innofactor Plc's interim report for January 1–March 31, 2011 (IFRS)
18.05.2011	Stock Exchange Release	Innofactor was selected to deliver a document and case management system for the Kuopio City Group

August

09.08.2011	Stock Exchange Release	Interim Report 1 January–30 June 2011
09.08.2011	Stock Exchange Release	EUR 5,000,000 increase of Innofactor Software Ltd's equity
26.08.2011	Stock Exchange Release	Innofactor's strategy update and dividends policy

November

01.11.2011	Stock Exchange Release	Innofactor Plc's interim report for January 1–September 30, 2011 (IFRS)
25.11.2011	Stock Exchange Release	Innofactor was selected to deliver a document and case management system for the Parish Union of Helsinki

December

15.12.2011	Stock Exchange Release	Innofactor decreases its profit estimate for 2011
21.12.2011	Stock Exchange Release	Innofactor Plc's Financial information in 2012
22.12.2011	Stock Exchange Release	Innofactor to deliver a customer management and enterprise resource planning system for ProAgria

Calculation of key figures

Return on equity - %:

Profit or loss before taxes - taxes
Shareholders' equity

Return on investment - %:

Profit or loss before taxes + interest and other financial expenses
Shareholders' equity + interest bearing

Net gearing:

Interest-bearing liabilities – cash and cash equivalent
Shareholders' equity

Equity ratio (%):

Shareholders' equity
Balance sheet total - received advances

Result/share:

Earnings for owners of the company before taxes - taxes
Share issue adjusted average number of shares

Shareholders' equity / share:

Equity attributable to equity holders of the parent company
Undiluted number of shares at closing date

Auditor's report

To the Annual General Meeting of Innofactor Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Innofactor Oyj for the year ended 31 December, 2011. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, February 27, 2012

Ernst & Young Oy, Authorized Public Accountant Firm

Juha Hilmola, Authorized Public Accountant


Microsoft


July 8, 2011
IFA1V
NASDAQ OMX

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