# INNOFACTOR®

Annual Report 2012

# Innofactor Group Annual Report January 1 to December 31, 2012

## Innofactor in Brief

Innofactor is one of the leading Microsoft-focused software providers in the Nordic countries. Innofactor offers its clients IT projects as a system integrator and develops products and services of its own. The focus of product development is on Azure-based cloud solutions. About one third of Innofactor's net sales comes from continuous contracts related to Innofactor's own products and from other recurring maintenance contracts.

Innofactor's client base consists of about 1,500 companies and public sector organizations in Finland, Denmark and other European countries. In its operations, Innofactor aims at long-term client relationships. Innofactor's personnel consist of approximately 200 committed experts working in seven different locations in Finland and Denmark.

The Microsoft-based software market is growing significantly faster than the IT market in general. The annual growth of Microsoft-based software is 10 to 30 percent in several of Innofactor's focus areas. Innofactor's strategic goal is to grow even faster. The strategic annual growth target is 30 to 40 percent, consisting of both organic and inorganic growth.

The net sales for 2012 were about EUR 18.8 million, with growth of 9.4 percent from the previous year. The average annual growth of net sales within the five year period between 2008 and 2012 has been 34.8 percent, and the average annual EBITDA 7.3 percent of the net sales. Innofactor is the fastest growing technology company in NASDAQ OMX Helsinki.

Innofactor Plc's shares are quoted on the main list of NASDAQ OMX Helsinki Ltd. Innofactor has about 12,000 shareholders. The company's CEO, Sami Ensio, holds 25 percent of the shares, and the rest of the management team 14 percent.

## Contents



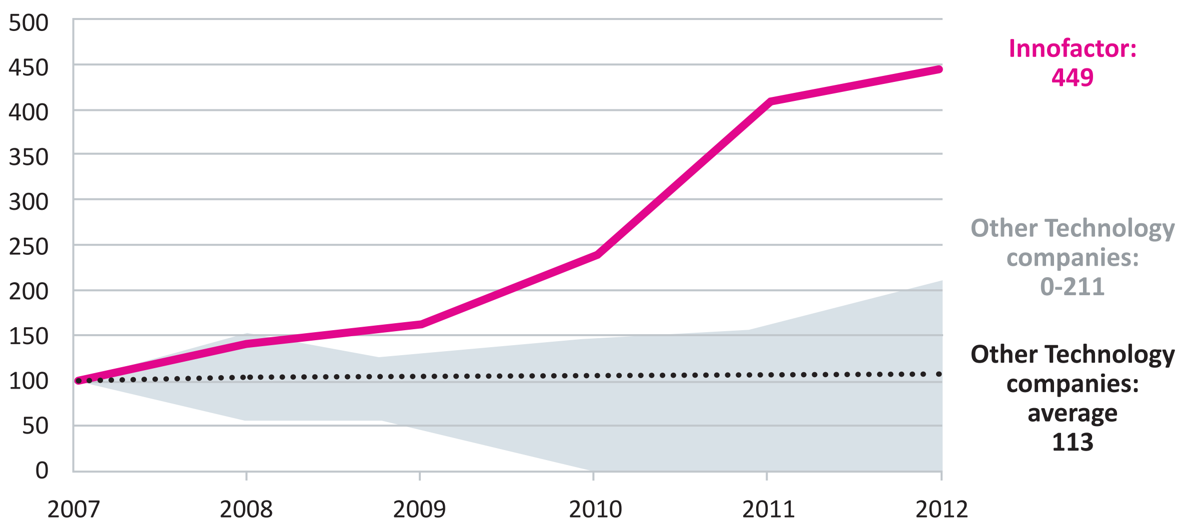
**Note:** This English version is only a translation of the Finnish version, and is provided for reference only. In the event of any conflict or discrepancy between the Finnish and English versions, the Finnish version shall prevail and be treated as the correct version.

# Fastest Growing Technology Company in NASDAQ OMX Helsinki

In 2012, Innofactor continued its profitable growth in accordance with its strategy. The net sales grew by 9.4 percent and EBITDA was EUR 1.2 million. In June, Innofactor acquired Bridgeconsulting A/S, the leading Microsoft-based Business Intelligence company in Denmark, and in November, the leading Microsoft Project focused business unit in Finland from Tietotalo Infocenter Ltd. Innofactor was again ranked as one of EMEA's 500 fastest growing technology companies in the Deloitte Technology Fast 500 Competition.

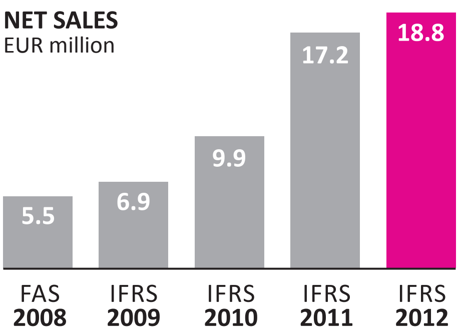
In 2012, Innofactor Group's net sales were EUR 18,818 thousand (17,205 thousand in 2011), an increase of 9.4 percent. EBITDA was EUR 1,215 thousand (1,443 thousand in 2011). EBITDA's share of the net sales was 6.5 percent (8.4 percent in 2011). The operating profit was EUR 620 thousand (EUR 904 thousand in 2011). 88 percent of Innofactor's net sales came from Finland, 10 percent from Denmark, and the remaining 2 percent from other European countries.

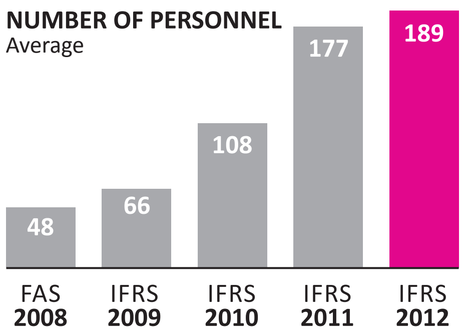
In summer 2012, Innofactor took its first step towards internationalization of its system integration business by purchasing Bridgeconsulting A/S, the leading Microsoft-based Business Intelligence company in Denmark. The acquisition offers Innofactor an excellent platform for increasing its Microsoft technology focused business in Denmark. Towards the end of 2012, Innofactor advanced its expertise in project and portfolio management systems by purchasing a Microsoft Project focused business unit from Tietotalo Infocenter Ltd. Microsoft forecasts strong growth for project and portfolio management systems in Northern Europe. The acquisitions enhance Innofactor's goal of growing into a leading provider of Microsoft solutions to companies and organizations in the Nordic Countries.

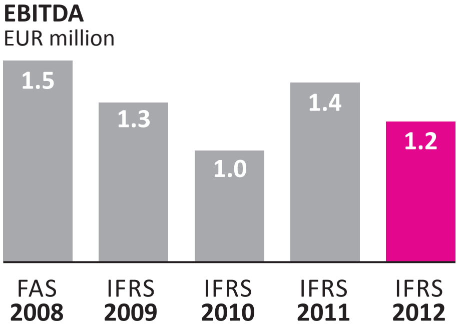


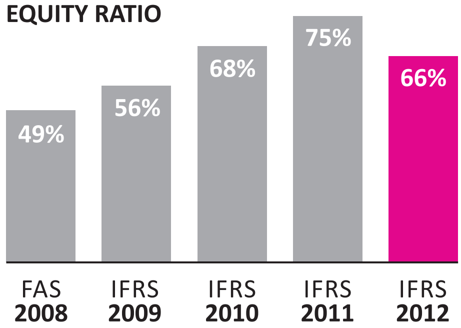

*Innofactor is the fastest growing technology company in NASDAQ OMX Helsinki. During a review period of five years, Innofactor's net sales have grown 4.5 fold, whereas the net sales of other technology companies have grown 1.1 fold during the same review period. The above graph shows the indexed development in the net sales of 19 technology companies in NASDAQ OMX Helsinki.*

| | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Net sales, EUR thousand | 18,818 | 17,205 | 9,862 | 6,920 |
| Operating profit before depreciation and amortization (EBITDA), EUR thousand | 1,215 | 1,443 | 980 | 1,309 |
| percentage of net sales | 6.5% | 8.4% | 9.9% | 18.9% |
| Operating profit (EBIT), EUR thousand | 620 | 904 | 702 | 1,165 |
| percentage of net sales | 3.3% | 5.3% | 7.1% | 16.8% |
| Earnings before taxes, EUR thousand | 591 | 886 | 696 | 1,182 |
| percentage of net sales | 3.1% | 5.1% | 7.1% | 17.1% |
| Earnings, EUR thousand | 449 | 687 | 505 | 875 |
| percentage of net sales | 2.4% | 4.0% | 5.1% | 12.6% |
| Equity, EUR thousand | 13,760 | 12,905 | 12,218 | 2,597 |
| Return on equity | 3.4% | 5.5% | 6.8% | 40.5% |
| Return on investment | 4.5% | 7.2% | 9.7% | 54.9% |
| Net gearing | 5.4% | -5.4% | -14.0% | -63.5% |
| Equity ratio | 66.1% | 74.5% | 68.2% | 56.1% |
| Balance sheet, total, EUR thousand | 22,173 | 18,324 | 19,517 | 5,355 |
| Research and development, EUR thousand | 2,488 | 2,086 | 1,173 | 680 |
| percentage of net sales | 13.2% | 12.1% | 11.9% | 9.8% |
| Personnel on average during the review period | 189 | 177 | 108 | 66 |
| Personnel at the end of the review period | 193 | 189 | 171 | 89 |
| Number of shares at the end of the review period | 30,165,900 | 29,261,800 | 29,261,849 | 16,756,659 |
| Earnings per share (EUR) | 0.0150 | 0.0235 | 0.0274 | 0.0540 |
| Shareholders’ equity per share (EUR) | 0.460 | 0.441 | 0.418 | 0.155 |



# International Activities Support Growth

2012 was a year of international expansion for Innofactor. In 2012, Innofactor changed its organizational structure to meet the requirements of international growth, a prerequisite to purchasing the Danish company Bridgeconsulting A/S, as well. In June 2012, Innofactor was selected as one of the global finalists for Microsoft's Public Sector Government Partner of the Year Award, and Innofactor was also named the 2012 Business Intelligence Partner in Denmark. We thank our clients, partners, employees and shareholders!

**Sami Ensio**
Innofactor's founder, main shareholder and CEO

In 2012, Innofactor successfully continued deepening cooperation with its clients and partners. During 2012, we concluded significant agreements, including the delivery of the SharePoint application platform to VTT (Technical Research Centre of Finland) and the change and deployment of the intranet and extranet platforms for Tekes, the Finnish Funding Agency for Technology and Innovation in Finland, as well as a comprehensive environmental portal for the Ministry of the Environment in Denmark. I would like to extend my thanks to all our clients and partners for the confidence they have placed in Innofactor.

Innofactor's strategy is based on a clear focus on Microsoft technologies. We believe that Microsoft's position is strong in the current transition of the IT market, where the key trends include the consumerization of information technology and the new possibilities offered by the public cloud, for example as a distribution channel to different devices. Our strategy is supported by the growth in the demand for Microsoft's products, which is clearly faster than the average in the market.

The partnership with Microsoft has deepened further on all company levels. In 2012, Innofactor was named one of the Microsoft Public Sector Goverment Partners finalists in the world. Innofactor was also named the 2012 Business Intelligence Partner in Denmark. I extend my sincere thanks to Microsoft for the trust they have shown us.

Innofactor's most important resource are our competent and motivated employees. Due to the general economic situation and the changes in our organization, the year has been challenging at times. I am extremely proud of the energy and enthusiasm that the Innofactor team has shown in their joint effort to build the new organization and to use this chance to look for means to further improve client satisfaction, enhance operations, and increase productivity. I am grateful to each one of you.

Innofactor's growth proceeded as planned, and the first step in international expansion was taken in June, when Innofactor acquired Bridgeconsulting A/S. Towards the end of the year, Innofactor increased its expertise in Project and Portfolio Management by purchasing the Microsoft Project focused business unit from Tietotalo Infocenter Ltd in Finland. I wish the new members of Innofactor welcome to the company and thank the entire personnel for integrating the operations so quickly and successfully.

A successful and growing company needs committed shareholders. I would like to take this opportunity to thank Innofactor's 12,000 shareholders, who have believed in the success of the company. In 2012, Innofactor's share turnover increased by 70 percent even at a time when the annual share turnover at NASDAQ OMX Helsinki decreased by 28.5 percent. Thank you for your confidence in us! This shows an increasing interest in Innofactor's shares.

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

"In 2012, Innofactor became an international company. It has been great to see the enthusiasm that this has created among our clients and employees. Thank you!"

Microsoft Partner Network

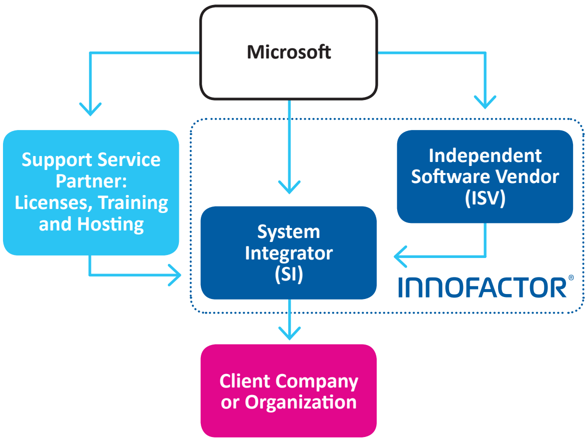
**2012 PARTNER OF THE YEAR**
Public Sector
Government
**Finalist**

Microsoft
Årets Partner
**2012**
Innofactor A/S
Årets Business
Intelligence Partner

# Leading Partner in the Microsoft Ecosystem

In line with its vision, Innofactor wants to be a leading provider of Microsoft solutions: the number one provider of Microsoft solutions to companies and organizations in the Nordic countries and the number one provider of value-adding components for Microsoft's corporate solutions globally. In this context, Innofactor delivers IT projects as a system integrator and develops software products.

Innofactor delivers Microsoft solutions related IT projects as a System Integrator (SI) and develops software products as an Independent Software Vendor (ISV). The below figure shows Innofactor's position in the Microsoft ecosystem.




Microsoft provides its software to companies and organizations mainly through its partners. According to Microsoft management, about 95 percent of Microsoft's net sales come through its partners, and each dollar in Microsoft's net sales means about 8.7 dollars in the net sales of the partners. Microsoft's Independent Software Vendors typically offer their software products to their clients through System Integrators. The System Integrators in turn implement solutions as projects for their clients, utilizing the software from Microsoft and Microsoft's Independent Software Vendors. The strongest client relationship is formed between the client and the System Integrator. In the Microsoft ecosystem, Innofactor acts as both an Independent Software Vendor and a System Integrator, which offers significant synergies.

Innofactor provides a comprehensive range of value-adding services for Microsoft solutions: SharePoint, Dynamics, Project, SQL Server, and Office 365. The solutions help companies and organizations improve the efficiency of their online communications, eServices, document management, customer relationship management, project and project portfolio management, and data retrievability.

Innofactor provides its solutions installed on the client's own server or as a service implemented either through Innofactor's Service Center or through the Microsoft Cloud. The recurring (SaaS), cloud and other service agreements based on Innofactor's own products, typically based on annual or monthly charges, play an important role in Innofactor's business activities. The recurring services essentially decrease cyclicality of business operations. Recurring services account for about one third of Innofactor's net sales.

For the time being, Innofactor's system integration activities concentrate in Finland and Denmark. Innofactor, however, plans to expand these activities to the other Nordic countries. This may also happen through mergers and acquisitions. Innofactor has a good track record of successful system integration activities and integrations. This, combined with Innofactor's good reputation in the Microsoft ecosystem, creates excellent conditions for mergers and acquisitions.

Innofactor's offering to global markets consists of value-adding components for Microsoft business platforms. Innofactor's product development focuses on Microsoft's Azure-based services and Windows 8 applications. The primary distribution channels are the other System Integrators (VAR) in the Microsoft ecosystem and online market places. Innofactor's clear competitive advantage is based on its own system integration activities, which help Innofactor develop market leading solutions to enhance the operations of its clients, replicable service concepts, and components that support them.

## Our mission is to

- help our clients offer their customers increasingly better services and to improve their operations
- provide our personnel and partners with an innovative and supportive environment in which they can continue to develop themselves

## Our vision is to be

- #1 provider of Microsoft solutions for commercial and public organizations in the Nordic Countries, and
- #1 provider of value-added components for Microsoft's business platforms globally

## Our financial goal is to

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

# Joining in Microsoft’s Strong Growth

**Microsoft’s growth in several solution areas is clearly faster than average in the IT market. In Finland and Denmark, Innofactor has achieved a significant position as a provider of Microsoft solutions to companies and organizations. This has happened through organic growth, as well as mergers and acquisitions. Innofactor’s aim is to continue profitable growth and reach the average annual growth target of 30 to 40 percent set in the strategy for the period of 2011–2015.**

Owing to the long-lasting unstable economic situation, it is challenging to give a reliable estimate of the development of the IT market in the near future. According to research companies that monitor the IT market, the IT services market grew by 1–2 percent globally in 2012 and it is estimated to grow by about 3–5 percent in 2013. The growth in the software market is estimated to be about one percentage unit faster in 2012–2013, i.e. 4–6 percent in 2013.

The IT market is clearly going through a transition. One of the key trends is the consumerization of information technology, which means that an increasingly larger share of companies´ and organizations´ IT purchases is made on the consumers’ terms. Our corporate clients tend to purchase software that can be used in mobile phones, tablets and computers. Another key trend is focusing on new environments offered by cloud computing and the possibilities to provide software globally from the cloud to a wide spectrum of users and to all types of devices, including cell phones.

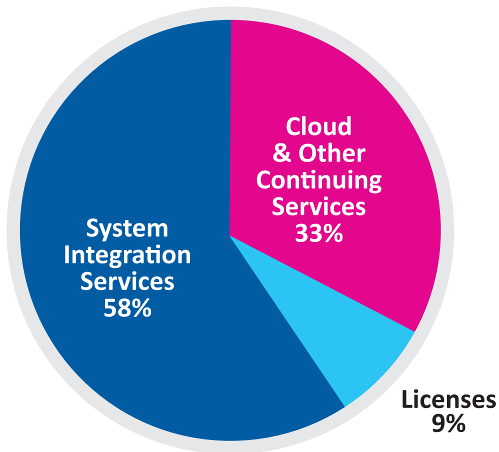
Innofactor has made a strategic choice by focusing on Microsoft technology based solutions. Innofactor believes that Microsoft continues to be a strong player in the transition of the IT market because it has a leading position in corporate software and it invests heavily in mobile devices.

Innofactor has chosen the application areas in which Microsoft’s growth, and thereby the growth of its partners, has exceeded manifold the average global growth rate of the IT service and software markets. For instance in 2012, Microsoft repeatedly reported annual growth rates of more than 30 percent in the sales of Dynamics CRM solutions and Microsoft SQL Server Premium servers used in BI solutions, and annual growth rates of more than 10 percent in the sales of SharePoint, Lync and Exchange solutions. The above and the other Microsoft solution areas that grow significantly faster than the rest of the IT market form a significant part of Innofactor’s business.

The release of the Windows 8 Operating System in October 2012 was an important event for the Microsoft ecosystem, and it is expected to strengthen Microsoft’s competitive edge among Innofactor’s clients.

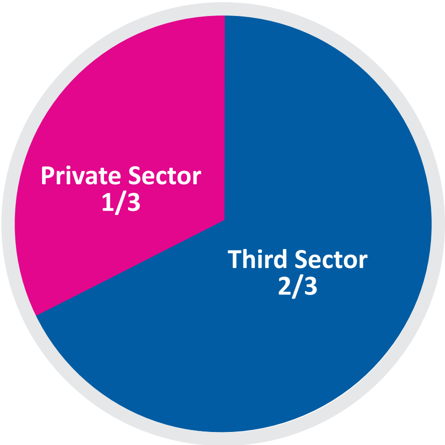
This development is believed to provide companies like Innofactor, that are strongly committed to Microsoft, with long-term growing markets in both the traditional system integration activities locally in the Nordic countries and in the delivery of cloud and mobile applications globally.

Cloud services from the public and private (SaaS) clouds represent an important part of the growth of the markets in general, and also in the Microsoft ecosystem. The figure below shows the distribution of Innofactor’s net sales in this sector.



## System integration markets in the Nordic countries

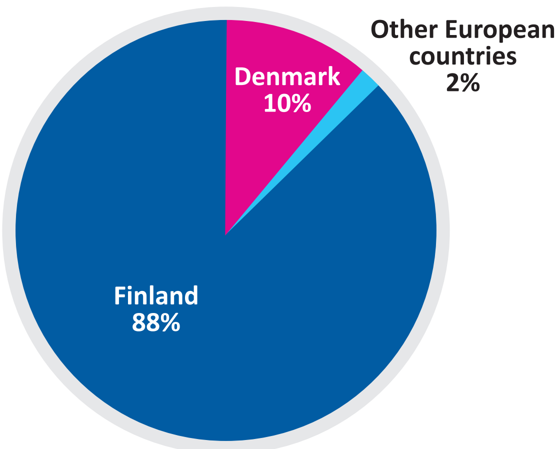
Private sector accounted for about one third of Innofactor's net sales, and the public and third sector for about two thirds.




With regard to the private sector, Innofactor focuses primarily on companies with more than 250 employees or on such smaller companies that for some reason have the same requirement level for IT procurement. The share of private sector companies is significant in Innofactor's organic growth.

The share of the public sector was about two thirds of the net sales. In public administration, Innofactor provides services to several ministries and government offices in Finland and in Denmark. In the municipal sector, Innofactor is the market leader in several solution areas in Finland and in Denmark, as well as in the parish sector in Finland. The large share of public administration has brought certain stability to the operations during the global economic crisis and has decreased cyclicality in Innofactor's business operations.

In 2012, 88 percent of net sales came from Finland, 10 percent from Denmark, and 2 percent from other European countries. The figures concerning business operations in Denmark are included in Innofactor's figures as from July 1, 2012.




In line with its strategy, Innofactor aims to expand its system integration activities to the other Nordic countries, i.e. Sweden and Norway. This may take place through organic growth and through mergers and acquisitions. The markets in Sweden and Norway are similar to the Finnish market. The Microsoft partner network in the Nordic countries is fragmented, which offers good possibilities for consolidation. Innofactor actively looks for potential acquisition targets in all the Nordic countries.

## Product sales in the global cloud market

Microsoft has created significant business opportunities for the Microsoft partner network through the cloud business. According to research companies that monitor the IT market, the growth in the cloud market is strongest in the USA, where an annual growth of up to 60 percent is forecast for the period of 2010–2016. In Europe, the growth will probably remain at less than 20 percent, mostly due to the sluggish overall economic growth. In 2012, the value of the cloud market was about USD 200 billion. The market is new and its form and operational models are still under development, but it is a significant opportunity in view of Innofactor's strategic goals.

Innofactor's current activities in the area of cloud products include sales and marketing, R&D, as well as an active dialogue with Microsoft's global organization. The cloud market is expected to bring Innofactor significant business opportunities in the near future.

# Differentiation Through Focusing on Microsoft Solutions

In accordance with its strategy, Innofactor differentiates itself from competitors by focusing on Microsoft solutions. This has helped the company to achieve superior expertise and create significant client relationships. Innofactor believes that concentration will continue to bring competitive advantages in developing client relationships and attracting new employees, as well as carrying out mergers and acquisitions.

## System integration markets in the Nordic countries

In the Nordic countries, different types of players are competing in the area of Microsoft-based solutions.

The first group consists of large companies that operate in all the Nordic countries, for instance Tieto, CGI (former Logica) and Accenture (Accenture's subsidiary Avanade for the part of Microsoft solutions). These companies typically offer a large range of IT solutions for companies and organizations, using several competing technologies, one of which is Microsoft.

The second group consists of companies that in the Nordic countries focus on a narrower solution area, like Affecto and Platon in Business Intelligence. These companies also typically offer a large range of IT solutions for companies and organizations, using several competing technologies, of which Microsoft is one.

The third group consists of companies that only operate in certain countries. These small and medium-sized companies often focus on one solution area, client and/or sector. For instance in the organization and parish sector, there are national system providers that specialize in these sectors; there are also companies that specialize in certain solutions, such as web pages, case management and CRM systems.

Innofactor's competitive advantage is based on a strategy which differs from that of its competitors, by focusing on providing a wide range of Microsoft-based solutions for companies and organizations, also utilizing its own software and components. In this way, Innofactor is able to keep its offering extremely attractive to the clients, and at the same time provide its employees with an opportunity to specialize and become top experts in Microsoft solutions. Innofactor is the leading partner focusing on Microsoft solutions in Finland and has the most comprehensive offering of Microsoft-based solutions.

Innofactor has a large, balanced client base in the business sector as well as in the public sector. It also has a proven track record as a provider of various Microsoft-based solutions and services. This creates a sufficient critical mass and ability to meet the needs of also large corporations.

Innofactor's operating model and its organization create mutual synergies for the company's system integration and software business activities. This makes it possible for Innofactor to develop significant added value to Microsoft's corporate solutions.

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

In the Nordic countries and also elsewhere in Europe, the Microsoft partner network is fragmented and mainly consists of several small and medium-sized local companies that focus on a certain solution area. For Innofactor, this offers potential for consolidation and international expansion.

Innofactor has had an excellent track record of fast and profitable growth for several years and of several successful mergers and acquisitions. Innofactor is also well known and has a good reputation in Microsoft's global organization and ecosystem. In 2011, Innofactor was selected the Microsoft Partner of the Year in Finland, and in 2012, the Business Intelligence Partner in Denmark. The above facts, as well as the company's entrepreneurial corporate culture make Innofactor a sought-after partner in the reorganization of the IT industry in the Nordic countries.

In summer 2012, Innofactor took its first step in the international expansion of its system integration business by purchasing Bridgeconsulting A/S, the leading Microsoft-based Business Intelligence company in Denmark. The acquisition offers Innofactor an excellent basis for increasing its Microsoft technology based business in Denmark. Towards the end of 2012, Innofactor deepened its project and portfolio management system expertise by purchasing the Microsoft Project focused business unit from Tietotalo Infocenter Ltd. Microsoft forecasts strong growth for project and portfolio management systems in Northern Europe. Corporate acquisitions promote Innofactor's goal of growing into the leading provider of Microsoft solutions to private and public organizations in the Nordic Countries.

## Product sales to the global cloud market

The client wishes and needs that Innofactor identifies in connection with system integration delivery projects continuously create new ideas for Innofactor's product and service development. These ideas are screened in accordance with Innofactor's innovation process, and the ideas that have the most significant client value are converted into new product components, cloud services or replicable service concepts. The aim of our development activities is always to enhance the operations of both the end customer and the system integrator (own or partner's).

International product sales require that Innofactor is widely recognized in the Microsoft ecosystem for its expertise, active personal contacts and success in the Microsoft Partner Award competitions. In 2012, Innofactor was named one of the Microsoft Public Sector Goverment Partners finalists in the world.

In international competition, it is important to utilize the special features of the company's own home ground – Scandinavia – for instance, the good reputation for information and communications technology and for the education system. Innofactor aims at utilizing these special features in its own offering.

Innofactor works in close cooperation with Microsoft's international organization and partner network in the cloud business. Networking takes place in bilateral meetings, international seminars, Partner Advisory Council, etc.

# Added Value for Microsoft Applications

Innofactor offers a comprehensive range of solutions and components, which clients can use to create added value for Microsoft applications, for instance SharePoint, Dynamics CRM, Project, SQL Server and Office 365. Innofactor's offering enables the clients to get the full benefits from their Microsoft licenses.


## Web Communications

Innofactor offers a fast and easy web communication solution for content publishing. Communication takes place in real-time in all situations, serves various user groups, and adapts to different channels. Innofactor's offering includes internet, extranet, intranet and mobile websites; event calendars; image, material and brand banks; as well as solutions that utilize multi-channel communications. The solutions are based on Microsoft SharePoint, Innofactor® Prime™ and Innofactor® Cloud products.

## Digital Services and eCommerce

The reliable and safe solutions that Innofactor provides make Digital Services and eCommerce fast and cost efficient. The solutions include Citizens´accounts, authentication and payment services, digital forms, other self-service solutions, online stores, as well as reservation, registration and access control services. The solutions are based on Microsoft SharePoint, Innofactor® Prime™ and Innofactor® Cloud™ products.

## Digital Work Environment

Innofactor offers comprehensive solutions for organizations' internal communication. They include key communication tools, such as email, calendars and team tools, as well as contact information management and office software. The solutions are based on Microsoft Office 365, SharePoint, Lync, Windows 8 applications, Innofactor® Prime™ and Innofactor® Cloud™ products.

## Enterprise Content Management (ECM)

The enterprise content management solutions provided by Innofactor ensure that organizations' important documents and data contents are stored reliably and accessed easily. The offering includes solutions for contract, quality, data security, environment and brand documentation management. The solutions are based on Microsoft SharePoint and on Norwegian Software Innovation's Business 360° software.

## Case Management

In addition to a basic case management system, Innofactor's case management solutions include an electronic archive, an information management system, and an electronic meeting solution. The solutions enhance organizations' decision making processes. The solutions are based on Innofactor® Dynasty™ and Norwegian Software Innovation's Business 360° software.

## Customer Relationship Management (CRM)

Innofactor's CRM system enhances the maintenance and development of customer relationships. The system collects all the information on customers in one place, where it is easily available to sales, marketing and customer services. The solution is based on Microsoft Dynamics CRM, Innofactor´s value-adding components and Innofactor® Prime™.

## Project and Portfolio Management (PPM)

Innofactor offers a comprehensive solution to organizations' internal and external project activities, project and portfolio management, resourcing, and change management. The solution can easily be integrated with the clients' existing SharePoint, ERP, CRM and Business Intelligence systems. The solution is based on Microsoft Project and Innofactor® Prime™.

## Business Intelligence (BI)

Innofactor's Business intelligence solution efficiently makes all the information that is essential for decision making available to decision makers. This versatile solution consists of data storage, search functions, reporting and virtual desktop. The solution is based on Microsoft SQL Server and SharePoint.

## Corporate Performance Management (CPM)

Innofactor offers advanced solutions for Corporate Performance Management – budgeting, planning, financial monitoring, forecasting and reporting. The solutions are based on Microsoft SQL Server and Canadian Prophix Software's Prophix software.

## Enterprise Search

A modern organization needs to find information fast and easily. Enterprise Search helps users find the right information for the purposes of their tasks. The solution is based on the advanced search functions of Microsoft SharePoint.

## Customer Specific Solutions

Innofactor also regularly implements customer and industry specific solutions developed in co-operation with the leading actors in the various industries. Our customer specific solutions ensure that the special features of the clients are taken into consideration in such a way that the solutions serve them in the best possible way. The solutions are based on Microsoft Dynamics xRM, Innofactor® Prime™ and .NET implementations.

# Comprehensive Services Complete the Offering

The purpose of Innofacor's services is to ensure fluent and cost-effective implementation, successful deployment and easy maintenance of all solutions.

## Specification, Planning and Consultation

Innofactor provides its clients with 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 offers various user and usability studies, as well as concept, graphic and user interface design.

## 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 implement demanding information technology projects.

## Integrations

Innofactor provides comprehensive system integrations by means of e.g. Microsoft BizTalk. In addition to Microsoft-based solutions, Innofactor's integration expertise also covers IBM- and Oracle-based systems.

## Migrations

Innofactor provides a comprehensive range of migration projects, for instance migration from SAS Institute and IBM Notes solutions to Microsoft-based systems. Migrations enable clients to reach significant savings and at the same time modernize their systems.

## Testing and Quality Assurance

In addition to software functionality testing, Innofactor performs availability and capacity testing, as well as information 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.

## Implementation 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 and Private Clouds

Innofactor's hosting services include a continuous troubleshooting service and service 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 to administrators. By separate agreement, we also offer a 24/7 on-call service.

# Head in the Cloud, Feet on the Ground

The time of mammoth systems is over. Organizations that need fast solutions and results require agile solutions to support their work. The benefits of the software have to be visible easily and fast. Innofactor's comprehensive offering is built on software and components developed on Microsoft technology platforms. In this way, we ensure that our solutions offer the benefits of the latest technologies and that they are customized to meet the client's needs. In our product development, the focus is on Windows Azure and Windows 8 Apps.

At the moment, Innofactor's product development focuses on the development of Innofactor's new generation component-based offering. The nature of the products has changed. Before we made complete independent systems, but now products are mostly add-ons or ancillary services for existing widely used systems, such as SharePoint, Dynamics or Office 365.

The general principle for designing products is that they naturally function in the Windows Azure environment in the Microsoft public cloud and utilize its features, such as scalability and fault tolerance. The products are, however, designed in such a way that, if necessary, they can be integrated as part of another system, for instance in situations in which the client environment sets requirements for the location of the services. This means that the same products can be sold and utilized via a public cloud, Innofactor's own hosting services with the SaaS model, or the client's own server. The products can be offered as such or modified as part of a larger delivery. In this case, we talk about hybrid solutions.

As the products are based on open interfaces and standards, various value-adding software is easy to create. Examples include various dashboards and applications similar to Windows 8 or Windows Phone 8 that focus on efficient and fast presentation of information.

Since the beginning of 2012, Innofactor has renewed its product development practices and processes to meet these new demands. The utilization of agile methods and automation help Innofactor respond to the demands of the global markets.

Innofactor's products are divided into product families, each of which has its special features.

### Innofactor® Cloud™ Product Family

consists of a series of components and applications that enable the publication or distribution of information stored in organizations' systems from Microsoft's cloud, and the implementation of comprehensive electronic service solutions.

### Innofactor® Prime™ Product Family

is a versatile software package which can be used to support organizations' core functions, such as implementation of web Communications, digital services and eCommerce, customer relationship management, resource management, as well as industry and customer specific solutions.

### Innofactor® Dynasty™ Product Family

is a versatile software package for document, case and archive management. It allows the implementation of comprehensive information 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 information security documentation and environmental documentation.

Innofactor also offers a number of products which are not included in the above product families.

# Significant Added Value to our Clients

Innofactor's client base consists of about 1,500 private and public organizations in Finland, Denmark and other European countries. Innofactor aims at long-term value-adding partnerships with its clients. The operations are based on knowing the client's business, listening to wishes, understanding needs, finding optimal solutions, choosing the right technical alternatives and products, identifying the suitable implementation, efficient project management, and successful deployment.

## Gasum

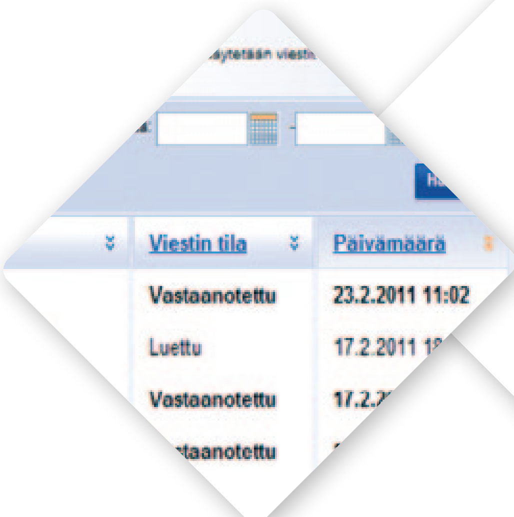
– Solutions for a cleaner tomorrow

Gasum is a Finnish expert in natural energy gases. We import natural gas to Finland, and transmit and deliver it to Finns to be used as energy. We also actively develop the Finnish biogas sector. Natural gas and biogas are natural energy gases that provide the Finnish energy sector with considerable advantages in terms of efficiency, environmental considerations and domestic content. Gasum has about 240 employees and the net sales in 2011 were EUR 1.3 million.

Gasum's aim has been to develop management reporting and at the same time transfer to a Microsoft-based Business Intelligence environment.

Innofactor and Gasum started cooperation in 2012 to develop Gasum's reporting processes. The first goal was to replace Gasum's existing data storage system with a new Microsoft-based solution. The implementation of the transfer has been started by using the Sprint Model, i.e. the project progresses one section at a time. In this way, the benefits of the system are easier to see and the system is available to the client faster.

**Jussi Hyvärinen**, Head of IT, Gasum Ltd




## City of Vantaa

### – Productivity and meaningful work through electronic solutions

The City of Vantaa is a large, multi-sector organization with employees located throughout the city. Vantaa has decided to enhance its operations and find solutions to develop the meaningfulness of its employees' work and to maintain an open communication culture by investing in IT solutions.

Innofactor has implemented Vantaa's new website, which the city uses to provide information to its inhabitants. Innofactor has also implemented a new intranet service, using the virtual desktop concept. An extranet solution for the city officials is under construction. The aim is to have tools that facilitate everyday work and enable flexible communications.

We are in the process of modernizing the practices of our eServices both internally and externally. Streamlining the processes will facilitate and enhance everybody's work, which means better services to the inhabitants of Vantaa.

**Jonna Engblom**, CIO, City of Vantaa


## SAS Cargo

### – Optimization of knowledge-based management process

SAS Cargo A/S is the leading air cargo carrier in the Nordic countries. It belongs to the SAS Group. SAS Cargo's Head Office is in Copenhagen. The company has about 1,000 employees and it operates in more than 100 locations in over 50 countries. SAS Cargo's goal is to offer its customers the smartest cargo solution in the market. This goal can be reached through efficient utilization of the latest technology and skilled personnel.

To support the efforts to reach this vision, SAS Cargo decided to launch the implementation of a new Business Intelligence system in cooperation with Innofactor. Another aim was to simplify the Key Performance Indicators used by the management and facilitate the distribution of information to lower levels in the organization. At the same time, the old BI system implemented with another technology was replaced by a more modern and cost-efficient Microsoft technology based system, utilizing Innofactor's Migration Concept.

The new BI system allows the management of SAS Cargo to drill down from general profitability analyses to e.g. customer, flight, product and sales organization specific analyses.

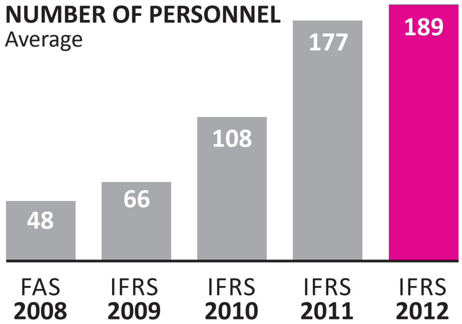
The whole new BI system has been implemented by using Microsoft standards and BI tools, including SharePoint and Microsoft SQL Server data bases and Microsoft's Reporting and Analysis Services.

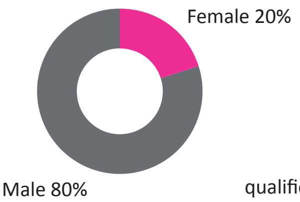
**Anders Hundahl**, Senior Manager, SAS Cargo

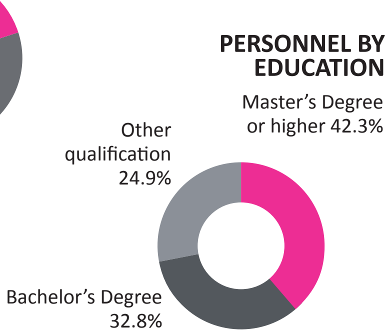
# Leading Microsoft Expertise in the Nordic Countries

**Innofactor's growth and development rely on growth and development-oriented personnel. Innofactor makes significant investments in the development and motivation of its personnel. Growth and internationalization create a dynamic working environment for our employees.**

During 2012, the average number of personnel was 189 (2011: 177), an increase of 6.8 percent. At the end of the year, the number of personnel was 193 (2011: 189), an increase of 2.1 percent. Women accounted for 20 percent and men for 80 percent of the personnel. At the end 2012, the average age of the personnel was 37.9 years. A total of 42.3 percent of the personnel has a Master's degree or higher, 32.8 percent a Bachelor's degree or are studying for a Master's degree, and 24.9 percent some other qualification.




## Large variety of expertise utilized effectively

Innofactor encourages its personnel to participate in the development of best practices. The personnel satisfaction survey conducted at Innofactor has shown that a possibility to influence one's own work is essential for work well-being. Innofactor actively listens to the thoughts and ideas of the employees and also strives to turn the best ideas into reality. The personnel's ability and willingness to create new solutions and operating models is encouraged through a special innovation program.

## Development of managerial work in focus

At Innofactor, management and supervisors play an important role in the promotion of positive and proactive work culture. In regular internal personnel reviews, immediate superior work has received positive feedback. Innofactor invests in managerial training through a special training and coaching program for the managerial staff to enhance their managerial skills.

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

## Career planning and training

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 competency needs and utilize them in career development plans.

Innofactor's personnel actively participate in the training programs organized by Microsoft. In 2012, the members of the personnel acquired several new competencies in the Microsoft Partnership Program. An example of this is that in 2012 Innofactor's Olli Jääskeläinen achieved the highest certification, Microsoft Certified Master, in the international Microsoft SharePoint Program, which produces the best Microsoft experts in the world. The competencies are a guarantee of the personnel's ability to produce solutions that are based on the latest technologies.

Innofactor seeks both national and international growth. When an organization grows and changes, the variety of internal operational models and cultures increases. The responsibility of the HR department is to support the growth in the best possible way by harmonizing, developing and enhancing the processes and working methods.

Change management plays an important role in the growth of an organization. Innofactor supports its personnel in the change process by providing training and by developing internal communication. Open communication and interaction will play a key role also in the future in the effort to utilize the opportunities created by growth in the best possible way.

**Microsoft Partner**

Gold Application Development
Gold Application Integration
Gold Business Intelligence
Gold Collaboration and Content
Gold Customer Relationship Management
Gold Data Platform
Silver Project and Portfolio Management

# Corporate Responsibility

Innofactor's operations are guided by the company's strategy, values, quality system, environmental policy, and by legislation. In line with its values, Innofactor strives to act in a responsible, committed, dialogue-oriented and collaborative way.

## Environment and sustainable development

In its operations, Innofactor adheres to the principles of sustainable development and to the environmental guidelines of the Federation of Finnish Technology Industries. Through the electronic 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 digital services decrease paper consumption in organizations. Solutions that aim at providing services over the web have improved the cost efficiency of public administration, enhanced the networking of services and thereby led to more comprehensive services and to further development of service processes. 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 value-adding partnerships with its clients and partners, partnerships in which the competencies 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 developing 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 the Company'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, for the time being, Innofactor Plc's Board of Directors does not include representatives of both genders. Innofactor Plc complies with the insider guidelines and harmonized disclosure rules of NASDAQ OMX Helsinki Ltd.

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, 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 in all matters concerning the company that are not stipulated in the Articles of Association or the Companies Act as being within the sphere of authority of 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.

Innofactor Plc's Board of Directors is responsible for ensuring that the supervision of the Group's accounting and financial management is arranged in an appropriate manner. The internal supervision in the Group is implemented by the Board of Directors together with the CEO. For supervisory 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 standing orders of the Board of Directors.

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

Innofactor Plc's Corporate Governance was last updated on February 25, 2013. Innofactor's statement on Corporate Governance, which has been drawn up in accordance with the Securities Markets Act and recommendation 51 of the Corporate Governance Code for Finnish listed companies, is issued separately from the Company's Annual Report.

# Board of Directors

## Pyry Lautsuo, b. 1946

M.Sc. (Tech.). Pyry Lautsuo held various positions in IBM in 1970–2006, the latest of which was Country Manager of Finland. Lautsuo has extensive experience in the software business both in Finland and globally. Previously, he has acted as a member of the Board of Directors of Affecto Plc and Tectia Plc, and as Chairman of the Board in the Finnish Information Processing Association (FIPA). Lautsuo has acted as Chairman of Innofactor Plc's Board of Directors since 2011. Shareholding: 46,964 shares.

## Sami Ensio, b. 1971

M.Sc. (Tech.). Sami Ensio acts as CEO of Innofactor Plc. Previously, he has acted as CEO of Innofactor Ltd and as a member of the Board of Directors since 2000. Ensio has strong and comprehensive expertise in the software industry and solid experience in strategic and operative management. Ensio has acted as a member of Innofactor Plc's Board of Directors since 2010. Shareholding: 7,400,000 shares.

## Juha Koponen, b. 1972

D.Sc. (Tech.). Juha Koponen currently acts as CEO of Internet service company Netcycler Ltd. Previously, Koponen has had over 10 years' experience in the software business, channel sales and international activities in First Hop Ltd, where he had various duties on the Executive Board. Koponen has been a member of Innofactor Plc's Board of Directors since 2011. Shareholding: 31,309 shares.

### Jukka Mäkinen, b. 1954

M.Sc. (Econ. & Bus. Adm.). Jukka Mäkinen currently acts as CEO of venture capital company Eqvitec Partners Ltd. Mäkinen has twenty years' experience in various positions in IT companies, for instance in Siemens-Nixdorf, Oracle, IBM and Xerox. Mäkinen has acted as a board member in more than 20 different companies and implemented several mergers and acquisitions both in Finland and abroad. Mäkinen has acted as a member of Innofactor Plc's Board of Directors since 2012. Shareholding: 28,183 shares.

### Pekka Puolakka, b. 1971

LL.M., Attorney-at-Law. Pekka Puolakka has held various positions in different law offices. His latest position was that of a Managing Partner at Law Firm Sorainen, which operates in the Baltics. Previously, Puolakka has acted as a member of Innofactor Ltd's Board of Directors and as a member of Innofactor Plc's Board of Directors since 2010. Shareholding: 136,979 shares.

# Executive Board

## Sami Ensio, b. 1971

M.Sc. (Tech.). Innofactor Plc's CEO and Chairman of the Executive Board. Innofactor Plc's CEO since 2010. Previously, founder and CEO of Innofactor Ltd since 2000. Further details in the information on the Board of Directors. Shareholding: 7,400,000 shares.

## Christian Andersen, b. 1966

BBA. Country Manager, Denmark. Founder and previous CEO of Bridgeconsulting. With Innofactor since 2012. Held previously various positions, for instance Managing Director and member of the European Executive Board of Niscayah, senior sales duties at the SAS Institute and Controller at Maersk Data and Honeywell. Excellent knowledge of the Danish IT market and management of an IT company.

## Aino-Maija Gerdt, b. 1955

M.Sc. (Econ.). Head of the Cloud and Mobile Services Unit. With Innofactor since 2011. Previous posts include CEO of Frends Technology Ltd, Strategic Customer Manager at EDS Finland/Nordic and Business Unit Executive at Siemens-Nixdorf Ltd. Strong background in product internationalization in the Microsoft ecosystem. Shareholding: 180,000 shares.

## Henrikki Hervonen, b. 1971

M.Sc. (Econ. & Bus. Adm.). Head of the Productivity and Operational Solutions Unit in Finland. With Innofactor since 2010. Previously CEO of Visual Management Ltd, and managerial positions at Affecto Plc and the Enator Group. High expertise in Microsoft's productivity solutions and their sales to organizations. Shareholding: 133,880 shares.

## Elina Jokinen, b. 1974

M.Soc.Sci. (Political Science). Innofactor's VP of HR since 2013. Previously HR Manager at VTT (Technical Research Centre of Finland) and various HR positions at Nokia. Jokinen's special expertise areas include competency development, change management, leadership development and communications. Jokinen's responsibility is to implement HR activities that support Innofactor's international business activities and personnel development.

## Mikko Karvinen, b. 1976

M.Sc. (Econ. & Bus. Adm.). Innofactor's CFO. Responsible for Innofactor Plc's financial management since 2012. Acted previously as CFO at Tectia Plc and Automaster Ltd, and as Controller at Vaisala Plc. Strong expertise in the organization of financial management and financing of an international software company and work at a public listed company. Shareholding: 100,000 shares.

**Mikko Lampi, b. 1977**

M.Sc. (Tech.). Head of the Web Communications and Digital Services Unit in Finland. Deputy CEO. With Innofactor since 2001. Board member of the Finnish Software Entrepreneurs Association. Deep expertise in the implementation of web communications and digital services, as well as Microsoft-based technologies. Shareholding: 1,045,543 shares.

**Janne Martola, b. 1974**

M.Sc. (Tech.). Responsible for Innofactor Plc's international system integration activities as well as mergers and acquisitions. With Innofactor since 2011. Previously Investment Director at a private equity company CapMan Plc. Board member in several companies with international operations. More than 10 years' experience of domestic and international mergers and acquisitions and international business. Shareholding: 100,000 shares.

**Teemu Muukkonen, b. 1974**

M.Sc. (Tech.). Responsible for project activities in Finland. With Innofactor since 2001. Several demanding project management tasks; responsible for service production. Shareholding: 507,468 shares.

**Mikko Myllys, b. 1976**

Undergraduate (theology and philology). Head of the Third Sector Solutions Unit. With Innofactor since 2005. Held previously administrative positions in the Parish Union of Helsinki. Member of the Board of Directors of the Finnish Evangelical Lutheran Mission (FELM). Deep expertise in parish and organizational sectors. Shareholding: 176,981 shares.

**Mika Nurmi, b. 1966**

M.Sc. (Tech.). Head of the Document and Case Management Unit in Finland. With Innofactor since 2009. Previously Manager at Tieto Plc with responsibility for service production, development, growth and profitability. Comprehensive expertise in IT solution sales and deliveries. Shareholding: 139,553 shares.

# Innofactor Plc
# Report of the Board of Directors and Consolidated Financial Statements

Financial period
January 1 to December 31, 2012

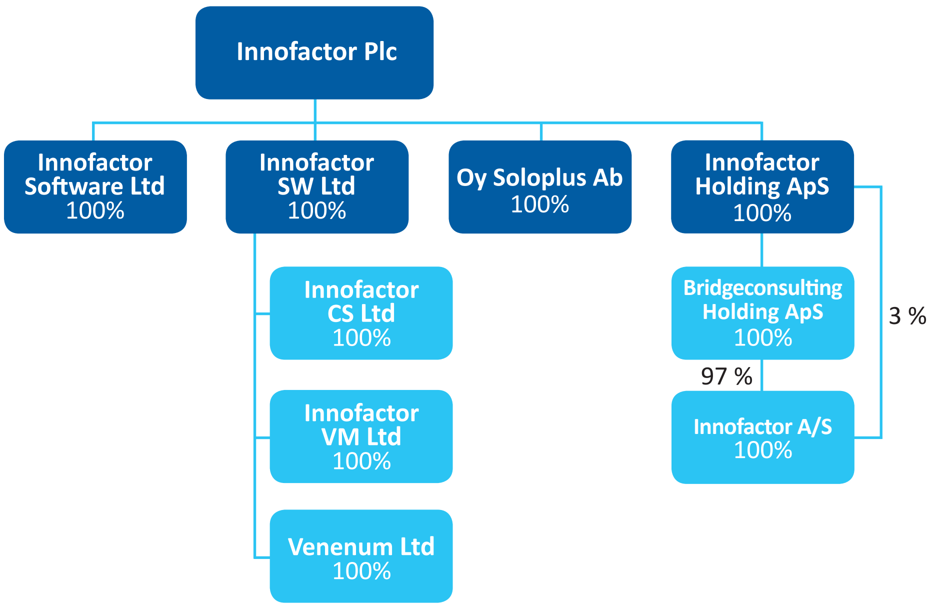
# Innofactor Plc, Board of Directors' Report 2012

## Innofactor Group

Innofactor is one of the leading Microsoft-focused software providers in the Nordic countries. Innofactor offers its clients IT projects as a system integrator and develops products and services of its own as an independent software vendor (ISV). The focus of product development is on Azure-based cloud solutions. About one third of Innofactor's net sales comes from recurring contracts related to Innofactor's own products and from other recurring service contracts.

Innofactor´s client base consists of about 1,500 private and public organizations, mainly in Finland and Denmark, some also in other European countries. In its operations, Innofactor aims at long-term client relationships. Innofactor's personnel consist of about 200 committed experts working in seven different locations in Finland and Denmark.

Innofactor's group structure at the end of the financial period:




At the end of the financial period, the Innofactor Group consists 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%
- Oy Soloplus Ab, Espoo, Finland, 100%
- Innofactor A/S, Copenhagen, Denmark, 100%
- Innofactor Holding ApS, Copenhagen, Denmark, 100%
- Bridgeconsulting Holding ApS, Denmark, 100%

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

## Financial performance and standing

| Key figures of the Group | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Net sales, EUR thousand* | 18,818 | 17,205 | 9,862 | 6,920 |
| Operating profit before depreciation and amortization (EBITDA), EUR thousand** | 1,215 | 1,443 | 980 | 1,309 |
| percentage of net sales** | 6.5% | 8.4% | 9.9% | 18.9% |
| Operating profit (EBIT), EUR thousand** | 620 | 904 | 702 | 1,165 |
| percentage of net sales** | 3.3% | 5.3% | 7.1% | 16.8% |
| Earnings before taxes, EUR thousand** | 591 | 886 | 696 | 1,182 |
| percentage of net sales** | 3.1% | 5.1% | 7.1% | 17.1% |
| Earnings, EUR thousand** | 449 | 687 | 505 | 875 |
| percentage of net sales** | 2.4% | 4.0% | 5.1% | 12.6% |
| Equity, EUR thousand | 13,760 | 12,905 | 12,218 | 2,597 |
| Return on equity | 3.4% | 5.5% | 6.8% | 40.5% |
| Return on investment | 4.5% | 7.2% | 9.7% | 54.9 % |
| Net gearing | 5.4% | -5.4% | -14.0% | -63.5% |
| Equity ratio | 66.1% | 74.5% | 68.2% | 56.1% |
| Balance sheet, total, EUR thousand | 22,173 | 18,324 | 19,517 | 5,355 |
| Research and development, EUR thousand | 2 488 | 2,086 | 1,173 | 680 |
| percentage of net sales | 13.2% | 12.1% | 11.9% | 9.8% |
| Personnel on average during the review period | 189 | 177 | 108 | 66 |
| Personnel at the end of the review period | 193 | 189 | 171 | 89 |
| Number of shares at the end of the review period*** | 30,165,900 | 29,261,800 | 29,261,849 | 16,756,659 |
| Earnings per share (EUR)*** | 0.0150 | 0.0235 | 0.0274 | 0.0540 |
| Shareholders' equity per share (EUR)*** | 0.460 | 0.441 | 0.418 | 0.155 |

* As the result of the organizational change implemented on January 1, 2012, projects were reorganized, and it had a non-recurring decreasing effect amounting to about EUR 300 thousand on the net sales in January.

** As the result of the organizational change implemented on January 1, 2012, projects were reorganized, and it had a non-recurring decreasing effect amounting to about EUR 300 thousand on the net sales in January. The personal and facility arrangements related to the organizational change also caused a non-recurring cost of about EUR 100 thousand. The total decreasing effect on the earnings was about EUR 400 thousand. The corporate acquisition implemented on July 5, 2012 during the review period of July 1 to Sept 30, 2012 also caused a non-recurring cost of EUR 150 thousand.

*** Owing to the reverse acquisition as per IFRS 3, the calculation of the number of shares before December 27, 2010 used in the table 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 2012, Innofactor's net sales were EUR 18,818* thousand (2011: 17,205), increase of 9.4 percent, of which the share of organic growth is -1.0 percent and the share of inorganic growth 10.4 percent.

* As the result of the organizational change implemented on January 1, 2012, projects were reorganized, and it had a non-recurring decreasing effect on the net sales amounting to about EUR 300 thousand.

## Financial performance

In 2012, Innofactor's operating profit before depreciation and amortization (EBITDA) was EUR 1,215* thousand (2011: 1 443), decrease of 15.8 percent. EBITDA accounted for 8.4 percent of the net sales (2011: 8.4 percent).

In 2012, Innofactor's operating profit was EUR 620* thousand (2011: 904), decrease of 31.4 percent. Operating profit accounted for 3.3** percent of the net sales (2011: 5.3 percent).

In 2011, a total of EUR 488 thousand (2011: 2,086) recognized in profit or loss was used for research and development.

* As the result of the organizational change implemented on January 1, 2012, projects were reorganized, and it had a non-recurring decreasing effect amounting to about EUR 300 thousand on the net sales in January. The personal and facility arrangements related to the organizational change also caused a non-recurring cost of about EUR 100 thousand. The total decreasing effect on the earnings was about EUR 400 thousand. The corporate acquisition implemented on July 5, 2012 during the review period of July 1 to Sept 30, 2012 also caused a non-recurring cost of EUR 150 thousand.

## Financial position, liquidity and investments

Innofactor's balance sheet total at the end of the review period was EUR 22,173 thousand (2011: 18,324). The Group's liquid assets totaled EUR 656 thousand (2011: 696), consisting totally of cash funds.

The operating cash flow in the review period of Jan 1 to Dec 31, 2012 was EUR 252 thousand (2011: -798). The investment cash flow was EUR -1,459 thousand (2011: -220).

At the end of the review period, the equity ratio was 66.1 percent (2011: 74.5 percent) and the net gearing -5.4 percent (2011: -5.4 percent).

At the end of the review period, the company had current interest-bearing liabilities amounting to EUR 443 thousand (2011: 0) and non-current interest-bearing liabilities amounting to EUR 950 thousand (2011: 0).

The return on investment in Oct 1 to Dec 31, 2012 was 4.5 percent (2011: 7.2 percent).

The return on equity in Oct 1 to Dec 31, 2012 was 3.4 percent (2011: 5.5 percent).

At the end of the review period, Innofactor's non-current assets amounted to EUR 12,747 thousand, consisting of the following:

- Property, plant and equipment EUR 451 thousand
- Goodwill value EUR 2,834 thousand
- Other intangible assets EUR 1,695 thousand
- Deferred tax assets EUR 7,767 thousand

In the review period Jan 1 to Dec 31, 2012, Innofactor's gross investments in property, plant and equipment were EUR 189 thousand (2011: 201), consisting of normal additional and replacement investments required by growth.

According to the impairment tests performed, there are no impairments of assets. The amortization of intangible assets amounted to EUR 335 thousand (2011: 328).

## Mergers, acquisitions and changes in the group structure

By an agreement signed on June 25, 2012, the Group purchased the whole share capital of Danish Bridgeconsulting A/S from the operative management of the company. A total of three percent of the shares were acquired through direct purchases, and the remaining 97 percent by purchasing the whole share capital of Bridgeconsulting A/S. Bridgeconsulting was the leading provider of Microsoft technology based Business Intelligence solutions in Denmark. The acquisition supported the internationalization strategy published by Innofactor in 2011. Innofactor's strategy is to grow both organically and through corporate acquisitions to the largest software integrator focused on Microsoft solutions in the Nordic countries. The name of Bridgeconsulting A/S was changed to Innofactor A/S.

Bridgeconsulting produced special solutions for Business Intelligence, data storage and performance management. The company has been a high level Microsoft Partner in Business Intelligence and it was selected Microsoft Business Intelligence Partner in Denmark in 2009, 2010 and again in 2012 after the corporate acquisition. The company's clients include large

Danish private sector companies and public administration organizations, for instance AS, UNICEF, TDC, DONG Energy, Ministry of the Environment and the City of Copenhagen. The company's net sales in the financial period before the corporate acquisition (October 2010 – September 2011) was about EUR 3.28 million (increase of 18 percent) and EBITDA was about EUR 0.14 million. At the time of the acquisition, the number of the company's employees was about 25. The management of the company and all the employees transferred to Innofactor with existing terms of employment. Based on the closing date of the corporate acquisition, the company and its financial information have been consolidated with the Innofactor Group as from July 2012. The last financial period of the company (started in October 2011) was extended to December 31, 2012.

The purchase price will depend on the actual EBITDA for a period of 12 months (July 2012 – June 2013) of the target company. The purchase price will be paid in Danish crowns and Innofactor shares, and it is expected to amount to about EUR 2.0 million. The purchase price has been agreed as about EUR 1.6 million (minimum) and about EUR 3.0 million (maximum). About EUR 1.26 million was paid in cash at the beginning of July, 2012, and the rest is planned to be paid in Innofactor's shares during the second half of 2013. The cash payment was financed with a 1.25 million bank loan. As from the date on which the remaining purchase price is paid in shares, a total of 75 percent of the shares will be subject to a 36 month transfer restriction which will be reduced gradually.

The net sales, EBITDA and operating profit, based on the Danish accounting rules and regulations, were the following in financial periods Oct 1, 2010 to Sept 30, 2011 and Oct 1, 2009 to Sept 30, 2010:

| | **Oct 1, 2010 to Sep 30, 2011** | **Oct 1, 2009 to Sep 30, 2010** |
|---|---|---|
| Net sales | 3,277 | 2,768 |
| EBITDA | 142 | 181 |
| Operating profit (EBIT) | 95 | 143 |

Bridgeconsulting A/S's balance sheets at Sept 30, 2011 and Sept 30, 2010 were the following (EUR thousand)

| | **Oct 1, 2010 to Sep 30, 2011** | **Oct 1, 2009 to Sep 30, 2010** |
|---|---|---|
| Non-current assets | 127 | 77 |
| Receivables and liquid assets | 982 | 758 |
| Total | 1,109 | 835 |
| Shareholders' equity | 191 | 207 |
| Liabilities | 917 | 628 |
| Total | 1,109 | 835 |

The exchange rate used: EUR 1 = DKK 7.44

At the beginning of July 2012, Innofactor Plc established a fully owned subsidiary in Denmark, Innofactor Holding Aps, to which the whole ownership of Holding ApS and Innofactor A/S (former Bridgeconsulting A/S) was transferred. The aim is to wind up Bridgeconsulting Holding Aps later.

A preparatory purchase price calculation has been appended to the Financial Statement.

By a contract signed on November 30, 2012, the Group acquired the business operations focusing on project and project portfolio system deliveries from Tietotalo Infocenter. The deal entered into force on December 31, 2012, and the purchased business operations will be included in Innofactor's financial statements as from January 1, 2013. The 2012 net sales of the business to be transferred to Innofactor are estimated at about EUR 0.5 million. The whole personnel of the project and project portfolio management unit of Tietotalo Infocenter will transfer to Innofactor with existing terms of employment. The purchase price will be paid from Innofactor's cash reserves.

No other acquisitions or changes in the group structure took place during the review period.

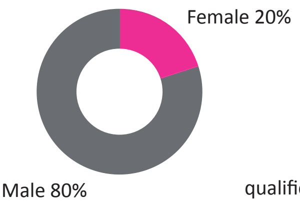
## Personnel

Innofactor's average number of personnel in 2012 was 189 (2011: 177), increase of 6.8 percent.

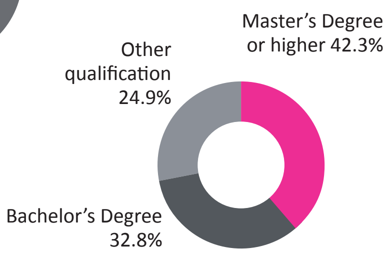
At the end of the review period, the number of personnel was 193 (2011: 189), increase of 2.1 percent.

At the end of the review period, the average age of the personnel was 37.0 years (2011: 370). A total of 42.3 percent of the personnel had a Master's degree or higher (2011: 38.4 percent), 32.8 percent a Bachelor's degree or were studying for a Master's degree (2011: 36.8 percent), and 24.9 percent some other qualification (2011: 24.8 percent). Women accounted for 20 percent of the personnel and men for 80 percent (2011: 22 and 78 percent).

**PERSONNEL BY GENDER**




**PERSONNEL BY EDUCATION**




## Strategy

Innofactor published its updated strategy in the stock exchange release of August 31, 2012. 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 in the Microsoft environment. Innofactor's clients are enterprises and organizations. Innofactor operates in Finland and in Denmark and offers its solutions from these two countries to other countries. Innofactor actively strives to expand its activities in the Nordic countries. This may take place through organic growth or through mergers and acquisitions. Innofactor offers to the global markets value adding components for Microsoft business solutions through several distribution channels.

Innofactor's mission is:

- to help our clients offer their customers increasingly better services and improve their own operations
- to provide our personnel and partners with an innovative and supportive environment in which they can continue to develop themselves further

Innofactor's vision is to be:

- the Number One provider of Microsoft solutions to companies and organizations in the Nordic countries
- the Number One provider of value-adding components for Microsoft's corporate solutions globally

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

- A unique combination of Microsoft software and system integration related business activities
- Concentration on the most important corporate and public sector clients in the target markets
- Unique offering, which includes critical Microsoft corporate solutions
- Giving value for the clients' money by ensuring the best people deliver the best products and services
- Focus on continuous services and long-term partnerships with the clients
- Growth in the Nordic countries in system integration activities and in software business globally

Innofactor's goal is to grow profitably:

- Achieve an average annual growth of 30 to 40 percent in 2011–2015 through both organic growth and acquisitions
- Achieve an average annual operating profit of 10 to 15 percent 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

Innofactor delivers Microsoft solutions related IT projects as a system integrator and develops software products of its own as Microsoft's software partner (ISV).

Innofactor provides a comprehensive range of value adding services for Microsoft solutions: SharePoint, Dynamics, Project, SQL Server and Office 365. The solutions help companies and organizations improve the efficiency of their online communications, eServices, document management, customer relationship management, project and project portfolio management, and data retrievability.

Innofactor provides its solutions installed on the client's own server or as a service implemented either through Innofactor's Service Center or through the Microsoft Cloud. The continuous SaaS, cloud and other service agreements based on Innofactor's own products, typically based on annual or monthly charges, play an important role in Innofactor's business activities. The recurring services essentially decrease cyclicality in the business operations. Recurring services account for about one third of Innofactor's net sales.

Innofactor's offering to the global markets includes value adding components for Microsoft business solutions. Innofactor's product development focuses on Microsoft's Azure-based services and Windows 8 applications. The primary distribution channels are the other system integrators (VAR) of the Microsoft ecosystem and online market places.

In Jan 1 to June 30, 2012, Innofactor's business operations mainly took place in Finland, and in July 1 to Dec 31, 2012, also in Denmark. In Jan 1 to Dec 31, 2012, about 88 percent of the net sales came from Finland, and about 10 percent from Denmark. The remaining ca. 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 Jan 1 to Dec 31, 2012, corporate clients accounted for about one third of Innofactor's net sales and the public sector for about two thirds.

The distribution of Innofactor's net sales during the review period Jan 1 to Dec 31, 2012 was as follows:

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

Innofactor's 10 largest clients accounted for about 20 percent of the net sales during the review period Jan 1 to Dec 31, 2012.

## Major events in the financial period

- Innofactor reformed its organization as of January 2, 2012. The Innofactor Group's operations were previously organized mainly into four business units: corporate 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 at the national level into country specific units; at the moment, there is only a unit in Finland. The software business is organized as global Cloud and Mobile Solutions Unit. In the new organization, the system integrator unit in Finland was divided into four business units: 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 CEO 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, 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 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 engagement 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 and December 30, 2011. The subscription price of the Personnel Shares is therefore approximately 10 percent lower than the weighted average share price in the month preceding the decision on the Personnel Issue. 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 and March 16, 2012 after the Company Financial Statement Release for the year 2011 has been published. When subscribing for Personnel Shares, the subscriber has to undertake not to resign from Innofactor 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.

- On March 2, Mikko Karvinen, M.Sc. (Econ. & Bus. Adm.), aged 35, was appointed CFO of Innofactor Plc. He will be a member in Innofactor's Executive Board and report to CEO Sami Ensio. Innofactor's long-standing CFO Anneli Saarikoski will act as CFO until July 31,2012 and from then onwards assume other tasks at Innofactor at her own request. Mikko Karvinen will transfer to Innofactor from Tectia Plc, where he has acted as CFO since 2009. Mikko Karvinen will assume his position on August 1, 2012.

- On March 19, 2013, Innofactor Plc's subsidiary Innofactor Software Ltd was selected in a public procurement procedure to deliver an eService system for the processing of applications for the City of Vantaa and its enterprises and subsidiaries. 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 during the next four years is approximately EUR 740,000. The contract will strengthen Innofactor's position as a provider of eService systems in Finland. The solution is based on Dynasty® 360° information management software, SharePoint 2010 and Innofactor® CDS™ eForm component.

- On March 19, 2012, Innofactor Plc's Board of Directors approved in full the subscriptions made in the Personnel Issue directed to Innofactor Plc's personnel. A total of 904,100 shares were subscribed for in Innofactor's Personnel Issue. As the result of the Personnel Issue, the number of Innofactor's shares increased by 904,100 to a total of 30,165,900 shares. The new shares account for 3.0 percent of Innofactor's post-issue number of shares and votes. A total of the loans granted to the personnel amounted to EUR 371,118.78. The subscription price in total was recognized as an increase in the company's fund for invested unrestricted equity. The new shares were immediately registered in the Trade Register. The trading of the issued Personnel Shares on the Helsinki Stock Exchange (NASDAQ OMX) started on March 30, 2012. The shares are subject to a sale and transfer restriction for 12 months starting from the date on which they were entered in the Trade Register.

- The Annual General Meeting of Innofactor Plc of March 27, 2012 approved the financial statements and the consolidated financial statements for the financial period that ended on December 31, 2011, and discharged the members of the Board of Directors and the Chief Executive Officer from liability for the financial period that ended on December 31, 2011.

- The General Meeting decided, in accordance with the proposal of the Board of Directors, that no dividend shall be paid for the financial period Jan 1 to Dec 31, 2011.

- The General Meeting decided that the Chairman of the Board of Directors shall be paid a fee totaling EUR 36,000 per year and the other members of the Board of Directors shall be paid a fee totaling EUR 24,000 per year. No separate fees for meetings shall be paid. Half of the fee (50 percent) shall be paid monthly in cash and the other half (50 percent) as Innofactor Plc's shares. The shares shall be handed over to the members of the Board of Directors and, if necessary, shall be acquired directly from public trading on behalf of the members within two weeks of the publishing of Innofactor Plc's interim report for Jan 1 to March 31, 2012. Innofactor Plc requires that the members of the Board of Directors keep the shares that they have received as fees, for the duration of their membership in the Board of Directors.

- The General Meeting decided that the number of the Board members shall be five and that no deputy members shall be elected. The following persons were elected as members of the Board of Directors: Sami Ensio, Juha Koponen, Pyry Lautsuo, Pekka Puolakka, and Jukka Mäkinen. In the organizing meeting held immediately after the General Meeting, the Board of Directors elected Pyry Lautsuo as Chairman of the Board of Directors.

- Ernst & Young Ltd, an auditing firm authorized by the Central Chamber of Commerce, was elected as the auditor for the company. Ernst & Young Ltd has informed that it will appoint Juha Hilmola, Authorized Public Accountant, as the responsible auditor. It was decided that the auditing fee would be paid against a reasonable invoice.

- The Annual General Meeting also decided to authorize the Board of Directors to decide on issuing new shares and/or transferring the treasury shares held by the company and/or granting special rights entitling to shares pursuant to Chapter 10, Section 1 of the Finnish Companies Act in accordance with the proposal of the Board of Directors. Based on the proposal of the Board of Directors, the Annual General Meeting decided to authorize the Board of Directors to decide on issuing of a maximum of 8,000,000 shares and transferring of a maximum of 1,000,000 own shares in the company's possession, in one or several parts. The share issue can be implemented either against payment or without consideration, based on the conditions set by the Board of Directors and, for the part of an issue against payment, at the price defined by the Board of Directors. The new authorization also gives the Board of Directors the right to grant special rights—as defined in the Chapter 10, Section 1 of the Companies Act, which entitle, against payment, to new shares or the treasury shares in the company's possession. A right may also be given to a creditor in such a manner that the right includes a condition that the creditor's receivable is used to set off the subscription price (convertible loan). The subscription price of the new shares and the amount paid for the treasury shares will be added to the fund for invested unrestricted equity. The new authorization includes a right to deviate from the pre-emptive subscription rights of the existing shareholders, provided that the company has an important financial reason for the part of the share issue against payment, and provided that it is in the interest of the company and all the shareholders for the part of the share issue without consideration. Within the limits set above, the new authorization can be used, for example, to develop the capital structure, to widen the ownership base, as payment in corporate acquisitions, or for purchasing property related the company's business operations. New issue or transfer of treasury shares can also be used by consideration in kind or by using the set-off right. The new authorization cannot be used in implementing incentive systems aimed at the company's personnel or at the Chief Executive Officer. The new authorization also includes the right to decide on a free share issue to the company itself in such a manner that, after the issue, the number of shares in the company's possession is a maximum of one tenth (1/10) of the total number of shares in the Company. This number includes the treasury shares in the possession of the company or its subsidiaries as defined in the Chapter 15, Section 11, Subsection 1 of the Companies Act. The new authorization shall be valid until June 30, 2013. The Board of Directors was authorized to decide on all other matters related to the new authorization.

- In order to improve the profitability, Innofactor's Board of Directors made a decision on April 30, 2012 to start co-operation negotiations in the SharePoint Solutions unit, which may lead to redundancies for a maximum of nine persons or to a maximum of 90 days' lay-offs for the whole personnel. Innofactor completed the co-operation negotiations in the SharePoint Solutions unit on May 22, 2012. During the negotiations, positive development took place in the unit. Innofactor's Board of Directors decided on the redundancy of 2 persons and on the lay-off of two persons for a period of 90 days.

- On August 28 Innofactor Plc's Extraordinary General Meeting approved the proposal of the Board of Director to authorize the Board of Directors to decide on the purchase of the Company's own shares (treasury shares) on the following conditions:
  The Extraordinary General Meeting authorizes the Board of Directors to decide on acquiring of a maximum of 3,000,000 shares in one or several parts with the Company's unrestricted shareholders' equity. The authorization entitles the Board to deviate from the shareholders' proportional shareholdings (directed acquisition). The shares will be acquired on the Nasdaq OMX Helsinki Ltd public trading at the market price. The maximum number of shares in the company's possession shall be one tenth of the total number of shares. The shares may be acquired to be used to implement corporate acquisitions or other arrangements connected with the Company's business operations, to improve the Company's capital structure, as part of the implementation of the Company's incentive scheme, or otherwise to be transferred or cancelled. In connection with the acquisition of treasury shares, derivative contracts, share loan agreements or other agreements may be made within laws and regulations if they are customary to capital market. The authorization includes the right of the Board of Directors to decide on all other matters related to the acquisition of shares. The authorization is valid until June, 2014.

- At its meeting on August 27, 2012, the Board of Directors of Innofactor Plc decided to start the acquisition of its own shares (treasury shares). A maximum of 1,500,000 shares will be acquired equaling approximately 4.97 percent of the total number of the Company's shares. The decision is based on the authorization given to the Board by the Extraordinary General Meeting on August 27, 2012 to acquire a maximum of 3,000,000 shares. The acquisition of the shares will start on September 4, 2012 at the earliest, and it will end on December 31, 2013 at the latest. The shares may be acquired to be used to implement corporate acquisitions or other arrangements connected with the Company's business operations, to improve the Company's capital structure, as part of the implementation of the Company's incentive scheme, or otherwise to be transferred or cancelled. The shares will be acquired by using the Company's unrestricted equity at the prevailing market price on the NASDAQ OMX Helsinki Ltd in public trading in accordance with the NASDAQ OMX Helsinki Ltd and Euroclear's regulations and guidelines for the acquisition of own shares.

- At its meeting on August 27, 2011, Innofactor Plc's Board of Directors 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 million, of which EUR 4,988,000 was recognized in Innofactor Software Ltd's fund for invested unrestricted equity and EUR 12,000 in the share capital. The subscription price was fully paid through an offset of EUR 5 million of Innofactor Plc's receivables from Innofactor Software Ltd. The Innofactor Group's business operations in Finland have been centralized into 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 October 30, 2012 Innofactor Plc's Board of Directors decided to update the Group's strategy; further details under Strategy.

- On November 1, 2012, Innofactor was selected to deliver a platform transfer and deployment of intranet and extranet for Tekes. Innofactor Plc's subsidiary Innofactor Software Ltd was selected in a public procurement procedure to deliver a platform transfer and deployment of intranet and extranet for Tekes – the Finnish Funding Agency for Technology and Innovation. The value of the contract is EUR 557,585.

- On November 30, 2012, Innofactor refined its estimate for 2012.

## Major events after the financial period

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

## Future outlook

Innofactor's net sales in 2013 are estimated at about EUR 24 million (2012: EUR 18,818 thousand). The operating profit before depreciation and amortization (EBITDA) in 2013 is estimated at about EUR 2 million (2012: EUR 1,215 thousand).

## Major risks and uncertainties

Innofactor's operations, finances and its share 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. The risks are published in full in the Financial Statement Release. The Interim Reports only present the recent changes in risks.

## Risks related to operations

The risks related to the operations of the Innofactor Group are primarily business risks related to its subsidiaries.

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 2013, 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 2013, 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 2012, about 70 percent). At the moment, all Innofactor's own employees work in Finland or in Denmark. Some of the competitors utilize cheap labor in countries where the labor costs are low. If personnel costs continue to rise in Finland and Denmark at the same rate as before, 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 and work performed abroad.

Competition: Innofactor's main competitors are companies offering traditional information technology services and software in the Nordic countries. 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 2012, about 13 percent 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.

Internationalization: In line with its strategy, Innofactor also seeks growth in the global markets, especially in the Nordic countries. 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. Although Innofactor's expansion to Denmark through the acquisition of Bridgeconsulting

A/S has been a success in terms of economy and also otherwise, it is probable that international operations in some other countries may be unprofitable in the beginning. 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 average growth in the market. This involves a risk that the goals cannot be reached in the same way as before. Even if the development of the IT market in 2013 seems to be more favorable than in 2012, it is possible that the growth will not materialize owing to the general economic situation in Europe. Ensuring growth plays an important role when Innofactor's operations are planned and goals are set. Innofactor strives to decrease this operational risk by focusing on sales to maintain the order portfolio on a sufficient level in view of the business operations.

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

Risks related to corporate acquisitions: Each corporate acquisition, after it has been made, carries risks concerning e.g. the integration process, formation of goodwill and consequent need for possible depreciation and amortization. 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.

Success in organizational changes: Strong growth may require organizational changes from time to time. Launching a new organization typically involves challenges before the enhancement of the operations aimed at takes place. Usually it takes a few months to get the efficiency of the organization to the same level on which it was before the change. If the enhancement of the operations in some respects does not take place in the planned schedule, there is a risk that no enhancement takes place or the delay may cause additional costs. This may be due to the failure to locate units or person in the right way. No further negative effects are expected in view of the organizational change that was implemented at the beginning of 2012. Innofactor has no plans to make similar organizational changes in the near future. If such changes are made, Innofactor will pay more attention to change management than before and will also prepare for the change in view of economic effects.

## 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. Innofactor took a loan of EUR 1.25 million to acquire the Danish company Bridgeconsulting A/S. Before the purchase, Innofactor had no debts. This may have increased Innofactor's financing risks. Innofactor has committed itself to the following covenants: equity ratio shall be at least 40 percent and interest bearing debts / EBITDA shall be a maximum of 3.0 in the financial statement of December 31, 2012, and subsequent statements. The goal of managing financing risks is to minimize the negative effects of the changes in the financial markets on the result of the Group. Risk management has been centralized to the CFO, who is responsible for the Group's financing and regularly reports to the Company's Executive Board and to the 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 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 has increased by 70 percent during the review period but is still fairly low. In 2012, the trading volume was 11.9 percent of the share capital, whereas the average for companies in the Helsinki Stock Exchange (NASDAQ OMX Helsinki) was about 80 percent. 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.

## 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 March 27, 2012, the number of the members of the Board of Directors was confirmed as five. The General Meeting decided to approve the proposal that Sami Ensio, Juha Koponen, Pyry Lautsuo and Pekka Puolakka continue as members of the Board of Directors and Jukka Mäkinen is elected as a new Board Member. Pyry Lautsuo was elected to continue as Chairman of the Board by the Board members.

The General Meeting approved the proposal to appoint Ernst & Young Ltd, an 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 issues a Corporate Governance Statement for the financial period of 2012 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 Statement is issued separately from the Company's Annual Report.

## Research and product development

Innofactor's research and development costs in Jan 1 to Dec 31, 2012 recognized in profit or loss were EUR 2,488 thousand (2011: EUR 2,086 thousand), which accounts for 13.2 percent of the net sales (2011: 12.1 percent).

## 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 to 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 further.

Innofactor Plc's Corporate Governance and reports are available on the Company's web site at **http://www.innofactor.com/investors/corporate_governance**

## 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 30,165,900, of which a total of 276,000 shares were in the Company's possession. Innofactor Plc has one series of shares. Each share is entitled to one vote.

In the period of Jan 1 to Dec 31, 2012 the highest price of the Company's share was EUR 0.70 (2011: EUR 3.20*), the lowest price was EUR 0.38 (2011: EUR 0.56*). The average** price was EUR 0.50 (2011: EUR 1.35*). The closing price for the review period on December 31, 2012, was EUR 0.48 (2011: EUR 1.60*).

* 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 has been 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 Jan 1 to Dec 31, 2012, a total of 3,569,716 shares were traded (2011: 2,092,354 shares*), which represents 11.9 percent (2011: 7.2 percent) of the average number of shares in the said period. In Jan 1 to Dec 31, 2012, the average number of shares was 29,894,264** (2011: 29,261,814*). The number of shares traded increased by 70.6 percent compared with the corresponding period in 2011.

* 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 average number of shares does not include the treasury shares in the possession of the Company.

The market value of the share capital at the closing price of the review period, EUR 0.48, on December 31, 2012, was EUR 14,347 thousand (2011: 17,557), decrease of 18.3 percent.

On December 31, 2012, the Company had 11,838 shareholders (2011: 12,257), including the administrative registers (8). The share of holdings in the administrative registers was 0.4 percent of the total number of shares. A total of 4.2 percent of the shareholders were companies operating in Finland, 0.3 percent financing and insurance companies, 93.7 percent Finnish households, and 1.4 percent foreign shareholders.

The Board of Directors has the following authorizations:

- The authorization concerning a share issue and granting special rights entitling to shares, a maximum of 8,000,000 shares valid until June 30, 2014; the authorization has not been exercised (decision in the General Meeting of March 2012 and Extraordinary General Meeting of August 27, 2012).
- Authorization to transfer a maximum of 1,000,000 treasury shares held by the company valid until June 30, 2014; the authorization has not been exercised (decision in the General Meeting of March 2012 and Extraordinary General Meeting of August 27, 2012).

On August 27, 2012, Innofactor Plc's Extraordinary Meeting approved the proposal of the Board of Director to authorize the Board of Directors to decide on the purchase of the Company's treasury shares on the following conditions:

The Extraordinary General Meeting authorized the Board of Directors to decide on acquiring of a maximum of 3,000,000 own shares (treasury shares) in one or several parts using the Company's unrestricted shareholders' equity. The authorization gives the Board of Directors the right to deviate from the shareholders' proportional shareholdings (directed acquisition). The shares will be acquired on the Nasdaq OMX Helsinki Ltd public trading at the market price. The maximum number of shares that the Company may have in its possession at a time is one tenth of the total number of the shares. The shares may be acquired to be used to implement corporate acquisitions or other arrangements connected with the Company's business operations, to improve the Company's capital structure, as part of the implementation of the Company's incentive scheme, or otherwise to be transferred or cancelled. In connection with the acquisition of treasury shares, derivative contracts, share loan agreements or other agreements may be made within laws and regulations if they are customary to capital market. The authorization includes the right of the Board of Directors to decide on all other matters related to the acquisition of shares. The authorization is valid until 30 June, 2014.

At its meeting on August 27, 2012, the Board of Directors of Innofactor Plc decided to start the acquisition of its own shares (treasury shares). A maximum of 1,500,000 shares will be acquired equaling approximately 4.97 percent of the total number of the

Company's shares. The decision is based on the authorization given to the Board by the Extraordinary General Meeting on August 27, 2012 to acquire a maximum of 3,000,000 shares. The acquisition of the shares will start on September 4, 2012 at the earliest, and it will end on December 31, 2013 at the latest. The shares may be acquired to be used to implement corporate acquisitions or other arrangements connected with the Company's business operations, to improve the Company's capital structure, as part of the implementation of the Company's incentive scheme, or otherwise to be transferred or cancelled. The shares will be acquired by using the Company's unrestricted equity at the prevailing market price on the NASDAQ OMX Helsinki Ltd in public trading in accordance with the NASDAQ OMX Helsinki Ltd and Euroclear's regulations and guidelines for the acquisition of own shares.

On December 31, 2012, Innofactor Plc held a total of 276,000 treasury shares, purchased at a medium price of EUR 0.47 per share. The Company's holding is 0.91 percent of the total number of shares, and therefore the impact on ownership and the distribution of voting rights is not significant.

During the review period, Innofactor published two flagging notifications.

- March 30, 2012: Sami Ensio's and his children's (minor, under guardianship) ownership of the Innofactor Plc votes and shares fell under one fourth (25 percent) when the new shares subscribed for in the Personnel Issue were registered in the Trade Register. Sami Ensio and his children held 7,370,000 shares, i.e. 24.24 percent of the shares and votes.
- March 30, 2012: Rami Laiho's ownership of the Innofactor Plc votes and shares fell under one twentieth (5 percent) when the new shares subscribed for in the Personnel Issue were registered in the Trade Register. Rami Laiho held 1,489,888 share , 4.94 percent of the shares and votes.

According to the share register maintained by Euroclear Finland Ltd, the persons belonging to the public insider register on December 31, 2012, held Company's shares as follows:

Board of Directors:

- Pyry Lautsuo, 46,964 shares, 0.16%
- Sami Ensio, 7,400,000 shares, 24.52%
  - Sami Ensio, 5,226,240 shares, 17.32%
  - Minor under guardianship, 724,588 shares, 2.40%
  - Minor under guardianship, 724,586 shares, 2.40%
  - Minor under guardianship, 724,586 shares, 2.40%
- Juha Koponen, 31,309 shares, 0.10%
- Jukka Mäkinen, 28,183 shares, 0.09%
- Pekka Puolakka, 126,979 shares, 0.42%
  - Hillside Ou, 105,670 shares, 0.35%
  - Pekka Puolakka, 31,309 shares, 0.10%

CEO:

- Sami Ensio, 7,400,000 shares, 24.52%
  - Sami Ensio, 5,226,240 shares, 17.32%
  - Minor under guardianship, 724,588 shares, 2.40%
  - Minor under guardianship, 724,586 shares, 2.40%
  - Minor under guardianship, 724,586 shares, 2.40%

Executive Board:

- Christian Andersen, 0 shares, 0.0%
- Aino-Maija Gerdt, 180,000 shares, 0.60%
- Henrikki Hervonen, 133,880 shares, 0.44%
- Petteri Kekkonen, 36,900 shares, 0.12% (until July 24, 2012)
- Mikko Karvinen, 100,000 shares, 0.33% (since August 1, 2012)
- Mikko Lampi, 1,045,543 shares, 3.47%
- Janne Martola, 100,000 shares, 0.33%
- Teemu Muukkonen, 507,468 shares, 1.68%
- Mikko Myllys, 176,981 shares, 0.59%
- Mika Nurmi, 139,553 shares, 0.46%
- Anneli Saarikoski, 22,616 shares, 0.07% (until July 31, 2012)
- Tuomas Riski, 865,052 shares, 2.87% (until February 16, 2012)

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, 2012, was as follows:

| **Name** | **Number of shares** | **Percentage** |
|---|---|---|
| 1. Ensio Sami | 7,400,000 | 24.52% |
| Ensio Sami | 5,226,240 | 17.32% |
| Minor under guardianship | 724,588 | 2.40% |
| Minor under guardianship | 724,586 | 2.40% |
| Minor under guardianship | 724,586 | 2.40% |
| 2. Tilman Tuomo Tapani | 2,886,777 | 9.57% |
| Tilman Tuomo Tapani | 2,747,492 | 9.11% |
| Mpire Capital Ltd | 139,285 | 0.46% |
| 3. Salminen Jyrki Kalle Tapio | 2,747,492 | 9.11% |
| 4. Laiho Rami Tapani | 1,489,888 | 4.94% |
| 5. Linturi Kaija ja Risto | 1,367,011 | 4.53% |
| R. Linturi Plc | 539,707 | 1.79% |
| Linturi Kaija | 440,000 | 1.46% |
| Linturi Risto | 387,304 | 1.28% |

| | | |
|---|---|---|
| 6. Mäki Antti-Jussi | 1,310,201 | 4.34% |
| 7. Lampi Mikko Olavi | 1,045,543 | 3.47% |
| 8. Ärje Matias Juhanpoika | 946,278 | 3.14% |
| 9. Luostarinen Juha Markku T | 929,438 | 3.08% |
| 10. Riski Tuomas Mikael | 865,052 | 2.87% |
| 11. Jokinen Klaus Antero | 564,111 | 1.87% |
| 12. Muukkonen Teemu Heikki | 507,468 | 1.68% |
| 13. Kukkonen Heikki-Harri | 398,946 | 1.32% |
| 14. Järvenpää Janne-Olli | 372,804 | 1.24% |
| 15. Ementor Norge As | 269,299 | 0.89% |
| 16. Laiho Jari Olavi | 266,851 | 0.88% |
| 17. Gerdt Aino-Maija | 180,000 | 0.60% |
| 18. Myllys Mikko Juhani | 176,981 | 0.59% |
| 19. Nurmi Mika | 139,553 | 0.46% |
| 20. Hervonen Antti Henrikki | 133,880 | 0.44% |

## Board of Directors and Management

### Board of Directors

In 2012, the members of the Board of Directors were as follows:

- Pyry Lautsuo (Chairman)
- Sami Ensio
- Pekka Puolakka
- Juha Koponen
- Jukka Mäkinen (as from March 27, 2012)

Innofactor Plc's Finnish subsidiaries Innofactor Software Ltd, Innofactor SW Ltd, Innofactor CS Ltd, Innofactor VM Ltd, Innofactor Venenum Ltd and Soloplus Ltd have the same Board of Directors as the parent company.

In 2012, the members of the Board of Directors of the Innofactor Group's Danish companies Innofactor A/S, Innofactor Holding Aps and Bridgeconsulting Holding Aps were as follows:

- Sami Ensio (Chairman)
- Janne Martola
- Christian Andersen

Before the corporate acquisition implemented in summer 2012, the Board of Directors of Bridgeconsulting A/S (current Innofactor A/S) ja Bridgeconsulting Holding Aps consisted of the previous owners of the companies.

### CEO

The CEO of Innofactor Plc was Sami Ensio. Ensio acted as CEO of all the Finnish subsidiaries of the Innofactor Group, Innofactor Software Ltd, Innofactor SW Ltd, Innofactor CS Ltd, Innofactor VM Ltd, Innofactor Venenum Ltd and Soloplus Ltd.

Christian Andersen acted as CEO of the Danish companies of the Innofactor Group, Innofactor A/S, Innofactor Holding Aps and Bridgeconsulting Holding Aps.

### Executive Board

In 2012 the Members of the Innofactor Executive Board were as follows:

- Sami Ensio, CEO, Chairman of the Executive Board
- Christian Andersen, Country Manager, Denmark
- Aino-Maija Gerdt, Cloud and Mobile Services Unit
- Henrikki Hervonen, Productivity and Operational Solutions Unit in Finland
- Mikko Karvinen, CFO (as from August 1, 2012)
- Mikko Lampi, Web Communications and eServices Unit in Finland, Deputy CEO
- Janne Martola, International system integration activities and mergers & acquisitions
- Teemu Muukkonen, Project activities in Finland
- Mikko Myllys, Third Sector Solutions in Finland
- Mika Nurmi, Document and Case Management Unit in Finland

Anneli Saarikoski acted as CFO until July 31, 2012, after which she has acted as Chief Accountant of the Innofactor Group. Petteri Kekkonen acted as Director of the Web Communications and eServices Unit until July 24, 2012, after which he left the Company. Tuomas Riski acted as a Member of the Executive Board until February 16, 2012, after which he left the Company.

### Auditors

Innofactor Plc's Auditor is Ernst & Young Oy, 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 intending 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 be distributed, 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 2012, 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 2012, the distributable assets of the Group's parent company were EUR 28,312,743.79.

The Board of Directors proposes that no dividend be distributed for the financial period of 2012.

# Consolidated Financial Statements

# Key Figures per Share

| | 2012 | 2011 |
|---|---|---|
| Earnings per share (EUR) | 0.0150 | 0.0235 |
| Equity/share attributable to shareholders of the parent company (EUR) | 0.460 | 0.441 |
| Highest price of the share (EUR) | 0.70 | 3.20 |
| Lowest price of the share (EUR) | 0.38 | 0.56 |
| Market value of the shares (EUR thousand) | 14,480 | 17,557 |
| Turnover of shares | 3,569,716 | 2,092,354 |
| Turnover of shares (%) | 11.9 | 7.2 |
| Weighted average adjusted number of shares during the financial period | 29,894,264 | 29,261,814 |
| Number of shares at the end of the financial period | 30,165,900 | 29,261,800 |

# Consolidated Statement of Comprehensive Income, IFRS

| EUR thousand | Note | 2012 | 2011 |
|---|---|---|---|
| Net sales | 4 | 18,818 | 17,205 |
| Other operating income | | 33 | 109 |
| Materials and services | | -1,692 | -1,516 |
| Employee benefits/expenses | 7 | -12,835 | -10,936 |
| Depreciation | 6 | -595 | -539 |
| Other operating expenses | 5 | -3,110 | -3,418 |
| Operating profit | | 620 | 904 |
| Financial income | 9 | 12 | 5 |
| Financial expenses | 10 | -41 | -23 |
| Profit before taxes | | 591 | 886 |
| Income taxes | 11 | -142 | -199 |
| Profit for the period | | 449 | 687 |
| Other comprehensive income | | 0 | 0 |
| Total comprehensive income for the period | | 449 | 687 |
| Distribution of the profit and comprehensive income | | | |
| To shareholders of the parent company | | 449 | 687 |
| Earnings per share calculated from the profit attributable to the shareholders of the parent company: | | | |
| Basic earnings per share (EUR) | 12 | 0.0150 | 0.0235 |
| Diluted earnings per share (EUR) | | *) | *) |

*) Diluted earnings per share have not been calculated, because it has been agreed in connection with acquisition of Westend ICT Plc that the old option programs will be replaced with a new share-based performance bonus system.

# Consolidated Balance Sheet, IFRS

| EUR thousand | Note | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Other property plant and equipment | 13 | 451 | 459 |
| Goodwill | | 2,834 | 1,207 |
| Other intangible assets | 14 | 1,695 | 1,534 |
| Deferred tax assets | 15 | 7,767 | 7,895 |
| | | **12,747** | **11,095** |
| **Current assets** | | | |
| Trade and other receivables | 16, 20 | 8,770 | 6,455 |
| Current income tax assets | | 0 | 78 |
| Cash and cash equivalents | 17 | 656 | 696 |
| | | **9,426** | **7,229** |
| **Total assets** | | **22,173** | **18,324** |

# Consolidated Balance Sheet, IFRS

| EUR thousand | Note | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Equity attributable to the shareholders of the parent company** | | | |
| Share capital | 18 | 2,100 | 2,100 |
| Share premium reserve | 18 | 72 | 72 |
| Reserve fund | 18 | 59 | 59 |
| Fund for invested unrestricted equity | 18 | 8,834 | 8,344 |
| Treasury shares | | -129 | 0 |
| Retained earnings | | 2,824 | 2,330 |
| **Total shareholders' equity** | | **13,760** | **12,905** |
| | | | |
| **Non-current liabilities** | | | |
| Loans from financial institutions | | 950 | 0 |
| Deferred tax liabilities | 15 | 510 | 420 |
| | | **1,460** | **420** |
| **Current liabilities** | | | |
| Trade and other payables | 21 | 6,479 | 5,000 |
| Current income tax liabilities | | 31 | 0 |
| Current financial liabilities | | 443 | 0 |
| | | **6,953** | **5,000** |
| | | | |
| **Total liabilities** | | **8,413** | **5,420** |
| | | | |
| **Total shareholders' equity and liabilities** | | **22,173** | **18,324** |

# Consolidated Cash Flow Statement, IFRS

| EUR thousand | Note | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating profit | | 620 | 904 |
| Adjustments: | | | |
| Depreciation | 22 | 595 | 539 |
| Non-cash transactions | | 43 | 0 |
| Changes in working capital: | | | |
| Change in trade and other receivables | | -905 | -338 |
| Change in trade and other payables | | -72 | -1,807 |
| Interests paid | | -41 | -23 |
| Interests received | | 12 | 5 |
| Taxes paid | | 0 | -78 |
| **Net cash flow from operating activities** | | **252** | **-798** |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries | | -1,260 | 0 |
| Investments in intangible assets and plant property and equipment | | -199 | -220 |
| **Net cash flow from investing activities** | | **-1,459** | **-220** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 1,325 | 0 |
| Repayments of borrowings | | -190 | 0 |
| Proceeds from issuance of shares | | 161 | 0 |
| Purchase of treasury shares | | -129 | 0 |
| **Net cash flow from financing activities** | | **1,167** | **0** |
| | | | |
| **Change in cash and cash equivalents** | | **-40** | **-1,018** |
| Cash and cash equivalents, beginning of period | | 696 | 1,714 |
| **Cash and cash equivalents, end of period** | | **656** | **696** |

# Consolidated Statement of Change in Shareholders' Equity, IFRS

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity attributable to the shareholders of the parent company | | | | | | | |
| **EUR thousand** | **Note 18** | **Share capital** | **Share premium reserve** | **Reserve fund** | **Fund for invested unrestricted equity** | **Treasury shares** | **Retained earnings** | **Total share-holders equity** |
| **Shareholders' equity Jan 1, 2012** | | 2,100 | 72 | 59 | 8,344 | 0 | 2,330 | 12,905 |
| **Comprehensive income** | | | | | | | | |
| Profit for the financial period | | | | | | | 449 | 449 |
| Other comprehensive income items: | | | | | | | | |
| Currency translation differences | | | | | | | 2 | 2 |
| **Total comprehensive income** | | 0 | 0 | 0 | 0 | 0 | 451 | 451 |
| **Transactions with shareholders** | | | | | | | | |
| Dividend distribution | | | | | | | | |
| Share issue | | | | | 490 | | 43 | 533 |
| Purchase of treasury shares | | | | | | -129 | | -129 |
| **Total transactions with shareholders** | | 0 | 0 | 0 | 490 | -129 | 43 | 404 |
| **Shareholders' equity Dec 31, 2012** | | **2,100** | **72** | **59** | **8,834** | **-129** | **2,824** | **13,760** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity attributable to the shareholders of the parent company | | | | | | | |
| **EUR thousand** | **Note 18** | **Share capital** | **Share premium reserve** | **Reserve fund** | **Fund for invested unrestricted equity** | **Treasury shares** | **Retained earnings** | **Total share-holders equity** |
| **Shareholders' equity Jan 1, 2011** | | 2,100 | 72 | 59 | 8,344 | 0 | 1,643 | 12,218 |
| **Comprehensive income** | | | | | | | | |
| Profit for the financial period | | | | | | | 687 | 687 |
| **Total comprehensive income** | | 0 | 0 | 0 | 0 | 0 | 687 | 687 |
| **Transactions with shareholders** | | | | | | | | |
| Options settled in shares | | | | | | | | |
| Purchase of treasury shares | | | | | | | | |
| **Total transactions with shareholders** | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Shareholders' equity Dec 31, 2011** | | **2,100** | **72** | **59** | **8,344** | **0** | **2,330** | **12,905** |

# 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 in Finland. We provide our clients with comprehensive solutions in a Microsoft-based environment. The solutions are based on the latest WWW-based technologies.

A copy of the consolidated financial statements is available at the company's Internet address www.innofactor.com or at the 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 25, 2013. According to the Finnish Companies Act, shareholders may approve or reject the financial statements at a General Meeting held after their 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, 2012. 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 that 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.

As from January 1, 2012, the Group has applied the following new and amended standards and interpretations:

Amendments to IFRS 7, Financial Instruments: disclosures (effective on July 1, 2011 and in the subsequent financial periods): The amendments promote transparency in the reporting of the transfer transactions of financial assets and improve the understanding of the users of the financial statements concerning the risks relating to the transfers of financial assets and the effect of these risks on the entity's financial position, particularly those involving the securitization of financial assets. The Group estimates that the amended standard has not had a significant impact on the Group's financial statements.

### Application of the new and amended IFRS norms

The Group will apply the following standards and interpretations in 2013:

**Amendment to IAS 12 Income taxes**

Effective on January 1, 2012 and in the subsequent financial periods. The amendment is still subject to EU endorsement. Effect of the earnings model on the recognition of deferred tax on investment properties and property plant and equipment measured using a revaluation model. The measurement of deferred tax liabilities arising on investment properties measured at fair value and on property, plant and equipment measured using the revaluation model is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale. The Group estimates that the amendment will not impact the future financial statements.

**Amendment to IAS 19 Employee benefits**

Effective on January 1, 2013 or in the subsequent financial periods. In future, all actuarial gains and losses will be recognized immediately in other comprehensive income, i.e. the so called corridor approach will be eliminated and the finance costs will be calculated on a net funding basis. The Group estimates that this amendment will not have significant impacts on future consolidated financial statements.

**IFRS 13 Fair value measurement**

Effective on January 1, 2013 or in the subsequent financial periods. IFRS 13 combines the requirements concerning fair value measurements and related disclosure requirements. The new standard also provides a precise definition of fair value. IFRS 13 does extend the use of fair value, but it provides guidance on how to measure fair value when fair value is required or permitted in another standard. The Group estimates that this amendment will not a significant impact on future consolidated financial statements. The standard is still subject to EU endorsement.

**IFRS 10 Consolidated financial statements**
Effective on January 1, 2013 or in the subsequent financial periods. The standard determines, in accordance with existing principles, the concept of control as the determining factor when deciding whether an entity should be incorporated in consolidated financial statements. The standard also provides additional guidance on the determination of control where this is difficult to assess. The standard is not estimated to have a significant impact on the financial statements. The standard is still subject to EU endorsement.

**IAS 27 Separate financial statements**
Effective on January 1, 2013 or in the subsequent financial periods. The amended standard includes the remaining requirements concerning separate financial statements after the control provisions of IAS 27 have been included in the new IFRS 10. The amended standard is not estimated to have a significant impact on the financial statements. The amended standard is still subject to EU endorsement. The preparation of the financial statements in accordance with the IFRS standards requires that the management makes certain assessments and judgment-based 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 given under Section "Critical accounting judgments and key sources of estimation uncertainty".

## Segment structure

The Innofactor Group provides comprehensive solutions in a 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.

## Subsidiaries

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

Mutual holdings in the Group are eliminated using the acquisition cost method. The consideration transferred and the acquired company's identifiable assets and assumed 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 measured 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 at closing date, and the gain or loss arising is recognized in profit or loss or in other comprehensive income. Contingent additional consideration classified as equity is not remeasured.

The subsidiaries acquired are consolidated from the date when control commences, and the subsidiaries disposed of are included in the consolidated financial statements until control ceases. All internal transactions, receivables, liabilities and unrealized profits, as well as internal profit distribution are eliminated in the consolidated financial statements. In phased acquisition, 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 measured at fair value at the date the control is lost, and the resulting gain or loss is recognized in profit or loss.

## Property, plant and equipment

Property, plant and equipment have been measured at acquisition value less accumulated depreciation and impairment losses.

If an item of property, plant and equipment consists of several parts with economic lives of different lengths, the parts are treated as separate assets. When a part is renewed, the costs are capitalized and the possible remaining carrying amount is written off. In other cases, subsequent costs are included in the carrying amount of the item of property, plant and equipment only when it is probable that the future economic benefits that are attributable to it 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 3–5 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 items of property, plant and equipment are recognized in profit or loss under other operating income or expenses. The sales profit 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 item of property, plant and equipment are capitalized as part of the acquisition cost of that asset.

### Government grants

Government grants received for realized costs are recognized in profit or loss as income for the period that the grant becomes receivable. These grants are recognized in other income.

## Intangible assets

### Goodwill

Goodwill arising in business combinations is recognized at the amount by which the consideration given, the share of the shareholders without control in the acquired business and the previously held share combined exceed the Group's share of the fair value of the acquired net assets.

Goodwill is not subject to depreciation but it is 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 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 future 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. An asset which is not ready for use is tested annually for impairment. After initial recognition, capitalized development costs are measured at cost less accumulated depreciation and impairment losses. The useful life of capitalized development costs is 3–5 years, during which time capitalized costs are amortized on a straight-line basis. In 2011 and 2012, no development costs were capitalized as the requirements were not met.

### Other intangible assets

An intangible asset is recognized in the balance sheet at acquisition 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 and amortized on a straight-line basis over their known or estimated useful lives.

Other intangible assets have the following amortization periods:

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

## Leases

### Group as 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 have been deducted from the paid leases on the basis of the time span of the benefit.

## Impairment of property plant and equipment and of intangible assets

The Group assesses at closing date whether there is any indication of impairment of an asset. 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 and are largely independent of the cash flows of other corresponding units.

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 immediately 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. The useful life of the depreciated asset is re-evaluated In connection with the recognition of an impairment loss. An impairment loss recognized for an asset other than goodwill 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 2011 and 2012.

## Employee benefits

### Pension obligations

Pension arrangements are classified as benefit pension plans or contribution plans. In the contribution plans, the Group makes fixed payments to an external unit. 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 have been implemented through a pension insurance company and they are based on contribution plans. 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 made as equity 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 arrangement on profit or loss is recognized under employee benefit expenses, the counter item being retained earnings.

The expense determined at the time of issue is based on the Group's estimate of the number of options that are expected to generate rights at the end of the vesting period. The Group updates the expected final number of options at closing date. Changes in estimates are recognized in profit or loss. The fair value of the option arrangements is determined on the basis of the Black-Scholes option pricing model.

When option rights are exercised, the payments received from the subscription of shares, adjusted for possible transaction costs, are recognized in the shareholders' equity. Assets from share subscriptions based on the option 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

The tax expense comprises 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 shareholders' 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 on taxable income according to the tax rate in the country concerned.

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

The largest temporary differences arise from the depreciation of property, plant and equipment, previously unrecognized tax losses, and adjustments based on fair value measurement on business combinations.

Deferred taxes are calculated by using the tax rates enacted or approved in practice by the closing date.

Deferred tax assets are recognized to the extent that it is probable that such future taxable profit will be available against which the temporary difference can be utilized. An estimate is made at closing date on whether the conditions for recognizing deferred tax assets are met.

## Revenue recognition principles

Revenue from the sale of products and services is presented as net sales measured at fair value and adjusted for indirect taxes, discounts and currency translation differences from sales in foreign currencies

### Sold services

Revenue from services is recognized when the service has been provided and the economic benefit from the service is probable. Man-hour work is recognized monthly as it progresses.

### Long-term projects

Long-term fixed-price projects are recognized using the percentage of completion method when the outcome of the project can be estimated reliably. The percentage of completion is determined as the ratio of costs incurred to date to the total estimated costs of the project.

If the estimate of the outcome of the project changes, the recognized sales is adjusted in the financial period during which the change is discovered and can be estimated. 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 and cash equivalents comprise bank deposits.

### Impairment of financial assets

The Group recognizes an impairment loss on trade 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 of trade 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 the 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 entry, the recognized loss will be reversed as incurred in profit or loss.

### Financial liabilities

Initially, financial liabilities are measured 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 unless the Group has 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 are incurred Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. When the drawdown occurs, the fees paid on the establishment of loan facilities are recognized as part of transaction costs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

### Shareholders' equity

Ordinary shares are presented as share capital. Costs relating to the issue or acquisition of equity instruments are presented as a deduction in shareholders' equity. If Innofactor repurchases its own equity instruments, the purchase price of such instruments is deducted from shareholder's equity.

### Operating profit

IAS Standard 1 Presentation of Financial Statements does not define the concept of operating profit. The Group has defined the concept as follows: Operating profit 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 other items of the profit and loss statement are presented below the operating profit. Currency translation differences are included in the operating profit 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 policies 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 the 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 adjusted and in the subsequent financial periods.

The key assumptions concerning the future and those key sources of estimation uncertainty at closing 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 the use of the most significant 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.

## Determination of 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 the purchase 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 every closing date or, if necessary, more frequently if there are any indica¬tions of impairment in property plant and equipment and in intangible assets.

### Impairment testing

The Group carries out annual impairment testing on goodwill, unfinished intangible assets and assets with an infinite useful life, and estimates the indications of impairment in accordance with the accounting policies described above. The recoverable amounts of the cash-generating units have been determined on the basis of the 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 as revenue or expenses, 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 expected project revenue and expenses from the project, as well as on reliable measurement of the progress of the project. If the estimate of the outcome of a project changes, the recognized project revenue and profit is correspondingly changed in the period in which the change is discovered and can be estimated reliably. An expected loss on a project is recognized as an expense immediately.

## Note 3. Business acquisitions

### Acquisitions in financial period 2012

By an agreement signed on June 25, 2012, the Group purchased the whole capital stock of Danish Bridgeconsulting A/S from the operative management of the company. A total of three percent of the shares were acquired through direct purchases and the remaining 97 percent by purchasing the whole capital stock of Bridgeconsulting A/S.

The purchase price will depend on the actual EBITDA for a period of 12 months (July 2012 – June 2013) of the target company. The purchase price will be paid in Danish crowns and Innofactor shares, and it is expected to be about EUR 2.0 million. The purchase price has been agreed as about EUR 1.6 million (minimum) and about EUR 3.0 million (maximum). About EUR 1.26 million was paid in cash on July 4, 2012, and the rest is planned to be paid in Innofactor's shares during the second half of 2013. The name of Bridgeconsulting A/S has been changed to Innofactor A/S.

Innofactor A/S's net sales for six months, EUR 1,875 thousand, and profit, EUR 94 thousand, are included in the 2012 comprehensive consolidated profit and loss statement of the Group. The Group's net sales in 2012 would have been EUR 20,845 thousand and profit EUR 435 thousand, if the business acquisition implemented during the financial period had been included in the consolidated financial statements as from the beginning the financial period 2012.

The values of the assets and liabilities arising from acquisitions were the following at acquisition:

The values are based on a preliminary acquisition cost calculation.

| EUR thousand | Recognized values |
|---|---|
| Property, plant and equipment | 95 |
| Acquired client relationships | 435 |
| Trade and other receivables | 873 |
| Total assets | 1,371 |
| | |
| Trade and other payables | -808 |
| Total liabilities | -808 |
| | |
| Net assets | 563 |
| | |
| Acquisition cost | 2,018 |
| Goodwill | 1,455 |
| | |
| Purchase price paid in cash | -1,260 |
| Cash and cash equivalents of the acquired subsidiary | 0 |
| Cash flow effect | -1,260 |

The client contracts included in other intangible assets and the related fair value (EUR 435 thousand) have been determined on the basis of estimated duration of the client relationships and the discounted net cash flows from existing clients. On the basis of expected synergy benefits, the acquisition created goodwill amounting to EUR 1,455 thousand.

By a contract signed on November 30, 2012, the Group acquired the business operations focusing on project and project portfolio system deliveries from Tietotalo Intercenter. The deal entered into force on December 31, 2012, and the purchased business operations will be included in Innofactor's financial statements as from January 1, 2013. The purchase price will be paid from Innofactor's cash reserves.

The impact of the acquisition on the consolidated balance sheet has been taken into account in the financial statements at Dec 31, 2012.

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

## Note 4. Net sales

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Revenue from services | 11,125 | 11,626 |
| Revenue recognized from long-term projects | 7,693 | 5,579 |
| **Total** | **18,818** | **17,205** |

A total of EUR 10.8 million (2011: EUR 7.3 million) of realized revenues had been recognized from long-term projects in progress at the balance sheet date.

The balance sheet included advance payments for long-term projects in progress, amounting to EUR 166 thousand at Dec 31, 2012 (EUR 122 thousand at Dec 31, 2011).

In the period Jan 1 to Dec 31, 2012, about 88 percent of the net sales came from Finland, about 10 percent from Denmark and about 2 percent from other European Union member states.

### Net sales by country

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Finland | 16,645 | 16,768 |
| Denmark | 1,872 | 0 |
| Other European countries | 301 | 437 |
| **Total net sales** | **18,818** | **17,205** |

## Note 5. Other operating expenses

| EUR thousand | 2012 | 2011 |
|---|---|---|

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

| | | |
|---|---|---|
| Business premises expenses | 702 | 749 |
| Voluntary indirect employee costs | 378 | 448 |
| Marketing expenses | 378 | 295 |
| Total | 1,458 | 1,492 |
| Other unspecified operating expenses | 1,652 | 1,926 |
| **Other operating expenses, total** | **3,110** | **3,418** |

**Remuneration of the Auditors**

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Auditing | 69 | 50 |
| Certificates and statements | 0 | 2 |
| Tax consultancy | 1 | 19 |
| Other services | 5 | 97 |
| **Total** | **75** | **168** |

## Note 6. Depreciation, amortization and impairment

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Depreciation by asset group | | |
| Intangible assets | 335 | 328 |
| **Total** | **335** | **328** |
| | | |
| Property, plant and equipment | | |
| Machinery and equipment | 260 | 211 |
| **Total** | **260** | **211** |
| **Total depreciation** | **595** | **539** |

## Note 7. Employee benefit expenses

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Wages and salaries | 10,599 | 9,058 |
| Pension expenses – defined contribution plans | 1,781 | 1,471 |
| Other indirect employee costs | 455 | 407 |
| **Total** | **12,835** | **10,936** |

| Group's personnel, average in the financial period | 2012 | 2011 |
|---|---|---|
| Group, total | 189 | 177 |
| **Group's personnel at the end of the financial period** | **193** | **189** |

Information on management benefits in Note 25, Related party transactions

## Note 8. Research and development costs

In 2012, the research and development costs recognized as expenses totaled EUR 2,488 thousand (EUR 2,086 thousand in 2011).

## Note 9. Financial income

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Other financial income | 12 | 5 |
| **Total** | **12** | **5** |

## Note 10. Financial expenses

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Other financial expenses | -41 | -23 |
| **Total financial expenses** | **-41** | **-23** |

## Note 11. Income taxes

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Current income tax liabilities | -31 | 0 |
| Deferred tax related to temporary differences | -110 | -237 |
| Deferred tax related to change in the tax rate | 0 | 38 |
| Total | -141 | -199 |

Reconciliation between the income tax expense and the taxes calculated at the 24.5 percent tax rate valid in the Group's home country:

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Profit before taxes | 620 | 886 |
| | | |
| Taxes calculated at the domestic tax rate. | -152 | -230 |
| Non-deductible expenses | 0 | 0 |
| Current year tax losses for which no deferred tax asset was recognized | 0 | 0 |
| Effect of changes in tax rates on deferred taxes | 0 | 38 |
| Other | 11 | -7 |
| Tax in the profit and loss statement | -141 | -199 |

In the financial statements of the financial year 2011, the tax rate used in the calculation of deferred taxes changed from the previous year's 26.0 percent to 24.5 percent.

## Note 12. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the shareholders of the company by the weighted average number of outstanding shares during the financial period.

| | 2012 | 2011 |
|---|---|---|
| Profit for the year attributable to shareholders of the parent company (EUR) | 449,287 | 687,080 |
| Weighted average number of shares during the financial period | 29,894,264 | 29,261,814 |
| Basic earnings per share (EUR/share) | 0.0150 | 0.0235 |

## Note 13. Property, plant and equipment

| EUR thousand | Machinery and equipment | Total |
|---|---|---|
| Acquisition cost Jan 1, 2012 | 808 | 808 |
| Additions | 189 | 189 |
| Business combination | 63 | 63 |
| Acquisition costs Dec 31, 2012 | 1,060 | 1,060 |
| Accumulated depreciation, amortization and impairment Jan 1, 2012 | -349 | -349 |
| Depreciation | -260 | -260 |
| Carrying amount Jan 1, 2012 | 459 | 459 |
| **Carrying amount Dec 31, 2012** | **451** | **451** |
| Acquisition cost Jan 1, 2011 | 610 | 610 |
| Additions | 198 | 198 |
| Acquisition costs Dec 31, 2011 | 808 | 808 |
| Depreciation | -349 | -349 |
| Carrying amount Jan 1, 2011 | 472 | 472 |
| **Carrying amount Dec 31, 2011** | **459** | **459** |

## Note 14. Intangible assets

| EUR thousand | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| Acquisition cost Jan 1, 2012 | 1,395 | 1,950 | 3,345 |
| Additions | 1,627 | 496 | 2,123 |
| Acquisition cost Dec 31, 2012 | 3,022 | 2,446 | 5,468 |
| | | | |
| Accumulated depreciation, amortization and impairment Jan 1, 2012 | -188 | -416 | -604 |
| Depreciation, amortization and impairment | 0 | -335 | -335 |
| Accumulated depreciation, amortization and impairment Dec 31, 2012 | -188 | -751 | -939 |
| | | | |
| Carrying amount Jan 1, 2012 | 1,207 | 1,534 | 2,741 |
| **Carrying amount Dec 31, 2012** | **2,834** | **1,695** | **4,529** |
| | | | |
| Acquisition cost Jan 1, 2011 | 1,395 | 1,928 | 3,323 |
| Additions | 0 | 22 | 22 |
| Acquisition cost Dec 31, 2011 | 1,395 | 1,950 | 3,345 |
| | | | |
| Accumulated depreciation, amortization and impairment Jan 1, 2011 | -73 | -88 | -161 |
| Disposals | -115 | -328 | -443 |
| Accumulated depreciation, amortization and impairment 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** |

## 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 percent.

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

1. **Budgeted EBITDA** – Determined on the basis of the realized average EBITDA 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 EBITDA.

2. **Discounting rate** – Determined by using Weighted Average Cost of Capital (WACC), which defines the overall cost of equity and debt, taking the special risks concerning the items into consideration. The discount rate has been determined before taxes. The discount rate used in the calculations is 9.8 percent.

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 of the cash generating units exceed the corresponding balance sheet values. No impairment losses were recognized in 2012 and 2011.

According to the sensitivity analysis that the Group carried out on goodwill, a decrease of 52 percent in the net sales compared to the estimated net sales of 2013 or a decrease of 89 percent in profitability compared with the estimated net sales of 2013 would indicate a need for impairment. On the basis of the sensitivity analysis, a significant change in the discount rate does not cause a need for impairment.

### Recognition of goodwill

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Software business | 2,834 | 1,207 |
| **Goodwill** | **2,834** | **1,207** |

## Note 15. 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 | Recog-nized in equity | Reclassified from equity to profit and loss statement | Translation diffe-rences | Acquired/ sold operations | Dec 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | | | |
| Tax loss carried forward | 8,133 | -230 | 0 | 0 | 0 | 0 | 0 | 7,903 |
| Effect of changes in tax rate on deferred taxes** | 0 | -8 | 0 | 0 | 0 | 0 | 0 | -8 |
| **Total** | **8,133** | **-238** | **0** | **0** | **0** | **0** | **0** | **7,895** |
| **Deferred tax liabilities** | | | | | | | | |
| Measurement of intangible assets and property, plant and equipment at fair value in business combinations | -431 | 0 | 0 | 0 | 0 | 0 | 0 | -431 |
| Combination transactions | -28 | 0 | 0 | 0 | 0 | 0 | 0 | -28 |
| Effect of changes in tax rate on deferred taxes | 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 rate of deferred tax assets has been taken into account in the acquisition cost calculation.

**Changes in deferred taxes in 2012:**

| EUR thousand | Dec 31, 2011 | Recognized in profit or loss | Recognized in compre-hensive income | Recog-nized in equity | Reclassified from equity to profit and loss statement | Translation diffe-rences | Acquired/ sold operations | Dec 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | | | |
| Tax loss carried forward | 7,903 | -128 | 0 | 0 | 0 | 0 | 0 | 7,775 |
| Effect of changes in tax rate on deferred taxes* | -8 | 0 | 0 | 0 | 0 | 0 | 0 | -8 |
| **Total** | **7,895** | **-128** | **0** | **0** | **0** | **0** | **0** | **7,767** |
| **Deferred tax liabilities** | | | | | | | | |
| Measurement of intangible assets and property, plant and equipment at fair value in business combinations | -431 | 17 | 0 | 0 | 0 | 0 | 0 | -414 |
| Combination transactions | -28 | 0 | 0 | 0 | 0 | 0 | -107 | -135 |
| Effect of changes in tax rate on deferred taxes | 39 | 0 | 0 | 0 | 0 | 0 | 0 | 39 |
| **Total** | **-420** | **17** | **0** | **0** | **0** | **0** | **-107** | **-510** |

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

## Note 16. Trade and other receivables

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Trade and other receivables | | |
| Trade receivables | 5,651 | 3,786 |
| Receivables from clients for long-term projects | 2,575 | 2,497 |
| Loan receivables | 356 | 0 |
| Accrued income | 188 | 250 |
| **Total** | **8,770** | **6,533** |

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Not past due | 4,730 | 3,166 |
| Past due | | |
| Past due 1-30 days | 63 | 111 |
| Past due over 30 days | 858 | 509 |
| **Total** | **5,651** | **3,786** |

No significant credit risk concentrations are associated with the receivables. The balance sheet values correspond best to 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 trade and other receivables.

## Note 17. Cash and cash equivalents

Cash and cash equivalents as per cash flow statement:

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Bank accounts | 656 | 696 |
| **Total** | **656** | **696** |

In the cash flow statement, the items classified as cash and cash 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 | Treasury shares | Total |
|---|---|---|---|---|---|---|---|
| **Dec 31, 2010** | 585,237 | 2,100 | 72 | 59 | 8,344 | 0 | 10,575 |
| Reverse share split 20:1 | 29,262 | | | | | | |
| **Dec 31, 2011** | **29,262** | **2,100** | **72** | **59** | **8,344** | **0** | **10,575** |
| Share issue | 904 | 0 | 0 | 0 | 490 | 0 | 490 |
| Purchase of treasury shares | | | | | | -129 | -129 |
| **Dec 31, 2012** | **30,166** | **2,100** | **72** | **59** | **8,834** | **-129** | **10,936** |

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 option rights 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 invested unrestricted equity reserve contains other equity type investments and the subscription price of shares to the extent that they are not, based on a specific decision, recognized in the share capital. 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 invested unrestricted equity reserve.

**Dividends**
No dividends were distributed in 2012. The Board of Directors has proposed that no dividends be distributed for the financial period of Jan 1 to Dec 31, 2012.

**Treasury shares**
Innofactor Plc's Extraordinary General Meeting of August 27, 2012 approved the proposal of the Board of Directors to authorize the Board to acquire a maximum of 3,000,000 treasury shares in one or more lots, using the Company's unrestricted equity reserve.

On December 31, 2012, Innofactor Plc held a total of 276,000 treasury shares, purchased at a medium price of EUR 0.47 per share. The Company's holding is 0.91 percent of the total number of shares, and therefore the impact on ownership and the distribution of voting rights is not significant.

## Note 19 Share-based payments

### Terms and conditions of share-based incentive schemes

At the end of the financial period at December 31, 2012, the Group has two different share-based incentive schemes implemented in Jan 1 to Dec 31, 2010 and directed to the key personnel of Innofactor SW Ltd (old Innofactor Ltd). In accordance with the terms and conditions of the incentive schemes, the options are given without monetary compensation. All the incentive schemes of the Group are conditional. The essential conditions of the schemes, e.g. vesting conditions are presented below:

| Scheme | C | D |
|---|---|---|
| **Granting date** | **Dec 16, 2008 to 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 at 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 to July 1, 2014 | July 1, 2011 to July 1, 2016 |
| Series 2 | July 1, 2010 to July 1, 2014 | July 1, 2012 to July 1, 2016 |
| Series 3 | July 1, 2011 to July 1, 2014 | July 1, 2013 to July 1, 2016 |
| Series 4 | July 1, 2012 to July 1, 2014 | July 1, 2014 to July 1, 2016 |
| Vesting conditions | Employment until subscription date | Employment until subscription date |
| Implementation | As shares | As shares |

The incentives are forfeited if the employee leaves the company before the options vest.

**Outstanding options**

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Exercise price, weighted average EUR/share | Number of options | Exercise price, weighted average EUR/share | Number of options |
| Beginning of period | 4.2 | 205,450 | 4.2 | 235,775 |
| Granted new options | 0 | 0 | 0 | 0 |
| Exercised options | 0 | 0 | 0 | 0 |
| Returned options | 3 | -104,050 | 3 | -30,325 |
| **End of financial period** | **4.2** | **101,400** | **4.2** | **205,450** |
| **Exercisable options at the end of the financial period** | **1.8** | **70,575** | **1.8** | **116,013** |

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) | Contractual life (years) | Number of shares |
|---|---|---|---|
| 2012 | 1.5 to 6.0 | 2.1 | 101,400 |
| 2011 | 1.5 to 6.0 | 3.1 | 205,450 |

## Determination of fair value

The Group has four series in both 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 2012 and 2011:

| Scheme | C | | D | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Expected volatility | 30% | 30% | 35% | 35% |
| Expected contractual life of the option at 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 at 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. Financial risk management

In its normal business operations, the Group is susceptible to several financial 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 financial 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 credit control have been concentrated in the Group's financial department. The clients' credit rating is assessed 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 concentrations 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 trade 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 analyzes the liquidity forecasts regularly.

The Group has not recognized significant liquidity risk concentrations in the financial assets.

| EUR thousand | Balance sheet value | 0 to 6 months | 6 months to 1 year | more than 1 year |
|---|---|---|---|---|
| Dec 31, 2012 | | | | |
| Maturity distribution of financial liabilities | | | | |
| Loans from financial institutions | | | | |
| | 1,393 | 222 | 221 | 950 |
| Trade and other payables | | | | |
| | 6,510 | 6,035 | 475 | 0 |

### Capital structure management

The shareholders' equity in the consolidated balance sheet is managed as capital assets. The goal of capital structure management is to ensure operational preconditions of the Group and increase shareholder value in the long term. The capital structure can be managed through decisions concerning dividend distribution, acquisition and transfer of treasury 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 capital assets. No external capital requirements are applied to the Group.

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

| | 2012 | 2011 |
|---|---|---|
| Interest-bearing liabilities | 1,393 | 0 |
| Cash and cash equivalents | - 656 | -696 |
| Total shareholders' equity | 13,760 | 12,905 |
| Net gearing | 5.4% | -5.4% |

The Group has a loan facility which contains a covenant whereby the Group's equity ratio must be at least 40 percent and the interest-bearing debts/EBITDA a maximum of 3.0. The Group assesses the fulfillment of the conditions every reporting period.

## Note 21. Fair values 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, 2012 | | Dec 31, 2011 | |
|---|---|---|---|---|---|
| | Note | Carrying amount | Fair value | Carrying amount | Fair value |
| Trade and other receivables | 16 | 8,770 | 8,770 | 6,533 | 6,533 |
| Cash and cash equivalents | 17 | 656 | 656 | 696 | 696 |
| **Total** | | **9,426** | **9,426** | **7,229** | **7,229** |
| | | | | | |
| Loans from financial institutions | | 1,393 | 1,393 | 0 | 0 |
| Trade and other payables | | 6,479 | 6,479 | 4,999 | 4,999 |
| Deferred tax liabilities | 15 | 510 | 510 | 420 | 420 |
| Current income tax liabilities | | 31 | 31 | 0 | 0 |
| **Total** | | **8,413** | **8,413** | **5,419** | **5,419** |

### 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 from operating activities

| | 2012 | 2011 |
|---|---|---|
| **Non-cash items** | | |
| Depreciation | 595 | 539 |
| Share issue directed to the personnel | 43 | 0 |
| **Total** | **638** | **539** |

## Note 23. Operating leases

### Group as lessee
The Group leases all 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.

Non-cancellable minimum operating lease payments:

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Within one year | 765 | 708 |
| Within more than one but lessthan five years | 382 | 932 |
| **Total** | **1,147** | **1,640** |

In 2012, the amount of lease payments based on operating leases was EUR 702 thousand (EUR 709 thousand in 2011).

# Note 24. Contingent liabilities and assets and acquisition commitments

## Collateral

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Collateral pledged for own commitments | | |
| Collateral for rent | 201 | 152 |
| | | |
| Mortgages on company assets | 2,250 | 1,000 |
| Mortgages on company assets given as collateral for credit limit and loan | | |
| | | |
| Bank guarantees | 18 | 18 |
| Bank guarantee has been given as collateral for a client delivery. | | |

## Disputes and litigations

The Group has no open or ongoing disputes or 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 and the Executive Boards, including the CEO.

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

| Company | Domicile | Holding (%) | Share of voting rights (%) |
|---|---|---|---|
| Parent company Innofactor Plc | Finland | | |
| Innofactor Software Ltd | Finland | 100% | 100% |
| Innofactor A/S | Denmark | 100% | 100% |
| Innofactor Holding ApS | Denmark | 100% | 100% |
| Bridgeconsulting Holding ApS | Denmark | 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's employment benefits

| EUR thousand | 2012 | 2011 |
|---|---|---|
| Salaries and fees paid to the CEO and Group management during the financial period, including benefits in kind: | | |
| Salaries and other short-term employee benefits | 1,380 | 1,138 |
| **Total** | **1,380** | **1,138** |

| EUR thousand | | | |
|---|---|---|---|
| Management's employment benefits include the salaries and fees of the Executive Board. | | | |
| CEO | | 262 | 262 |
| Board members and deputy members | | | |
| Lautsuo Pyry | Chairman of the Board of Directors | 37 | 30 |
| Koponen Juha | Board Member | 25 | 20 |
| Mäkinen Jukka | Board Member | 21 | 0 |
| Puolakka Pekka | Board Member | 25 | 24 |
| Santala Ilpo | Former Chairman of the Board | 0 | 10 |
| Salminen Mikko | Former Board Member | 0 | 4 |
| **Total** | | **370** | **350** |

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 13 months' salary.

### Related party transactions

In 2010, the Group granted the management of the parent company 44,900 Innofactor SW Ltd share options. No new share options were granted in 2011 and 2012. 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 25, Share-based payments.

| | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|
| Granted options | 15,000 | 41,600 |
| of which exercisable | 10,500 | 20,400 |
| Total number of shares to which the options held by the management entitle the holders to subscribe for | 15,000 | 41,600 |

## Note 26. Events after the closing date

No significant events have come to the knowledge of the Group management after closing date.

# Parent Company Financial Statements FAS

**EUR**

| | Note | Jan 1 to Dec 31, 2012 | Jan 1 to Dec 31, 2011 |
|---|---|---|---|
| | | **12 months** | **12 months** |
| **NET SALES** | 1 | **1,070,964** | **438,000** |
| Other operating income | 2 | 0 | 4,653 |
| Personnel expenses | 3 | 1,290,070 | 730,372 |
| Depreciation | | | |
| Planned depreciation | 4 | 1,782 | 6,994 |
| Other operating expenses | | 349,370 | 517,781 |
| **OPERATING PROFIT (-LOSS)** | | **-570,258** | **-812,494** |
| Financial income and expenses | 5 | | |
| Interest and financial income | | 16,444 | 175 |
| Interest and other financial expenses | | -29,712 | -599 |
| **PROFIT (-LOSS) BEFORE EXTRAORDINARY ITEMS** | | **-583,525** | **-812,919** |
| Extraordinary items | | | |
| Extraordinary income | 6 | 0 | 31,367,942 |
| Extraordinary expenses | 6 | 0 | -16,648,822 |
| **PROFIT (-LOSS) FOR THE FINANCIAL PERIOD** | | **-583,525** | **13,906,201** |

# Parent Company Balance Sheet, FAS

EUR

| ASSETS | Note | Dec 31, 2012 | Dec 31, 2011 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| **Property, plant and equipment** | | | |
| Machinery and equipment | 1 | 5,093 | 6,874 |
| **Investments** | | | |
| Shares in group companies | 2 | 13,447,724 | 7,405,715 |
| **TOTAL NON-CURRENT ASSETS** | | **13,452,817** | **7,412,590** |
| **CURRENT ASSETS** | | | |
| **Receivables** | | | |
| **Short-term** | 3 | | |
| Trade receivables | | 1,321,315 | 538,740 |
| Other receivables | | 22,816,060 | 26,367,942 |
| Accrued income | | 374,200 | 40,108 |
| Cash and bank receivables | | 323,490 | 396,737 |
| TOTAL CURRENT ASSETS | | 24,835,065 | **27,343,528** |
| **ASSETS** | | **38,287,882** | **34,756,117** |
| **EQUITY AND LIABILITIES** | | | |
| **SHAREHOLDERS' EQUITY** | 4 | | |
| Share capital | | 2,100,000 | 2,100,000 |
| Revaluation fund | | 2,000,000 | 2,000,000 |
| Fund for invested unrestricted equity | | 15,579,396 | 15,089,373 |
| Profit from the previous financial periods | | 13,316,873 | -460,238 |
| Profit/loss for the financial period | | -583,525 | 13,906,201 |
| **Total shareholders' equity** | | **32,412,744** | **32,635,337** |
| **LIABILITIES** | 5 | | |
| **Non-current** | | | |
| Loans from financial institutions | | 875,000 | 0 |
| **Current** | | | |
| Loans from financial institutions | | 250,000 | 0 |
| Trade payables | | 102,431 | 58,767 |
| Other payables | | 3,739,705 | 1,977,464 |
| Accrued expenses | | 908,002 | 84,549 |
| **Total liabilities** | | **5,875,138** | **2,120,780** |
| **TOTAL EQUITY AND LIABILITIES** | | **38,287,882** | **34,756,117** |

# Parent Company Cash Flow Statement

EUR

| | Jan 1 to Dec 31, 2012 | Jan 1 to Dec 31, 2011 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating profit/loss | -570,258 | -812,494 |
| Adjustments: | | |
| Depreciation | 1,782 | 6,994 |
| Change in working capital | | |
| Change in trade or other receivables | 3,331,802 | 4,455,462 |
| Change in trade and other payables | 2,629,358 | -246,839 |
| Interests received | 16,444 | 175 |
| Paid interests and other financing expenses | -29,712 | -599 |
| **Total cash flow from operating activities** | **5,379,416** | **3,402,698** |
| **Cash flow from investments** | | |
| Investments in subsidiary shares | -1,260,000 | 0 |
| Reinforcement of the shareholders' equity of the subsidiaries | -5,000,000 | -5,000,000 |
| **Total cash flow from investments** | **-6,260,000** | **-5,000,000** |
| **Cash flow before financing** | **-880,584** | **-1,597,302** |
| **Cash flow from financing** | | |
| Changes in short-term and long-term loans | 1,125,000 | 1,875,134 |
| Loans granted | -350,000 | 0 |
| Fees from the share issue directed to the personnel | 161,426 | 0 |
| Purchase of treasury shares | -129,091 | 0 |
| **Total cash flow from financing** | **807,336** | **1,875,134** |
| **Change in cash and cash equivalents as per cash flow statement** | **-73,248** | **277,832** |
| **Change in cash and cash equivalents** | **-73,248** | **277,831** |
| Cash and cash equivalents, beginning of period | 396,737 | 118,906 |
| Cash and cash equivalents, end of period | 323,490 | 396,737 |

# Parent Company, Notes to Financial Statements

## Accounting principles used in the Parent Company's Financial Statements

The financial statements of Innofactor Plc for the financial period of 2012 have been prepared in accordance with the provisions of the Finnish Accounting Act (FAS).

## Intangible assets and property, plant and equipment

The intangible assets and property plant and equipment have been recognized at historical cost less planned depreciation. Planned depreciation has been calculated on the basis of the assets' economic lives as follows:

- intangible assets 5–9 years
- property, plant and equipment 5–9 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 currency 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** | **2012** | **2011** |
|---|---|---|
| Finland | 1,027,117 | 438,000 |
| Other European countries | 43,847 | 0 |
| **Total net sales** | **1,070,964** | **438,000** |

| **2. Other operating income** | **2012** | **2011** |
|---|---|---|
| Retroactive employment pension contribution refund | 0 | 4,653 |
| **Total** | **0** | **4,653** |

| **3. Personnel expenses** | **2012** | **2011** |
|---|---|---|
| Wages and salaries | 1,088,423 | 622,693 |
| Pension expenses | 163,954 | 84,545 |
| Other indirect employee costs | 37,694 | 23,135 |
| **Total** | **1,290,070** | **730,372** |
| | | |
| Management salaries and fees | 370,484 | 349,953 |

The CEO's old age pension 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 12 months' salary.

| | | |
|---|---|---|
| Average number of personnel | 11 | 5 |

| **4. Planned depreciation** | **2012** | **2011** |
|---|---|---|
| For immaterial assets | 0 | 5,210 |
| For machinery and equipment | 1,782 | 1,783 |
| **Total** | **1,782** | **6,994** |

| 5. Financial income and expenses | 2012 | 2011 |
|---|---|---|
| Financial income | | |
| Other interest income | 16,444 | 175 |
| Financial expenses | | |
| Interest expenses to others | -17,212 | -599 |
| Other financial expenses | -12,500 | 0 |
| **Total financial income and expenses** | **-13,267** | **-425** |

| 6. Extraordinary income and expenses | 2012 | 2011 |
|---|---|---|
| Extraordinary income | | |
| Group contributions | 0 | 31,367,942 |
| Extraordinary expenses | | |
| Write-down of subsidiary shares | 0 | -16,648,822 |
| **Total extraordinary income and expenses** | **0** | **14,719,121** |

## Notes to the Consolidated Balance Sheet (EUR)

| 1. Intangible assets and property, plant and equipment | 2012 | 2011 |
|---|---|---|
| **Intangible assets** | | |
| Opening balance | 0 | 3,843,645 |
| Increases during the financial period | 0 | 0 |
| Acquisition cost | 0 | 3,843,645 |
| Accumulated depreciation, beginning of period | 0 | -3,838,434 |
| Depreciation for the period | 0 | -5,210 |
| Accumulated depreciation, end of period | 0 | -3,843,645 |
| **Closing balance** | **0** | **0** |
| | | |
| **Property, plant and equipment** | | |
| Opening balance | 6,874 | 8,657 |
| Increases during the financial period | 0 | 0 |
| Acquisition cost | 6,874 | 8,657 |
| Depreciation for the period | -1,782 | -1,783 |
| **Closing balance** | **5,092** | **6,874** |

| 2. Investments | 2012 | 2011 |
|---|---|---|
| Opening balance | 7,405,715 | 19,054,537 |
| Increases during the financial period | 6,042,009 | 5,000,000 |
| Decreases during the financial period | 0 | -16,648,822 |
| **Closing balance** | **13,447,724** | **7,405,715** |

### Shares and holdings of the parent company

| Subsidiary shares | Domicile | Country | Carrying amount |
|---|---|---|---|
| Innofactor Software Ltd | Espoo | Finland | 12,405,715 |
| Innofactor Holding ApS | Copenhagen | Denmark | 1,042,009 |
| Ltd Soloplus Ab | Helsinki | Finland | 0 |
| Innofactor SW Ltd | Espoo | Finland | 0 |
| **Total** | | | **13,447,724** |

| 3. Receivables | 2012 | 2011 |
|---|---|---|
| **Receivables from group companies:** | | |
| Trade receivables Innofactor Software Ltd | 1,263,354 | 538,740 |
| Trade receivables Innofactor A/S | 57,961 | 0 |
| Accrued income, group contribution | 21,367,942 | 26,367,942 |
| Loan receivable Innofactor A/S | 350,000 | 0 |
| Loan receivable Innofactor Holding ApS | 1,098,118 | 0 |
| **Total** | **24,137,375** | **26,906,682** |

| 4. Shareholders' equity | 2012 | 2011 |
|---|---|---|
| Shareholders' equity, beginning of period | 2,100,000 | 2,100,000 |
| **Shareholders' equity, end of period** | **2,100,000** | **2,100,000** |
| | | |
| Revaluation fund, beginning of period | 2,000,000 | 2,000,000 |
| **Revaluation fund, end of period** | **2,000,000** | **2,000,000** |
| | | |
| Unrestricted shareholders' equity | | |
| Fund for invested unrestricted equity, beginning of period | 15,089,373 | 15,089,373 |
| Share issue directed to the personnel | 490,022 | 0 |
| **Fund for invested unrestricted equity, end of period** | **15,579,396** | **15,089,373** |
| | | |
| Profit/loss from the previous periods, beginning of period | 13,445,964 | 13 |
| Purchase of treasury shares | -129,091 | 0 |
| **Profit/loss from the previous periods, end of period** | **13,316,873** | **-460,238** |
| | | |
| **Profit for the financial period** | **-583,525** | **13,906,201** |
| | | |
| **Total unrestricted shareholders' equity** | **28,312,744** | **28,535,337** |
| | | |
| **Total shareholders' equity** | **32,412,744** | **32,635,337** |

| Calculation of distributable funds | 2012 | 2011 |
|---|---|---|
| Profit/loss from the previous financial periods | 13,445,964 | -460,238 |
| Profit/loss for the financial period | -583,525 | 13,906,201 |
| Fund for invested unrestricted equity | 15,579,396 | 15,089,373 |
| Purchase of treasury shares | -129,091 | 0 |
| **Total** | **28,312,744** | **28,535,337** |

| 5. Liabilities | 2012 | 2011 |
|---|---|---|
| **Non-current liabilities** | | |
| Loans from financial institutions | 875,000 | 0 |
| **Total non-current liabilities** | **875,000** | **0** |
| | | |
| **Current liabilities** | | |
| Loans from financial institutions | 250,000 | 0 |
| Trade payables | 102,431 | 58,767 |
| Other payables | 255,619 | 102,330 |
| Accrued expenses | 908,002 | 84,549 |
| | | |
| **Liabilities to group companies** | | |
| Loans, Innofactor Software Ltd | 3,484,086 | 1,875,134 |
| **Total current liabilities** | **5,000,138** | **2,120,780** |

## Board of Directors' proposal on the distribution of profits

At the end of the financial period of 2012, the distributable assets of Innofactor Plc is EUR 28,312,743.79. The Board of Directors proposes that no dividend be distributed or the financial period of 2012.

## Company shares

Innofactor Plc has one series of shares. The number of shares is 30,165,900. The share has no nominal value. One share entitles the holder to 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.

## Books of account

General ledger as computer printout
Journal as computer printout
Accounts payable ledger as computer printout
Accounts receivable ledger as computer printout
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 account

Innofactor Plc, Keilaranta 19, 02150 Espoo, Finland

INNOFACTOR PLC

## SIGNATURES FOR THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Espoo, Finland, February 25, 2013

**Pyry Lautsuo**
Chairman of the Board of Directors

**Sami Ensio**
CEO and Board Member

**Pekka Puolakka**
Board Member

**Juha Koponen**
Board Member

**Jukka Mäkinen**
Board Member

## AUDITOR’S NOTE

The report on the audit has been issued today.

Helsinki, Finland, February 25, 2013

Ernst & Young Oy
Authorized Public Accountant Firm

Juha Hilmola, Authorized Public Accountant

# Additional Information

## Shareholding

On December 31, 2012, Innofactor Plc had 11,838 shareholders 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, 2012

| Shares | Number of shareholders | Percentage of shareholders | Number of shares | Percentage of shares |
|---|---|---|---|---|
| 1-100 | 8,779 | 74.16 | 240,602 | 0.80 |
| 101-1 000 | 2,418 | 20.43 | 911,972 | 3.02 |
| 1 001-10 000 | 531 | 4.49 | 1,568,111 | 5.20 |
| 10 001-100 000 | 76 | 0.64 | 2,348,269 | 7.78 |
| over 100 000 | 34 | 0.29 | 25,096,946 | 83.20 |
| **Total** | **11,838** | **100.0** | **30,165,900** | **100.0** |

| Shareholders by shareholder group Dec 31, 2012 (% of shares) | |
|---|---|
| Other foreign | 1.40 |
| Administratively registered | 0.36 |
| Financial and insurance institutions | 0.34 |
| Enterprises | 4.23 |
| Public entities | 0.00 |
| Non-profit organizations | 0.01 |
| Private households | 93.66 |
| **Total** | **100.00%** |

# Calculation of Key Figures

**Return on equity - %:**

$$\frac{\text{Profit or loss before taxes - taxes}}{\text{Shareholders' equity}}$$

**Return on investment - %:**

$$\frac{\text{Profit or loss before taxes + interest and other financial expenses}}{\text{Shareholders' equity + interest bearing financial liabilities}}$$

**Net gearing:**

$$\frac{\text{Interest-bearing liabilities - cash and cash equivalent}}{\text{Shareholders' equity}}$$

**Equity ratio (%):**

$$\frac{\text{Shareholders' equity}}{\text{Balance sheet total - received advances}}$$

**Earnings/share:**

$$\frac{\text{Earnings attributable to the shareholders of the parent company before taxes - taxes}}{\text{Share issue adjusted average number of shares in the financial period}}$$

**Shareholders' equity / share:**

$$\frac{\text{Equity attributable to the shareholders of the parent company}}{\text{Undiluted number of shares at closing date}}$$

# Auditor's Report

## To the Annual General Meeting of Innofactor Plc

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Innofactor Plc for the year ended December 31, 2012. 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, Finland, February 25, 2013

Ernst & Young Oy, Authorized Public Accountant Firm

Juha Hilmola, Authorized Public Accountant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