INNOFACTOR®

Annual Report 2013


INNOFACTOR

Innofactor Group Annual Report January 1 to December 31, 2013

Innofactor in Brief

Innofactor is one of the leading Nordic IT solution providers focused on Microsoft platforms. Innofactor is a system integrator, delivering business critical solutions and maintenance services, and it develops its own software products and services. Innofactor's product development is focused on Microsoft's Windows Azure based cloud solutions.

Innofactor's customers include over 1,000 companies and public sector organizations in Finland, Denmark, Sweden and elsewhere in Europe. In its operations, Innofactor aims at long-term customer relationships. The company has over 400 motivated and skilled employees across a number of locations in Finland, Denmark, Sweden and Russia.

In general, the Microsoft-based software market is growing significantly faster than the IT market. The annual growth of a number of Microsoft's areas where Innofactor focuses is as much as 10 to 30 percent. Innofactor's strategic goal is to grow even faster. The strategic annual growth target from 2014 to 2017 is 25 to 35 percent, consisting of both organic growth and acquisitions.

Net sales for 2013 were EUR 32.7 million, meaning growth of 73.7 percent compared to the previous year. EBITDA was EUR 3.3 million or 10.0 percent of net sales. The average annual growth of net sales within the five-year period between 2009 and 2013 has been 43 percent (CAGR), and the average annual EBITDA has been 10 percent of net sales.

Innofactor Plc's shares are listed on the NASDAQ OMX Helsinki stock exchange where Innofactor is the fastest growing technology company, as measured by net sales. The company has approximately 12,000 shareholders.

Contents

Note: The English version of Innofactor's Annual Report is a translation of the Finnish version and 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.

Most Successful Company on the Finnish Stock Exchange in 2013*

In 2013, Innofactor continued its profitable growth and internationalization, in accordance with its strategy. Net sales grew by 73.7 percent, and EBITDA was EUR 3.3 million. In June, Innofactor acquired atBusiness Ltd, and as a result almost doubled in size. The Finnish leading business publication Kauppalehti selected Innofactor as the most successful company listed on the Finnish stock exchange in 2013, based on net sales growth, profitability and the positive development of its share price.

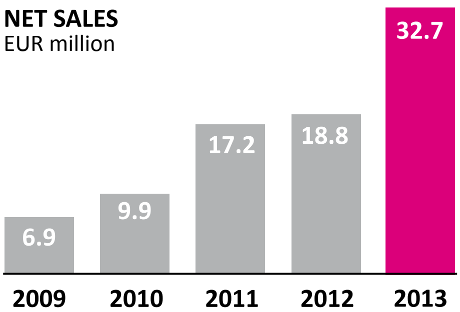
In 2013, Innofactor Group's net sales were EUR 32.7 million (18.8 million in 2012), an increase of 73.7 percent. EBITDA was EUR 3.3 million (1.2 million in 2012). EBITDA's share of the net sales was 10.0 percent (6.5 percent in 2012).

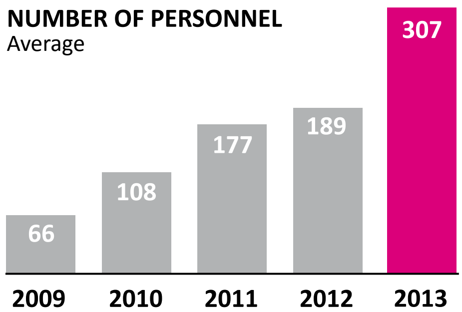
During summer 2013, Innofactor acquired the entire share capital of the Finnish company atBusiness Ltd. atBusiness was formerly one of Finland's leading providers of Microsoft technology solutions with an excellent client base, a positive track record in rapid growth and a business strategy similar to Innofactor. atBusiness net sales in 2012 were EUR 17.4 million and EBITDA EUR 2.7 million (15.3 percent of net sales). The acquisition provides Innofactor with a better opportunity to implement its growth strategy in the Nordic countries and to offer software products and services through its own channel.

In September 2013, Innofactor acquired the Finnish Dynamic Team, consequently expanding its offering with Microsoft Dynamics AX solutions for Enterprise Resource Planning. In December of the same year, Innofactor acquired Enabling Group—a SharePoint based solution provider in Denmark—which helped in significantly growing Danish operations.

Based on Innofactor's continuous strong growth and competitiveness, the company was ranked number 36 in the Deloitte Technology Fast 50 list. The list brings together fifty Finnish IT companies, which have shown the most growth over the last five years. Innofactor has ranked on the list for the last six consecutive years.

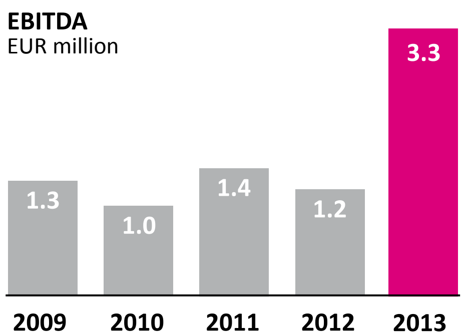
At the end of 2013, Innofactor's new headquarters - Innofactor Campus in Espoo, Finland - brought together all the employees working in the Helsinki metropolitan area. The unique premises with its green areas, partly designed by architect Aarne Ervi during the 1950's, provides the ideal environment to inspire Innofactor's personnel towards even greater achievements in the future.

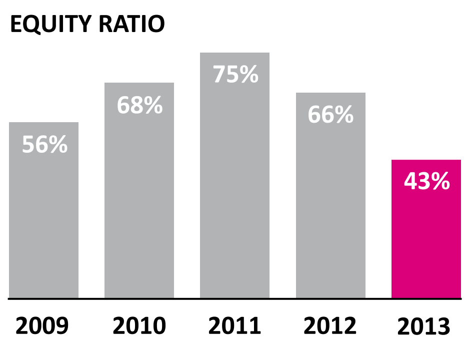




* *Leading Finnish business publication Kauppalehti selected Innofactor as the most successful company on the Finnish stock exchange in 2013*

	2013	2012	2011	2010	2009
Net sales, EUR thousand	32,685	18,818	17,205	9,862	6,920
Operating margin (EBITDA), EUR thousand	3,284	1,215	1,443	980	1,309
percentage of net sales	10.0%	6.5%	8.4%	9.9%	18.9%
Operating profit (EBIT), EUR thousand	2,255	620	904	702	1,165
percentage of net sales	6.9%	3.3%	5.3%	7.1%	16.8%
Earnings before taxes, EUR thousand	1,863	591	886	696	1,182
percentage of net sales	5.7%	3.1%	5.1%	7.1%	17.1%
Earnings, EUR thousand	1,407	449	687	505	875
percentage of net sales	4.3%	2.4%	4.0%	5.1%	12.6%
Shareholders' equity, EUR thousand	19,626	13,760	12,905	12,218	2,597
Interest bearing liabilities, EUR thousand	11,955	1,393	0	0	0
Cash and cash equivalents, EUR thousand	991	656	696	1,714	1,650
Deferred tax assets, EUR thousand	7,604	7,767	7,895	8,132	324
Return on equity	8.4%	3.4%	5.5%	6.8%	40.5%
Return on investment	12.9%	4.5%	7.2%	9.7%	54.9%
Net gearing	55.9%	5.4%	-5.4%	-14.0%	-63.5%
Equity ratio	43.1%	66.1%	74.5%	68.2%	56.1%
Balance sheet total, EUR thousand	46,671	22,173	18,324	19,517	5,355
Research and development, EUR thousand	2,067	2,488	2,086	1,173	680
percentage of net sales	6.3%	13.2%	12.1%	11.9%	9.8%
Personnel on average during the review period	307	189	177	108	66
Personnel at the end of the review period	416	193	189	171	89
Number of shares at the end of the review period	30,909,052	30,165,900	29,261,800	29,261,849	16,756,659
Earnings per share (EUR)	0.0432	0.0150	0.0235	0.0274	0.0540
Shareholders' equity per share (EUR)	0.635	0.460	0.441	0.418	0.155





CEO'S REVIEW

Innofactor Grew to a New Size in 2013

2013 was a year of strong growth for Innofactor. The company doubled its size as a result of successful acquisitions. The new headquarters brought all our employees from the Helsinki metropolitan area together at the Innofactor Campus. In addition, the leading Finnish business publication Kauppalehti selected Innofactor as the most successful company on the Finnish stock exchange in 2013. I want to express my thanks to our customers, partners, employees and investors!

In 2013, Innofactor successfully continued expanding cooperation with its customers. During the year, we made significant agreements in Finland, including the maintenance of FICORA's eServices platform, the delivery of centralized data warehouse maintenance and further development for Aalto University. We also delivered a document and case management system for Senate Properties, a Customer Relationship Management and Enterprise Resource Planning solution for Messukeskus (the Finnish Fair Cooperative), and in Denmark, provided the development and maintenance of a complete Business Intelligence solution for SAS Cargo. In addition, the Enterprise Resource Management system delivered for Helsinki's parking control won the Mayor's achievement of the year award. I would like to take this opportunity to thank all our customers and partners for your trust in Innofactor.

Innofactor's strategy is strongly focused on Microsoft's platforms. With market changes caused by cloud, social computing, mobility and Big Data, Microsoft and its ecosystem are clearly growing faster than the IT market in general. Our partnership with Microsoft has continued to deepen on all levels. Innofactor was one of the first companies to be selected as a member of both the Business-Critical SharePoint (BCSP) and Yammer partner programs. The company was also selected as 2013 Business Intelligence partner of the year in Denmark. I wish to thank Microsoft for their trust in us.

In June 2013, Innofactor acquired atBusiness which resulted in us almost doubling in size. atBusiness is a fine company with an excellent client base, a great track record for rapid growth and a business strategy almost identical to ours. In September, Innofactor acquired the Finnish Dynamic Team, expanding its offering with Microsoft Dynamics AX solutions for Enterprise Resource Planning. In December, Innofactor acquired Enabling Group—a SharePoint solution provider in Denmark—which helped to significantly grow our Danish operations. These acquisitions enable us to further implement our growth strategy in the Nordics. I would like to extend my warmest welcome to all these great companies which have become part of Innofactor.

Our most important resources are our competent and motivated employees. At the end of the year 2013, Innofactor's new headquarters – the Innofactor Campus in Espoo, Finland - brought together all employees in the Helsinki metropolitan area. This offers splendid opportunities for new synergies and benefits. There were times during the year which were challenging for our teams due to the integration of Innofactor and the atBusiness operations. I am particularly proud of the drive and enthusiasm shown by the Innofactorians, in building our new, shared direction and in identifying ways to further improve customer satisfaction and work efficiency—as well as increased productivity. Thank you, all of you.

A successful and growing company needs committed investors. In 2013, Innofactor financed its acquisitions with a traditional bank loan and a hybrid bond, and our share turnover increased by 225.2 percent. This demonstrates a growing interest toward Innofactor. I wish to thank all our investors who have believed and shared in Innofactor's success.

Together with our customers, partners, employees and investors, we are able to create solutions that make our clients and our society to become more competitive and perform better. It goes without saying that we look to the future with enthusiasm and confidence.

"In 2013, we grew to a whole new size. It has been wonderful to see how this has inspired our customers and employees alike. Growing our size without significant dilution of ownership has also increased shareholder value. This is visible in the positive development of our share price."

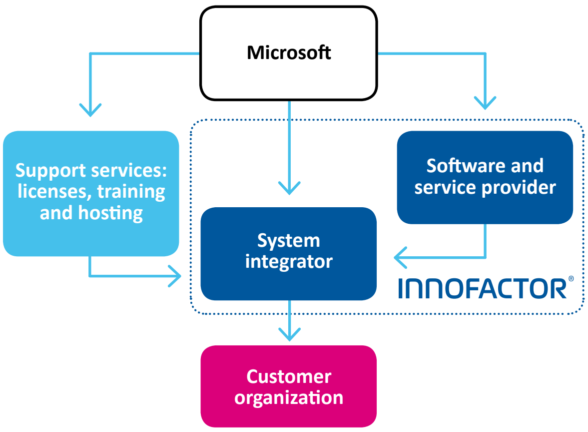
Sami Ensio
Innofactor's founder, main shareholder and CEO

Becoming the Leading Player in the Microsoft Ecosystem

In line with our mission, we want to strengthen our customers' competitiveness with outstanding IT solutions, products and services. In this context, Innofactor delivers IT projects and maintenance services as a system integrator and develops its own software products and services for businesses and public sector organizations. Our vision is to be the number one Microsoft-based solution provider in the Nordic region.

Microsoft provides its software to companies and organizations mainly through its partners. According to Microsoft management, about 95% of Microsoft's net sales are derived through its partners, and each dollar of Microsoft's net sales corresponds to about nine dollars for the net sales of partners.

System integrators have a central role in the Microsoft ecosystem. They deliver IT solutions as projects and maintenance services for their clients, utilizing software and services from Microsoft and its partner network. The strongest customer relationship is formed between the client and the system integrator.



In its strategy, Innofactor focuses on the Microsoft ecosystem. Innofactor operates as both a system integrator as well as develops its own software products and services, which brings a significant competitive edge and synergy benefits. The system integrator operations increase Innofactor's understanding of the customers' product and service needs and act as a delivery channel for Innofactor's own products and services. By focusing on the Microsoft ecosystem, Innofactor creates unbeatable know-how making it the most desirable partner in the Nordic countries for Microsoft, which helps Innofactor create competitive deals for customers.

Innofactor offers extensive value added services for Microsoft's business solutions, such as SharePoint, Dynamics CRM, Dynamics ERP, Project, SQL Server, Office 365, and Windows Azure. With these solutions, the customer company or organization can improve, for example, their web communications, digital services, document management, customer relationship management, project and project portfolio management, work efficiency, and data retrieval capabilities.

Innofactor provides its solutions installed on the customer's own servers or as a service implemented either through Innofactor's data center or through the Microsoft cloud. The continuous SaaS, cloud and other service agreements based on Innofactor's own products, are typically based on annual or monthly charges and play an important role in Innofactor's business activities. The recurring services essentially decrease cyclicality in business operations. Recurring services account for about 26 percent of Innofactor's net sales.

For now, Innofactor's operations are mainly focused on Finland and Denmark. Innofactor aims to expand its system integrator operations to the other Nordic countries in future and this may be done through mergers and acquisitions.

The success of mergers and acquisitions is the responsibility of one of the Group Executive Board members. The role of this individual is to ensure that Innofactor continues to have a sufficient number of potential M&A targets in the pipeline. Therefore, Innofactor is able to carefully select potential acquisition targets. Innofactor only aims to acquire companies that are fully compatible with its own strategy, to pay a price which is lower than its own valuation multiples, and to minimize dilution of ownership. The acquired companies are immediately integrated into Innofactor's operations according to a process that has been developed through more than ten mergers and acquisitions, taking into account customers, employees and other key stakeholders. Innofactor's track record of successful activities and this kind of integration creates excellent conditions for future mergers and acquisitions.

Our mission

We strengthen our customers' competitiveness with outstanding IT solutions, products and services.

Our vision

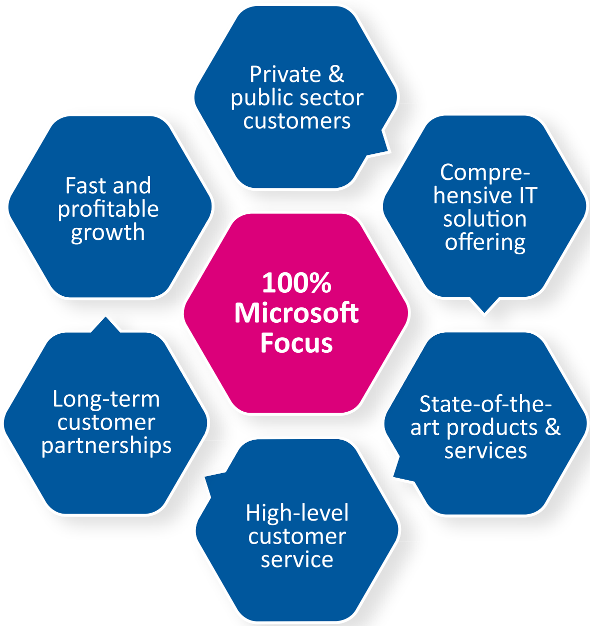
We are the number one Microsoft-based solution provider in the Nordic region.

Our financial goal

Grow profitably

- by achieving over 10 percent EBITDA every year from 2014 to 2017
- by achieving an average annual growth of 25 to 35 percent in 2014 to 2017 through organic growth as well as through acquisitions
- by maintaining a positive cash flow and by securing solid financial standing in all situations

Our strategy



Strong Growth in the Microsoft Ecosystem

Microsoft's growth in several solution areas is clearly faster than average, when considering the growth of the IT market as a whole. In Finland and Denmark, this has resulted in Innofactor achieving a significant position as a Microsoft solutions provider for companies and organizations. Innofactor's aim is to continue to grow profitably.

Due to long-standing uncertainties and the prevailing economic situation, it is difficult to make a reliable estimate on the development of the IT market in the near future. According to research companies monitoring the IT market, the IT service markets globally grew at about 2 to 3 percent in 2013 and this growth is expected to increase to about 4 to 5 percent in 2014. The growth in the business software market was estimated to be about 5 percent globally in 2013 and it is estimated to grow about 6 to 7 percent in 2014.

The IT market is changing. Four global mega trends can be seen:

Information technology and systems are increasingly being transferred into cloud-based services. The cloud will connect people, data, services and devices, globally. The benefits of the cloud are cost-efficiency and flexibility. It is estimated that 70 percent of companies either use cloud solutions already, or are planning to start using them. In the future, customers will increasingly want to buy flexible services which fit their needs at the time, as opposed to much larger one-off delivery projects.

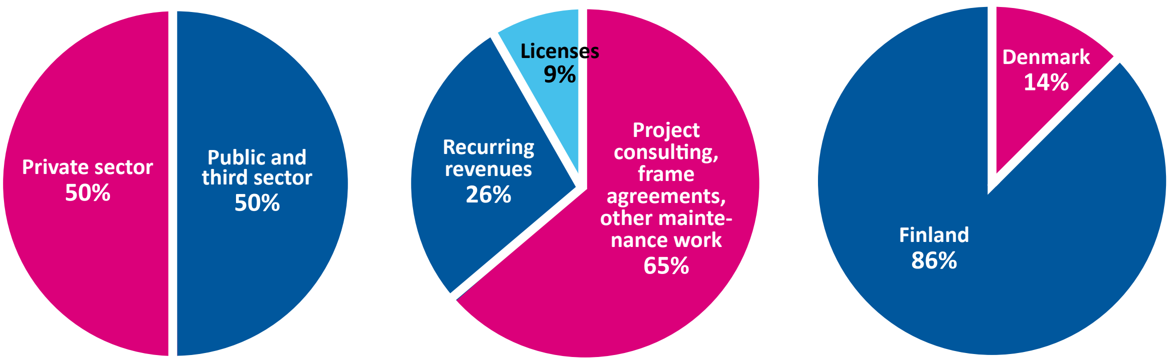
The growth in the importance of social media, which began with consumers is moving to companies. Information systems are increasingly expected to enable flexible communications between people and different systems, between employees, customers and partners. Approximately 57 percent of large companies are planning to invest in social media solutions in 2014.

Mobile devices and convergence of devices change how people both behave at work and during their leisure time. People want their preferred common and personal services and the same usability, regardless of the time, the place and the device used. IT is also consumerizing. An increasingly larger part of IT purchases in companies are made by taking the requirements of individuals into account, i.e. the consumer markets. It is estimated that the mobile workforce will grow to 1.3 billion by 2015, covering approximately 37 percent of the entire global workforce.

Cloud, social media and mobile devices are estimated to increase the amount of saved data around the globe by about 30 to 50 percent every year. Analyzing this so-called Big Data will offer plenty of possibilities for developing the operations of companies and the public sector as well as new business models.

Innofactor believes that Microsoft—and, companies operating in the Microsoft ecosystem—will have a strong position in the changing IT market. Microsoft has the leading position in both consumer and business software, as well as a competitive offering and strong proof of rapid growth in cloud services. Additionally, the acquisition of the Nokia mobile device businesses will give Microsoft a strong position in device markets. To maintain its leading position, Microsoft invests significantly more than its competitors in the area of product development. During 2013, Microsoft's investments in these areas were about USD 11 billion, whereas the corresponding investments by Google were about USD 8 billion, IBM about USD 6 billion, and Apple about USD 5 billion.

Innofactor believes that this development will create markets with long term growth for companies such as Innofactor which are strongly committed to Microsoft.



Distribution of Innofactor's net sales in 2013

Innofactor Well Entrenched in the Nordic Competition

In line with its strategy, Innofactor wants to differentiate itself from the Nordic competition by focusing on solutions implemented with Microsoft-based technologies and platforms. This focus has helped Innofactor create unbeatable know-how and also gain significant new business.

As far as Microsoft-based solutions are concerned, competition in the Nordic countries is divided between different kinds of groups. The first group is formed by large companies that operate in all of the Nordic countries, such as Tieto, CGI and Accenture (for Microsoft solutions, Accenture's subsidiary Avanade). Typically, these companies offer a wide range of IT solutions for companies and organizations, using several competing technologies of which Microsoft technology is one option.

The second group is formed by companies that focus on a narrower solution area within the Nordics, for example, Affecto and Platon in the Business Intelligence area. These companies also offer IT solutions for companies and organizations using several competing technologies of which Microsoft technology is typically one option.

The third group is formed by companies operating in just one country. These small or medium-sized companies often focus on one solution area, partner and/or customer sector. For example, in the association and parish sector, there are national software providers specialized in these fields. There are also specialized providers for these fields for the selected solutions, such as web services, case management and customer relationship management systems.

Innofactor has made a strategic choice by focusing on solutions implemented with and which utilize Microsoft platforms. By selecting solution areas which are in Microsoft's and its ecosystem's growth areas the general average growth of IT service and software markets has been exceeded many times over. Innofactor is primarily focused on large and medium-sized companies and public sector organizations, which have a high level of requirements for their IT solution acquisitions.

Innofactor's competitive edge is based on a strategy which differs from its competitors' strategies. Innofactor focuses on providing a wide range of Microsoft-based solutions for companies and organizations, and it also utilizes its own software and products. Innofactor has a leading position and understanding of the Microsoft ecosystem in the Nordic countries. Innofactor has one of the largest solution, product and service offerings based on Microsoft platforms in Europe. This profound understanding and good reputation in several customer verticals in the private, public and third sectors makes it possible to develop business operations which will serve customers even better. Innofactor is able to provide solutions which are highly competitive.

Microsoft's partner network in Europe and the Nordic countries is fragmented and mainly consists of a large number of small and medium-sized local providers, typically focused on one solution area. For Innofactor, this provides interesting potential for consolidation and internationalization. Innofactor's good reputation, unique track record of rapid and profitable growth and successful acquisitions—together with its entrepreneurial business culture—make it an attractive partner in the Nordic countries.

1. Global Megatrends

Cloud | Social | Mobility | Big Data

2. Microsoft and Its Ecosystem Will Succeed

- Microsoft's strong position both in business and consumer sectors + devices and services
- World's largest IT product and service portfolio with USD 11 Billion annual R&D investments
- Windows and Office are de facto standards
- World's largest partner network continuously innovates new solutions for customers
- Microsoft is growing in the business sector much faster than the IT market in general

3. Innofactor Will Succeed

- Leading position and understanding of Microsoft ecosystem in the Nordic region
- One of the largest Microsoft-based solution, product and service portfolio in the Nordics
- Profound understanding of several customer verticals in private, public and third sectors
- Innofactor's location in two of Microsoft's key R&D countries: Finland and Denmark
- Unique track record in profitable and fast growth and successful M&As

Added Value to Customers from the Microsoft Ecosystem

Innofactor offers a comprehensive range of solutions from the Microsoft ecosystem that create added value to customers' businesses and improve their competitiveness. Solutions provided by Innofactor are based on its own products and services, on Microsoft platforms such as SharePoint, Dynamics CRM, Dynamics ERP, Project, SQL Server, Office 365, and Windows Azure, and on selected third party products.

Web Communication

Innofactor offers fast and easy web communications solutions for content publishing and customer communications. Communication takes place in real-time in all situations and serves various user groups. The offering includes internet, extranet, intranet sites; event calendars; image, material and brand banks; as well as solutions that utilize multi-channel communications. The solutions are based on Microsoft SharePoint, Innofactor and third party products and services.

Digital Services and eCommerce

The reliable and secure solutions provided by Innofactor 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 and third party products and services.

Customer Relationship Management (CRM)

Innofactor's CRM system enhances the maintenance and development of customer relationships. The system collects customer information into one managed place, where it is easily available to sales, marketing and customer services. The solutions are based on Microsoft Dynamics CRM, Innofactor and third party products and services.

Human Resource Management (HRM)

Innofactor's HRM solutions optimize and automate processes for personnel development and the management of knowledge capital. The solutions are easy to adapt and modify according to each customer organization's needs, giving a true competitive advantage from the information system. The solutions are based on Microsoft Dynamics CRM, Innofactor and third party products and services.

Digital Work Environment

Innofactor offers comprehensive solutions for organizations for enhancing internal communication and work efficiency. These include email, calendars and team tools, as well as contact information management and office software, advanced enterprise search and internal social media tools. The solutions are based on Microsoft Office 365, Lync, SharePoint, Yammer, Innofactor and third party products and services.

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 solutions are based on Microsoft Project, Innofactor and third party products and services.

Document and Case Management

The Document and Case Management solutions provided by Innofactor ensure reliable archiving and easy accessibility of an organization's important documents and data. The offering includes solutions for managing e.g. contracts, quality, information security, environmental and brand documentation, an electronic archive, an information management system, and an electronic meeting solution. The solutions enhance organizations' decision making processes. The solutions are based on Microsoft SharePoint, Innofactor and third party products and services.

Enterprise Resource Planning (ERP)

Innofactor offers ERP solutions which are in tune with the customer's key business processes and their affiliations. These solutions create significant added value compared to vendors that can provide solutions only for a single business area. Innofactor enables customers to combine the best parts of the different systems into one solution serving the entire business and its management. In addition to providing ERP solutions, Innofactor is highly capable of offering a number of value adding solutions that integrate with the ERP system. The solutions are based on Microsoft Dynamics AX and NAV, Innofactor and third party products and services.

Business Intelligence (BI)

Innofactor's Business Intelligence solutions efficiently centralize information gathering for decision makers. These versatile solutions consist of data storage, search functions, reporting and virtual desktops for management. Innofactor also provides advanced solutions for an organization's financial performance management (Corporate Performance Management, CPM), i.e. for budgeting, planning, financial monitoring, forecasting and reporting. The solutions are based on Microsoft SQL Server and SharePoint, Innofactor and third party products and services.

Customer Specific Solutions

Innofactor also regularly implements customer and industry specific solutions developed in cooperation with the leading actors in various industries. Innofactor's customer specific solutions ensure that each customer's special features are taken into consideration in such a way that the solutions serve them in the best possible way. The solutions are based on Microsoft platforms, Innofactor and third party products and services.

Microsoft Partner

Gold Application Development
Gold Application Integration
Gold Business Intelligence
Gold Collaboration and Content
Gold Customer Relationship Management
Gold Data Platform
Gold Project and Portfolio Management
Silver Enterprise Resource Planning
Microsoft Dynamics NAV
Cloud Accelerate

Comprehensive Services Complete the Offering

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

Innovation Consultation and Concept Design

Innofactor provides its clients with consultation services that aim to improve customer competitiveness with innovative IT solutions. This can take place in conjunction with developing internal operations and increasing efficiency, and in the development of business concepts and improving customer experience.

Specification, Planning and Implementation

Innofactor provides its clients with extensive and professional specification, planning and implementation services as well as technology consulting. These services can be deployed in relation to a specific customer project or to the overall development of the customer's IT architecture.

User Experience and Design

Easy-to-use products and design solutions which 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 overall software and system deliveries. Innofactor has developed its project management systems and trained its personnel to implement demanding information technology projects following a certified project methodology.

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.

Migration

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

Infrastructure and Cloud Services

Innofactor offers capacity, storage and backup solutions from the public cloud (Windows Azure) or via its own data center. These services cover management, monitoring and troubleshooting as well as service level agreements. Capacity can be flexibly increased according to changing customer needs.

Application Management Outsourcing and Further Development

Innofactor offers takeover and further development of different types of information systems and solutions. A takeover is always based on a systematic process (Application Takeover Planning) taking into account both business objectives and technical viewpoints.

Testing, Documentation and Quality Assurance

Innofactor offers software functionality, availability, capacity and information security testing as well as documentation as part of its software and system deliveries. Innofactor's quality assurance services cover evaluation and development of customer processes and methodologies.

Implementation and Training

Innofactor provides its clients with support which 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 onset.

Support and Maintenance

Innofactor's support and maintenance services always include phone and email support in the local language. By separate agreement, Innofactor also offers a 24/7 on-call service. ITIL compliant procedures are linked to the customers' daily operations.

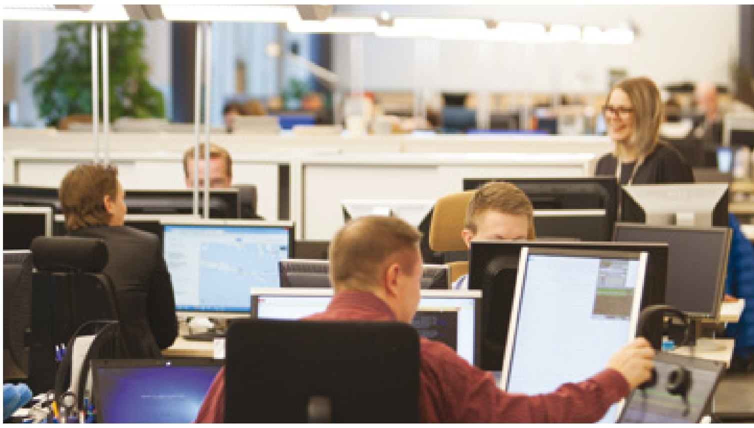
Increased Added Value to Our Customers

The IT market is going through a transition. Cloud, social, mobility and Big Data all change customers' purchasing behavior. Throughout this transition, it is crucial for Innofactor to maintain its own competitiveness. Customers no longer necessarily want to buy large one-off projects, but rather look to quickly implement the benefits of software and services. In line with Innofactor's mission, we want to strengthen our customers' competitiveness. In order to stay competitive, we must increasingly build our solutions on ready-made products and services. Innofactor's offering is built on our own products and services or those of third parties, all based on Microsoft platforms. We want to offer our customers the highest possible added value.

For Innofactor, the development of its own products and services is not an absolute value in itself. Depending on each case, we also use ready-made products and services from third parties. What is most important for us is to ensure the added value gained by the customer and their improved competitiveness. We collaborate with the top players in the Microsoft ecosystem. Our Products and Services strategic business unit is responsible for our partner relations and for developing our offering across all the countries where we operate.

In cases where we are not able to find a good enough ready-made product or service on the market, we develop customer specific solutions and our own products and services. We aim to centralize this work so that innovations created for customers, for example, in one country are also available for those in other countries. This development work is strategically very important as —when successful— these innovations bring us significant competitive advantages and may enable the expansion of Innofactor's business to new markets, for instance, outside the Nordics.

The general design principle behind our own products and services is that they function inherently in Microsoft's Windows Azure public cloud environment making use of its features, such as scalability and fault tolerance. Our products are, however, designed so that they can, when necessary, be integrated to other systems if, for example, a customer environment has specific requirements for the location of their services. The products and services are easily accessible from all devices, including tablets and smart phones. Our products and services can also be customized as part of a larger delivery.



Since our products and services are based on open interfaces and standards, it is simple to develop value adding software. For example, different kinds of dashboards for Windows 8 or Window Phone 8 compatible applications, focused especially on presenting data fast and efficiently.

Innofactor 7to7 is an example of new, innovative managed services hosted in Microsoft's Window Azure cloud. In the basic user scenario, the client has server access from 7 a.m. to 7 p.m. on weekdays. The servers sleep when the users sleep. Thus, customers only pay for real usage and can save up to 50 percent of their managed services costs. Also, the service includes flexible and fast deployment, continuous monitoring, capacity insurance, backups and customer service in local language.

Customer Competitiveness Increases with Outstanding IT Solutions

Innofactor's client base consists of over 1,000 private and public sector organizations in Finland, Denmark, Sweden and other European countries. Innofactor focuses on clients whose competitiveness it can strengthen with outstanding IT solutions. Understanding customers' critical needs is at the core of how we operate. Innofactor offers customers its expertise in understanding the business critical enterprise solutions in the Microsoft ecosystem, combined with its value adding top-notch products and comprehensive service portfolio. As a result, Innofactor creates long-term relationships with its customers.

Corporate Intranet from the Cloud

Oras is a significant developer, manufacturer and marketer of sanitary fittings. Since its founding in 1945 the company has introduced high quality design products featuring user friendly technical solutions.

Oras had been planning an intranet renewal project to support social and two-way communications and decided to deploy their new intranet as a cloud service on the SharePoint 2013 Online platform.

Oras operates in a number of European countries. Therefore, it was clear that part of the content would need to be targeted by country. It was expected that the new service was user friendly, clear and simple. In addition, the intranet was to support a more efficient search functionality and optimization which is, indeed, the trump card of SharePoint 2013. The intranet was also enhanced with a versatile and easy to use document management tool.

The new service was launched group-wide for Oras in November 2013. The benefits of the cloud service make the IT infrastructure easier to update and operate.

Aki Saurimaa
Head of IT, Oras Group

One System Serving Core Business Operations

Messukeskus promotes Finnish welfare by enabling profitable face-to-face meetings. Messukeskus is Finland's leading event organizer and provider of rented premises for exhibitions and congresses. The group consists of the Finnish Fair Cooperative and its subsidiaries.

Messukeskus renewed its group-wide customer relationship management and enterprise resource planning systems by combining them into one seamless entity. Microsoft Dynamics CRM, based on off-the-shelf software, was chosen as the solution. Messukeskus had deployed several separate IT systems which had been integrated into one operational entity. The challenge, however, was that the data was dispersed. In addition, the systems in question were coming to the end of their lifecycle, and it was not sensible to invest in further development.

The extensive solution to replace legacy systems mostly used the standard features of Dynamics CRM. Some customization work, which was agreed on together, was done in order to implement special requests.

Arto Jokela
Head of IT, Messukeskus

Digital Work Environment Enables New Ways of Working and Increases Efficiency

The Federation of Public and Private Sector Employees (Jyty) is a union founded in 1918. Jyty represents people working for municipalities, joint municipal authorities, parishes as well as the private sector and, among others, the third, or voluntary sector.

As part of Jyty's website renewal process, the union wanted to develop a more communicative, open and efficient way of working. For example, video conferences bring financial benefits in saved travel costs and time. In addition, virtual meetings increase ways of faster decision-making and participation in discussions.

The seamless system consists of a public web site built on SharePoint 2013 and a SharePoint based intranet and extranet as a cloud service, Lync and Exchange for video and conference calls, and Office 2013 for email and office applications.

Jouko Ahtola
Head of Finance and IT, Jyty

First Healthcare Windows 8 Application in Finland

Terveystalo is the largest healthcare service company in Finland offering versatile healthcare, occupational healthcare, medical and examination services in nearly 150 clinics around Finland. Terveystalo provides occupational healthcare services for half a million Finnish people.

As a frontrunner in digital services, Terveystalo wants to offer its healthcare customers the best possible tools and channels for staying connected. Innofactor implemented the so called "Oma terveys" ("Your own health") application for the Microsoft Windows 8 platform. It is the first healthcare Windows 8 application in Finland.

The application has been designed to serve the end user as flexibly as possible: you can make an appointment according to location, specialty area and specialist. Additionally, the application allows you to manage your own appointments. In the future, the application will enable a whole new service channel for both private and corporate users.

Tuomas Otala
Head of IT, Terveystalo

Cost-efficient and User Friendly Product Image Catalog

Royal Copenhagen was founded in 1775 and is one of the world's oldest companies. Today, Royal Copenhagen is a highly distinguished brand, renowned for its exclusive quality porcelain products and immaculate design. It is part of the international consumer goods company Fiskars.

Royal Copenhagen needed an intuitive and efficient way of working with their product images. A key requirement for the new solution was the capability to sort images by selected categories such as designer, country, and other details.

The solution delivered by Innofactor is primarily used by marketing and communications, in product campaigns as well as in partner communications. The Office 365 solution makes it easy to interact with large volumes of data in a powerful, informative and engaging way. The use of standard components and hosting in the cloud means that the solution is easy to maintain and simple to expand in the future.

Henning Vedele Sorensen
Head of IT, Royal Copenhagen

Municipality BI Solutions Increase Efficiency of Danish Municipalities

The Innofactor® Municipality BI™ solution offers versatile monitoring, analysis and reporting tools for all the main areas of a municipality. It covers departmental areas such as unemployment benefits, absence and sick leave, budgeting, population statistics, healthcare, education and daycare, etc.

The Municipality BI concept consists of modules for each departmental area that can be added and combined based on the needs of individual cities or municipalities. The Municipality BI solution gives a unique overview of the total municipality business with built-in reports and up-to-date dashboards. KPI's are monitored in real time, actual data is compared to plans, and deviations are followed up with graphic traffic-light visuals. The user is also able to analyze the development of KPI's and their impact across municipal departments in detail.

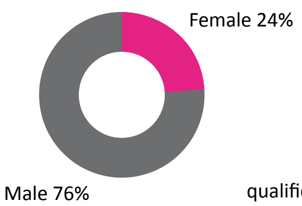
The Municipality BI solution is based mainly on Microsoft SQL Server technology, and can, as standard, connect to a wide number of data sources used within different areas. The solution is currently a crucial business management tool for the six largest municipalities in Denmark.

Leading Microsoft Expertise in the Nordics

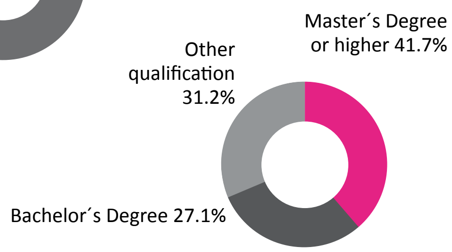
Growth and development-oriented personnel drive Innofactor's growth and development. Growth and internationalization offer a dynamic work environment for our employees. The main HR events during 2013 included acquisitions in Finland and Denmark as well as the move to the new headquarters at the end of the year.

During the year, the average number of personnel at Innofactor was 307 (2012: 189), an increase of 62.4%. At the end of the review period, the number of personnel was 416 (2012: 193), an increase of 115.5%. Women accounted for 24% of our personnel while men accounted for 76% (2012: 20% and 80% respectively). At the end of 2013, the average age among our personnel was 38.5 years (2012: 37.9). When considering academic qualifications, 41.7% (2012: 42.3%) of our personnel had a Master's degree, 27.1% (2012: 32.8%) had a Bachelor's degree or were studying for a Master's degree, and 31.2% (2012: 24.9%) had some other qualification.

PERSONNEL BY GENDER



PERSONNEL BY EDUCATION



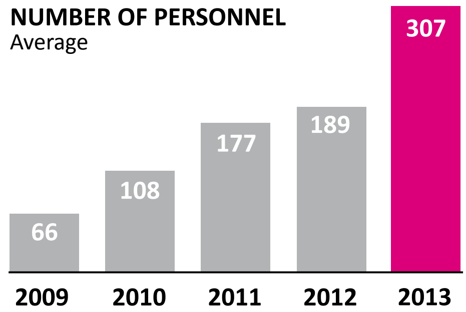
Listening to Employee Views

Innofactor encourages its personnel to participate in the development of the best work practices. Our personnel satisfaction survey has shown that a possibility to influence one's own work is essential for wellbeing at work. Employees were active, for instance, in providing views and ideas through Yammer and workshops regarding the workspace design of the new headquarters.

The HR Board, which has been active for several years, consists of representatives from various locations. The group meets once a month on average and deals with current personnel and location related topics, from the personnel's point of view, with the aim of improving the workplace environment.

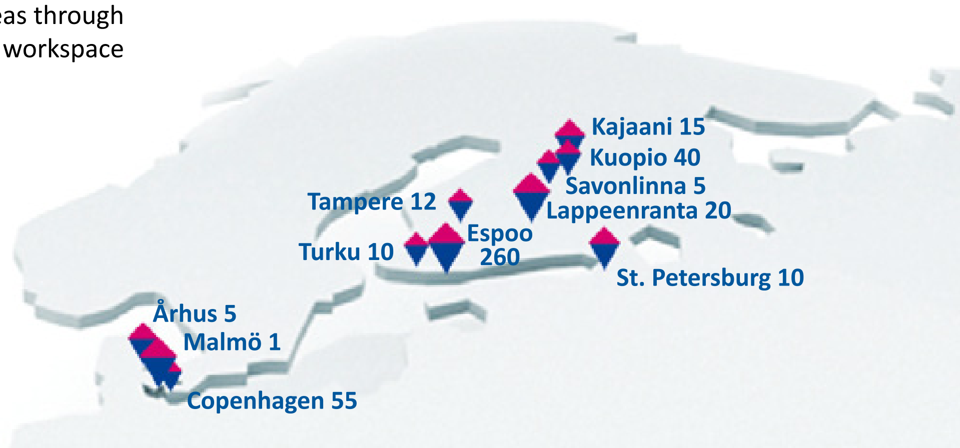
Active discussion among all employees takes place in the online tool Yammer, which is used for handling both formal and informal topics.

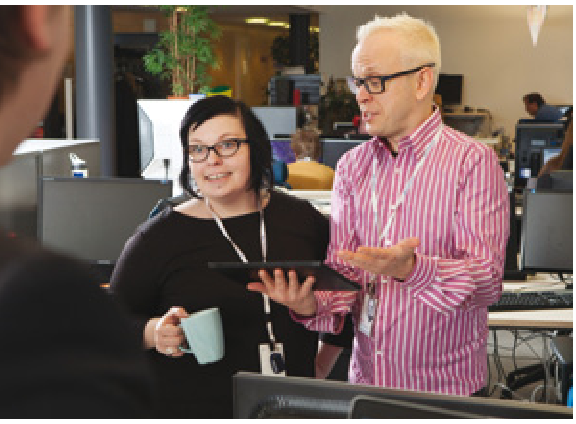
NUMBER OF PERSONNEL
Average

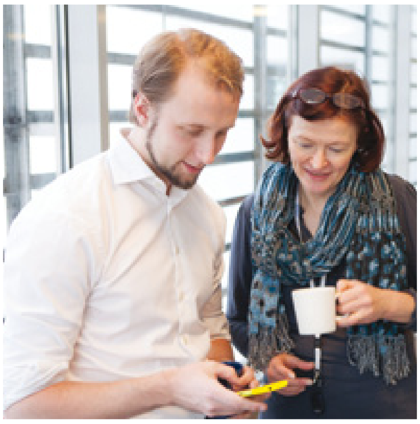


Good Managerial Work Supports Wellbeing

At Innofactor, management and supervisors play an important role in the promotion of a positive work culture. In regular internal personnel reviews, our line managers' work has received positive feedback. Managers and supervisors are supported in their work with regular Management Forum meetings.







Career Planning and Training

Innofactor's wide range of clients requires that the company is able to learn, create and refine new things. Therefore, Innofactor emphasizes the importance of personnel development and training, learning by doing, and job rotation. The aim of the performance development reviews is to monitor the development of the personnel's skills and competency needs and utilize them in career development plans.

Innofactor's personnel actively participates in training programs organized by Microsoft. Innofactor's employees hold more than 500 individual Microsoft certificates which have strongly supported the company in being awarded as many as seven Microsoft Gold competencies.

Innofactor seeks both national and international growth. When an organization grows and changes, the variety of internal operational models and cultures also increases. The responsibility of the HR department is to support growth by harmonizing, developing and enhancing the processes and working methods. Internationalization of Innofactor's business offers new opportunities for job rotation and an expansion in the range of jobs.

Change management plays an important role in the growth of an organization. Open communication and interaction play a key role and will continue to do so, both now and in future.

Microsoft Partner

Gold Application Development
Gold Application Integration
Gold Business Intelligence
Gold Collaboration and Content
Gold Customer Relationship Management
Gold Data Platform
Gold Project and Portfolio Management
Silver Enterprise Resource Planning
Microsoft Dynamics NAV
Cloud Accelerate

Corporate Responsibility

Innofactor's operations are guided by the company's strategy, values, corporate governance, quality system, personnel policy, general principles of corporate responsibility, environmental policy, and legislation. In line with its values, Innofactor strives to act in a responsible, committed, dialog-oriented and collaborative way.

Environment and Sustainable Development

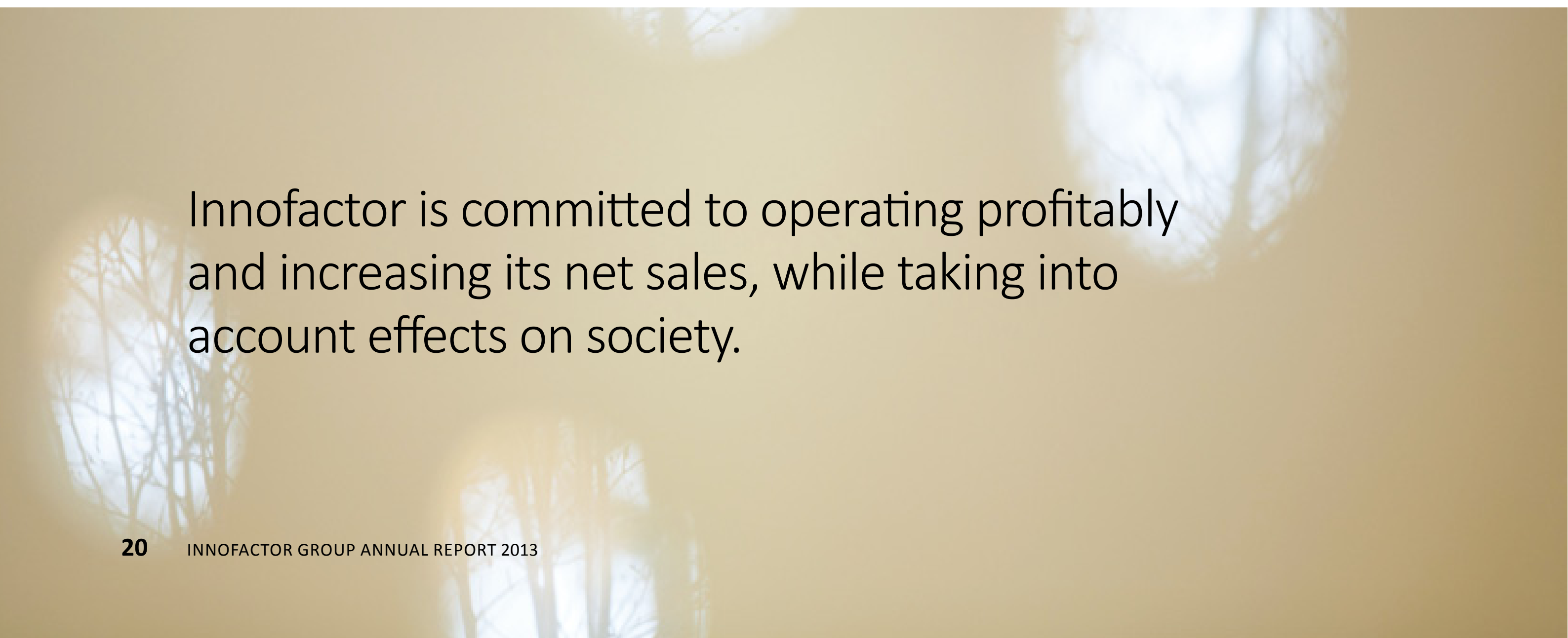
In its operations, Innofactor adheres to the principles of sustainable development and the environmental guidelines of the Federation of Finnish Technology Industries. Through the solutions it has developed, the group has helped its customers to reach their environmental goals and contributed to the sustainable development of society. Innofactor delivers electronic solutions and web services that decrease the environmental effects of its customers' operations.

Constructive Cooperation

Innofactor strives to establish long-term cooperation with its clients and partners and thereby create networks in which complementary expertise produces innovative solutions.

Innofactor aims to provide an inspiring and supportive work environment where employees are able to develop themselves. Innofactor takes care of the wellbeing of its personnel by maintaining a stable, safe and communicative atmosphere and by building a reliable development path for the future. Innofactor invests in developing its personnel through training, learning by doing and job rotation.

Innofactor actively collaborates with other Finnish ICT companies with the aim of creating partner networks to lower the threshold for internationalization and, thereby, contributing to the development of the Finnish software business.



Innofactor is committed to operating profitably and increasing its net sales, while taking into account effects on society.

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 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 forum 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 Auditor 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 at 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 and are 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 24, 2014. 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.

Innofactor Plc's Board of Directors

From left: Pyry Lautsuo (Chairman), Juha Koponen, Ilari Nurmi, Jukka Mäkinen, Pekka Puolakka and Sami Ensio (CEO)

Pyry Lautsuo, born 1946
M.Sc. (Tech.). Chairman of Innofactor Plc's Board of Directors since 2011. Shareholding: 80,094 shares.

Sami Ensio, born 1971
M.Sc. (Tech.). CEO and Member of Innofactor Plc's Board of Directors since 2010. CEO and Member of Innofactor Ltd's Board of Directors since 2000. Shareholding: 7,422,087 shares.

Juha Koponen, born 1972
D.Sc. (Tech.). Member of Innofactor Plc's Board of Directors since 2011. Shareholding: 53,396 shares.

Jukka Mäkinen, born 1954
M.Sc. (Econ.). Member of Innofactor Plc's Board of Directors since 2012. Shareholding: 50,270 shares.

Ilari Nurmi, born 1975
M.Sc. (Tech.). Member of Innofactor Plc's Board of Directors since 2013. Shareholding: 30,107 shares.

Pekka Puolakka, born 1971
LL.M., Attorney-at-Law. Member of Innofactor Plc's Board of Directors since 2010. Previously, Member of Innofactor Ltd's Board of Directors. Shareholding: 159,066 shares.

Shareholding information as per December 31, 2013. Up-to-date information is available on the company web site.

Innofactor Plc's Executive Board

Back row from left: Heikki Jekunen, Janne Martola, Mikko Karvinen, Elina Jokinen, Mikko Lampi and Juha Rokkanen
Front row from left: Christian Andersen, Sami Ensio (CEO) and Ingrid Peura

Sami Ensio, born 1971
M.Sc. (Tech.). CEO and Member of Innofactor Plc's Board of Directors since 2010. CEO and Member of Innofactor Ltd's Board of Directors since 2000. Shareholding: 7,422,087 shares.

Christian Andersen, born 1966
BBA. Managing Director, Denmark. With Innofactor since 2012. Shareholding: 253,843 shares.

Heikki Jekunen, born 1958
M.Sc. (Tech.). Vice President, Products and Services. With Innofactor since 2013.

Elina Jokinen, born 1974
M.Soc.Sci (Pol.Sc.). Vice President, Human Resources. With Innofactor since 2013.

Mikko Karvinen, born 1976
M.Sc. (Econ.). CFO and deputy to CEO. With Innofactor since 2012. Shareholding: 100,000 shares.

Mikko Lampi, born 1977
M.Sc. (Tech.). Vice President, Customer Solutions, and deputy to Finland Managing Director. With Innofactor since 2001. Shareholding: 1,045,543 shares.

Janne Martola, born 1974
M.Sc. (Tech.). Vice President, Acquisitions and International Business. With Innofactor since 2011. Shareholding: 100,000 shares.

Ingrid Peura, born 1963
MA. Vice President, Brand and Communications. With Innofactor since 2013.

Juha Rokkanen, born 1969
BBA. Managing Director, Finland. With Innofactor since 2013. Shareholding: 103,873 shares.

Shareholding information as per December 31, 2013. Up-to-date information is available on the company web site.

Innofactor Plc

Report of the Board of Directors and Consolidated Financial Statements

Financial period
January 1 to December 31, 2013

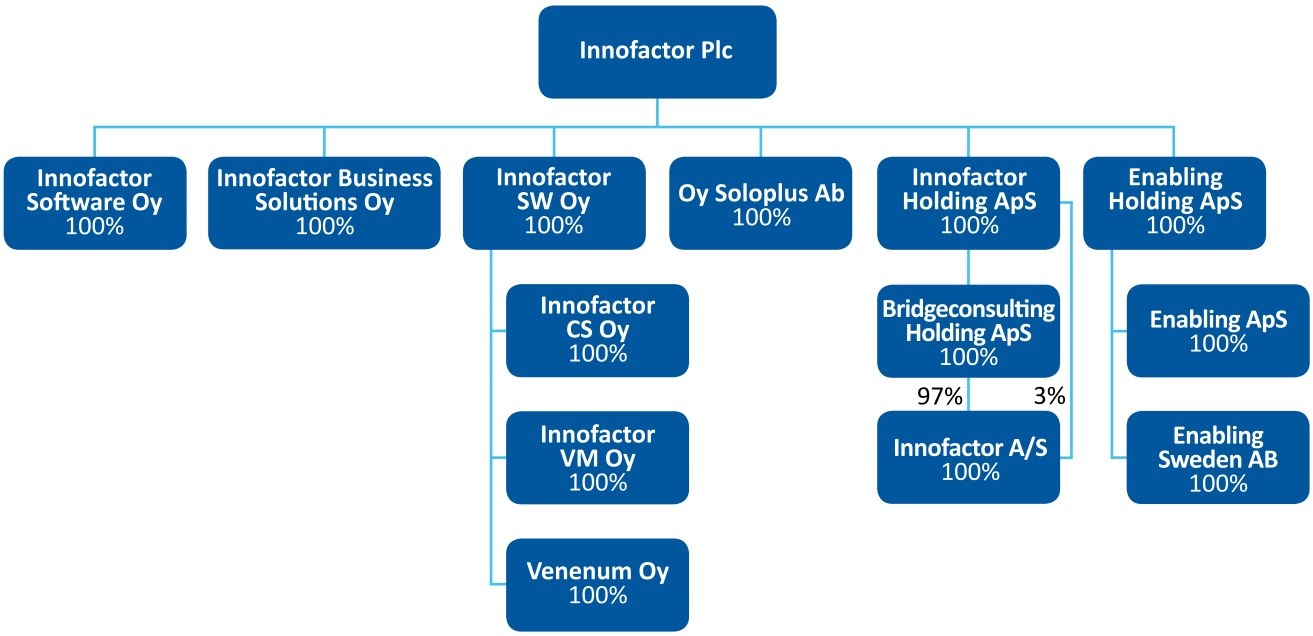
Innofactor Plc, Board of Directors' Report 2013

Innofactor Group

Innofactor is one of the leading software providers focused on Microsoft solutions in the Nordic countries. Innofactor delivers IT projects as a system integrator and develops its own software products and services. In its own development, the emphasis is on Microsoft Windows Azure based cloud solutions. Approximately one quarter of Innofactor's net sales comes from recurring contracts related to Innofactor's own products and from other recurring service contracts.

Innofactor's customers include over 1,000 companies and public sector organizations in Finland, Denmark, Sweden, and elsewhere in Europe. In its operations, Innofactor strives for long-term customer relationships. Innofactor has over 400 motivated and skilled employees in several locations in Finland, Denmark, Sweden, and Russia.

The structure of the Innofactor group at the end of the financial period 2013 is presented below.



At the end of the financial period, the Innofactor group includes the following companies

- Innofactor Plc, Finland (parent company)
- Innofactor Software Oy, Finland, Espoo, 100%
- Innofactor Business Solutions Oy, Finland, Espoo, 100%
  - The company has a branch in St. Petersburg, Russia
- Innofactor SW Oy, Finland, Espoo, 100%
- Innofactor CS Oy, Finland, Turku, 100%
- Innofactor VM Oy, Suomi, Espoo, 100 %
- Venenum Oy, Finland, Espoo, 100%
- Oy Soloplus Ab, Finland, Espoo, 100%
- Innofactor A/S, Denmark, 100%
- Innofactor Holding ApS, Denmark, 100%
- Bridgeconsulting Holding ApS, Denmark, 100%
- Enabling Holding ApS, Denmark, 100%
- Enabling ApS, Denmark, 100%
- Enabling Sweden AB, Sweden, 100%

Acquisitions made by the group during the financial period are described later in this document.

Financial performance and standing

Key figures of the group

	2013	2012	2011	2010	2009
Net sales, EUR thousand	32,685	18,818	17,205	9,862	6,920
Operating margin (EBITDA), EUR thousand*	3,284	1,215	1,443	980	1,309
percentage of net sales*	10.0%	6.5%	8.4%	9.9%	18.9%
Operating profit (EBIT), EUR thousand*	2,255	620	904	702	1,165
percentage of net sales*	6.9%	3.3%	5.3%	7.1%	16.8%
Earnings before taxes, EUR thousand**	1,863	591	886	696	1,182
percentage of net sales**	5.7%	3.1%	5.1%	7.1%	17.1%
Earnings, EUR thousand**	1,407	449	687	505	875
percentage of net sales**	4.3%	2.4%	4.0%	5.1%	12.6%
Shareholders' equity, EUR thousand	19,626	13,760	12,905	12,218	2,597
Interest bearing liabilities, EUR thousand	11,955	1,393	0	0	0
Cash and cash equivalents, EUR thousand	991	656	696	1,714	1,650
Deferred tax assets, EUR thousand	7,604	7,767	7,895	8,132	324
Return on equity***	8.4%	3.4%	5.5%	6.8%	40.5%
Return on investment***	12.9%	4.5%	7.2%	9.7%	54.9%
Net gearing	55.9%	5.4%	-5.4%	-14.0%	-63.5%
Equity ratio	43.1%	66.1%	74.5%	68.2%	56.1%
Balance sheet total, EUR thousand	46,671	22,173	18,324	19,517	5,355
Research and development, EUR thousand	2,067	2,488	2,086	1,173	680
percentage of net sales	6.3%	13.2%	12.1%	11.9%	9.8%
Personnel on average during the review period	307	189	177	108	66
Personnel at the end of the review period	417	193	189	171	89
Number of shares at the end of the review period****	30,909,052	30,165,900	29,261,800	29,261,849	16,756,659
Earnings per share (EUR)****	0.0432	0.0150	0.0235	0.0274	0.0540
Shareholders' equity per share (EUR)****	0.635	0.460	0.441	0.418	0.155

* The second quarter of 2013 included one-off costs related to the atBusiness Oy acquisition for about EUR 164 thousand, and also cost reserves related to the integration for about EUR 200 thousand, a total of about EUR 364 thousand. The last quarter of 2013 included one-off costs related to acquisitions for about EUR 182 thousand, and also costs and cost reserves related to the integration for about EUR 277 thousand, a total of about EUR 459 thousand. The last quarter of 2013 included a one-off profit of EUR 158 thousand.

** The second quarter of 2013 included one-off costs related to the atBusiness Oy acquisition for about EUR 370 thousand (of which EUR 206 thousand were costs related to organizing the loans), and also cost reserves related to the integration for about EUR 200 thousand, a total of about EUR 570 thousand. The last quarter of 2013 included one-off costs related to acquisitions for about EUR 662 thousand (of which the financial expenses for the amendment of the additional purchase price related to the acquisition were EUR 480 thousand), and also costs and cost reserves related to the integration for about EUR 277 thousand, a total of about EUR 939 thousand. The last quarter of 2013 included one-off profit of EUR 158 thousand and also financial income of EUR 758 thousand for the amendment of the additional purchase price related to the acquisition, a total of about EUR 916 thousand.

*** The percentages for the return on equity and return on investment have been adjusted to correspond with the figures for a 12-month period.

**** The number of shares before December 27, 2010, presented in the table has been calculated from the number of Innofactor SW Oy shares due to the reverse acquisition in accordance with IFRS 3. In accordance with the decision of the Innofactor Plc's Annual General Meeting on April 28, 2011, twenty old shares were consolidated into one new share (registered in the Trade Register on May 7, 2011), which reduced the total number of shares to 1/20 of the previous number. The key figures presented in the table have been adjusted to correspond with the current number of shares.

Net Sales

Innofactor's net sales in 2013 were EUR 3.27 million (2012: 18.8 million), which shows an increase of 73.7 percent.

Financial Performance

Innofactor's operating margin (EBITDA) in 2013 was EUR 3.27 million* (2012: 1.2 million), which shows an increase of 170.1 percent*. EBITDA accounted for 10.0 percent of the net sales* (2012: 6.5%).

Innofactor's operating profit in 2013 was EUR 2.25 million (2012: 620,000), which shows an increase of 263.7 percent*. Operating profit accounted for 6.9 percent of the net sales* (2012: 3.3%).

* The year 2013 included one-off costs related to acquisitions for about EUR 346 thousand, and also costs and cost reserves related to the integration for about EUR 477 thousand, a total of about EUR 823 thousand. The year 2013 included a one-off profit of EUR 158 thousand.

Financial Position, Liquidity and Investments

Innofactor's balance sheet total at the end of 2013 was EUR 46,671 thousand (2012: 22,173). The group's liquid assets totaled EUR 991 thousand (2012: 656), consisting totally of cash funds.

The operating cash flow in January 1–December 31, 2013, was EUR 1,369 thousand (2012: 252). The investment cash flow was EUR -2,815 thousand (2012: -1,459).

The equity ratio at the end 2013 was 43.1 percent (2012: 66.1%) and net gearing was 55.9 percent (2012: 5.4%).

At the end of 2013, the company had EUR 1,920 thousand in current interest bearing liabilities (2012: 443) and EUR 10,035 thousand in long term interest bearing liabilities (2012: 950).

The return on investment on January 1–December 31, 2013, was 12.9 percent (2012: 4.5%).

The return on equity on January 1–December 31, 2013, was 8.4 percent (2012: 3.4%).

The non-current assets in Innofactor's balance sheet at the end of 2013 were EUR 31,723 thousand in total and consisted of the following items:

- Tangible assets EUR 868 thousand
- Goodwill value EUR 19,335 thousand
- Other intangible assets EUR 3,916 thousand
- Deferred tax assets EUR 7,604 thousand

Innofactor's gross investments in tangible assets in 2013 were EUR 365 thousand (2012: 189), consisting of normal additional and replacement investments required by growth.

According to the impairment tests carried out, there are no impairments. The write-offs on intangible assets were EUR 712 thousand (2012: 335).

Mergers, Acquisitions and Changes in the Group Structure

On June 6, 2013, Innofactor acquired the entire share capital (the part giving 100% full control) and all capital loans of atBusiness Oy.

The sellers were the acting management of atBusiness (20.0%), Sentica Kasvurahasto II Ky managed by Sentica Partners Oy (60.1%), and Trainers' House Kasvusysteemiosakeyhtiö, a subsidiary of Trainers House Oyj, (19.9%). The purchase price in total is about EUR 6.3 to 7.6 million and the Enterprise Value (EV) about EUR 14.4 to 15.7 million. Of the purchase price, at least 45% will be paid in cash and 55% at the most in Innofactor shares. Innofactor took bank loans of EUR 11.5 million in total for paying the cash portion of the purchase price and for rearranging the target company's loans of about EUR 8.7 million. At the same time, atBusiness' existing checking account with an overdraft limit of EUR 1.5 million was replaced with a new limit of an equal size.

Along with Innofactor, atBusiness was one of Finland's leading providers of Microsoft technology solutions to commercial and public sector clients. The net sales of atBusiness in 2012 was EUR 17.4 million and it had been operating very profitably. In 2012, the operating margin (EBITDA) was EUR 2.7 million (15.3 percent of the net sales).

The new size will give Innofactor improved conditions to operate as a public limited company, implement its growth strategy in the Nordic countries and to offer its own software products and services to its customers through its own channel. The arrangement will bring significant growth in 2013 and 2014 and will create an excellent base for growth in the future. Innofactor also believes the arrangement will result in synergy benefits. Innofactor estimates that it will gain increased profitability and higher earnings per share (EPS) in the future.

The purchase price will be determined (as concerns the acquired shares) by the realized operating margin (EBITDA) of the Innofactor group for the 12 months following the acquisition (June 1, 2013–May 31, 2014). Of the purchase price, at least 45% will be paid in cash and 55% at the most in Innofactor shares. The purchase price in total is about EUR 6.3 million at the minimum and about EUR 7.6 million at the maximum. Enterprise Value (EV) is EUR 14.4 to 15.7 million. Innofactor estimates that the purchase price will be about EUR 6.8 million.

About a total of EUR 6.3 million of the purchase price was paid at the time of closing the deal. Of this, about EUR 2.9 million was paid in cash and about EUR 3.4 million in new Innofactor shares in accordance with the authorizations granted to the Board of Directors. The capital loans (about EUR 5.1 million) were paid in total at the time of closing the deal. The subscription price of the shares was the volume weighted average price of the Innofactor share on the period of January 2, 2013 to June 5, 2013, which is about EUR 0.6739 per share. In order to pay the purchase price, about 4,978,279 new shares were issued.

Innofactor had the right, but not the obligation, to buy back about 4.7 million new shares from the sellers of atBusiness at the subscription price, EUR 0.6739 per share, before December 31, 2013, and at a 3.0 percent higher share price, EUR 0.6941, before March 31, 2014. Innofactor used this possibility at the end of December 2013 and purchased back all of the about 4.7 million shares from the sellers of atBusiness. These shares were then cancelled in two parts, on December 27, 2013, and December 31, 2013. For the purchase, Innofactor issued a EUR 3.2 million hybrid bond, i.e. capital securities, described in more detail in the section “Major events in the financial period.”

The rest of the purchase price, EUR 0 to 1.3 million, (as concerns the acquired shares) will be determined by the realized operating margin (EBITDA) of the Innofactor group during the 12 months following the closing of the deal (June 1, 2013 to May 31, 2014). Of the remainder of the purchase price, 45% is intended to be paid in cash and 55% in Innofactor shares. The subscription price of the shares will be the volume weighted average price of the Innofactor share on April 30 to May 30, 2014. The number of new shares will depend on the average price of the share and the trading volume of the share on the said period. The company may also pay these shares in cash, either entirely or partially, if it so chooses.

Based on the contract signed on September 30, 2013, Innofactor acquired the Microsoft Dynamics AX business of the Dynamic Team (Lainetar Oy) located in Tampere. It was immediately transferred as a part of the Innofactor’s Business Solutions unit. Dynamic Team is a four-person IT service company founded in 2009, and it has focused on ERP deliveries based on the Microsoft Dynamics AX product.

On December 13, 2013, Innofactor Plc signed an agreement on acquiring the entire share capital of Enabling Holding ApS and its subsidiaries Enabling ApS and Enabling Sweden AB (collectively Enabling Group) from the company’s management. Enabling is one of the leading Microsoft partners providing consultancy services, development and implementation of SharePoint-based solutions in Denmark. The acquisition strengthened Innofactor’s vision to become the largest provider of Microsoft-based solutions in the Nordic countries and increases the efficiency of operations in Denmark. Innofactor has over 50 employees in Denmark and a total of over 400 employees in the Nordic countries.

Combining the operations of Enabling and Innofactor A/S started at the beginning of January 2014 and the goal is to implement the most important parts during the first quarter of 2014. In the future, Enabling’s services will be offered under the Innofactor brand.

Enabling offers IT consulting services and solutions in the field of SharePoint and other Microsoft-based products. The company delivers full solutions: from consulting, requirements specification and user interaction to implementation, embedding and maintenance. Enabling’s customers comprise of large Danish companies, both in the public and private sector including companies like DONG Energy, Royal Copenhagen, Lundbeck, Danish Defence, RUC and Region Skåne. Recently, Enabling was nominated as one of the most innovative Microsoft partners in Denmark. The unaudited net sales of Enabling Group for the past 12 months (from November 2012 to October 2013) was about EUR 3.0 million and EBITDA was about EUR 0.3 million (the EBITDA margin was about 9.7%). The company has about 20 employees in Copenhagen, Denmark, and Malmö, Sweden. The management and employees of Enabling Group are transferred into Innofactor Group as existing employees. Enabling Group and its financials will be consolidated into Innofactor Group as of January 1, 2014.

The purchase price will be defined based on Enabling Group’s realized EBITDA in 2014. The purchase price will be paid mainly in Innofactor Plc shares and a minority in Danish kroner.

The purchase price is about EUR 1.6 million at the minimum and that was paid when the deal was closed (Closing date, December 31, 2013). About EUR 0.04 million of the minimum price was paid in cash as the deal was closed and the rest was paid in Innofactor shares in January 2014. As the value of the Innofactor shares used for paying the first part of the purchase price, the closing price of the share on December 30, 2013, EUR 1.26, was used. The maximum purchase price is approximately EUR 4.0 million. The rest of the purchase price is intended to be paid with Innofactor shares during the first half of 2015. The company estimates that the purchase price according to IFRS will be about EUR 3.1 million. All Innofactor shares used as payment in this transaction are subject to transfer restrictions, which will be gradually released during 2014–2017.

As the value of the Innofactor shares used for paying the rest of the purchase price will be used the share's weighted average price in NASDAQ OMX Helsinki trading during 60 trading days before paying the rest of the purchase price.

Innofactor's acting management in Denmark will now consist of the following persons: Managing Director Christian Andersen, Business Unit Director (Business Intelligence) Peter Kyvsgaard and Business Unit Director (SharePoint) Staffan Arbring.

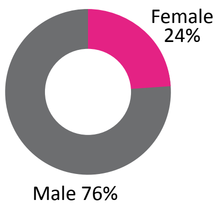
No other acquisitions or other changes in the group structure were carried out in 2013.

Personnel

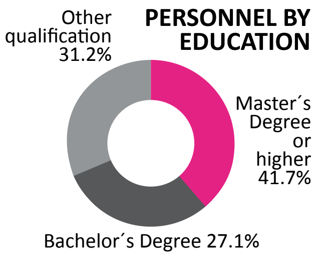
The average number of personnel at Innofactor in 2013 was 307 (2012: 189), an increase of 62.4 percent.

At the end of 2013, the number of personnel was 416 (2012: 193), which shows an increase of 115.5 percent.

PERSONNEL BY GENDER



PERSONNEL BY EDUCATION



At the end of 2013, the average age among personnel was 38.5 years (2012: 379). Of the personnel, 41.7 percent (2012: 42.3%) had a Master's Degree, 27.1 percent (2012: 32.8%) had a Bachelor's Degree or were studying for a Master's Degree, and 31.2 percent (2012: 24.9%) had some other qualification. Women accounted for 24 percent of the personnel and men for 76 percent (2012: 20% and 80% respectively).

Strategy

Innofactor published its renewed strategy on September 17, 2013, in a separate stock exchange release. The key points of Innofactor's updated strategy are as follows:

Innofactor strengthens its customers' competitiveness by providing outstanding IT solutions, products and services. Innofactor focuses on Microsoft-based solutions and Microsoft's ecosystem. Innofactor's clients comprise of private and public sector organizations. Innofactor currently operates in Finland, Denmark, Sweden and Russia. Innofactor's strategy is to actively expand its operations in the Nordic countries, which may happen either organically or through acquisitions.

Innofactor's Mission: We strengthen our customers' competitiveness with outstanding IT solutions, products and services.

Innofactor's Vision: We are the number one Microsoft-based solution provider in the Nordic countries.

Innofactor's strategy is to build a competitive advantage as the leading provider focused on Microsoft-based solutions and Microsoft's ecosystem.

The most important strategic choices related to this objective are the following

- private and public sector customers
- comprehensive IT solution offering
- state-of-the-art products and services
- high-level customer service
- long-term customer partnerships
- fast and profitable growth

Innofactor's long-term financial goal is to grow profitably:

- by achieving over 10 percent operating margin (EBITDA) every year in 2014–2017
- by achieving an average annual growth of 25–35 percent in 2014–2017 through organic growth as well as acquisitions
- by maintaining positive cash flow and by securing solid financial standing in all situations

Business Operations

In its strategy, Innofactor focuses on the Microsoft ecosystem. Innofactor operates both as a system integrator and develops its own software products and services, which offers Innofactor significant competitive edge and synergy benefits. Its system integrator operations increase Innofactor's understanding of customers' product and service needs and also act as a delivery channel for its own products and services. By focusing on the Microsoft ecosystem, Innofactor creates unbeatable know-how making it the most desirable partner in the Nordic countries for Microsoft, which helps Innofactor create competitive deals for customers.

Innofactor offers extensive value added services for Microsoft's business solutions, such as SharePoint, Dynamics CRM, Dynamics ERP, Project, SQL Server, Office 365, and Windows Azure. With the solutions, the customer company or organization can improve, for example, their web communications, eServices, document management, customer relationship management, project and project portfolio management, and data retrieval capabilities.

Innofactor provides its solutions installed on the customer's own servers or as a service implemented either through Innofactor's data 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 of business operations. Recurring services account for about 26 percent of Innofactor's net sales.

At the moment, Innofactor's operations are mainly focused on Finland and Denmark. Innofactor aims to expand its system integrator operations to other Nordic countries in the future and this may be done through mergers and acquisitions.

Innofactor's business operations focused on Finland and Denmark. On January 1–December 31, 2013, about 86% of the net sales came from Finland and about 14% from Denmark.

Of the net sales on January 1–December 31, 2013, about 50% came from commercial clients and about 50% from government and third sector clients.

Innofactor's net sales in 2013 came from the following sources:

- about 65% from system integrator services (including system delivery projects, consulting, and smaller changes and further development);
- about 9% from licenses, of which the share of licensing income to third parties was about 2%;
- about 26% from recurring service contracts (incl. maintenance agreements, SaaS, cloud and hosting services).

Innofactor's 10 largest clients accounted for about 23% of net sales in 2013.

Major Events in the Financial Period

- On March 26, 2013, the Annual General Meeting of Innofactor Plc resolved to adopt the accounts and the group's financial statement for the financial period that ended on December 31, 2012, and granted the members of the Board of Directors and the Chief Executive Officer discharge from liability for the financial period that ended on December 31, 2012.

  The General Meeting decided, in accordance with the proposal of the Board of Directors, that no dividend will be paid for the financial period January 1–December 31, 2012.

  The General Meeting decided to change the Section 4 of the Articles of Association as follows: "The company shall have a Board of Directors, which comprises at a minimum of four (4) and at a maximum of eight (8) members. The term of office of the members of the Board of Directors shall end at the close of the first Annual General Meeting following their election.

  The company shall have a CEO who is elected by the Board of Directors."

  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%) shall be paid monthly in cash and the other half (50%) as shares of Innofactor Plc. The shares shall be handed over to the members of the Board of Directors and, if necessary, shall be acquired from public trading directly on behalf of the members within two weeks of publishing the interim report of Innofactor Plc for January 1–March 31, 2013. Innofactor Plc requires the members of the Board of Directors to keep the shares, which they have received as part of the fees, for the duration of their membership in the Board of Directors.

  The General Meeting decided that the number of Board members is six. The following persons were elected as members of the Board of Directors: Sami Ensio, Juha Koponen, Pyry Lautsuo, Jukka Mäkinen, Ilari Nurmi, and Pekka Puolakka. At their organizing meeting held immediately after the General Meeting, the Board of Directors elected Pyry Lautsuo as the Chairman of the Board.

  Ernst & Young Oy, an auditing firm authorized by the Central Chamber of Commerce, was elected as the auditor for the company. Ernst & Young Oy has stated that it will appoint Juha Hilmola, Authorized Public Accountant, as the auditor with principal responsibility. It was decided that the auditing fee shall be paid according to a reasonable invoice.

- On May 21, 2013, Innofactor announced in a stock exchange release that it had been selected in a public procurement procedure to deliver a document and case management system to Senate Properties. The delivery includes a document and case management system based on an off-the-shelf software solution, as well as support and maintenance services. The estimated value of the contract is EUR 812,000. Senate Properties is a government owned enterprise responsible for providing services related to premises, primarily to customers which form part of the state administration. The basis of the services is formed by leasing premises, investments, and the administration and development of the property portfolio. Customers include, for example, government agencies, ministries, research and cultural institutions, prisons, and defense administration. This transaction strengthens Innofactor's position as a provider of document and case management systems in Finland.

- On June 7, 2013, Innofactor announced in a stock exchange release that it had acquired the entire share capital of atBusiness Oy. More details about the matter can be found in the section "Mergers, acquisitions and changes in the group structure."

- On June 7, 2013, Innofactor published a stock exchange release about re-evaluating the outlook on 2013 due to the acquisition of atBusiness Oy announced in an earlier stock exchange release. There were uncertainties related to the outlook for 2013 due to the integration of a major acquisition, so no detailed estimate of the outlook could be provided. Innofactor's net sales in 2013 were expected to be about EUR 34–37 million (2012: EUR 18.8 million). The operating margin (EBITDA) in 2013 was expected to be about EUR 3–5 million (2012: EUR 1.2 million). Innofactor's earlier estimate was that Innofactor's net sales in 2013 were expected to be about EUR 24 million (2012: EUR 18,818 thousand). The operating margin (EBITDA) in 2013 was expected to be about EUR 2 million (2012: EUR 1,215 thousand).

- On June 18, 2013, Innofactor announced in a stock exchange release that the 4,978,279 new Innofactor Plc shares had been registered in the Trade Register on June 18, 2013. After the registration, the total number of Innofactor Plc shares was 35,144,179. The shares registered in the Trade Register were issued as part of the purchase price payment for the acquisition mentioned above.

- On July 1, 2013, Innofactor published a stock exchange release about Innofactor's reorganizations as of July 1, 2013. The change in organization was related to the acquisition announced on June 7, 2013, in which Innofactor acquired the entire share capital and capital loans of the Finnish company atBusiness Oy.

- On August 2, 2013, Innofactor published the prospectus concerning the submitting of the new shares into public trading, approved by the Financial Supervisory Authority of Finland on August 2, 2013.

- On August 23, 2013, Innofactor announced in a stock exchange release that Innofactor was selected in a public procurement procedure to deliver centralized data warehouse maintenance and further development for Aalto University. The value of the contract is EUR 568,490.

- On September 17, 2013, Innofactor announced in a stock exchange release that Innofactor Plc's Board of Directors updated the Innofactor Group's strategy as part of Innofactor's annual strategy process.

- On September 17, 2013, Innofactor's Extraordinary General Meeting accepted the Board of Directors' proposal to grant the Board authorization to decide on acquisition of own shares with following presumptions:

  The Extraordinary General Meeting authorized the Board of Directors to decide on acquiring of a maximum of 8,000,000 shares in one or several parts with the company's unrestricted equity. The authorization entitles the Board to deviate from the shareholders' proportional shareholdings (directed acquisition). Shares will be acquired from the sellers of atBusiness according to the terms of the contract signed on June 6, 2013, concerning the acquisition of the atBusiness shares, and at the price agreed on in the contract, and/or on NASDAQ OMX Helsinki Ltd with the public trading on the market. The number of shares in the company's possession at a time may be, at the maximum, one tenth of the total number of shares in the company.

  The authorization includes the right of the Board of Directors to decide on all other matters related to the acquisition of shares. The authorization will be valid until March 17, 2015.

  Additionally, the Extraordinary General Meeting authorized the Board of Directors to decide on granting a maximum 15,000,000 shares and transferring a maximum of 1,000,000 shares in the company's possession in one or several parts. However, the total number of shares shall not exceed 45,000,000.

  The authorization will be valid until June 30, 2015.

- On September 17, 2013, Innofactor announced in a stock exchange release that Innofactor has decided to cancel 569,000 shares held by the company. The cancellation of shares had no effect on the amount of share capital of the company.

- On September 17, 2013, Innofactor announced in a stock exchange release that in its meeting on September 17, 2013, the Board of Directors of Innofactor decided on a directed issue, which was to be used to pay the final part of the purchase price of the Danish company Bridgeconsulting A/S using company's new shares. In the directed issue, the company issued 1,015,372 new shares.

- On September 30, 2013, Innofactor announced in a stock exchange release that the new Innofactor Plc shares and the cancellation of own shares had been registered in the Trade Register. After the registrations, the total number of Innofactor Plc shares was 35,590,551.

- On October 11, 2013, Innofactor announced in a stock exchange release that Innofactor has won a public procurement tender for maintaining FICORA's (The Finnish Communications Regulatory Authority) eServices platform for a period of four years including the option of one additional year. The value of the contract according to the procurement decision is EUR 2,257,800. The procurement covers the maintenance and further development of FICORA's integration and services platform according to their eServices roadmap. Additionally, it includes the future development of the system platform, daily maintenance services as well as process automatization and digitalization for the authority.

- On October 23, 2013, Innofactor re-evaluated the outlook on 2013, as the schedule of costs and synergy benefits related to the June 6, 2013, acquisition of atBusiness Oy had become more accurate.

- On December 13, 2013, Innofactor announced in a stock exchange release that it had signed an agreement on acquiring the entire share capital of the Danish company Enabling Holding ApS and its subsidiaries Enabling ApS and Enabling Sweden AB (collectively Enabling Group) from the company's management. More details about the matter can be found in the section "Mergers, acquisitions and changes in the group structure."

- On December 17, 2013, Innofactor published a stock exchange release about issuing a EUR 3.2 million hybrid bond, i.e. capital securities. The proceeds of the hybrid bond were used to buy back about 4.7 million Innofactor's own shares from the atBusiness Oy sellers before the end of 2013. The bond's annual coupon rate is 9.00%. The bond has no due date, but the company has the right to redeem it in February 2016. The issue was directed mainly at domestic professional investors and it was subscribed to in full. A hybrid bond is a loan that has a weaker standing than other debt obligations. The bondholder does not have the same rights as shareholders and the hybrid bond does not dilute the ownership of the current shareholders.

- On December 27, 2013, Innofactor announced in a stock exchange release that Innofactor had decided to cancel 3,539,189 shares held by the company. The cancellation of shares had no effect on the amount of share capital of the company.

- On December 30, 2013, Innofactor announced in a stock exchange release that Innofactor had decided to cancel 1,142,310 shares held by the company. The cancellation of shares had no effect on the amount of share capital of the company.

- On December 30, 2013, Innofactor announced in a stock exchange release that the cancellation of own shares had been registered in the Trade Register. After the registrations, the total number of Innofactor Plc shares was 32,051,362.

- On December 31, 2013, Innofactor announced in a stock exchange release that the cancellation of own shares had been registered in the Trade Register. After the registrations, the total number of Innofactor Plc shares was 30,909,052.

- On December 31, 2013, Innofactor announced in a stock exchange release that the program for purchasing Innofactor Plc's own shares had ended. During the purchase program, Innofactor acquired a total of 569,000 shares at an average price of EUR 0.5365 per share. The closing price of the Innofactor share on December 30, 2013, was EUR 1.26. The acquired 569,000 own shares have been cancelled by a separate decision on September 17, 2013.

- On December 31, 2013, Innofactor announced in a stock exchange release the closing of the acquisition of Enabling Holding ApS. More details about the matter can be found in the section "Mergers, acquisitions and changes in the group structure."

Major Events after the Financial Period

- On January 9, 2014, Innofactor announced in a stock exchange release that the new Innofactor Plc shares had been registered in the Trade Register. After the registrations, the total number of Innofactor Plc shares is 32,153,737.
- On January 24, 2014, Innofactor announced in a stock exchange release that Innofactor Plc's CFO Mikko Karvinen had resigned from the company at his own request on January 23, 2014. Karvinen will continue in his role until April 30, 2014.

There have been no other significant events in Innofactor after the review period.

Future Outlook

Innofactor's net sales in 2014 are expected to be about EUR 43-48 million (2013: EUR 32.7 million). The operating margin (EBITDA) in 2014 is expected to be about EUR 4-6 million (2013: EUR 3.3 million).

Major Risks and Uncertainties

Innofactor's operations, finances and shares involve risks that may be significant for the company and its share value. These risks are assessed by the Board of Directors four times a year as part of the strategy and business planning process. The risks are published in their entirety in the financial statement and in the annual report of the Board of Directors. The interim reports only present the changes in short-term risks.

Risks Related to Operations

The risks related to the operations of the Innofactor group are primarily business risks related to its subsidiaries that carry out its business operations.

Profitability of projects: A large part of Innofactor's net sales comes from project-based businesses. Profitable implementation of Innofactor's delivery projects requires that project calculation and planning before submitting a tender are done successfully as regards the amount of work and the delivery schedule, and also that deliveries can be made in a cost-effective manner. It is possible that Innofactor fails to correctly estimate the profitability of a project and, therefore, the delivery could cause losses to the company. Correspondingly, it is possible that projects may have to be sold cheaper because of competition, which leads to lower profit margins. Innofactor pays special attention to the profitability of its project businesses.

Knowledgeable personnel and its availability: The development of Innofactor's operations and deliveries depend greatly on the group having knowledgeable personnel and being able to replace persons with proper resources. In Innofactor's field of business, there is both a lack of and competition for certain personnel resources. If Innofactor fails to keep its personnel motivated, or keep the personnel's skills at a high level, thus keeping the personnel in its service, then it could cause problems for the group's business operations. The success of the group depends heavily on the employed key personnel and success in their work. Innofactor invests in continuous development of its personnel and in maintaining a high level of personnel satisfaction.

Increase in personnel costs: The main portion of Innofactor's costs consists of personnel costs and other employee benefits (in 2013, this amounted to about 69%). Of Innofactor's own employees, currently most work in Finland and Denmark and some in Russia, whereas some competitors rely heavily on a workforce in countries with cheap labor. If the personnel costs continue to rise in Finland and Denmark at the same rate as in previous years, it will create a risk for Innofactor, should the prices paid for IT services not rise correspondingly. Innofactor is monitoring the situation and aims to increase the share of work done by subcontractors and 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 customer base compared to Innofactor, and they can leverage these when competing with Innofactor for the same business. The price competition in this field is expected to remain tough. If the competition becomes tougher, it may have an adverse effect on Innofactor's business, operating results and financial position. Innofactor continuously strives to improve its competitiveness.

Research and product development: For Innofactor's operations, research and product development play a central role. In 2013, about 63% of net sales was used for this purpose. Each research and product development project carries the risk that the end results will not be as successful financially as planned and that the investment in the project will not make positive returns. In organizing its operations, Innofactor aims at minimizing the risks inherent in research and product development.

Internationalization: In accordance with its strategy, Innofactor is seeking additional growth in international markets, especially in the Nordic countries. International operations typically always involve higher risks than operations within home markets. Innofactor strives to make sure that investments in becoming an international player will not be so great that it would jeopardize the group's ability to make profits and to grow.

Risks related to operating in developing markets: Innofactor operates in Russia through its unit in St. Petersburg. Markets and judicial practices in Russia are still undeveloped compared to those in Nordic countries and include higher risks than in developed markets, including possible changes in laws and regulations. In addition, the operating practices and interpretation of the local and national officials may be different and difficult to foresee, which, combined with the possible seniority of these officials, may lead to changes in judicial interpretations and implementation of regulations and rules that, again, may be difficult to foresee. In its operations, Innofactor strives to actively monitor and minimize the probability that these risks will realize as well as the possible consequences.

Changes in technology: Fast technological development is a characteristic of Innofactor's field of business. There can be quick changes in the customers' requirements and choices concerning software technology. An important change under way is the transfer of software to cloud technologies. If Innofactor cannot answer the technology challenges, it may have an adverse effect on Innofactor's business, operating results and financial position. Innofactor strives to actively invest in new technologies.

Reaching the growth goals: Realizing the desired organic growth requires a growth rate that is clearly faster than the growth in the general IT market. This creates a risk that it cannot be realized in future, although it has been done before. Although estimates for 2014 forecast improved market development compared to previous years, it is possible that, due to the general financial situation in Europe, the growth of IT market in 2014 will not be good. Ensuring growth has a central role, when planning Innofactor's operations and setting its goals. Innofactor strives to reduce this operational risk by focusing on the growing Microsoft solution areas, which grow faster than the IT market in general, and by focusing on sales to keep the order book at a sufficient level as regards the business operations.

Uncertainties related to acquisitions: The growth estimates are partly based on acquisitions. With acquisitions, there are uncertainties around finding suitable companies to acquire and in making the acquisitions at the desired price level and schedule. If acquisitions cannot be made as planned, the growth goal may be jeopardized. In acquisitions, Innofactor focuses on high-level know-how and good processes.

Risks related to acquisitions: Each acquisition carries some risks, which include the success of the integration, formation of the business value and possible related needs for depreciations. Innofactor's strategy is primarily based on integrating the acquired companies at a fast schedule as part of the whole company, in the country in question. Innofactor invests in the integration process.

Success of the organizational changes: Rapid growth may occasionally require making changes in the organization. Starting a new organization typically includes challenges before desired improvements in operations can be achieved. Typically, the operation can be at least restored to the previous level of efficiency within a few months from starting the new organization. If the improvement in operation for some parts does not take place within the planned schedule, there is a risk that it will not happen at all or that the delay may lead to extra costs. The reasons for this include, for example, incorrect planning in placing units and personnel. Innofactor strives to pay attention to controlling organizational changes and to be financially prepared for them.

Financial Risks

General financial uncertainty and changes in customers' financial situations affect customers' investment decisions and purchasing policies. It is possible that the general financial uncertainty will be reflected in Innofactor's customers' software purchases by delaying the decision-making or time of purchases.

Financing risks: In its normal business operations, the Innofactor group is susceptible to normal financing risks. Innofactor took a loan package totaling EUR 12.5 million in order to purchase the share capital of atBusiness Oy and to rearrange an old loan of about EUR 1.0 million, related to the acquisition in Denmark in 2012. This has increased Innofactor's financing risks. Innofactor has committed itself to the following covenants: equity ratio calculated every 6 months is at least 37 percent on December 31, 2013, and June 30, 2014, and at least 40 percent on December 31, 2014, and at a 6-month check-point after that. Additionally, interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 3.5 in the financial statement of December 31, 2013, a maximum of 3.0 in the following three review periods (June 30, 2014, December 31, 2014, and June 30, 2015), and a maximum of 2.5 in the financial statement of December 31, 2015, and on each 6-month review period after that. The goal of managing the financing risks is to minimize the negative effects of the changes in the financial markets to 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, CEO, and Board of Directors. It is possible that, in future, the group will not get the financing it needs and this will have a negative effect on the group's business and its development, especially on making acquisitions.

Risks related to the cash position: The Innofactor group handles management of liquid assets with the help of centralized payments and cash management. The group strives for continuous monitoring and assessment of the needed business financing in order to ensure that the group has enough liquid assets in its use. Additionally, the group's subsidiaries have in their use, checking accounts, with an overdraft limit of about EUR 2.9 million in total in order to cover any seasonal variations in liquid assets. Excess cash balance is placed on savings accounts or funds with capital guarantee.

Credit risk: Credit decisions related to sales receivables are monitored centrally in the group's management. Large part of Innofactor's cash flow comes through established customer relationships as payments from the public sector and financially sound companies, which have not presented essential credit risks in the past. The group has not had significant amounts of outstanding sales receivables. Should the credit risks realize, it would weaken the group's financial standing and liquidity. Sales receivables are monitored regularly.

Deferred tax asset risk: Innofactor's balance sheet includes a significant amount of deferred tax assets that are based on previous financial periods. If the group's internal factors or outside factors independent of the group's operation change significantly, it is possible that the group can't utilize in full the receivables currently activated in the balance sheet. The assessment of these receivables and the related internal and external factors are being monitored actively by financial periods and, if necessary, these receivables will be re-assessed.

Risks Related to Shares

The number of Innofactor Plc shares traded on January 1–December 31, 2013, increased by 225.2% compared to the same period in the previous year. In 2013, share trading was 35.6% of the share capital. On the Helsinki stock exchange, the listed companies' average trade during 2013 was 66.5% of the share capital. Continuing lower than average share trading may result in a liquidity risk for the share and its price formation. Innofactor strives to improve the liquidity of the share and decrease the related liquidity risk by its strategy of increasing value for the shareowners and by its active investor communications.

Corporate Governance Report

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

At the General Meeting on March 26, 2013, the number of the members of the Board of Directors was confirmed to be six. The General Meeting decided to approve the proposal to re-elect Sami Ensio, Juha Koponen, Pyry Lautsuo, Jukka Mäkinen, and Pekka Puolakka as members of the Board of

Directors and to elect Ilari Nurmi as a new member. The Board of Directors elected Pyry Lautsuo to continue as their Chairman.

The General Meeting approved the proposal to re-appoint Ernst & Young Oy, an auditing firm authorized by the Central Chamber of Commerce, as the auditor for the company, with Juha Hilmola, APA, as the main responsible auditor.

Innofactor issues a Corporate Governance Statement for the financial period of 2013 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 will be published separate from the Annual Report.

Innofactor's entire Corporate Governance and statements are available on the company's web site at: **http://www.innofactor.com/investors/corporate_governance**

Research and Product Development

Innofactor's research and development costs recognized in the profit and loss statement for January 1–December 31, 2013, were EUR 2,067 thousand (2012: 2,488), which accounts for 6.3 percent of the net sales (2012: 13.2%).

Corporate Environmental and Social Responsibility

Innofactor's operations are guided by the company's strategy, values, corporate governance, quality system, personnel policy, general principles of corporate responsibility, environmental policy, and legislation.

The group is committed to operating profitably and increasing its net sales while taking into account the societal effects.

Innofactor takes care of the wellbeing of its personnel by maintaining a stable, safe and communicative atmosphere and by building a reliable development path for the future. Innofactor invests in developing its personnel through training, learning by doing and job rotation.

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 customers to reach their environmental goals and contributed to society's continued sustainable development. Innofactor delivers electronic solutions and web services that decrease the environmental effects of its customers' operations.

Innofactor strives to establish long-term cooperation with its clients and partners and thereby create networks in which complementary expertise produces innovative solutions.

Share and Shareowners

At the end of 2013, Innofactor Plc's share capital was EUR 2,100,000.00 and the total number of shares was 30,909,052. Innofactor Plc has one series of shares. Each share is entitled to one vote.

On January 1–December 31, 2013, the highest price of the company share was EUR 1.83 (2012: EUR 0.70), the lowest price was EUR 0.46 (2012: EUR 0.38), and the average* price was EUR 1.05 (2012: EUR 0.50). The closing price for 2013 on December 30, 2013, was EUR 1.26 (2012: EUR 0.48).

* The average share price was calculated by taking the total value of share trading in the stock exchange on the said period and dividing this by the number of shares traded in the stock exchange on the said period. In calculating the average share price, trading outside the normal stock exchange trading and at deviating prices (Exchange Granted) that the company has been made aware of has not been taken into consideration.

In public trading on January 1–December 31, 2013, a total of 11,609,606* shares were traded (2012: 3,569,716 shares*), which corresponds to 35.6 percent (2012: 11.9%) of the average number of shares on the said period. On January 1–December 31, 2013, there were 32,589,585** shares on the average (2012: 29,894,264). The share trade increased by 225.2 percent compared to the corresponding period in 2012.

* In calculating the share trading, trading outside the normal stock exchange trading and at deviating prices (Exchange Granted) that the company has been made aware of has not been taken into consideration.

** The average number of shares does not include shares in the company's possession.

The market value of the share capital at the closing price of 2013, EUR 1.26, on December 30, 2013, was EUR 38,945 thousand (2012: 14,480), which shows an increase of 171.5 percent.

On December 31, 2013, the company had 11,961 shareowners (2012: 11,838) including the administrative registers (8 registers). The share of nominee registered ownership was 3.3 percent of the total number of shares. Of the owners, 3.7

percent were companies operating in Finland, 0.0 percent financing and insurance companies, 91.6 percent Finnish households, and 1.4 percent foreign owners.

The Board of Directors has the following authorizations:

- Until June 30, 2015, to decide on a share issue and granting of special rights entitling to shares for a maximum of 15,000,000 new shares with the total number of shares not exceeding 45,000,000 (decided in the General Meeting of September 17, 2013); based on which 1,015,372 new shares were issued on September 17, 2013, and 1,244,685 new shares were issued on December 31, 2013, leaving the number of shares remaining in the authorization at 12,739,943.
- Until June 30, 2015, to decide on a transfer of a maximum of 1,000,000 company shares in the company's possession (decided by the General Meeting of September 17, 2013); the authorization has not been used.

The General Meeting of September 17, 2013, authorized the Board of Directors to decide on acquiring of a maximum of 8,000,000 of the company's own shares in one or several parts with the company's unrestricted equity. The authorization entitles the Board to deviate from the shareholders' proportional shareholdings (directed acquisition). Shares will be acquired from the sellers of atBusiness according to the terms of the contract signed on June 6, 2013, concerning the acquisition of the atBusiness shares, and at the price agreed on in the contract, and/or on NASDAQ OMX Helsinki Ltd with the public trading on the market. The number of shares in the company's possession at a time may be, at the maximum, one tenth of the total number of shares in the company. The shares may be used to develop the capital structure, to widen the ownership base, in making a payment for an acquisition, or when the company buys property related to its business operations or as part of the incentive compensation plan, or to be otherwise invalidated or conveyed. In connection with the share repurchase, ordinary derivative, stock lending and other agreements may be made in the market in accordance with the laws and regulations. The authorization includes the right of the Board of Directors to decide on all other matters related to the acquisition of shares. The authorization will be valid until March 17, 2015. On the basis of the authorization, Innofactor Plc acquired its own shares in 2013 as follows: on December 23, 2013, and December 27, 2013, a total of 4,681,499 shares. After this, the authorization is valid for 3,318,501 shares.

On September 17, 2013, Innofactor announced in a stock exchange release that it had decided to cancel 569,000 shares held by the company, which had been acquired based on earlier authorizations.

On December 27, 2013, Innofactor announced in a stock exchange release that it had decided to cancel 3,539,189 of its own shares in its possession.

On December 30, 2013, Innofactor announced in a stock exchange release that it had decided to cancel 1,142,310 of its own shares in its possession.

On December 31, 2013, Innofactor did not have any of its own shares in its possession.

In 2013, Innofactor Plc has submitted five flagging announcements:

- June 7, 2013: Sentica Kasvurahasto II Ky's ownership of Innofactor Plc votes and shares exceeded one tenth (10%) when the shares issued in the directed issue in accordance with the resolution of the Board of Directors of Innofactor Plc on June 6, 2013, had been registered in the Trade Register (which took place on June 18, 2013).
- September 17, 2013: Sentica Kasvurahasto II Ky's ownership of Innofactor Plc votes and shares fell under one tenth (10%) when the directed share issue in accordance with the resolution of the Board of Directors of Innofactor Plc on September 17, 2013, and the cancellation of shares held by the company, based on the decision of the Board of Directors on September 17, 2013, had been registered in the Trade Register (which took place on September 30, 2013); Sentica Kasvurahasto II Ky owned 3,539,189 shares (September 30, 2013).
- December 23, 2013: Sentica Kasvurahasto II Ky's ownership of Innofactor Plc votes and shares was 0.0 percent after Innofactor Plc had bought back 3,539,189 of its own shares in relation to the atBusiness Oy acquisition; Sentica Kasvurahasto II Ky owned 0 shares.
- December 23, 2013: After Innofactor Plc had bought back 3,539,189 of its own shares in relation to the atBusiness Oy acquisition, the company's ownership of Innofactor Plc votes and shares rose to over one twentieth (5%); Innofactor Plc owned 3,539,189 shares.
- December 27, 2013: After Innofactor Plc had cancelled 3,539,189 of its own shares, the company's ownership of Innofactor Plc votes and shares decreased to under one twentieth (5%). Innofactor Plc owned 0 shares.

According to the share register maintained by Euroclear Finland Oy, the persons belonging to the public insider register on December 31, 2013, held company shares as follows:

Board of Directors:

- Pyry Lautsuo, 80,094 shares, 0.26%
- Sami Ensio, 7,422,087 shares, 24.01%
  - Sami Ensio, 5,248,327 shares, 16.98%
  - minor under guardianship, 724,588 shares, 2.34%
  - minor under guardianship, 724,586 shares, 2.34%
  - minor under guardianship, 724,586 shares, 2.34%
- Juha Koponen, 53,396 shares, 0.17%
- Jukka Mäkinen, 50,270 shares, 0.16%
- Ilari Nurmi, 30,107 shares, 0.10%
- Pekka Puolakka, 159,066 shares, 0.51%
  - Hillside Ou, 105,670 shares, 0.34%
  - Pekka Puolakka, 53,396 shares, 0.17%

CEO:

- Sami Ensio, 7,422,087 shares, 24.01%
  - Sami Ensio, 5,248,327 shares, 16.98%
  - minor under guardianship, 724,588 shares, 2.34%
  - minor under guardianship, 724,586 shares, 2.34%
  - minor under guardianship, 724,586 shares, 2.34%

Executive Board:

- Christian Andersen, 253,843 shares, 0,82%
  - CHRA Holding ApS, 253,843 shares, 0,82%
- Aino-Maija Gerdt, 0 shares, 0.0% (until March 22, 2013)
- Henrikki Hervonen, 80,105 shares, 0.26% (until June 30, 2013)
- Heikki Jekunen, 0 shares, 0.0% (as of March 11, 2013)
- Elina Jokinen, 0 shares, 0.0% (as of January 21, 2013)
- Mikko Karvinen, 100,000 shares, 0.32%
- Mikko Lampi, 1,045,543 shares, 3.38%
- Janne Martola, 100,000 shares, 0.32%
- Teemu Muukkonen, 507,468 shares, 1.64% (until June 30, 2013)
- Mikko Myllys, 101,481 shares, 0.33% (until June 30, 2013)
- Mika Nurmi, 135,553 shares, 0.44% (until June 30, 2013)
- Ingrid Peura, 0 shares, 0.0% (as of August 12, 2013)
- Juha Rokkanen, 103,873 shares, 0.34% (as of June 6, 2013)

Auditors:

- Juha Hilmola, 0 shares, 0.0%

According to the share register maintained by Euroclear Finland Oy, the share ownership of the 20 largest Innofactor Plc shareowners at the end of 2013 was as follows:

Name	Number of shares	% of share capital
1. Ensio Sami	7,422,087	24.01%
Ensio Sami	5,248,327	16.98%
Minor under guardianship	724,588	2.34%
Minor under guardianship	724,586	2.34%
Minor under guardianship	724,586	2.34%
2. Tilman Tuomo Tapani	2,924,442	9.46%
Tilman Tuomo Tapani	2,747,492	8.89%
Mpire Capital Oy	176,950	0.57%
3. Salminen Jyrki Kalle Tapio	2,747,492	8.89%
4. Laiho Rami Tapani	1,438,391	4.65%
5. Linturi Kaija ja Risto	1,296,911	4.20%
R. Linturi Oyj	529,607	1.71%
Linturi Kaija	430,000	1.39%
Linturi Risto	337,304	1.09%
6. Lampi Mikko Olavi	1,045,543	3.38%
7. Ärje Matias Juhanpoika	946,278	3.06%
8. Mäki Antti-Jussi	930,201	3.01%
9. Luostarinen Juha Markku T	929,438	3.01%
10. Muukkonen Teemu Heikki	507,468	1.64%
11. Kukkonen Heikki-Harri	355,021	1.15%
12. Järvenpää Janne-Olli	322,804	1.04%
13. Jokinen Klaus Antero	300,001	0.97%
14. Laiho Jari Olavi	270,000	0.87%
15. Ementor Norge As	269,299	0.87%
16. Nurmi Mika Tapio	135,553	0.44%
17. Muurinen Hannu Olavi	125,750	0.41%
18. Tiirikainen Vesa Martti	125,750	0.41%
19. Tanskanen Pekka Matti Santeri	107,881	0.35%
20. Mattila Aleksi Mikael	105,804	0.34%

Board of Directors and the Company's Management

Board of Directors

In 2013, the members of the Innofactor Plc's Board of Directors were:

- Pyry Lautsuo (Chairman)
- Sami Ensio
- Juha Koponen
- Jukka Mäkinen
- Ilari Nurmi (as of March 26, 2013)
- Pekka Puolakka

Of the Innofactor Plc's Finnish subsidiaries, the following had the same Board of Directors as the parent company: Innofactor Software Oy, Innofactor SW Oy, Innofactor CS Oy, Innofactor VM Oy, Innofactor Venenum Oy, and Soloplus Oy.

In the Innofactor Plc's Finnish subsidiary Innofactor Business Solutions Oy (former atBusiness Oy), the members of the Board in 2013 were:

- Sami Ensio (Chairman)
- Juha Rokkanen
- Mikko Karvinen

Before the acquisition in June 2013, the Board of Directors of atBusiness Oy (current Innofactor Business Solutions Oy) consisted of persons selected by the previous owners.

In the Innofactor Plc's Danish companies Innofactor A/S, Innofactor holding Aps and Bridgeconsulting holding ApS, the members of the Board in 2013 were:

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

Before the acquisition closed on December 31, 2013, the Boards of Directors of Enabling Holding ApS, Enabling ApS and Enabling Sweden AB consisted of persons selected by the previous owners.

CEO

Innofactor Plc's CEO is Sami Ensio.

Ensio is also the CEO of the Innofactor group's Finnish subsidiaries Innofactor Software Oy, Innofactor SW Oy, Innofactor CS Oy, Innofactor VM Oy, Innofactor Venenum Oy, and Soloplus Oy. The CEO of Innofactor Business Solutions Oy is Juha Rokkanen.

The CEO of Innofactor group's Danish companies Innofactor A/S, Innofactor holding ApS and Bridgeconsulting holding ApS is Christian Andersen.

The management of the Innofactor group's Danish and Swedish companies Enabling Holding ApS, Enabling ApS and Enabling Sweden AB consists of Michael Aoun and Hans Ole Jørgensen, who were selected by the previous owners.

Executive Board

In 2013, the Innofactor group's Executive Board consisted of

- Sami Ensio, CEO and Chairman of the Executive Board
- Christian Andersen, Managing Director, Denmark
- Heikki Jekunen, Vice President, Products and Services (as of March 11, 2013)
- Elina Jokinen, Vice President, HR (as of January 21, 2013)
- Mikko Karvinen, CFO, CEO's deputy
- Mikko Lampi, Vice President, Customer Solutions, and deputy to Finland Managing Director
- Janne Martola, Vice President, Acquisitions and International Business
- Ingrid Peura, Vice President, Brand and
- Communications (as of August 12, 2013)
- Juha Rokkanen, Managing Director, Finland (as of June 6, 2013)

Teemu Muukkonen was a member of the Executive Board until June 30, 2013, and he was responsible for the project operations in Finland. After that, he continued in his tasks in the Executive Board of the Finnish SI operations. Mikko Myllys was a member of the Executive Board until June 30, 2013, and he was responsible for the Third Sector Solutions unit in Finland. After that, he continued in his tasks in the Executive Board of the Finnish SI operations. Mika Nurmi was a member of the Executive Board until June 30, 2013, and he was responsible for the Document and Case Management unit in Finland. After that, he continued in his tasks in the Executive Board of the Finnish SI operations.

Aino-Maija Gerdt was a member of the Executive Board until March 22, 2013, as the leader of the Cloud and Mobile Solutions unit. After that she left the company. Henrikki Hervonen was a member of the Executive Board until June 30, 2013. After that, he left the company.

Auditor

The auditor of Innofactor Plc was Ernst & Young Oy Authorised Public Accounting Firm, with Juha Hilmola as the auditor with principal responsibility.

Board of Directors' Proposal on the Dividend

Innofactor is a growing company and intends to use its operating profit on actions promoting growth, for example, on realizing mergers. Innofactor has defined a dividend distribution policy according to which the aim of the Board of Directors is to provide an opportunity for the shareholders to distribute, from the part of the operating margin (EBITDA) that exceeds 10 percent, the maximum dividend allowed by the state of the business. For 2013, EBITDA was 10.0 percent. In making the proposal on the dividend, the Board of Directors takes into account the company's financial situation, profitability and near-term outlook.

At the end of the financial period of 2013, the distributable assets of the group's parent company were EUR 32,722,231.76.

The Board of Directors proposes that Innofactor Plc should not pay any dividend for the financial period of 2013.

Consolidated Financial Statements

Key Figures per Share

	2013	2012
Earnings per share (EUR)	0.0432	0.0150
Equity/share attributable to the shareholders of the parent company (EUR)	0.635	0.460
Highest price per share (EUR)	1.83	0.70
Lowest price per share (EUR)	0.46	0.38
Market value of the shares (EUR thousand)	38,945	14,480
Turnover of shares	11,609,606	3,569,716
Turnover of shares (%)	35.6	11.9
Weighted average adjusted number of shares during the financial period	32,589,585	29,894,264
Number of shares at the end of the financial period	30,909,052	30,165,900

Comprehensive Consolidated Profit and Loss Statement, IFRS

EUR thousand	Note	2013	2012
Net sales	4	32,685	18,818
Other operating income		321	33
Materials and services		-2,542	-1,692
Employee benefits/expenses (–)	7	-22,576	-12,835
Depreciation (–)	6	-1,029	-595
Other operating expenses (–)	5	-4,604	-3,110
Operating profit		2,255	620
Financial income	9	769	12
Financial expenses (–)	10	-1,161	-41
Profit before taxes		1,863	591
Income taxes	11	-456	-142
Profit for the period		1,407	449
Other comprehensive income			
Items that may be later transferred into profit or loss:			
Translation differences		-3	0
Total comprehensive income		1,404	449
Distribution of the profit and comprehensive income			
To shareholders of the parent company		1,404	449
Earnings per share calculated from the profit attributable to the shareholders of the parent company:			
Basic earnings per share (EUR)	12	0.0432	0.0150
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, 2013	Dec 31, 2012
ASSETS			
Non-current assets			
Other tangible assets	13	868	451
Goodwill	14	19,335	2,834
Other intangible assets	14	3,916	1,695
Deferred tax assets	15	7,604	7,767
		31,723	**12,747**
Current assets			
Trade and other receivables	16, 20	13,957	8,770
Cash and cash equivalents	17	991	656
		14,948	**9,426**
Total assets		**46,671**	**22,173**

Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2013	Dec 31, 2012
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to 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	13,427	8,834
Fund for other shareholders' equity		3,200	0
Treasury shares		0	-129
Retained earnings		767	2,824
Total shareholders' equity		**19,626**	**13,760**
Non-current liabilities			
Loans from financial institutions		10,035	950
Deferred tax liabilities	15	887	510
		10,922	**1,460**
Current liabilities			
Trade and other payables	21	14,121	6,479
Current income tax liabilities		82	31
Current financial liabilities		1,920	443
		16,123	**6,953**
Total liabilities		**27,045**	**8,413**
Total shareholders' equity and liabilities		**46,671**	**22,173**

Consolidated Cash Flow Statement, IFRS

EUR thousand	Note	2013	2012
Cash flow from operating activities			
Operating profit		2,255	620
Adjustments:			
Depreciation	22	1,029	595
Non-cash transactions		-278	43
Changes in working capital:			
Change in trade and other receivables (+/–)		-1,495	-905
Change in trade and other payables (+/–)		529	-72
Interests paid (–)		-681	-41
Interests received		10	12
Cash flow from operating activities, total		**1,369**	**252**
Investment cash flow			
Acquisition of subsidiaries		-2,450	-1,260
Investments in intangible and tangible assets		-365	-199
Cash flow/investments total		**-2,815**	**-1,459**
Cash flow/financing			
Loans withdrawn		4,554	1,325
Issuing a hybrid bond		3,200	0
Loans paid		-2,642	-190
Payments received from share issue		0	161
Purchase of treasury shares		-3,331	-129
Cash flow/financing total		**1,781**	**1,167**
Change in liquid funds		**335**	**-40**
Liquid funds, opening balance		656	696
Liquid funds, closing balance		**991**	**656**

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	Issuing a hybrid bond	Total share-holders' equity
Shareholders' equity January 1, 2013		2,100	72	59	8,834	-129	2,824		13,760
Comprehensive income									
Profit for the financial period							1,407		1,407
Other comprehensive income:									
Translation differences							-3		-3
Total comprehensive income		**0**	**0**	**0**	**0**	**0**	**1,404**		**1,404**
Transactions with shareholders									
Dividend distribution									
Share issue					4,593		0		4,593
Purchase of treasury shares						-3,331			-3,331
Cancellation of treasury shares						3,460	-3,460		0
Transactions with shareholders in total		0	0	0	4,593	129	-3,460		1,262
Issuing a hybrid bond								3,200	3,200
Shareholders' equity December 31, 2013		**2,100**	**72**	**59**	**13,427**	**0**	**768**	**3,200**	**19,626**

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 January 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:								
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
Transactions with shareholders in total		0	0	0	490	-129	43	404
Shareholders' equity December 31, 2012		**2,100**	**72**	**59**	**8,834**	**-129**	**2,824**	**13,760**

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 9, 02150 Espoo.

The Innofactor Group is one of the leading software providers in the Nordic countries, focused on Microsoft solutions. Innofactor is a system integrator, delivering business critical solutions and maintenance services and it develops its own software products and services.

A copy of the consolidated financial statements is available at www.innofactor.fi or at the head office, located at Keilaranta 9, 02150 Espoo, Finland.

Innofactor Plc's Board of Directors has approved these financial statements for publishing, during its meeting on February 24, 2014. 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, 2013. 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 thousands of euros unless otherwise stated. As the figures are presented in thousands of euros, rounding may cause differences.

Application of the new and amended IFRS norms

As of January 1, 2013, the Group has applied the following standards and interpretations:

Amendment to IAS 1 Presentation of financial statements Presenting other comprehensive income

The main change is the requirement of grouping items in other comprehensive income, based on whether they may be later transferred into profit or loss, when certain conditions are fulfilled. The change has had an impact on the way the Group's other comprehensive income is presented.

Amendment to IAS 19 Employee benefits

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 change has not had significant impacts on the consolidated financial statements.

IFRS 13, Fair value measurement

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 change has not had significant impacts on the consolidated financial statements.

IAS 27 Separate financial statements

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 change has not had significant impacts on the consolidated financial statements. (The standard is valid in the EU starting from the financial period beginning on January 1, 2014.)

The Group will introduce the following standards on January 1, 2014, or on later financial periods, provided the EU approves them. The Group estimates that these amendments will not have significant impacts on future consolidated financial statements.

Amendment to IFRS 10 Consolidated financial statements

In accordance with the current principles, the standard establishes control as a central factor in defining whether an entity needs to be consolidated in the consolidated financial statements. The standard also provides additional instructions for defining control in cases where it can be difficult to assess. The standard has been approved to be applied in the EU and the group will apply it starting from the financial period beginning on January 1, 2014. The standard is estimated to not have significant impacts on future consolidated financial statements.

IFRS 12 Disclosure of interests in other entities

The standard includes the requirements for notes concerning various kinds of stakes in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The new standard will expand notes presented by the Group regarding its ownership in other companies. The standard has been approved to be applied in the EU and the group will apply it starting from the financial period beginning on January 1, 2014.

Amendment to IAS 27 Separate financial statements

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 standard has been approved to be applied in the EU and the group will apply it starting from the financial period beginning on January 1, 2014. The standard is estimated to not have significant impacts on future consolidated financial statements.

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 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 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 transferred consideration 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 the 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.

Tangible assets

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

If an item of tangible assets 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 tangible assets 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 are 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 tangible assets 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 tangible assets 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 2012 and 2013, 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	5–9 years
Software	3–5 years.

Leases

Group as lessee

Leases concerning tangible assets, where the Group retains a significant part of the risks and rewards of ownership are treated as operating leases. An asset acquired by means of an operating lease is recognized in the balance sheet at the starting time of the lease, at the fair value of the leased asset at the time of signing the contract or at the current value of the minimum leases, whichever is lower. Depreciation of an asset acquired by means of an operating lease are made within the estimated useful life of the item or within the lease time, whichever is shorter. Leases paid are divided into financial cost and part payment of debt during the lease time in such a way that, on each period, the remaining liability has an equal interest rate. Changes in leases are recognized as costs during the periods when they occur. Lease liabilities are included in the financial liabilities.

Lease agreements in which the risks and rewards of ownership remain at the lessor are treated as other lease agreements. Leases paid which are based on other lease agreements are recognized as costs in profit or loss in equal installments during the lease period. Incentives received have been deducted from the leases paid on the basis of the temporal distribution of the benefit.

Impairment of tangible assets and intangible assets

The Group assesses at the 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 which 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 which 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 2012 and 2013.

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 considered 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 arrangements 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 the closing date of each reporting period. Changes in estimates are recognized in profit or loss. The fair value of the option arrangements are 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, 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 tangible assets, 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 the 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.

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Sold services

Revenue from services is recognized when the service has been provided and the economic benefit from the service is probable. Hourly 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. Later, 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 the 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 Plc repurchases its own equity instruments, the purchase price of such instruments is deducted from shareholder's equity.

Operating profit

The IAS 1 Presentation of Financial Statements standard 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 the closing date. The estimates are based on the previous experiences and on assumptions concerning the future that are considered the most probable, at the 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 the 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 estimates and assumptions which have been used are sufficiently exact for determining fair value. In addition, the Group examines at every closing date or, if necessary, more frequently, whether or not there are any indications of impairment in tangible and intangible assets.

Impairment testing

The Group carries out annual impairment testing on goodwill, unfinished intangible assets and intangible 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. Acquired Businesses

Acquisitions in the financial period 2013

atBusiness Oy

On June 6, 2013, Innofactor acquired the entire share capital (the part giving 100% full control) and all capital loans of atBusiness Oy. The purchase price in total is about EUR 6.3–7.6 million and the Enterprise Value (EV) about EUR 14.4–15.7 million.

Of the purchase price, about EUR 6,257 thousand was paid at the time of closing the deal. The capital loan was paid in total and it was EUR 5,057 thousand (EUR 2,702 thousand in cash and EUR 2,355 thousand in Innofactor shares). The shares were paid for the part of the fixed price, which was EUR 1,200 thousand (EUR 200 thousand in cash and EUR 1,000 thousand in Innofactor shares). The shares were new Innofactor Plc shares and they were issued in accordance with the authorizations granted to the Board of Directors. In both transactions, the subscription price of the shares was the volume weighted average price of the Innofactor share on the period of January 2, 2013–June 5, 2013, which was EUR 0.6739 per share. In order to pay the purchase price, a total of 4,978,279 new shares were issued.

The final purchase price of atBusiness Oy shares will be determined by the realized operating margin (EBITDA) of the Innofactor group for the 12 months following the acquisition (June 1, 2013–May 31, 2014). The minimum purchase price of the shares is the EUR 1,200 thousand already paid and the maximum is EUR 2,500 thousand. Of the rest of the purchase price, EUR 0–1,300 thousand, 45% is intended to be paid in cash and 55% in Innofactor shares. Innofactor estimates that the rest of the purchase price will be about EUR 540 thousand. The subscription price of the shares will be the volume weighted average price of the Innofactor share on April 30–May 30, 2014. The company may also pay these shares in cash, either entirely or in part, if it so chooses.

Along with Innofactor, atBusiness Oy has been one of Finland's leading providers of solutions based on Microsoft technologies for commercial and public sector clients. atBusiness Oy's strategy was almost the same as Innofactor's strategy. The acquisition led to Innofactor becoming one of the five largest Nordic providers focused on Microsoft technologies. The new size gives Innofactor not only improved conditions to operate as a public limited company, but also improvements in implementing its growth strategy in the

Nordic countries and the ability to offer its own software products and services to its customers through its own channel. The arrangement is believed to result in significant synergy benefits.

The figures of Innofactor Business Solutions Oy have been consolidated into the Innofactor Group as of June 1, 2013. For June 1–June 30, 2013, the unaudited net sales of Innofactor Business Solutions Oy were EUR 1,537 thousand, and result was EUR -2 thousand (IFRS), which included EUR 140 thousand in one-off costs related to business arrangements. If Innofactor Business Solutions Oy had been part of the Innofactor Group as of January 1, 2013, the unaudited, pro forma net sales of the Innofactor Group in January 1–June 30, 2013, would have been EUR 20,497 thousand and result EUR 876 thousand.

The acquisition cost according to IFRS is EUR 2,500 thousand (the estimated purchase price of the shares) and has been presented in more detail in the following preliminary calculation.

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
Tangible assets	16
Intangible assets	2,458
Deferred tax assets	348
Trade and other receivables	3,054
Cash and cash equivalents	365
Total assets	6,241
Financial liabilities at market value (includes a capital loan of 5,057 at cost price)	13,707
Other liabilities	3,538
Liabilities total	17,245
Net assets	-11,004
Acquisition cost	2,500
Adjustment of the additional purchase price	758
Goodwill	13,504
Purchase price paid in cash	2,902
Cash and cash equivalents of the acquired subsidiary	365
Cash flow effect	-2,537

In the acquisition, the value of atBusiness Oy customer relationships and software has been set to EUR 2,454 thousand). These intangible assets are included in the other intangible assets in the group balance sheet.

According to IFRS 3, the purchasing party recognizes, if necessary, some assets and liabilities that the target of the acquisition has not previously recognized as assets and liabilities in its financial statement. For example, the purchasing party recognizes acquired intangible assets that can be identified individually, such as brand, patent or customer relationship, which the target has not recognized as assets in its financial statement, because it has created them internally and has recognized the related costs as expenses.

In the acquired company, the customer relationships and technology as well as deferred tax assets have been identified as such assets. A separate value definition has defined the market value of the customer relationships and software at the time of acquisition to be EUR 2,454 thousand. Defining the value is based on a MEEM calculation (Multi Period Excess Earnings Method). The value of the customer relationships and software will be depreciated according to the plan during 9 years. Deferred tax assets are EUR 348 thousand.

According to IFRS 3.32, the purchasing party must register a business value at the time of acquisition and it is defined as the difference of the following:

a) transferred consideration and
b) the net amount of the acquired individually identifiable assets and the taken liabilities at the time of acquisition, valued in accordance with the IFRS 3 standard.

The goodwill value of the acquisition, after taking into account the deferred taxes, is EUR 13,504 thousand. The goodwill value is based on synergy benefits expected from the acquisition of Innofactor Business Solutions Oy, utilizing the common sales and marketing network, expanding customer relationships in the group, and the transferred personnel.

atBusiness Oy's confirmed losses have been taken into account in the preliminary acquisition cost calculation. The additional purchase price liability related to the acquisition, EUR 758 thousand, has been taken into account in the calculation and in the updated estimate of the final purchase price. The acquisition cost calculation is preliminary.

Dynamic Team

Based on the contract signed on September 30, 2013, Innofactor acquired the Microsoft Dynamics AX business of the Dynamic Team (Lainetar Oy) located in Tampere. It was immediately transferred as a part of the Innofactor's Business Solutions unit. Dynamic Team is a four-person IT service company founded in 2009, and it has focused on ERP deliveries based on the Microsoft Dynamics AX product. The acquisition has no significant impact on the Group.

Enabling Group

On December 13, 2013, Innofactor Plc signed an agreement on acquiring the entire share capital of Enabling Holding ApS and its subsidiaries Enabling ApS and Enabling Sweden AB (collectively Enabling Group) from the company's management. According to the agreement published by the company on December 13, 2013, the purchase price will be defined based on Enabling Group's realized EBITDA in 2014. The minimum purchase price is about EUR 1.6 million and the maximum about EUR 4.0 million. The purchase price will be paid mainly in Innofactor Plc shares and a minority in cash. The name of Enabling Aps has been changed to Innofactor Business Solutions Aps.

The closing of the deal took place on December 31, 2013, and the figures for Innofactor Business Solutions Aps have been consolidated in the Innofactor Group's balance sheet on that same date. As the value of the Innofactor shares used for paying the first part of the purchase price, the closing price of the share on December 30, 2013, EUR 1.26, was used.

The rest of the purchase price is intended to be paid with Innofactor shares during the first half of 2015. All Innofactor shares used as payment in this transaction are subject to transfer restrictions, which will be gradually released during 2014–2017.

The acquisition price according to IFRS is the estimated purchase price of the shares, which in the preliminary acquisition cost calculation is EUR 3,134 thousand, and has been presented in more detail in the following calculation. The acquisition cost calculation is preliminary.

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
Tangible assets	17
Acquired customer relationships	220
Trade and other receivables	638
Cash and cash equivalents	127
Total assets	1,002
Financial liabilities at market value	421
Other liabilities	233
Liabilities total	654
Net assets	348
Acquisition cost	3,134
Goodwill	2,785
Purchase price paid in cash	40
Cash and cash equivalents of the acquired subsidiary	127
Cash flow effect	+87

The value of customer contracts and the related customer relationships included in the intangible assets (EUR 220 thousand) has been defined on the basis of the estimated life time of customer relationships and the discounted net cash flows resulting from current customer relationships.

The acquisition created goodwill value of EUR 2,785 thousand. The goodwill value is based on the expected synergy benefits arising from the acquisition of Innofactor Business Solutions Aps and on making use of the common sales and marketing network in the group and expanding customer relationships.

Acquisitions in the financial period 2012

Bridgeconsulting A/S

On June 25, 2012, Innofactor Plc signed an agreement on acquiring the entire share capital of the Danish company Bridgeconsulting A/S from the company's management (3% of shares were purchased directly and 97% indirectly by acquiring the entire share capital of Bridgeconsulting Holding Aps). The name of Bridgeconsulting A/S has been changed to Innofactor A/S.

The acquisition price depended on the target company's realized operating margin (EBITDA) of the 12 months following the acquisition (July 1, 2012–June 30, 2013). The final purchase price is about EUR 2.5 million in total. About EUR 1.26 million of the purchase price was paid in cash at the beginning of July 2012.

The figures for Innofactor A/S have been consolidated into the Innofactor Group as of July 1, 2012.

The acquisition cost, according to IFRS is the estimated acquisition price of the shares, which was EUR 2,018 thousand in the preliminary acquisition cost calculation and is EUR 2,498 in the final acquisition cost calculation. It is presented in more detail below. The difference between the preliminary and final acquisition costs, EUR 480 thousand, has been presented in part "Adjustment of the additional purchase price" of the calculation.

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

The values are based on the final acquisition cost calculation.

EUR thousand	Recognized values
Tangible assets	63
Acquired customer relationships	435
Trade and other receivables	873
Total assets	1,371
Financial liabilities at market value	258
Other liabilities	530
Liabilities total	788
Net assets	583
Adjustment of the additional purchase price	480
Acquisition cost	2,018
Goodwill	1,435
Purchase price paid in cash	-1,260
Cash and cash equivalents of the acquired subsidiary	0
Cash flow effect	-1,260

The value of the customer contracts and the related customer relationships included in the intangible assets (EUR 435 thousand) has been defined on the basis of the estimated life time of customer relationships and the discounted net cash flows resulting from current customer relationships.

The acquisition created goodwill value of EUR 1,435 thousand. The goodwill value is based on the expected synergy benefits arising from the acquisition of Innofactor A/S and on making use of the common sales and marketing network in the group and expanding customer relationships.

Tietotalo PPM business operations

After signing a contract on November 30, 2012, the Group acquired from Tietotalo Infocenter the business operations which focus on project and project portfolio system deliveries. The deal came into force on December 31, 2012, and the purchased business operations were included in Innofactor's financial statements as of 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 December 31, 2012.

Note 4. Net Sales

EUR thousand	2013	2012
Revenue from services	18,036	11,125
Revenue recognized from long-term projects	14,649	7,693
Yhteensä	**32,685**	**18,818**

A total of EUR 9.2 million (2012: EUR 10.8 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 95 thousand at December 31, 2013, (EUR 166 thousand at December 31, 2012).

On January 1–December 31, 2013, about 86 percent of the net sales came from Finland and about 14 percent from Denmark.

Net sales by country

EUR thousand	2013	2012
Finland	28,253	16,645
Rest of Europe	4,432	2,173
Total net sales	**32,685**	**18,818**

Note 5. Other Operating Expenses

EUR thousand	2013	2012

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

Business premises expenses	1,381	702
Voluntary indirect employee costs	521	378
Marketing expenses	375	378
Total	**2,277**	**1,458**
Other unspecified operating expenses	2,327	1,652
Other operating expenses, total	**4,604**	**3,110**

Remuneration of the Auditors

EUR thousand	2013	2012
Auditing	97	69
Certificates and statements	26	0
Tax consultancy	9	1
Other services	14	5
Total	**146**	**75**

Note 6. Depreciation, Amortization and Impairment

EUR thousand	2013	2012
Depreciation by asset group		
Intangible assets	712	335
Total	**712**	**335**
Tangible assets		
Machinery and equipment	317	260
Total	**317**	**260**
Total depreciation	**1,029**	**595**

Note 7. Employee Benefit Expenses

EUR thousand	2013	2012
Wages and salaries	18,795	10,599
Pension expenses – defined contribution plans	3,013	1,781
Other indirect employee costs	768	455
Total	**22,576**	**12,835**

Group's personnel	2013	2012
Average in the financial period	307	189
At the end of the financial period	417	193

Information on management benefits are contained in Note 26, Related party transactions.

Note 8. Research and Development Costs

In 2013, the research and development costs recognized as expenses totaled EUR 2,067 thousand (EUR 2,488 thousand in 2012).

Note 9. Financial Income

EUR thousand	2013	2012
Interest income	10	0
Other financial income	759	12
Total	**769**	**12**

Note 10. Financial Expenses

EUR thousand	2013	2012
Other financial expenses	-1,161	-41
Total financial expenses	**-1,161**	**-41**

Note 11. Income Taxes

EUR thousand	2013	2012
Current income tax liabilities	-82	-31
Deferred tax related to temporary differences	-126	-110
Deferred tax related to change in the tax rate	-248	0
Total	**-456**	**-141**

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

EUR thousand	2013	2012
Result before taxes	1,863	620
Taxes calculated at the domestic tax rate	-456	-152
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	0
Other	0	11
Tax in the profit and loss statement	**-456**	**-141**

The tax rate used in the calculation of deferred taxes is the Finnish tax rate at the end of the financial period, which changed in the financial statements for 2013 from 24.5% to 20.0%.

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.

	2013	2012
Profit for the year attributable to shareholders of the parent company (EUR)	1,406,298	449,287
Weighted average number of shares during the financial period	32,589,585	29,894,264
Basic earnings per share (EUR/share)	0.0432	0.0150

Note 13. Tangible Assets

EUR thousand	Machinery and equipment	Total
Acquisition cost, January 1, 2013	1,060	1,060
Additions	323	323
Business integration	411	411
Acquisition costs, December 31, 2013	1,794	1,794
Accumulated depreciation, amortization and impairment, January 1, 2013	-609	-609
Depreciation	-317	-317
Carrying amount, January 1, 2013	451	451
Carrying amount, December 31, 2013	**868**	**868**
Acquisition cost, January 1, 2012	808	808
Additions	252	252
Acquisition costs, December 31, 2012	1,060	1,060
Depreciation	-609	-609
Carrying amount, January 1, 2012	459	459
Carrying amount, December 31, 2012	**451**	**451**

Note 14. Intangible Assets

EUR thousand	Goodwill	Other intangible assets	Total
Acquisition cost, January 1, 2013	3,022	2,446	5,468
Additions	16,501	2,933	19,434
Acquisition cost, December 31, 2013	19,523	5,379	24,902
Accumulated depreciation, amortization and impairment , January 1, 2013	-188	-751	-939
Depreciation, amortization and impairment	0	-712	-712
Accumulated depreciation, amortization and impairment , December 31, 2013	-188	-1,463	-1 651
Carrying amount, January 1, 2013	2,834	1,695	4,529
Carrying amount, December 31, 2013	**19,335**	**3,916**	**23,251**
Acquisition cost, January 1, 2012	1,395	1,950	3,345
Additions	1,627	496	2,123
Acquisition cost, December 31, 2012	3,022	2,446	5,468
Accumulated depreciation, amortization and impairment , January 1, 2012	-188	-416	-604
Disposals	0	-335	-335
Accumulated depreciation, amortization and impairment , December 31, 2012	-188	-751	-939
Carrying amount, January 1, 2012	1,207	1,534	2,741
Carrying amount, December 31, 2012	**2,834**	**1,695**	**4,529**

Intangible assets

Impairment testing

The Group has one cash-generating unit, named 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 1.0%.

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

1. **Budgeted EBITDA** – Determined on the basis of the realized average gross margin of the last three years. The value of the variable is based on the realized development. During the forecast period, no essential changes are expected in 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 9.5%.

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 2013 and 2012.

According to the sensitivity analysis that the Group carried out on goodwill, a decrease of 35% in the net sales compared to the estimated net sales of 2014 or a decrease of 52% in profitability compared with the estimated net sales of 2014 would indicate a need for impairment. On the basis of the sensitivity analysis, an increase of the discount rate to 17.7% would cause a need for impairment.

Recognition of goodwill

EUR thousand	2013	2012
Software business	19,335	2,834
Goodwill	**19,335**	**2,834**

Note 15. Deferred Tax Assets and Liabilities

Changes in deferred taxes in 2013:

EUR thousand	Dec 31, 2012	Recognized in profit or loss	Recognized in compre-hensive income	Recognized in equity	Reclassified from equity to profit and loss statement	Translation differences	Acquired/ sold opera-tions	Dec 31, 2013
Deferred tax assets								
Confirmed losses	7,775	177	0	0	0	0	0	7,952
Effect of changes in tax rates on deferred taxes *	-8	-341	0	0	0	0	0	-349
Total	**7,767**	**-165**	**0**	**0**	**0**	**0**	**0**	**7,604**
Deferred tax liabilities								
Measurement of intangible assets and tangible assets at fair value in business combinations	-414	0	0	0	0	0	-470	-884
From combination transactions	-135	0	0	0	0	0	0	-135
Effect of changes in tax rates on deferred taxes	39	93	0	0	0	0	0	132
Total	**-510**	**93**	**0**	**0**	**0**	**0**	**-470**	**-887**

* 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	Recognized in equity	Reclassified from equity to profit and loss statement	Translation differences	Acquired/ sold opera-tions	Dec 31, 2012
Deferred tax assets								
Confirmed losses	7,903	-128	0	0	0	0	0	7,775
Effect of changes in tax rates 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 tangible assets at fair value in business combinations	-431	17	0	0	0	0	0	-414
From combination transactions	-28	0	0	0	0	0	-107	-135
Effect of changes in tax rates on deferred taxes	39	0	0	0	0	0	0	39
Yhteensä	**-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	2013	2012
Trade and other receivables		
Trade receivables	8,400	5,651
Receivables from customers for long-term projects	4,971	2,575
Loan receivables	194	356
Accrued income	392	188
Total	**13,957**	**8,770**

EUR thousand	2013	2012
Breakdown of trade receivables by age		
Not past due	6,825	4,730
Past due		
Past due 1-30 days	1,141	63
Past due over 30 days	434	858
Total	**8,400**	**5,651**

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	2013	2012
Bank accounts	991	656
Total	**991**	**656**

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 (1000)	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Fund for other share-holders' equity	Treasury shares	Total
December 31, 2011	29,262	2,100	72	59	8,344	0	0	10,575
Share issue	904	0	0	0	490		0	490
Purchase of treasury shares							-129	-129
December 31, 2012	**30,166**	**2,100**	**72**	**59**	**8,834**	**0**	**-129**	**10,936**
Share issue	5,993				4,593			4,593
Purchase of treasury shares							-3,331	-3,331
Cancellation of treasury shares	-5,250						3,460	3,460
Issuing a hybrid bond						3,200	0	3,200
December 31, 2013	**30,909**	**2,100**	**72**	**59**	**13,427**	**3,200**	**0**	**18,859**

Innofactor Plc 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) came 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 2013. The Board of Directors has proposed that no dividends be distributed for the financial period of January 1–December 31, 2013.

Treasury shares
The General Meeting of September 17, 2013, authorized the Board of Directors to decide on acquiring of a maximum of 8,000,000 of treasury shares in one or several parts with the company's unrestricted equity. The authorization entitles the Board to deviate from the shareholders' proportional shareholdings (directed acquisition). Shares will be acquired from the sellers of atBusiness according to the terms of the contract signed on June 6, 2013, concerning the acquisition of the atBusiness shares, and at the price agreed on in the contract, and/or on NASDAQ OMX Helsinki Ltd with the public trading on the market. The number of shares in the company's possession at a time may be, at the maximum, one tenth of the total number of shares in the company. The shares may be used to develop the capital structure, to widen the ownership base, in making a payment for an acquisition, or when the company buys property related to its business operations or as part of the incentive compensation plan, or to be otherwise invalidated or conveyed. In connection with the share repurchase, ordinary derivative,

stock lending and other agreements may be made in the market in accordance with the laws and regulations. The authorization includes the right of the Board of Directors to decide on all other matters related to the acquisition of shares. The authorization will be valid until March 17, 2015. On the basis of the authorization, Innofactor Plc acquired treasury shares during the review period as follows: on December 23, 2013, and December 27, 2013, a total of 4,681,499 shares. After this, the authorization is valid for 3,318,501 shares.

On September 17, 2013, Innofactor announced in a stock exchange release that it had decided to cancel 569,000 treasury shares, which had been acquired based on earlier authorizations.

On December 27, 2013, Innofactor announced in a stock exchange release that it had decided to cancel 3,539,189 treasury shares.

On December 30, 2013, Innofactor announced in a stock exchange release that it had decided to cancel 1,142,310 treasury shares.

On December 31, 2013, Innofactor had no treasury shares.

Hybrid bond

On December 17, 2013, the Group issued a EUR 3.2 million hybrid bond, i.e. an equity bond. The proceeds of the hybrid bond were used to buy back about 4.7 million of Innofactor's own shares from the atBusiness Oy sellers, before the end of 2013. The bond's annual coupon rate is 9.00%. The bond has no due date, but the company has the right to redeem it in February 2016. The issue was directed mainly at domestic professional investors and it was subscribed to in full. A hybrid bond is a loan that has a weaker standing than other debt obligations. The bondholder does not have the same rights as shareholders and the hybrid bond does not dilute the ownings of the current shareholders.

In the consolidated financial statements, the bond has been classified as equity.

Note 19. Share-based Payments

Terms and conditions of share-based incentive schemes

At the end of the financial period on December 31, 2013, the Group has two different share-based incentive schemes implemented in January 1–December 31, 2010, 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 Group's incentive schemes are conditional. The essential conditions of the schemes, e.g. vesting conditions are presented below:

Scheme	C	D
Type of scheme	**Share options**	**Share options**
Granting date	**Dec 16, 2008–May 24, 2010**	**Dec 15, 2010**
Number of granted instruments as shares		
Series 1	44,500	35,269
Series 2	44,500	35,268
Series 3	44,500	35,269
Series 4	44,500	35,269
Subscription price, EUR	3.00	6.00
Share price at granting date, EUR		
Series 1	1.12	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	Jul 1, 2009–Jul 1, 2014	Jul 1, 2011–Jul 1, 2016
Series 2	Jul 1, 2010–Jul 1, 2014	Jul 1, 2012–Jul 1, 2016
Series 3	Jul 1, 2011–Jul 1, 2014	Jul 1, 2013–Jul 1, 2016
Series 4	Jul 1, 2012–Jul 1, 2014	Jul 1, 2014–Jul 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:

	2013		2012	
	Exercise price, weighted average EUR/share	Number of options	Exercise price, weighted average EUR/share	Number of options
Beginning of period	4.2	101,400	4.2	205,450
Granted new options	0	0	0	0
Exercised options	0	0	0	0
Returned options	3	-16,700	3	-104,050
End of financial period	**4.2**	**84,700**	**4.2**	**101,400**
Exercisable options at the end of the financial period	**1.8**	**61,625**	**1.8**	**70,575**

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
2013	1.5–6.0	1.5	84,700
2012	1.5–6.0	2.1	101,400

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 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 2013 and 2012:

Scheme	C		D	
	2013	2012	2013	2012
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 Group's results. 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 within the Group's financial department. The customers' credit rating is assessed by means of a credit rating system and credit is only granted to customers with an impeccable credit rating.

The Group has no significant credit concentrations in receivables, as it has a wide spectrum of customers, and no single customer or group of customers 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 its business operations, e.g., by 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	0-6 months	6 months–1 year	more than 1 year
December 31, 2013				
Maturity distribution of financial liabilities				
Loans from financial institutions	11,955	0	1,920	10,035
Trade and other payables	14,121	10,456	572	3,093

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.

	2013	2012
Interest-bearing liabilities	11,955	1,393
Cash and cash equivalents	-991	-656
Total shareholders' equity	19,626	13,760
Net gearing	55.9 %	-5.4 %

The Group has loans, which contain a covenant. Innofactor has committed itself to the following covenants: equity ratio calculated every 6 months is at least 37 percent on December 31, 2013, and June 30, 2014, and at least 40 percent on December 31, 2014, and on every 6-month check point after that.

Additionally, interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 3.5 in the financial statement of December 31, 2013, a maximum of 3.0 in the following three review times (June 30, 2014, December 31, 2014, and June 30, 2015), and a maximum of 2.5 in the financial statement of December 31, 2015, and on each 6-month review time following that.

Note 21. Fair Values of Financial Assets and Liabilities

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

EUR thousand		Dec 31, 2013		Dec 31, 2012	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	16	13,957	13,957	8,770	8,770
Cash and cash equivalents	17	991	991	656	656
Total		**14,948**	**14,948**	**9,426**	**9,426**
Loans from financial institutions		11,955	11,955	1,393	1,393
Trade and other payables		14,121	14,121	6,479	6,479
Deferred tax liabilities	15	887	887	510	510
Current income tax liabilities		82	82	31	31
Total		**27,045**	**27,045**	**8,413**	**8,413**

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

	2013	2012
Non-cash transactions		
Depreciation	1,029	595
Share issue directed to the personnel	0	43
Adjustments of the additional purchase price	-278	0
Total	**751**	**638**

Note 23. Other Leases

Group as lessee

The Group leases all the premises it uses. The average lease period is 2–5 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 3 years.

Minimum lease payments paid on non-cancellable other leases:

EUR thousand	2013	2012
Within one year	1,608	662
Within more than one but less than five years	4,702	348
Total	**6,310**	**1,010**

In 2013, the amount of lease payments based on other leases recognized in profit or loss was EUR 1,381 thousand (EUR 702 thousand in 2012).

Note 24. Financial Liabilities

EUR thousand	2013	2012
Non-current financial liabilities measured at amortized cost		
Operating lease liabilities	313	104
Total	**313**	**104**
Current financial liabilities measured at amortized cost		
Operating lease liabilities	393	34
Total	**393**	**34**

Due dates of operating lease liabilities

EUR thousand	2013	2012
Within one year	393	104
Within more than one but less than five years	313	34
Total	**706**	**138**

Note 25. Contingent Liabilities and Assets and Acquisition Commitments

EUR thousand	2013	2012
Collateral given for own commitments		
Collateral for rent	490	201
Mortgages on company assets	16,250	2,250
Mortgages on company assets given as collateral for credit limit and loan		
Bank guarantees	283	18
Bank guarantee has been given as collateral for rental agreements.		

Disputes, litigations and other issues requiring clarification

The Group has no open or ongoing disputes or litigations.

A tax inspection was carried out within the Group in 2013. The preliminary tax inspection report received in January 2014 indicates a proposed adjustment to the Group's income tax. According to Innofactor's own view and an expert opinion, the observations of the preliminary tax inspection report do not contain grounds for such an adjustment.

Other leases

The liabilities from the Group's other leases are presented in Note 23, Other leases.

Note 26. 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		
Enabling Holding ApS	Denmark	100%	100%
Enabling ApS	Denmark	100%	100%
Enabling Sweden AB	Sweden	100%	100%
Innofactor Software Oy	Finland	100%	100%
Innofactor Business Solutions Oy	Finland	100%	100%
Innofactor A/S	Denmark	100%	100%
Bridgeconsulting Holding ApS	Denmark	100%	100%
Innofactor Holding ApS	Denmark	100%	100%
Innofactor SW Oy	Finland	100%	100%
Innofactor CS Oy	Finland	100%	100%
Innofactor VM Oy	Finland	100%	100%
Oy Soloplus Ab	Finland	100%	100%
Venenum Oy	Finland	100%	100%

Management's employment benefits

EUR thousand	2013	2012
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	1,663	1,380
Total	**1,663**	**1,380**

Management's employment benefits include the Executive Board salaries and fees.

EUR thousand		2013	2012
Salaries and fees paid to the CEO and Board Members			
CEO		268	262
Board members and deputy members			
Lautsuo Pyry	Chairman of the Board of Directors	36	37
Koponen Juha	Board Member	24	25
Mäkinen Jukka	Board Member	24	21
Nurmi Ilari	Board Member	21	0
Puolakka Pekka	Board Member	24	25
Total		**397**	**370**

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 12 months' salary.

In 2010, the Group granted the management of the parent company 44,900 share options. No new share options were granted in 2011, 2012 and 2013. 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 as described in Note 25, Share-based payments.

	Dec 31, 2013	Dec 31, 2012
Granted options	0	15,000
of which exercisable	0	10,500
Total number of shares to which the options held by the management entitle the holders to subscribe for	0	15,000

The Group management held no share options on December 31, 2013.

Transactions with related parties, EUR thousand		Dec 31, 2013	Dec 31, 2012
Hybrid bond	Board member Jukka Mäkinen through his company	100	0

Note 27. Events after the Closing Date

On January 9, 2014, Innofactor announced in a stock exchange release that the new Innofactor Plc shares had been registered in the Trade Register. After the registrations, the total number of Innofactor Plc shares is 32,153,737.

On January 24, 2014, Innofactor announced in a stock exchange release that Innofactor Plc's CFO Mikko Karvinen had resigned from the company at his own request on January 23, 2014. Karvinen will continue in his role until April 30, 2014.

There have been no other significant events in Innofactor after the review period.

Parent Company Financial Statements, FAS

EUR

	Note	Jan 1–Dec 31, 2013	Jan 1–Dec 31, 2012
		12 months	**12 months**
NET SALES	**1**	**2,507,927**	**1,070,964**
Other operating income	2	157,682	0
Personnel expenses	3	1,779,235	1,290,070
Depreciation			
Planned depreciation	4	1,974	1,782
Other operating expenses		786,044	349,370
OPERATING PROFIT (-LOSS)		**98,356**	**-570,258**
Financial income and expenses	5		
Interest and financial income		741,700	16,444
Interest and other financial expenses		-271,731	-29,712
PROFIT (-LOSS) BEFORE EXTRAORDINARY ITEMS		**568,324**	**-583,525**
Extraordinary items			
Extraordinary income	6	2,579,523	0
PROFIT (-LOSS) FOR THE FINANCIAL PERIOD		**3,147,847**	**-583,525**

Parent Company Balance Sheet, FAS

EUR

ASSETS	Note	Dec 31, 2013	Dec 31, 2012
NON-CURRENT ASSETS			
Tangible assets			
Machinery and equipment	7	4,471	5,093
Investments			
Shares in group companies	8	18,570,805	13,447,724
TOTAL NON-CURRENT ASSETS		**18,575,275**	**13,452,817**
CURRENT ASSETS			
Receivables			
Short-term	9		
Trade receivables		3,110,590	1,321,315
Other receivables		29,686,167	22,816,060
Accrued income		3,015,630	374,200
Cash and bank receivables		445,439	323,490
TOTAL CURRENT ASSETS		36,257,826	24,835,065
ASSETS		**54,833,102**	**38,287,882**
LIABILITIES			
SHAREHOLDERS' EQUITY	10		
Share capital		2,100,000	2,100,000
Revaluation fund		2,000,000	2,000,000
Fund for invested unrestricted equity		20,172,067	15,579,396
Profit from the previous financial periods		9,402,317	13,316,873
Profit/loss for the period		3,147,847	-583,525
Total shareholders' equity		**36,822,232**	**32,412,744**
LIABILITIES	11		
Non-current			
Loans from financial institutions		3,153,646	875,000
Hybrid bonds		3,200,000	0
Current			
Loans from financial institutions		422,354	250,000
Trade payables		287,955	102,431
Other payables		5,992,505	3,739,705
Accrued expenses		4,954,410	908,002
Total liabilities		**18,010,870**	**5,875,138**
LIABILITIES		**54,833,102**	**38,287,882**

Parent Company Cash Flow Statement

EUR

	Jan 1–Dec 31, 2013	Jan 1–Dec 31, 2012
Cash flow from operating activities		
Operating profit/loss	98,356	-570,258
Adjustments:		
Depreciation	1,782	1,782
Non-cash transactions	5,649,240	
Change in working capital		
Change in trade or other receivables	-11,365,963	3,331,802
Change in trade and other payables	6,484,732	2,629,358
Interests received	149,352	16,444
Paid interests and other financial expenses	-271,731	-29,712
Total cash flow from operating activities	**745,767**	**5,379,416**
Cash flow from investments		
Investments in subsidiary shares	-240,403	-1,260,000
Reinforcement of the shareholders' equity of the subsidiaries	-2,702,030	-5,000,000
Investments in fixed assets	-1,352	0
Total cash flow from investments	**-2,943,785**	**-6,260,000**
Cash flow before financing	**-2,198,019**	**-880,584**
Cash flow from financing		
Changes in short-term and long-term loans	7,200,000	1,125,000
Loans granted	-1,549,000	-350,000
Fees from the share issue directed to the personnel	0	161,426
Purchase of treasury shares	-3,331,031	-129,091
Total cash flow from financing	**2,319,969**	**807,336**
Change in cash and cash equivalents as per cash flow statement	**121,950**	**-73,248**
Change in cash and cash equivalents	**121,950**	**-73,248**
Cash and cash equivalents, beginning of period	323,490	396,737
Cash and cash equivalents, end of period	445,440	323,490

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 2013 have been prepared in accordance with the provisions of the Finnish Accounting Standards (FAS).

Intangible and tangible assets

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

- tangible assets 3–5 years

Securities included in financial assets

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

Items in foreign currency

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

Notes to the financial statements (EUR)

1. Net sales (EUR) by market area	2013	2012
Finland	2,371,896	1,027,117
Rest of Europe	136,031	43,847
Total net sales	**2,507,927**	**1,070,964**

2. Other operating income	2013	2012
Compensation for damage	157,682	0
Total	**157,682**	**0**

3. Personnel expenses	2013	2012
Wages and salaries	1,521,059	1,088,423
Pension expenses	203,259	163,954
Other indirect employee costs	54,916	37,694
Total	**1,779,235**	**1,290,070**

Management salaries and fees	396,726	370,484

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	13	11

4. Planned depreciation	2013	2012
For machinery and equipment	1,974	1,782
Total	**1,974**	**1,782**

5. Financial income and expenses	2013	2012
Financial income		
Other interest income	741,700	16,444
Financial expenses		
Interest expenses to others	-105,074	-17,212
Other financial expenses	-166,657	-12,500
Total financial income and expenses	**469,969**	**-13,267**

6. Extraordinary income and expenses	2013	2012
Extraordinary income		
Group contribution	2,579,523	0
Total extraordinary income and expenses	**2,579,523**	**0**

Notes to the consolidated balance sheet (EUR)

7. Tangible and intangible assets	2013	2012
Intangible assets		
Tangible assets		
Opening balance	5,092	6,874
Increases during the financial period	1,352	0
Acquisition cost	6,444	6,874
Depreciation for the period	-1,974	-1,782
Closing balance	**4,471**	**5,092**

8. Investments	2013	2012
Opening balance	13,447,724	7,405,715
Increases during the financial period	5,633,709	6,042,009
Decreases during the financial period	-510,628	0
Closing balance	**18,570,805**	**13,447,724**

Shares and holdings of the parent company

Subsidiary shares	Domicile	Country	Carrying amount
Innofactor Software Oy	Espoo	Finland	12,405,715
Innofactor Holding ApS	Copenhagen	Denmark	531,381
Innofactor Business Solutions Oy	Espoo	Finland	2,500,000
Enabling Holding ApS		Denmark	3,133,708
Oy Soloplus Ab	Helsinki	Finland	0
Innofactor SW Oy	Espoo	Finland	0
Total			**18,570,804**

9. Receivables	2013	2012
Receivables from group companies:		
Trade receivables Innofactor Software Oy	1,819,915	1,263,354
Trade receivables Innofactor A/S	81,565	57,961
Trade receivables Innofactor Business Solutions Oy	1,062,803	0
Trade receivables Innofactor CS Oy	62,338	0
Trade receivables Innofactor Holding ApS	83,970	
Accrued income, group contribution	24,493,913	21,367,942
Loan receivable Innofactor A/S	80,000	350,000
Loan receivable Innofactor Holding ApS	2,088,985	1,098,118
Equity loan receivable Innofactor Business Solutions Oy	5,649,240	0
Total	**35,422,728**	**24,137,375**

10. Shareholders' equity	2013	2012
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	15,579,395	15,089,373
Share issue directed to the personnel	0	490,022
Directed issue to the owners of atBusiness Oy	3,354,862	0
Directed issue to the owners of Bridgeconsulting	1,237,810	0
Fund for invested unrestricted equity, end of period	**20,172,067**	**15,579,395**
Profit/loss from the previous periods, beginning of period	12,733,348	13,445,964
Purchase of treasury shares	0	-129,091
Cancellation of treasury shares	-3,331,031	0
Profit/loss from the previous periods, end of period	**9,402,317**	**13,316,873**
Profit for the financial period	**3,147,847**	**-583,525**
Total unrestricted shareholders' equity	**32,722,231**	**28,312,744**
Total shareholders' equity	**36,822,231**	**32,412,744**

Calculation of distributable funds	2013	2012
Profit/loss from the previous financial periods	12,733,348	13,445,964
Profit/loss for the financial period	3,147,847	-583,525
Fund for invested unrestricted equity	20,172,067	15,579,395
Purchase of treasury shares	0	-129,091
Cancellation of treasury shares	-3,331,031	0
Total	**32,722,231**	**28,312,744**

11. Liabilities	2013	2012
Non-current liabilities		
Loans from financial institutions	3,153,646	875,000
Hybrid bonds	3,200,000	0
Total non-current liabilities	**6,353,646**	**875,000**
Current liabilities		
Loans from financial institutions	422,354	250,000
Trade payables	287,955	102,431
Other liabilities	575,371	255,619
Accrued expenses	4,954,410	908,002
Liabilities to group companies		
Loans Innofactor Software Oy	5,417,134	3,484,086
Total current liabilities	**11,657,224**	**5,000,138**

Board of Directors’ proposal on the distribution of profits

At the end of the financial period of 2013, the distributable assets of Innofactor Plc are EUR 32,722,231.76. The Board of Directors proposes that no dividend be distributed for the financial period of 2013.

Company shares

Innofactor Plc has one series of shares, the number of which is 30,909,052. 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 place of the accounts

Innofactor Plc, Keilaranta 9, 02150 Espoo, Finland

INNOFACTOR PLC

SIGNATURES FOR THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Espoo, Finland, February 24, 2014

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	**Ilari Nurmi** Board Member

AUDITOR'S NOTE

The report on the audit has been issued today.

Helsinki, Finland, February 24, 2014

Ernst & Young Oy
Authorized Public Accountant Firm

Juha Hilmola, CPA

Additional Information

Shareholding

On December 31, 2013, Innofactor Plc had 11,961 shareholders including the administrative registers (8). The share of administratively registered shares was 3.33% of the total number of shares.

Distribution of shareholding at December 31, 2013

Shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-100	8,333	69.67	229,668	0.74
101-1,000	2,615	21.86	1,081,027	3.50
1,001-10,000	864	7.22	2,569,184	8.31
10,001-100,000	117	0.98	3,308,568	10.70
over 100,000	32	0.27	23,720,605	76.74
Total	**11,961**	**100.00**	**30,909,052**	**100.00**

Shareholders by shareholder group December 31, 2013 (% of shares)	
Other foreign	1.39
Administratively registered	3.33
Financial and insurance institutions	0.01
Enterprises	3.70
Public entities	0.00
Non-profit organizations	0.00
Private households	91.58
Total	**100.00**

Calculation of Key Figures

Percentage of return on equity:

Profit or loss before taxes - Taxes

Shareholders' equity

Percentage of return on investment:

Profit or loss before taxes + Interest and other financial expenses

Shareholders' equity + Interest bearing financial liabilities

Net gearing:

Interest bearing liabilities - cash funds

Shareholders' equity

Equity ratio, %:

Shareholders' equity

Balance sheet total - Advances received

Result / share:

Profit before taxes attributable to equity holders of the parent - Taxes

Average number of shares on the financial period adjusted after the share issue

Shareholders' equity / share:

Shareholders' equity attributable to equity holders of the parent

Undiluted number of shares on the date of the financial statement

Auditor's Report

To the Annual General Meeting of Innofactor Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Innofactor Oyj for the year ended 31 December, 2013. 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 24, 2014

Ernst & Young Oy, Authorized Public Accountant Firm

Juha Hilmola
Authorized Public Accountant

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