

INNOFACTOR[®]

Annual Report 2014





Innofactor Group Annual Report January 1 to December 31, 2014

Innofactor in Brief

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

Innofactor values long-term customer relationships. The customer base includes about 1,000 private and public sector organizations in Finland, Denmark, Sweden and other parts of Europe. Innofactor has over 400 motivated and skilled employees in its ten offices in Finland, Denmark and Sweden.

Digitalization is a central focus area for companies and organizations. The market for Microsoft-based software is thus growing significantly faster than the average growth of the IT market. Innofactor strives to reach its annual growth goal of 25 to 35 percent according to its strategy for 2014 to 2017 through organic growth and acquisitions.

The net sales in 2014 were EUR 44.1 million, which shows an increase of 35.0 percent compared to the previous year. Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) were EUR 4.1 million, which was 9.3 percent of the net sales. The five-year growth of Innofactor's net sales in 2010 to 2014 has been approximately 45 percent per year (CAGR), and the operating margin in 2010 to 2014 has been 8.8 percent of the net sales on average.

The Innofactor Plc share is listed on the main list of NASDAQ OMX Helsinki Oy. Innofactor is one of the fastest growing companies as measured by net sales. Innofactor has over 10,000 shareholders.

Contents

4-23	Business Review 2014	
	Year 2014 in Brief	4
	CEO'S Review	6
	Business Model and Strategy	8
	Market and Competition	10
	Offering	12
	Customers	14
	Product and Service Development	17
	Personnel	18
	Corporate Responsibility	20
	Management	21
25-38	Report of the Board of Directors	
39-81	Consolidated Financial Statements	
	Key Figures per Share	40
	Consolidated Profit and Loss Statement	41
	Consolidated Balance Sheet	42
	Cash Flow Statement	44
	Statement on Change in Shareholders' Equity	45
	Notes to the Consolidated Financial Statements	46
	Parent Company Financial Statement (FAS)	73
	Signatures	81
82-84	Additional Information	
	Shareholding	82
	Calculation of Key Figures	83
	Auditor's Report	84

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.

A Year of Renewal

Innofactor continued its profitable growth in accordance with its strategy in 2014. The net sales grew by 35 percent and EBITDA reached a record of EUR 4.1 million. In 2014 the business environment changed significantly. There was a major change in customers' purchasing behavior due to transfer into cloud services. At the same time, the Ukrainian crisis introduced new challenges for operating in Russia. This required Innofactor to undergo a major transformation.

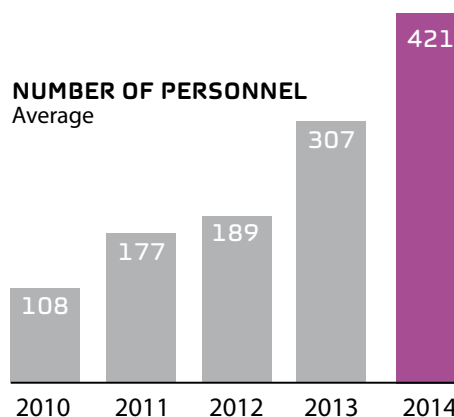
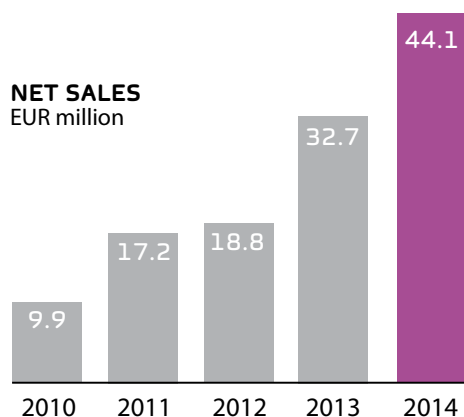
The Innofactor Group's net sales in 2014 were EUR 44,119 thousand (EUR 32,685 thousand in 2013), which showed an increase of 35 percent. Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) were EUR 4,107 thousand (EUR 3,284 thousand in 2013). The share of the EBITDA of the net sales was 9.3 percent (10.0 percent in 2013).

Due to its continuing strong growth, Innofactor was on place 19 in the 2014 Deloitte Technology Fast50 list (moving up from place 36 in 2013). The list presents the 50 technology companies in Finland that have grown the most in the past five years. Innofactor has been among the 50 best since 2008. Very few other companies have achieved this.

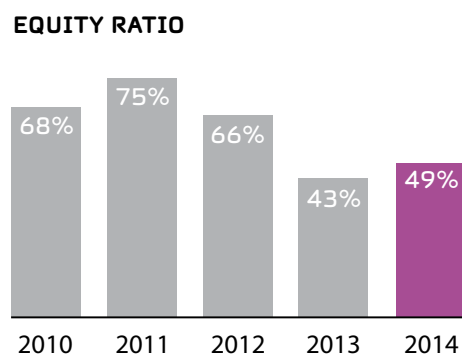
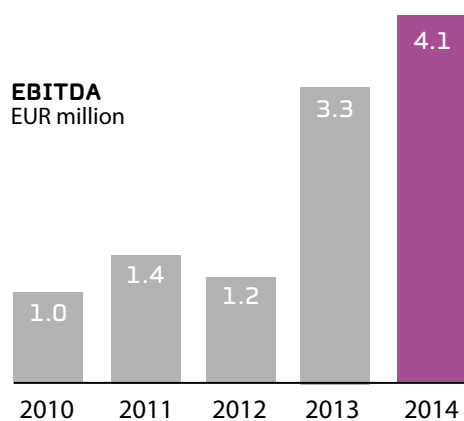
At the beginning of 2014 there was a faster than expected change in customers' purchasing behavior concerning transfer into cloud services, and Innofactor was not adequately prepared for this. This led to a weaker than expected result on the first half of the year when the EBITDA was only 6.5 percent of the net sales. As cloud services became more common, customers were not prepared to order as many customer-specific changes for software as before,

which especially affected Innofactor's SharePoint business. As a result, Innofactor revamped its offering significantly in 2014 and made personnel changes to meet the requirements of the new situation. A good example of the new business operations is an order, received near the end of 2014 and worth EUR 0.6 million, for the maintenance of Microsoft Azure cloud services for The Hospital District of Helsinki and Uusimaa (HUS). Due to the measures taken, Innofactor was able to improve its profitability significantly on the second half of 2014 with a relative EBITDA almost double that of the first half of the year, 12.1 percent of the net sales.

The Ukrainian crisis and the sanctions against Russia increased Innofactor's business risks with regard to the St. Petersburg office. Based on these Innofactor decided to close its St. Petersburg office in 2014. There were less than ten employees working in the office at the time it was closed. Innofactor had no Russian customers and the closing of the office is estimated to have no negative impact on Innofactor's business.



	2014	2013	2012	2011	2010
Net sales, EUR thousand	44,119	32,685	18,818	17,205	9,862
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), EUR thousand	4,107	3,284	1,215	1,443	980
percentage of net sales	9.3%	10.0%	6.5%	8.4%	9.9%
Operating profit (EBIT), EUR thousand	2,720	2,255	620	904	702
percentage of net sales	6.2%	6.9%	3.3%	5.3%	7.1%
Earnings before taxes, EUR thousand	2,259	1,863	591	886	696
percentage of net sales	5.1%	5.7%	3.1%	5.1%	7.1%
Earnings, EUR thousand	1,807	1,407	449	687	505
percentage of net sales	4.1%	4.3%	2.4%	4.0%	5.1%
Shareholders' equity, EUR thousand	22,713	19,626	13,760	12,905	12,218
Interest bearing liabilities, EUR thousand	10,638	11,955	1,393	0	0
Cash and cash equivalents, EUR thousand	997	991	656	696	1,714
Deferred tax assets, EUR thousand	7,175	7,604	7,767	7,895	8,132
Return on equity	8.5%	8.4%	3.4%	5.5%	6.8%
Return on investment	10.0%	12.9%	4.5%	7.2%	9.7%
Net gearing	42.4%	55.9%	5.4%	-5.4%	-14.0%
Equity ratio	49.0%	43.1%	66.1%	74.5%	68.2%
Balance sheet total, EUR thousand	47,635	46,671	22,173	18,324	19,517
Research and development, EUR thousand	1,981	2,067	2,488	2,086	1,173
percentage of net sales	4.5%	6.3%	13.2%	12.1%	11.9%
Personnel on average during the review period	421	307	189	177	108
Personnel at the end of the review period	411	416	193	189	171
Number of shares at the end of the review period	32,153,737	30,909,520	30,165,900	29,261,800	29,261,849
Earnings per share (EUR)	0.0563	0.0432	0.015	0.0235	0.0274
Shareholders' equity per share (EUR)	0.706	0.635	0.460	0.441	0.418



Growth from the Cloud

In 2013 Innofactor carried out major transactions in Finland and Denmark. At the beginning of 2014 Innofactor's employees moved to shared offices in Espoo and Copenhagen. During the year, operating models and corporate cultures were unified and polished. At the same time, the business environment experienced a major change. As a result part of Innofactor's traditional market diminished and growth was sought mainly in the new cloud services. This required adaptation of personnel skills. Despite these significant business and adaptive measures during 2014, Innofactor reached its strategic growth targets profitably. Our thanks go to our customers, partners, employees, and investors!



In 2014 we successfully continued to strengthen our cooperation with our customers. During the year, we made important cooperation agreements, for example, on delivering the AEL system, the funds management solution to Finland's Slot Machine Association (RAY), the financial management service platform to Enfo Zender, and cloud services to The Hospital District of Helsinki and Uusimaa (HUS) in Finland, and on delivering cloud-based SharePoint Online solutions to DSB (Danish State Railways) and Banedanmark in Denmark. I want to thank all our customers and partners for the trust you have placed in us.

Innofactor's strategy is based on a strong focus on Microsoft platforms. In changing markets, Microsoft and its ecosystem are clearly growing faster than the IT market on average. Our partnership with Microsoft has become even stronger on all levels of our organizations. For example, in 2014 Innofactor was the first Microsoft partner to achieve in its own market area the Cloud Platform Gold competence for Azure. I want to thank Microsoft for the trust it has shown in Innofactor.

In 2014 we started working in our new head office in the Innofactor Campus at Keilaniemi, Espoo, Finland. Gathering all our employees in the Helsinki metropolitan area under one roof has allowed us to create new synergies. We have been able to enjoy the milieu offered by the Campus and its possibilities in various ways. During our house-

warming party we treated our customers and partners to the Innofactor Campus Rock event, and we celebrated the Group's summer party under the same theme. There have also been many games of frisbee golf and billiards on the Campus, and we have enjoyed the seaside sauna both amongst ourselves and with customers and partners.

Innofactor's main resource is skilled and motivated personnel. Due to the changes in the market situation at the beginning of the year, the weaker than expected first six months and the adaptive measures resulting from this, last year was at times quite challenging for our employees. I am especially proud of the determination and enthusiasm our people showed in building a new, common course and in finding ways to create new solutions, further improve customer satisfaction, rationalize work, and increase profitability. Thank you all for that.

A successful and growing company needs committed investors. In 2014 Innofactor's share price development was challenging, and trading on the share decreased by 44.4 percent. I want to thank all the investors who, despite this, have persistently believed in Innofactor's strategy and success.

In cooperation with our customers, partners, employees and investors, we can realize solutions that help our customers and the society to become more successful. We look into the future with enthusiasm and trust.

"In 2014, together with our employees, partners and customers, we were able to turn the course of the Innofactor ship and meet the challenges of the new market situation. It has been gratifying to see how quickly our employees have been able to adapt to the business changes, to create new solutions and to produce significant added value for our customers. I am very proud of the community spirit at Innofactor."

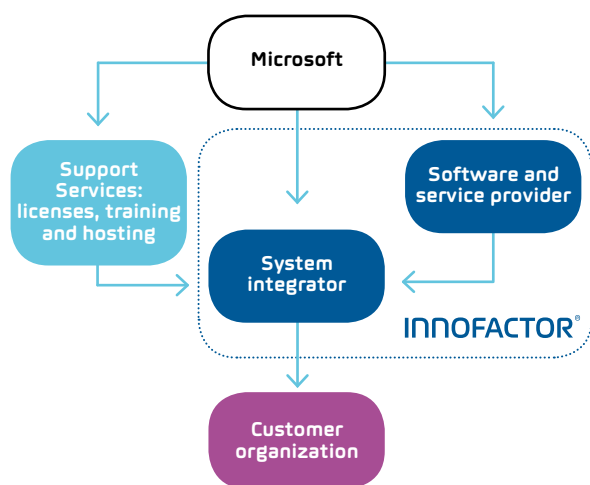
Sami Ensio

Innofactor's founder, main owner and CEO

Becoming the Leading Nordic Provider in the Microsoft Ecosystem

According to our mission statement, we want to strengthen our customers' competitiveness with outstanding IT solutions, products and services. Related to this, Innofactor offers IT solution deliveries and maintenance services to companies and organizations as a system integrator and develops its own software products and services. Our vision is to be the number one Microsoft-based solution provider in the Nordic region.

Microsoft offers its software to companies and organizations mainly through its partners. According to Microsoft's management, about 95% of Microsoft's net sales come through partners, and each dollar in Microsoft's net sales means 9 dollars on average in its partners' net sales. System integrators play an important part in the Microsoft ecosystem. They offer companies and organizations IT solution delivery projects and maintenance services, using Microsoft's and its partners' software and services. The strongest customer relationship is formed between the customer and the system integrator.



In its strategy, Innofactor focuses on the Microsoft ecosystem. Innofactor both operates as a system integrator and develops its own software products and services, which offers Innofactor a significant competitive edge and synergy benefits. The system integrator operation increases Innofactor's understanding of the customers' product and service needs and also acts as a distribution channel for its own products and services. Focusing on the Microsoft ecosystem creates superior know-how for Innofactor and also makes it the most desirable partner in the Nordic Countries for Microsoft, which helps Innofactor to win the best deals.

Innofactor offers extensive value added services for Microsoft's business solutions, such as Office 365, SharePoint, Dynamics CRM, Dynamics ERP, Project, SQL Server, and Azure. With the solutions we offer, the customer company or organization can develop its digital business by offering its customers and employees the best possible user experience. Our solutions give our customers real-time access to data about their own customers' digital behavior, which they can use in decision-making and when automating services.

Innofactor provides its solutions through the Microsoft Cloud or installed in the Innofactor data center or on the customer's own servers. Typically based on annual or monthly invoicing, service agreements, such as SaaS and cloud services, play an important role in Innofactor's business activities. Recurring services essentially decrease cyclicity in the business operations. Recurring services account for about 23 percent of Innofactor's net sales.

For now, Innofactor's operations are focused mainly on Finland and Denmark, and in a smaller extent on Sweden. Innofactor aims to expand its system integrator operations to the other Nordic Countries in the future. This may also be done through mergers and acquisitions.

The responsibility for a successful acquisition lies on the Group's CFO. It is his task to ensure that Innofactor continually has an adequate number of potential acquisition targets under evaluation. Thus, Innofactor can carefully select the acquisition targets for further proceedings. Innofactor strives to acquire only companies that fully suit its strategy, to pay a price that is less than its own factors, and to minimize the dilution effect on shareholding. The acquired companies are integrated as fast as possible into Innofactor following a process that has been developed during more than ten acquisitions. The process takes into consideration customers, employees and other key interest groups. Successful operations and acquisitions in the past will help realize them also in the future.



Our mission

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

Our vision

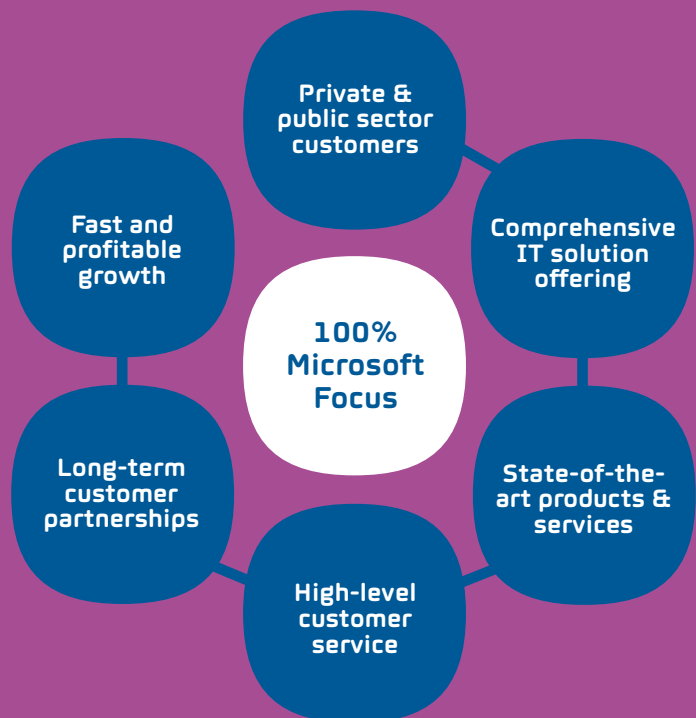
We are the number one Microsoft-based solution provider in the Nordic region.

Our financial goals

To grow profitably

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

Our strategy



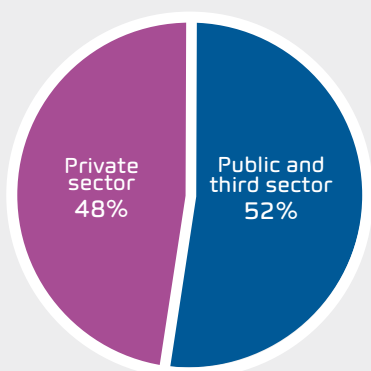
The Microsoft Ecosystem Can Grow Faster than the Market

In several product areas, Microsoft is clearly growing faster than the IT market on average. This has also enabled Innofactor to grow in Finland and Denmark and to achieve a leading position as a provider of Microsoft solutions to companies and organizations. At the same time, business operations are changing significantly, which requires the providers to be flexible in order to succeed. Innofactor’s goal is to continue to grow profitably.

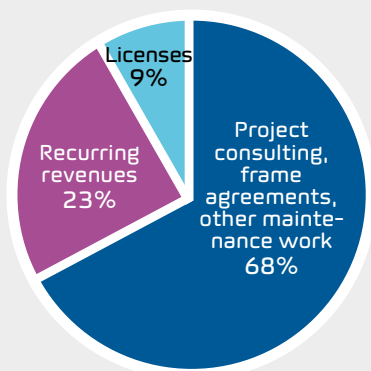
The main forces affecting the markets are the transfer of software into the cloud, increased significance of social media, mobile devices, the Internet of Things, data analytics and machine learning, and data security and privacy. A clear change in the purchasing habits of Innofactor’s customers can be seen as these business changes are taking place. The customers expect the IT provider to focus more on business benefits instead of technology benefits. The customers want the provider to have solutions that are ready to use without modifications, and they want to be able to buy more continuous services instead of large one-off projects. Innofactor’s strategy is responding to this change.

Innofactor estimates that the growth of the IT service market in 2015 will be 0 to 1% in Finland and 1 to 3% in other Nordic Countries. The estimate is based on research institutes’ forecasts and Innofactor’s outlook on markets.

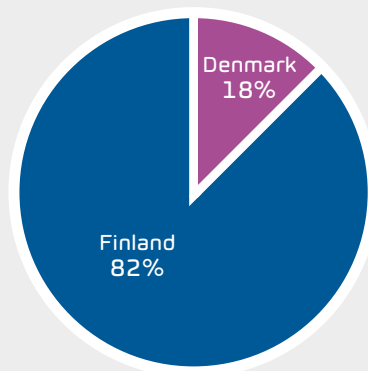
Innofactor believes that Microsoft—and thus, companies operating in the Microsoft ecosystem—will have a strong position on the evolving IT market. Microsoft has the leading position in several areas of the IT market, competitive offering and strong evidence of very rapid growth in cloud solutions. To maintain its leading position, Microsoft invests in product development significantly more than its main competitors. Innofactor believes that this development will create markets with long-term growth for companies like Innofactor that are strongly committed to Microsoft.



- ▶ Strong customers in both public and private sectors bring stability in economic fluctuations
- ▶ 10 largest customers account for approximately 21% of net sales



- ▶ Recurring revenues from service agreements and license sales bring competitive advantage and business stability
- ▶ Sales of labor moving increasingly to frame agreements and continuous maintenance work



- ▶ Denmark represents a significant portion of Innofactor’s revenues
- ▶ Innofactor’s objective is to create a strong position in all Nordic countries

Innofactor Well Entrenched in the Nordic Competition

In accordance with its strategy, Innofactor wants to stand out among its Nordic competitors by focusing on solutions implemented with and using Microsoft technologies and platforms. This focus has helped in creating superior know-how and gaining significant customer projects.

As concerns Microsoft-based solutions, competition in the Nordic Countries is divided between different types of players. In the first group are large companies operating in all of the Nordic Countries. Typically, these companies offer a wide range of IT solutions for private and public sector organizations, using several competing technologies of which the Microsoft technology is one option. In the second group are companies that focus on a narrower solution area in the Nordic Countries. These companies also offer a wide range of IT solutions for private and public sector organizations, using several competing technologies of which Microsoft technology is often just one option. In the third group are companies operating in just one country. These small or medium-sized companies often focus on one solution area, partner or customer sector.

Innofactor has made a strategic choice by focusing on solutions implemented with and utilizing Microsoft platforms and by selecting as its solution areas the ones in which Microsoft's growth and offering, and thus its partners' and ecosystem's growth, has exceeded the general average

growth of IT service and software markets many times over. Innofactor is primarily focused on Nordic large and medium-sized private and public sector organizations, which have high requirements in their IT solution acquisitions. Innofactor develops solutions, products and services suitable for this group both independently and in cooperation with its partners. Innofactor's strategy supports the recent changes in the marketplace. Innofactor believes it can grow its marketshare and utilize the possible IT market growth in the future.

Microsoft's partner network in the Nordic Countries, and also elsewhere in Europe, is quite fragmented and mainly consists of a large number of small and medium-sized local providers. For Innofactor, this scenario provides interesting possibilities for consolidation and globalization. Innofactor's good reputation, strong evidence of rapid and profitable growth and successful acquisitions together with its business culture based on an entrepreneurial spirit make it a very attractive partner during the restructuring of the business area in the Nordic Countries.

1. Global Megatrends



Cloud



Social



Mobility



Big Data



Security

"Customers' buying behaviour is changing from purchasing large IT projects to purchasing agile cloud services."

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

"Microsoft focuses on building a global cloud infrastructure on Azure and providing generic cloud services, such as Office 365, Dynamics CRM Online and Power BI."

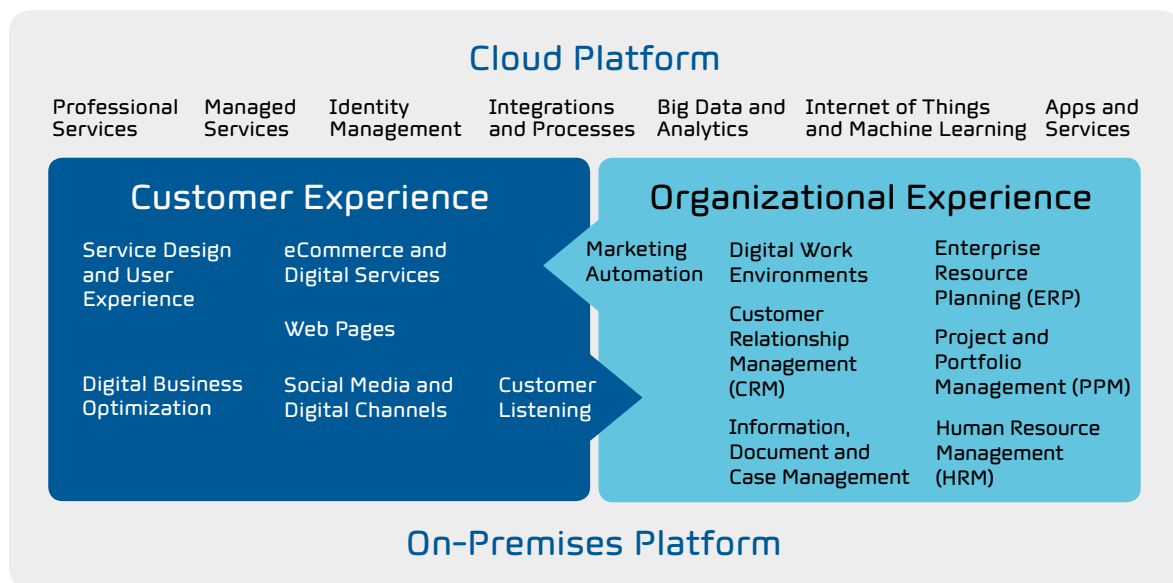
3. Innofactor Will Succeed

- Leading position and understanding of Microsoft ecosystem in the Nordic region
- One of the largest Microsoft-based solution, product and service portfolios 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&A's
- Capability to innovate new services required by the changes in the marketplace

"Innofactor provides its customers solutions for strengthening their competitiveness, based on Innofactor's own products, services and Microsoft's Azure and cloud services."

Solutions Showing the Way to the Digital World

Innofactor offers a unique selection of Microsoft ecosystem solutions that support its customer's business. With the help of these solutions, the customers can get the best user experience in combination with their customers' experiences. Our customers have real-time access to all data related to their customers and the customers' digital behavior, which they can use in decision-making and automation of services. As a result, the customers immediately get the full benefit of the possibilities offered by digitalization. Of Innofactor's offering, the customer can take advantage of modern cloud services, such as Microsoft Azure and Office 365, but just as well of solutions installed on Innofactor's data center or in the customer's own environment. Not everything must be purchased at once. The customers can also purchase individual parts of Innofactor's services. Third party products and services are also easy to combine in the entity.



We want to make sure that the end-customer always has the best possible user experience

Interaction with customers and customer transactions in the digital services we have implemented is easy, fast and safe. We support interactive communication in all channels. We pay special attention to the services design, and help our customers analyze and optimize the results produced by the services. It is important that the end-customer always gets a coherent and comprehensive, high-quality user experience. To enable continuous development of operations it is

possible to collect data both on visits to websites as well as of social media customer interactions. Modern solutions make it possible to automate routine functions and to present content supporting the customer's decision-making processes and to offer services just at the right moment.

Examples of Innofactor's deliveries include the platform for digital services for Oriola, the digital services system for Finland's Slot Machine Association, and the citizen's account, which is used for offering the services of all Finnish authorities for the citizens, for the State of Finland.

"Our comprehensive Microsoft offering has been tuned to make your business flexible."

The user experience of our customers' employees must also be of top quality

We want to create a modern digital working environment for each of our customers; an environment that supports the customer's working methods at the office, at home and on the road. We offer a full package, from office software that increases the employee's personal productivity to the most comprehensive, critical systems that increase the productivity of entire business operations. Our offering includes, for example, e-mail, video conference, organization's internal social media, information, document and case management, Customer Relationship Management (CRM), Human Resources Management (HRM), Project and Portfolio Management (PPM), and Enterprise Resource Planning (ERP). We also offer specialized mobile applications for frequent tasks. In addition to providing the best user experience, our solutions significantly increase our customers' cost-effectiveness.

Examples of Innofactor's deliveries include the global ERP system for GS Hydro, the cloud-based intranet of VR Group, and the internal productivity environment of VTT Expert Services.

Above all, we want to create an entity that combines all these experiences

Perhaps the clearest difference between Innofactor's offering and other solutions available on the market is that we are the only provider in our market offering a leading solution regarding the user experience of both the customers' customers and employees, and combining these two seamlessly. Our customers have real-time access to all data related to their customers and the customers' digital behavior. This data can be used to draw automated conclusions, which can be used to modify the customer experience and the services offered to the customer in real-time.

Examples of Innofactor's deliveries include the knowledge solution for Mediverkko, the integrated customer experience solution for CSC Scientific Computing, and Danmarks Miljøportal.

We offer the best relevant services and latest technology cloud environments

In its offering, Innofactor utilizes Microsoft's leading cloud services, such as Microsoft Azure and Office 365. The customers are offered specialist services that help our them get the latest information on the possibilities offered by digitalization for their operation, to make more precise plans on developing their information technology, and to further train their personnel. Innofactor has developed various continuous services which make it easy and safe to acquire and use cloud services. With Azure AD, an organization can ensure controlled use of all Microsoft-based cloud services. Innofactor's offering enables seamless integration of services, use and Analytics of Big Data, Internet of Things (IoT, Industrial Internet), and Machine Learning. Innofactor also actively develops its own software products and cloud services for its customers.

Examples of Innofactor's deliveries include the Azure services for The Hospital District of Helsinki and Uusimaa HUS, the learning analytics service Skilli implemented for several Finnish schools, and the Cloud Meeting application for digital meetings of municipalities' governing bodies.

We also support the traditional way of implementing IT when needed

Cloud may not be the ideal solution for the customer in all situations. Innofactor offers services fully corresponding with the above described cloud services also by using traditional technology and from its own data center or in the customer's environment. Always meeting the customer's requirements.

Microsoft Partner

- Gold Application Development
- Gold Cloud Platform
- Gold Collaboration and Content
- Gold Customer Relationship Management
- Gold Data Analytics
- Gold Data Platform
- Gold Enterprise Resource Planning
- Gold Project and Portfolio Management

Examples of Our Customers' Transfer to Digital Business

Innofactor serves over 1,000 private, public and third sector organizations in Finland, Denmark, and other parts of Europe. Here are some examples of how Innofactor has strengthened its customers' competitiveness with outstanding IT solutions, products and services. The core of the operation is the understanding of the customers' critical needs and the changes in their operating environment.



Communal Intranet as an Operation Booster

VR Group is a versatile, environmentally friendly and responsibly operated travel, logistics and infra service company. The main task of the company is to offer its customers high-quality, environmentally friendly services for travel and logistics.

VR selected Innofactor as its partner in creating the concept of an intranet and implementing it. On the basis of the concept, the Microsoft Office 365 cloud service was selected as the platform. The new, open and user-friendly intranet was launched in October 2014. The intranet has approximately 9,000 users.

Some of the central goals for the service were openness and easy accessibility of information, effectiveness of the tool, and ease of content production. The modern cloud service used as the platform enables usage independent of place with the help of mobile devices. The tool makes it possible to create communities for the needs of people with different expertise. Dialog is possible over organizational boundaries regardless of time and place, so it is possible to develop the operation of the organization together.

"Innofactor is a long-term partner for us. Together we have built a next generation intranet. It is a practical daily tool for us and helps us to improve cooperation, interaction and sharing of information."

Leena Linnamäki
Communications Manager, VR Group



ERP Maintenance and Expert Services Globally

GS-Hydro delivers full, non-welded piping solutions and prefabricated piping modules and piping components to its customers. GS-Hydro employs over 700 professionals globally in 17 different countries.

Innofactor is responsible for GS-Hydro's extensive ERP system. The contract includes continuous maintenance of the Microsoft Dynamics AX software and expert services and related work agreed on with GS-Hydro globally.

"As the use of the Microsoft Dynamics AX system is expanding globally at a fast pace, we wanted a partner who is physically near to us, easy to reach and understands our business needs. With Innofactor, we felt that we speak the same language right from the start. Our cooperation is going very well. An example of this is the implementation of the AX system in our office in China in November 2014."

Seppo Lusenius
Director, GS-Hydro



Analyzing Data Is Central to Swift Control of Business

Mediverkko is part of the Mehiläinen Group, which offers versatile doctor, dentist, occupational health, nursing and medical examination services at the Mehiläinen clinics and hospitals and the Oma Hammaslääkärisi clinics. Mediverkko is a partner to Finnish municipalities in producing basic social and healthcare services. Mediverkko serves its customers in over 100 locations in Finland. Mediverkko employs nearly 2,000 social and healthcare professionals who annually handle over 800,000 patient visits and are responsible for the healthcare emergency duty for over a million Finnish people.

Previously, reporting in Mediverkko was done for the most part by manually transferring information from systems into Excel spreadsheets, which the users had created themselves. Mediverkko was looking for more efficiency in business analysis. Innofactor offered the most flexible operating model and most fitting tools for the business controllers and management. Together with the customer, Innofactor quickly built a data storage into which data from different systems was assembled to be analyzed by using the Microsoft Business Intelligence tool. As a result, business control was radically improved.

“Business control has improved significantly as you can form an overall picture immediately and problems can be handled swiftly. In the future, our goal is to further develop for example the forecasting process. As a practical example, I could mention the increase of effectiveness in the HR managers’ work as the salary data for the complex calculations required in the healthcare field is easily available.”

Janne-Olli Järvenpää
CEO, Mehiläinen Group

Agile Implementation of an Extensive Cloud-Based Digital Services System

Finland’s Slot Machine Association’s (RAY) slot machines and casino games can be played in thousands of locations, such as stores, kiosks, service stations and Internet, as well as in Casino Helsinki. The profits from RAY’s games are used to promote health and social welfare in Finland. A large part of the contributions is granted to social and healthcare organizations on the basis of applications. In 2014, RAY granted a total of EUR 308 million in contributions to Finnish organizations for 1,676 different targets.

Innofactor delivered a digital services system to RAY. Its first part was opened for over 800 organizations in February 2015. At the first phase, the studies on the effectiveness and impact of projects and contributions and the reporting were transferred online. The entity was implemented in close cooperation with RAY using an agile project method.

The system as a whole includes a case management system, a payment request handling system, Microsoft Azure-based digital services, a document management system, an information management system, and integration to a number of other systems. The system consists entirely of Microsoft-based solutions. The system will be delivered in phases during 2014 to 2016.

“Cooperation with Innofactor has been very smooth and the project has progressed in the planned schedule. We are very pleased with the results so far.”

Janne Jalava
Business Controller,
Finland’s Slot Machine Association

Digital Services for Managing Certifications

VTT Expert Services Oy is responsible for the expert services subject to a fee in the VTT Group. The company offers different services and employs about 180 experts representing various fields. By using the certification and product approval services of VTT Expert Services, their customers can ensure that the products and services they are using meet the requirements of markets, users and authorities.

Together with VTT Expert Services, Innofactor developed a digital services solution for electronic management and publishing of person certificates. The solution consists of the Omasertifikaatti.fi service and the VTT-todistus.fi search engine designed for searching published certificates and product approvals.

By moving the certification data into digital services VTT Expert Services offers its customers improved services by automating different stages of the process and offering a self-service option to the holders of person certificates. This helps the customers' customers to easily find certified products or services, and certificate holders are offered a possibility to increase their visibility. The system is based entirely on Microsoft-based solutions, and it integrates into the other systems of VTT Expert Services.

"The Omasertifikaatti.fi service is the first digital business service, which is used to raise the customer service for person certificate holders to a new level. Innofactor brought into this project its know-how of the digital business and application development without which the implementation would not have been possible. Innofactor was committed to see the project through from the definition phase to the launch of the system. The result has received positive feedback from all user groups."

Pekka Salmi

Customer Relationship Director,
VTT Expert Services

A Public Cloud Service for Analyzing and Managing Environmental Data

The Danish environmental portal (Danmarks Miljøportal, DMP) is a cooperation organization for the Danish public administration. Participants include, for example, municipalities and the Ministry of Environment. The goal of DMP is to collect local environmental data into one place and to offer digital services for analyzing the environmental data to citizens and professionals. The collected data can be related, for example, to sufficiency of natural resources, data about soil pollution, and water quality. The data is used in many ways by the Danish public administration, companies and private citizens.

DMP selected Innofactor to implement a PULS platform, which replaced several point solutions previously used for collecting data. PULS collects point source pollution data, for example, on discharges dependent on rainfall, from wastewater treatment plants and hydroponics plants. In 2015, the platform is planned to be extended to collect data about the quality of swimming water.

Previously, a lot of time was used in Danish municipalities for manual analysis and transferring data into central databases. PULS automated this stage and the time that used to be spent on routine manual work is now spent more efficiently in more demanding tasks. Data collection costs have decreased and the quality of data has improved. Data found in one national database enables more efficient and standardized reporting procedures.

Data stored in PULS is managed centrally, but the solution makes it possible for end users to connect to the system using various user interfaces, which interact with the PULS service interface. The system offers immense possibilities of using and further developing the data.

Birgitte Pahl

Sekretariatsleder, Tanskan ympäristöportaali



PRODUCT AND SERVICE DEVELOPMENT

Better Learning by Analyzing Data

Innofactor is active in developing new learning solutions for schools. The goal of Innofactor® Skilli™ is to double the learning results of children while at the same time enabling motivating teaching with limited resources. With the help of Skilli the students get an individual learning experience with a wider scope.

Learning is changing at a rapid pace from the traditional classroom teaching towards individual, diverse learning. In the future, learning will be based on the student's personal qualities, skills and motivation. Parents will play a more central role in their children's learning process. Collecting and analyzing data related to a student's learning process will make it possible to create an individual learning path that evolves in real-time. Students will take more responsibility of their own learning and the teacher's role will change to that of a coach who supports learning. Learning will take place everywhere—at school, at home and while traveling—and will include, in addition to traditional subjects, skills the student will need in the future.

Innofactor Skilli makes this all possible.

Innofactor's goal is to analyze learning in a new way, and to develop the quality of learning and the self-assessment of students. On order to further individual learning we developed Skilli, a new application that works in the schools' Microsoft Office 365 environments and utilizes the Microsoft Azure cloud platform.

The product development relies heavily on latest pedagogical research data on how to best arrange learning and teaching, and what kind of applications best support the revamping of schools with regard to the development of future skills. As part of the product development for schools, Innofactor signed a cooperation agreement with the OmniSchool (Koulu kaikkiällä) research and development project of the University of Helsinki Department of Teacher Education. Innofactor is also a central partner in Microsoft's North Star learning program. Product development has been done in close cooperation with pilot schools, resulting in agile planning of the application together with students, teachers and school management.

To achieve better learning results, it is necessary for schools to take students' individual learning paths better into consideration in the future. Some

thrive in small groups, others learn by themselves. Some prefer to search for information using their tablets, others benefit the most from field trips. Some students' strength is in planning their own work, while others are good at sharing information with others. Skilli makes it possible to systematically collect data on learning and analyze and use the data in planning learning situations and organizing teaching. Innofactor's application provides teachers with information on which learning methods develop each student's skills best and how different learners have experienced the learning situations. With the use of analyses, students can view their own learning in a new, game-like way, and they can recognize their own strengths as well as the areas that need development.

"Students have been enthusiastic about Skilli and have filled in self-assessments actively. Right from the start, we have seen how the system can help develop teaching towards more individual learning."

Risto Lauri

Deputy Headmaster, Koulumestari School,
City of Espoo

"I cannot believe that the application I have been dreaming of is really here. Skilli helps in monitoring the development of students' varied skills and their own learning in real time. I am eager to see research results on implementing self-assessment in a game-like way with Skilli. I believe that together we can truly change teaching and improve learning."

Jarkko Mylläri

Developer of learning environments, PhD researcher
at the University of Helsinki, City of Kauniainen

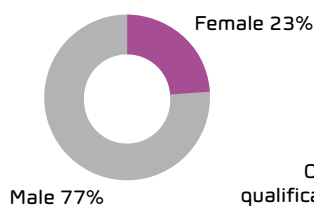
Innofactor's goal is to make Skilli an international success and to utilize Finland's reputation as one of the world's top countries in teaching.

Leading Nordic Microsoft Know-How

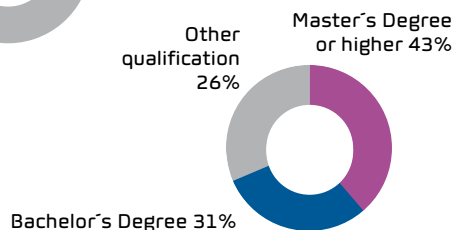
Innofactor's growth and development are made possible by personnel willing to grow and having the ability to develop. Significant events in 2014 were the integration in Finland and Denmark following acquisitions, and moving to the new head office at Keilaniemi, Espoo, Finland at the beginning of the year.

In 2014, Innofactor employed an average of 421 persons (2013: 307), which showed an increase of 37 percent compared to the previous year. At the end of the year, the number of personnel was 411 (2013: 416), a decrease of 1.2 percent. Women accounted for 23 percent of the personnel and men for 77 percent (2013: 24% and 76%). At the end of 2014, the average age among personnel was 39.1 years (2013: 38.5). Of the personnel, 43 percent (2013: 42%) had a Master's Degree, 31 percent (2013: 27%) had a Bachelor's Degree or were studying for a Master's Degree, and 26 percent (2013: 31%) had some other degree.

PERSONNEL BY GENDER



PERSONNEL BY EDUCATION



Skills Are a Prerequisite for Success

Innofactor's extensive and versatile clientele demands the ability to learn and be creative. Due to the close partnership with Microsoft, the certificates and competences defined by Microsoft form an important guideline for developing skills with regard to technical know-how. Our employees have completed over 500 different Microsoft certificates, which have enabled us to gain eight corporate-level Microsoft Gold Competencies.

Maintaining the existing competencies requires maintaining of skills. Innofactor actively follows new competence definitions and was proud to be the first partner in our market to gain the Gold Competence in the new Cloud Platform area at the end of the year.

Microsoft Partner

- Gold Application Development
- Gold Cloud Platform
- Gold Collaboration and Content
- Gold Customer Relationship Management
- Gold Data Analytics
- Gold Data Platform
- Gold Enterprise Resource Planning
- Gold Project and Portfolio Management

In addition to certificates, skills are developed through learning while working, and work rotation. Larger development needs are discussed as part of strategy planning work. Development discussions play a central part in planning development of an individual's skills. Development discussions are used to monitor the skills and development needs of personnel. Based on these, a plan is created for the development of each individual's professional skills and career.

Good Supervising Supports Well-Being

Good supervising is essential to making people feel comfortable at work. Supervisors' work is supported, for example, by means of regular supervisor forums. In 2014 the issues discussed included, for example, the updated early support model and the management of work performance. At the end of 2014 Innofactor renewed its organization and management job descriptions to support better leadership. The new organization model was taken into use at the beginning of 2015.





New, Unique Premises

At the turn of the year, the Innofactor head office moved to new premises by the Baltic Sea in Keilaniemi, Espoo, Finland. Based on feedback received from personnel during the planning stage, the office space was designed as a versatile entity combining open spaces, meeting rooms, so-called silent rooms for small meetings or quiet working, and soundproof phone boxes. Personnel were asked to participate in finding names for the meetings rooms, and as a result internal meetings are now held in spaces named after science fiction spaceships.

In addition to basic office functions, the Innofactor Campus includes some special elements, such as a seaside sauna, a wine cellar and an outdoor frisbee golf course.

During the first half of 2014, also the Tampere, Finland and Copenhagen, Denmark offices moved in order to fit the new, larger teams into shared premises.

Personnel Participation

Personnel's views on the company's policies are surveyed quarterly. The most positive feedback regularly has to do with the closest supervisor and

nice colleagues. Additionally, a separate company culture survey was made in 2014 regarding further development of the company culture that has been formed through various acquisitions. The results of the survey were utilized in strategy work.

For many years, Innofactor has had an HR board, which includes representatives from the different offices. The HR Board meetings deal with current affairs in the offices and the company from the point of view of personnel and strive to make Innofactor an even better place to work. The entire personnel also participate in active discussions through the digital Yammer tool, which is used for handling both official and unofficial issues.

The entire personnel meets once a year to participate in information events and to have fun. In 2014, this event was named for the first time as Innofactor InSpirit.

The personnel also participate in free-form activities. Each Innofactor location has a Fun Club, which arranges common activities. The program in 2014 included, for example, baseball, stand up comedy, and whiskey tasting. The personnel also includes talented people who have formed the company's own band, which entertained colleagues both in the InSpirit event and at the office Christmas party in Espoo.

Corporate Responsibility

Innofactor's operations are guided by the company's strategy, corporate governance, values, quality system, personnel policy, general principles of corporate responsibility, environmental policy, and legislation. In accordance with its values, Innofactor strives to act responsibly by being committed, discussing, and being present.

The 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 digital solutions it has developed, the Group has helped its customers to reach their environmental goals and contributed to the sustainable development of the society. Innofactor delivers digital solutions and web services that decrease the environmental effects of its customers' operations.

Constructive Collaboration

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

For its employees, Innofactor strives to offer an inspiring and supportive environment in which they can continue their development. Innofactor takes care of the well-being of its personnel by maintaining a stable, safe and communicative atmosphere and by building a reliable development path into the future. Innofactor invests in developing its personnel through training, learning while working, and work rotation. Innofactor also works actively with other Finnish ICT companies in order to create partner networks for lowering the globalization threshold and in this way playing a part in developing the software business in Finland.

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

Corporate Governance

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

Innofactor Plc complies with the Corporate Governance Code 2010 for Finnish listed companies, published by the Securities Market Association. Innofactor Plc complies with the Guidelines for Insiders drawn up by the Helsinki exchange and follows a consistent communication policy.

Innofactor Plc maintains a public insider register of the persons, who are required by the Securities Markets Act to report their ownership. Additionally, the company maintains an internal permanent insider register as well as project-specific insider registers of persons, who have access to insider information. Innofactor has guidelines for insider trading on Innofactor shares.

The General Meeting is the highest decision-making body of Innofactor Plc. The General Meeting is convened by the Board of Directors. According to the Articles of Association, the Annual General Meeting shall be held each year within six months of the end of the fiscal year, on a day specified by the Board of Directors. An Extraordinary General Meeting shall be held when considered necessary by the Board of Directors, or if requested in writing for handling of a specified matter by the auditor or shareholders holding a minimum of one-tenth of all shares.

The General Meeting selects the Board of Directors. Responsibilities of the Board of Directors are based on the Companies Act and the company's Articles of Association. The Board of Directors has

general authority to decide and act in all such matters that are not reserved by the Companies Act or Articles of Association to other corporate governing bodies. The Board of Directors is responsible for the effective organizing of the company and the monitoring of the management of the company according to the best interests of the company and its shareholders.

It is the duty of the Innofactor Plc's Board of Directors to make sure that the monitoring of the Group's bookkeeping and financial control have been properly arranged. The internal monitoring in the Group is implemented by the Board of Directors together with the CEO. For monitoring purposes, there is a reporting system according to which information is produced concerning the Group's business operations and subsidiaries. The responsibilities of the Board of Directors and its members are described in more detail in the rules of procedure for the Board of Directors.

The Board of Directors appoints the CEO who is responsible for the day-to-day management of the company, which consists of managing and controlling the company's business in accordance with instructions and decisions issued by the Board of Directors. The Board of Directors has appointed an Executive Board for the Group and its task is to help the CEO to manage the day-to-day business.

The Corporate Governance of Innofactor Plc was last updated on February 24, 2014. Innofactor's Corporate Governance Statement, which has been drawn up in accordance with the Finnish Securities Markets Act and the recommendation 51 of the Corporate Governance Code for Finnish listed companies, will be presented separate from the Annual Report.



The Board of Directors of Innofactor Plc



From left: Ilari Nurmi, Tii Tuovinen, Sami Ensio (Chairman), J.T. Bergqvist and Jukka Mäkinen

Sami Ensio, born in 1971

M.Sc. (Tech.). Innofactor Plc's CEO and a member of the Board of Directors since 2010. Chairman since November 9, 2014. Founder and CEO of Innofactor Plc since 2000. Ownership: 7,431,291 shares.

J.T. Bergqvist, born in 1957

D.Sc. (Tech.). In the Board of Directors of Innofactor Plc since 2014. Ownership: 309,204 shares.

Jukka Mäkinen, born in 1954

M.Sc. (Econ. & Bus. Adm.). In the Board of Directors of Innofactor Plc since 2012. Ownership: 59,474 shares.

Ilari Nurmi, born in 1975

M.Sc. (Tech.). In the Board of Directors of Innofactor Plc since 2013. Ownership: 39,311 shares.

Tii Tuovinen, born in 1964

LL.M. In the Board of Directors of Innofactor Plc since 2014. Ownership: 9,204 shares.

Share owning information is from December 31, 2014. Up-to-date information can be found on the company's web site.

Executive Board of the Innofactor Group



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

Sami Ensio, born in 1971

M.Sc. (Tech.). Innofactor Plc's CEO and a member of the Board of Directors since 2010. Founder and CEO of Innofactor Plc since 2000. Ownership: 7,431,291 shares.

Christian Andersen, born in 1966

BBA. Country Manager in Denmark. Employed by Innofactor since 2012. Ownership: 203,157 shares.

Heikki Jekunen, born in 1958

M.Sc. (Tech.). Director of Product and Service Business Employed by Innofactor since 2013. Ownership: 6,000 shares.

Janne Martola, born in 1974

M.Sc. (Tech.). Chief Financial Officer and Deputy CEO. Employed by Innofactor since 2011. Ownership: 100,000 shares.

Juha Rokkanen, born in 1969

BBA. Country Manager in Finland. Employed by Innofactor since 2013. Ownership: 103,873 shares.

Elina Jokinen, born in 1974

M.Soc.Sc. HR Manager of Innofactor. Employed by Innofactor since 2013.

Mikko Lampi, born in 1977

M.Sc. (Tech.). Manager of the Customer Solutions unit and deputy of the Finnish Country Manager. Employed by Innofactor since 2001. Ownership: 996,758 shares.

Share owning information is from December 31, 2014. Up-to-date information can be found on the company's web site.

Innofactor Plc

Report of the Board of Directors and Consolidated Financial Statements

Financial Period January 1 to December 31, 2014

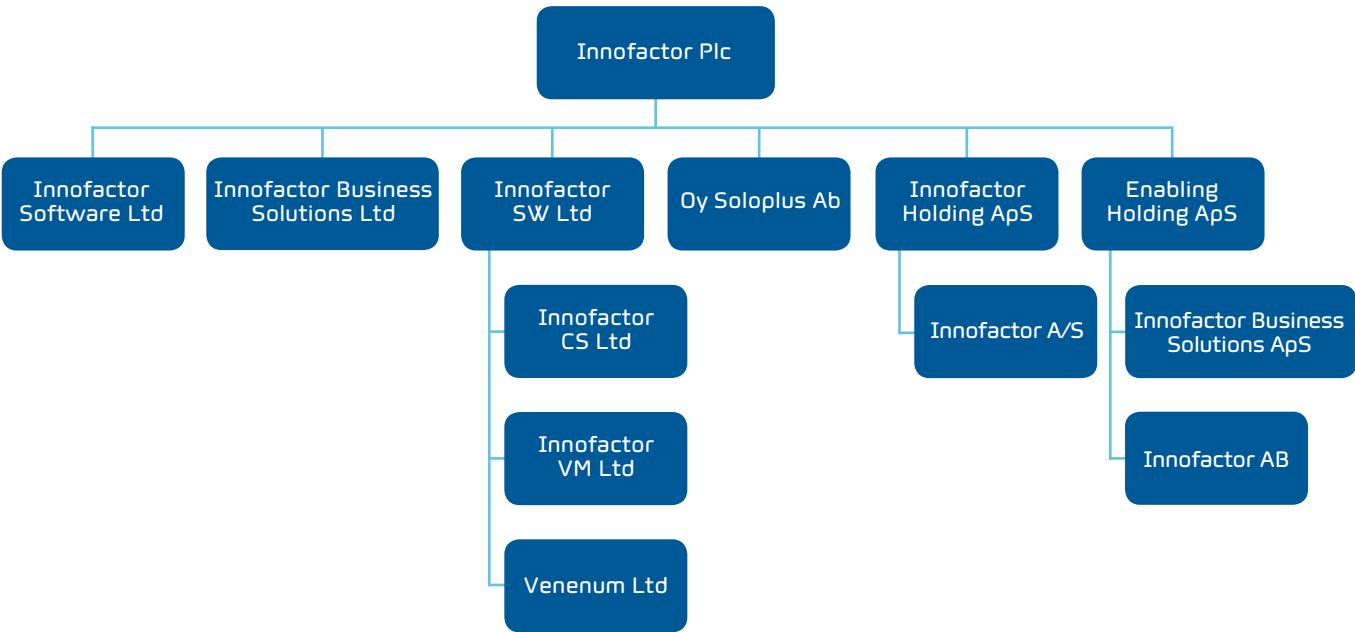
Innofactor Plc, Board of Directors' Report 2014

Innofactor Group

Innofactor is one of the leading software providers focused on Microsoft solutions in the Nordic Region. Innofactor delivers to its customers IT projects as a system integrator and develops its own software products and services. Innofactor's own product development is focused on Microsoft Azure-based cloud solutions. Approximately 1/4 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 approximately 1,000 private and public sector organizations in Finland, Denmark, Sweden, and elsewhere in Europe. In its operation, Innofactor strives for long-term customer relationships. Innofactor has about 400 motivated and skilled employees in several locations in the Nordic Countries.

The structure of the Innofactor Group at the end of the financial period 2014 is presented below.



At the end of the financial period, the Innofactor Group includes the following companies:

- ▶ Innofactor Plc, Finland (parent company)
- ▶ Innofactor Software Ltd, Finland, Espoo, 100%
- ▶ Innofactor Business Solutions Ltd, Finland, Espoo, 100%
- ▶ Innofactor SW Ltd, Finland, Espoo, 100%
- ▶ Innofactor CS Ltd, Finland, Turku, 100%
- ▶ Innofactor VM Ltd, Finland, Espoo, 100%
- ▶ Venenum Ltd, Finland, Espoo, 100%
- ▶ Oy Soloplus Ab, Finland, Espoo, 100%
- ▶ Innofactor Holding ApS, Denmark, 100%
- ▶ Enabling Holding ApS, Denmark, 100%
- ▶ Innofactor A/S, Denmark, 100%
- ▶ Innofactor Business Solutions ApS, Denmark, 100%
- ▶ Innofactor 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	2014	2013	2012	2011	2010
Net sales, EUR thousand	44,119	32,685	18,818	17,205	9,862
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), EUR thousand	4,107	3,284	1,215	1,443	980
percentage of net sales	9.3%	10.0%	6.5%	8.4%	9.9%
Operating profit (EBIT), EUR thousand	2,720	2,255	620	904	702
percentage of net sales	6.2%	6.9%	3.3%	5.3%	7.1%
Earnings before taxes, EUR thousand	2,259	1,863	591	886	696
percentage of net sales	5.1%	5.7%	3.1%	5.1%	7.1%
Earnings, EUR thousand	1,807	1,407	449	687	505
percentage of net sales	4.1%	4.3%	2.4%	4.0%	5.1%
Shareholders' equity, EUR thousand	22,713	19,626	13,760	12,905	12,218
Interest bearing liabilities, EUR thousand	10,638	11,955	1,393	0	0
Cash and cash equivalents, EUR thousand	997	991	656	696	1,714
Deferred tax assets, EUR thousand	7,175	7,604	7,767	7,895	8,132
Return on equity	8.5%	8.4%	3.4%	5.5%	6.8%
Return on investment	10.0%	12.9%	4.5%	7.2%	9.7%
Net gearing	42.4%	55.9%	5.4%	-5.4%	-14.0%
Equity ratio	49.0%	43.1%	66.1%	74.5%	68.2%
Balance sheet total, EUR thousand	47,635	46,671	22,173	18,324	19,517
Research and development, EUR thousand	1,981	2,067	2,488	2,086	1,173
percentage of net sales	4.5%	6.3%	13.2%	12.1%	11.9%
Personnel on average during the review period	421	307	189	177	108
Personnel at the end of the review period	411	416	193	189	171
Number of shares at the end of the review period	32,153,737	30,909,520	30,165,900	29,261,800	29,261,849
Earnings per share (EUR)	0.0563	0.0432	0.015	0.0235	0.0274
Shareholders' equity per share (EUR)	0.706	0.635	0.460	0.441	0.418

Net Sales

Innofactor's net sales in 2014 were EUR 44,119 thousand (2013: 32,685), which shows an increase of 35.0 percent.

Financial Performance

Innofactor's Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) in 2014 was EUR 4,107 thousand* (2013: 3,284**), which shows an increase of 25.1 percent. EBITDA accounted for 9.3 percent of the net sales* (2013: 10.0%**).

Innofactor's operating profit in 2014 was EUR 2,720 thousand* (2013: 2,255**), which shows an increase of 20.6 percent. Operating profit accounted for 6.2 percent of the net sales* (2013: 6.9%**).

* The year 2014 included a one-off cost related to the closing of the St. Petersburg office for about EUR 59 thousand. The year 2014 included a one-off cancellation of a cost reserve related to the integration, amounting to about EUR 135 thousand.

** 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 2014 was EUR 47,635 thousand (2013: 46,671). The Group's liquid assets totaled EUR 997 thousand (2013: 991), consisting totally of cash funds.

The operating cash flow on January 1 to December 31, 2014, was EUR 2,301 thousand (2013: 1,369). Cash flow from investments was EUR -690 thousand (2013: -2,815).

The equity ratio at the end of 2014 was 49.0 percent (2013: 43.1%) and net gearing was 42.4 percent (2013: 55.9%).

At the end of 2014, the company had EUR 2,933 thousand in current interest bearing liabilities (2013: 1,920) and EUR 7,705 thousand in non-current interest bearing liabilities (2013: 10,035).

The return on investment on January 1 to December 31, 2014, was 10.0 percent (2013: 12.9%).

The return on equity on January 1 to December 31, 2014, was 8.5 percent (2013: 8.4%).

The non-current assets in Innofactor's balance sheet at the end of 2014 were EUR 30,856 thousand in total and consisted of the following items:

- ▶ Tangible assets EUR 690 thousand
- ▶ Goodwill EUR 19,584 thousand
- ▶ Other intangible assets EUR 3,407 thousand
- ▶ Deferred tax assets EUR 7,175 thousand

Innofactor's gross investments in tangible assets on January 1 to December 31, 2014, were EUR 597 thousand (2013: 323), 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 612 thousand (2013: 712).

Mergers, Acquisitions and Changes in the Group Structure

No acquisitions were carried out in 2014.

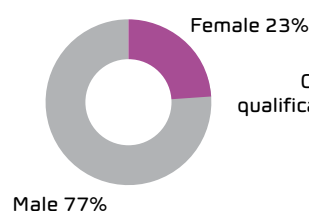
In 2014, the Danish company Bridgeconsulting Holding ApS, acquired in 2012 in connection with the Bridgeconsulting acquisition, was dissolved. The company had no business operations.

Personnel

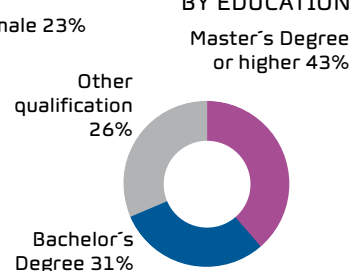
The average number of personnel at Innofactor in 2014 was 421 (2013: 307), which shows an increase of 37.1 percent. At the end of 2014, the number of personnel was 411 (2013: 416), which shows a decrease of 1.2 percent.

At the end of 2014, the average age among personnel was 39.1 years (2013: 38.5). Of the personnel, 43 percent (2013: 42%) had a Master's Degree, 31 percent (2013: 27%) had a Bachelor's Degree or were studying for a Master's Degree, and 26 percent (2013: 31%) had some other degree. Women accounted for 23 percent of the personnel and men for 77 percent (2013: 24% and 76%).

PERSONNEL BY GENDER



PERSONNEL BY EDUCATION



Strategy

Innofactor strengthens its customers' competitiveness by providing outstanding IT solutions, products and services. Innofactor focuses on Microsoft-based solutions and the Microsoft ecosystem. Innofactor's clients comprise of private and public sector organizations. Innofactor currently operates in Finland, Denmark and Sweden. 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 Region.

Innofactor's strategy is to build competitive advantage as the leading provider focused on Microsoft-based solutions and the Microsoft 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-quality 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 Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) every year in 2014 to 2017
- ▶ By achieving an average annual growth of 25 to 35 percent in 2014 to 2017 through organic growth as well as acquisitions
- ▶ By keeping the cash flow positive and by securing solid financial standing in all situations

Business Operations

In its strategy, Innofactor focuses on the Microsoft ecosystem. Innofactor both operates as a system integrator and develops its own software products and services, which offers Innofactor significant competitive edge and synergy benefits. System integrator operation increases Innofactor's under-

standing of the customers' product and service needs and also acts as a delivery channel for its own products and services. Focusing on the Microsoft ecosystem creates insurmountable know-how for Innofactor and also makes it the most desirable partner in the Nordic Countries for Microsoft, which helps Innofactor to get the best deals.

Innofactor offers extensive value added services for Microsoft's business solutions, such as Office 365, SharePoint, Dynamics CRM, Dynamics ERP, Project, SQL Server, and Azure. With the solutions we offer, the customer company or organization can develop its digital business by offering its customers and employees the best possible user experience. Our solutions give our customers real-time access to data about their own customers' digital behavior, which they can then use in decision making and when automating services.

Innofactor provides its solutions through the Microsoft Cloud or installed in the Innofactor Service Center or on the customer's own servers. Typically based on annual or monthly charges, service agreements, such as SaaS and cloud, play an important role in Innofactor's business activities. Recurring services essentially decrease cyclicity in the business operations. Recurring services account for about 23 percent of Innofactor's net sales.

For now, Innofactor's operations are focused mainly on Finland and Denmark, and in smaller scale on Sweden. Innofactor aims at expanding its system integrator operations to the other Nordic Countries in the future and this may be done also through mergers and acquisitions.

Innofactor's business operations were focused on Finland and Denmark. In 2014, about 82 percent of the net sales came from Finland and about 18 percent from Denmark.

Of the net sales in 2014, about 48 percent came from commercial clients and about 52 percent from government and third sector clients.

Innofactor's net sales in 2014 came from the following sources:

- ▶ about 68% 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 3%;
- ▶ about 23% from recurring service contracts (incl. maintenance agreements, SaaS, cloud and hosting services).

Innofactor's 10 largest clients accounted for about 21 percent of the net sales in 2014.

Major Events in 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 continued in his role until April 30, 2014.
- ▶ On March 7, 2014, Innofactor announced in a stock exchange release that Innofactor's Board of Directors had appointed Tiina Pulli as the new Chief Financial Officer (CFO) at Innofactor Plc as of May 1, 2014. Pulli joined the company already earlier to familiarize herself with Innofactor's operations. Tiina Pulli is a member of Innofactor's Executive Board and reports to Sami Ensio, the CEO of the Group.
- ▶ On March 20, 2014, 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, 2013, 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, 2013.

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 to December 31, 2013.

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 to March 31, 2014. 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. Of the current members of the Board of Directors, Sami Ensio, Jukka Mäkinen, Pyry Lautsuo and Ilari Nurmi were re-elected. Tiia Tuovinen and J.T. Bergqvist were elected as new members. 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 April 25, 2014, Innofactor announced in a stock exchange release that Innofactor had been selected to provide a comprehensive TOIMIN system solution to AEL, a Finnish technical training provider. The integrated system combines solutions for digital services, CRM, ERP, Document Management, intranet, digital work environment as well as enterprise architecture. The full solution is planned to be deployed during 2014.

The value of the contract is EUR 574,539, excluding any options. The contract also includes the options of expanding the system with HRM and web publishing systems.

The transaction strengthens Innofactor's position as a key provider of Microsoft-based digital services solutions to the education sector in Finland.

AEL is Finland's leading provider of technical training services. AEL has served Finnish businesses for more than 90 years. AEL is maintained by the Foundation for Occupational Advancement with representatives from the major labor market organizations and key industry players in Finland, along with members of public administration working in business development and education.

- ▶ On May 12, 2014, Innofactor announced in a stock exchange release that Innofactor had won a public procurement tender to deliver a comprehensive funds management solution to Finland's Slot Machine Association (RAY). The total solution includes a case management system, payment request handling system, Windows Azure-based digital services, document and information management system as well as integrations to a number of other systems. The

system solution is based entirely on Microsoft platforms. The phased delivery of the solution is estimated to take place during 2014 to 2016.

The value of Innofactor's offer that won the tender is EUR 3,214,166.

The transaction further strengthens Innofactor's position as a key provider of Microsoft-based digital services solutions in the Finnish public and third sectors.

The main purpose of Finland's Slot Machine Association (RAY) is to raise funds through gaming operations to promote Finnish health and welfare. RAY offers entertaining and exciting games in a responsible manner. RAY's entire proceeds are used for supporting Finnish health and social welfare organizations as well as for the benefit of the country's war veterans. The aim is to continue to secure funding for innumerable important projects and ventures. Around 800 organizations receive funding each year.

- ▶ On June 19, 2014, Innofactor announced in a stock exchange release that Innofactor has appointed Katja Tammelin General Counsel as of August 18, 2014. Innofactor has not previously had a General Counsel.
- ▶ On July 9, 2014, Innofactor announced in a stock exchange release that Innofactor's Board of Directors had appointed Janne Martola as Innofactor Plc's new Chief Financial Officer (CFO) and Deputy to the CEO as of July 9, 2014. Since 2011, Martola has worked as Vice President responsible for Innofactor's International Business and Acquisitions. In his new role, Martola, M.Sc. (Tech.), will continue as a member of Innofactor's Executive Board, reporting to CEO Sami Ensio.
- ▶ On September 2, 2014, Innofactor announced in a stock exchange release that it will start personnel negotiations in Finland and will close its St. Petersburg office. The personnel negotiations concerned a reduction of less than 10 positions and temporary layoffs based on financial and production grounds. The negotiations affected the administrative functions and those business areas where customer purchasing behavior has changed. The temporary layoffs were estimated to affect 30 persons at the maximum.

Additionally, Innofactor closed its St. Petersburg development unit which had been part of the Finnish subsidiary and had employed less than 10 persons. The prerequi-

sites for its operation had become significantly weaker and the company saw no opportunities to continue the operation. In the future, the work conducted in St. Petersburg will be managed from Finland, which will not cause any breaks in servicing customers.

- ▶ On September 17, 2014, Innofactor announced in a stock exchange release that the Innofactor's personnel negotiations had been concluded. Innofactor's order book developed favorably during the negotiations and, thus, the cost saving actions could be limited to a smaller number of persons than earlier announced. Innofactor cut 3 positions and temporarily laid off 11 persons full-time and 5 persons part-time. These actions resulted in cost savings of approximately EUR 0.3 million in 2014.

Additionally, other personnel arrangements that have been agreed on in Innofactor will generate cost savings of approximately EUR 0.1 million. The above mentioned arrangements were not estimated to have a negative impact on net sales.

The members of the Finnish Executive Board of the Group each agreed on voluntarily relinquishing the worth of one month's salary. The cost savings of this action for 2014 were about EUR 0.1 million.

- ▶ On November 10, 2014, Innofactor announced in a stock exchange release that the Chairman of the Board of Directors of Innofactor Plc, Pyyry Lautsuo, had announced his resignation from the Board due to family reasons. After the resignation of Lautsuo, the Board of Directors has five members.

The Board of Directors of Innofactor Plc elected Sami Ensio, the CEO and the largest owner of the company, as the Chairman of the Board until the next General Meeting. The resignation of the Chairman of the Board caused a special circumstance, which led to an exemption from the recommendation 36 of the Finnish Corporate Governance Code for Listed Companies.

- ▶ On November 10, 2014, Innofactor announced in a stock exchange release that it had re-evaluated the outlook for 2014. Innofactor's net sales in 2014 are expected to be about EUR 43 to 45 million (2013: EUR 32.7 million). The operating margin (EBITDA) in 2014 is expected to be about EUR 3.5 to 4.5 million (2013: EUR 3.3 million). Earlier Innofactor's net sales

were expected to be about EUR 43-48 million and operating profit before depreciation and amortization (EBITDA) about EUR 4-6 million.

- ▶ On November 28, 2014, Innofactor announced in a stock exchange release that Innofactor Business Solutions Oy, which is part of the Innofactor Group, has entered into an agreement with Enfo Zender Oy about delivering a Microsoft Dynamics AX-based financial management services platform to Enfo Zender. The value of the agreed on first phase of the project is about EUR 0.5 million. The agreement includes an option for further development of the platform. The system is planned to be delivered during the years 2014 and 2015.
- ▶ On December 8, 2014, Innofactor announced in a stock exchange release that in a tendering process governed by a framework agreement, the Hospital District of Helsinki and Uusimaa (HUS) has selected Innofactor as the provider for transferring application and infrastructure solutions into cloud services and as the provider of continuous services related to the cloud services. The whole includes transferring the existing On-Premises applications and infrastructure solutions of HUS into a Microsoft Azure operating services environment. In addition to this, the delivery includes development and maintenance of architecture, control and management of the cloud services, and small scale development. Project deliveries and services related to the cloud transfer are planned to be delivered in stages during 2014 to 2017. In its invitation to tender, HUS estimated that the value of the delivery would be about EUR 600,000 during the contract period, which is also the maximum value of the procurement decision. However, the final value of the deal during the contract period cannot be stated for certain at this point.
- ▶ On December 16, 2014, Innofactor announced in a stock exchange release that Innofactor is starting personnel negotiations in Finland concerning the reduction or conversion to part-time of less than 10 positions based on financial and production grounds. The negotiations affect a part of the administrative functions, as well as those business areas, which were already in scope of earlier negotiations in September that resulted mainly in temporary layoffs. Innofactor now believes that the market situation in these business areas has changed permanently. The negotiations are expected to last a maximum of two weeks.

- ▶ On December 19, 2014, Innofactor announced in a stock exchange release that Innofactor has concluded the negotiations. Innofactor will cut 5 positions and convert 4 full-time positions to part-time. The actions impact employees who are already temporarily laid off. These actions will bring cost savings of approximately EUR 0.4 million in 2015 and are not estimated to have a negative impact on net sales.

Major Events After the Financial Period

- ▶ On January 27, 2015, Innofactor announced in a stock exchange release that after discussing with other major owners, Innofactor's Chairman of the Board, Sami Ensio, has given the Board of Directors of the company a proposal for the Annual General Meeting of 2015, according to which the Board of Directors will propose to the Annual General Meeting the following: The Board of Directors shall consist of six (6) members and the following persons shall be elected for the next period, which will end as the General Meeting of 2016 ends.

J.T. Bergqvist, Sami Ensio, Jukka Mäkinen and Ilari Nurmi are proposed to be re-elected. Pekka Puolakka and Ari Rahkonen are proposed to be elected as new members. Based on his discussions with major owners and the persons proposed to be elected to the Board of Directors, Sami Ensio states that the members of the Board of Directors support the motion of electing Ari Rahkonen as the new Chairman.

The Board of Directors will propose that the Chairman of the Board of Directors shall be paid a fee totaling EUR 48,000 per year (previously EUR 36,000) and the other members of the Board of Directors shall be paid a fee totaling EUR 24,000 per year (same as before). 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 to March 31, 2015. In case shares will not be acquired due to a reason arising from the company or the Board member, the entire fee will be paid in cash. 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 Board of Directors decided to assign Ari Rahkonen, who is a nominee for the Chair-

man of the Board, as Innofactor Plc's advisor until the next General Meeting. Rahkonen was the CEO of Microsoft Oy until December 31, 2014.

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

Future Outlook

Innofactor's net sales and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) in 2015 is estimated to increase from 2014, during which the net sales were EUR 44.1 million and EBITDA was EUR 4.1 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 operation of the Innofactor Group are primarily business risks related to its subsidiaries that carry on its business operations.

Profitability of projects: A large part of Innofactor's net sales comes from project business. Profitable implementation of Innofactor's delivery projects requires that project calculation and planning before submitting a tender are done successfully as regards the amount of work and the delivery schedule, and also that the deliveries can be made in a cost-effective manner. It is possible that Innofactor fails at correctly estimating the profitability of a project and, thus, 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 project business.

Skilled personnel and its availability: The development of Innofactor's operations and deliveries depend greatly on the Group having skilled personnel and being able to replace persons, who are leaving, with proper resources. In Innofactor's field of business, there is a lack of and competition for certain

personnel resources. If Innofactor fails at motivating its personnel, keeping the personnel's skills on a high level and keeping the personnel in its service, that could cause problems for the Group's business operations. The success of the Group depends heavily on the employed key personnel and their success in their work. Innofactor invests in continuous development of its personnel and in keeping the personnel satisfaction high.

Increase in personnel costs: The main part of Innofactor's costs consists of salaries and other personnel costs (in 2014, about 69% of the net sales). Currently, all of Innofactor's own employees work in the Nordic Countries, whereas some competitors rely heavily on workforce in countries with cheap labor. If the personnel costs continue rising in Finland and Denmark at the same rate as before, it will create a risk for Innofactor, if the prices paid for IT services will not rise correspondingly. Innofactor is monitoring the situation constantly and aims at increasing 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 than Innofactor does, and they can use these when competing with Innofactor for the same deliveries. The price competition on the field is expected to remain tough. If the competition becomes tougher, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor continuously strives to improve its competitiveness.

Research and product development: In Innofactor's operation, research and product development play a central role. In 2014, about 4.5% of the net sales was used for it. Each research and product development project carries the risk that the end results are not as successful financially as planned and that the investment in the project does not pay itself back. In organizing its operations, Innofactor aims at minimizing the risks inherent in research and product development.

Globalization: In accordance with its strategy, Innofactor is seeking for more growth also in the global markets, especially in the Nordic Countries. Global operations typically always involve higher risks than operation at home. Innofactor strives to make sure that the investments in becoming a global player will not be so great that it would jeopardize the Group's ability to make profit and to grow.

Changes in technology: Fast technological development is characteristic for 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 into cloud technologies. If Innofactor cannot answer the technology challenges, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor strives to actively invest in new technologies.

Reaching the growth goals: Realizing the desired organic growth requires a growth rate that is clearly faster than the growth in the IT market in general. This creates a risk that it cannot be realized in the future, although it has been done before. It is possible that the IT market in Innofactor's market area will not grow or may even shrink in 2015. Ensuring growth has a central part in planning Innofactor's operations and setting its goals. Innofactor strives to lessen 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 on 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 about 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, after it has been made, 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 in a fast schedule as part of the whole 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 the desired improvement in operation 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 organization changes and to prepare for them also financially.

Financial Risks

General financial uncertainty and changes in the 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 timing of purchases.

Financing risks: In its normal business operations, the Innofactor Group is susceptible to normal financing risks. In June 2013, 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 increased Innofactor's financing risks compared to previous years. At the end of 2014, a total of EUR 9.9 million of this loan remains unpaid. In total at the end of 2014, Innofactor had EUR 10.6 million in interest bearing debts and also EUR 3.2 million in the hybrid bond. Innofactor's financing risks have decreased since 2013 as the amount of interest bearing debt is lower. Innofactor has committed itself to the following covenants: equity ratio calculated every 6 months is at least 40% 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 Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) is a maximum of 3.0 in two review periods (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 the 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.

Risks related to receivables from projects: A large part of Innofactor's net sales comes from project business. A significant part of projects consists of long-term projects in which scheduled payments and their terms are typically agreed on with the customer beforehand. When Innofactor performs work in customer projects, which is scheduled to be invoiced afterwards, project receivables are accrued. Especially in public administration projects, scheduled payments often take place nearer to the end of the project, which means increased project receivables and related risks. In customer negotiations, Innofactor pays special attention to scheduling the payments and the size of payments, and in customer projects, to project management and steering in accordance with the scheduled payments. Project receivables are monitored regularly.

Credit risk: Credit decisions related to sales receivables are monitored centrally by 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, and the Group has not suffered any significant credit losses. Should credit risks realize, it would weaken the Group's financial standing and liquidity. Sales receivables are monitored regularly.

Risks related to deferred tax assets: Innofactor's balance sheet includes a significant amount of deferred tax assets that are based on previous financial periods. If Group's internal factors or outside factors independent of the Group's operation change significantly, it is possible that the Group can not 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 to December 31, 2014, decreased by 44.4% compared to the same period in the previous year. In 2014, share trading was 20.1% of the share capital. In the Helsinki stock exchange, companies' average trade in 2014 was 69.1% of the share capital. 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 the 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 20, 2014, the number of the members of the Board of Directors was confirmed to be six. The General Meeting decided to accept the proposal of re-electing current Board members Sami Ensio, Jukka Mäkinen, Pyyry Lautsuo, and Ilari Nurmi, and to elect Tiia Tuovinen and J.T. Bergqvist as new Board members. In their organizing meeting held immediately after the General Meeting, the Board of Directors elected Pyyry Lautsuo as the Chairman of the Board. Pyyry Lautsuo resigned from the Board of Directors on November 9, 2014, after which Sami Ensio was elected as the 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 has drawn up a separate Corporate Governance Statement for the financial period of 2014.

Innofactor Plc's entire Corporate Governance and statements are available on the company's web site at:

http://www.innofactor.fi/sijoittajat/hallinto_ja_johtaminen

Research and Product Development

Innofactor's research and development costs recognized in profit or loss in 2014 were EUR 1,981 thousand (2013: 2,067), which accounts for 4.5 percent of the net sales (2013: 6.3%).

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.

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

Innofactor takes care of the well-being of its personnel by maintaining a stable, safe and communicative atmosphere and by building a reliable development path into the future. Innofactor invests in developing its personnel through training, learning while working, and work 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 the sustainable development of the society. Innofactor delivers digital 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 the review period, Innofactor Plc's share capital was EUR 2,100,000.00 and the total number of shares was 32,153,737. The company does not have any treasury shares. Innofactor Plc has one series of shares. Each share is entitled to one vote.

In 2014, the highest price of the company share was EUR 1.59 (2013: EUR 1.83), the lowest price was EUR 0.75 (2013: EUR 0.46), and the average* price was EUR 1.22 (2013**: EUR 1.05).

The closing price for 2014 on December 30, 2014, was EUR 0.77 (2013: EUR 1.26).

* 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 in 2014, a total of 6,449,837 shares were traded (2013: 11,609,606* shares), which corresponds to 20.1 percent (2013: 35.6%) of the average number of shares on the said period. On January 1 to December 31, 2014, there were 32,126,456 shares on the average (2013: 32,589,585**). The share trading decreased by 44.4 percent compared to the corresponding period in 2013.

* 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 treasury shares.

The market value of the share capital at the closing price of 2014, EUR 0.77, on December 30, 2014, was EUR 24,758 thousand (2013: 38,945), which shows a decrease of 36.4 percent.

On December 31, 2014, the company had 11,287 shareowners (2013: 11,961) including the administrative registers (9 registers). The share of nominee registered ownership was 8.5 percent (2013: 3.3%) of the total number of shares. Of the owners, 3.2 percent (2013: 3.7%) were companies operating in Finland, 0.5 percent (2013: 0.0%) financing and insurance companies, 86.5 percent (2013: 91.6%) Finnish households, and 1.3 percent (2013: 1.4%) 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 by 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 treasury shares (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 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). According to the authorization, shares may be acquired from the sellers of atBusiness Oy 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 treasury shares 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 financial period of 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.

Innofactor Plc canceled these treasury shares during the financial period of 2013 and had no treasury shares on December 31, 2014.

Innofactor Plc issued no flagging announcements during the review period.

According to the share register maintained by Euroclear Finland Oy, the persons belonging to the public insider register on December 31, 2014, held company shares as follows:

Share owning by the Board of Directors:

- ▶ Pyry Lautsuo, 93,900 shares, 0.29% (until November 9, 2014)
- ▶ J.T. Bergqvist, 309,204 shares, 0.96%
- ▶ Sami Ensio, 7,431,291 shares, 23.1%
 - ▶ *Sami Ensio, 5,257,531 shares, 16.35%*
 - ▶ *minor under guardianship, 724,588 shares, 2.25%*
 - ▶ *minor under guardianship, 724,586 shares, 2.25%*
 - ▶ *minor under guardianship, 724,586 shares, 2.25%*
- ▶ Jukka Mäkinen, 59,474 shares, 0.18%
- ▶ Ilari Nurmi, 39,311 shares, 0.12%
- ▶ Tiia Tuovinen, 9,204 shares, 0.03%

Share owning by the CEO:

- ▶ Sami Ensio, 7,431,291 shares, 23.1%
- ▶ *Sami Ensio, 5,257,531 shares, 16.35%*
- ▶ *minor under guardianship, 724,588 shares, 2.25%*
- ▶ *minor under guardianship, 724,586 shares, 2.25%*
- ▶ *minor under guardianship, 724,586 shares, 2.25%*

Share owning by other members of the Executive Board:

- ▶ Christian Andersen, 203,157 shares, 0.63%
- ▶ *CHRA Holding ApS, 203,157 shares, 0.63%*
- ▶ Heikki Jekunen, 6,000 shares, 0.02%
- ▶ Elina Jokinen, 0 shares, 0.0%
- ▶ Mikko Lampi, 996,758 shares, 3.1%
- ▶ Janne Martola, 100,000 shares, 0.31%
- ▶ Ingrid Peura, 0 shares, 0.0% (until October 1, 2014)
- ▶ Juha Rokkanen, 103,873 shares, 0.32%

According to the share register maintained by Euroclear Finland Oy, the share ownership of the 20 largest Innofactor Plc shareowners at the end of 2014 was as follows:

Name	Number of shares	% of share capital
1. Ensio Sami	7,431,291	23.11%
<i>Ensio Sami</i>	<i>5,257,531</i>	<i>16.35%</i>
<i>Minor under guardianship</i>	<i>724,588</i>	<i>2.25%</i>
<i>Minor under guardianship</i>	<i>724,586</i>	<i>2.25%</i>
<i>Minor under guardianship</i>	<i>724,586</i>	<i>2.25%</i>
2. Tilman Tuomo Tapani	2,797,169	8.70%
<i>Tilman Tuomo Tapani</i>	<i>2,747,492</i>	<i>8.54%</i>
<i>Mpire Capital Oy</i>	<i>49,677</i>	<i>0.15%</i>
3. Salminen Jyrki Kalle Tapio	2,611,149	8.12%
4. Laiho Rami Tapani	1,419,215	4.41%
5. Linturi Kaija ja Risto	1,271,411	3.95%
<i>R. Linturi Oyj</i>	<i>504,107</i>	<i>1.57%</i>
<i>Linturi Kaija Anneli</i>	<i>430,000</i>	<i>1.34%</i>
<i>Linturi Risto Erkki Olavi</i>	<i>337,304</i>	<i>1.05%</i>
6. Lampi Mikko Olavi	996,758	3.10%
7. Ärje Matias Juhanpoika	946,278	2.94%
8. Mäki Antti-Jussi	930,201	2.89%
9. Muukkonen Teemu	501,468	1.56%
10. Kukkonen Heikki-Harri	349,021	1.09%
11. Järvenpää Janne-Olli	322,804	1.00%
12. Bergqvist J.T.	309,204	0.96%
13. Jokinen Klaus Antero	300,001	0.93%
14. Laiho Jari Olavi	270,000	0.84%
15. Ementor Norge As	269,299	0.84%
16. Karppinen Antti Sakari	194,131	0.60%
17. Insurance company Henki-Fennia	150,000	0.47%
18. Muurinen Hannu Olavi	125,750	0.39%
19. Tiirikainen Vesa Martti	125,750	0.39%
20. Nurmi Mika Tapio	121,053	0.38%

Board of Directors and the Company's Management

Board of Directors

In 2014, the members of the Innofactor Plc's Board of Directors were:

- ▶ Pyry Lautsuo (Chairman, in the Board until November 9, 2014)
- ▶ Sami Ensio (Chairman since November 9, 2014)
- ▶ J.T. Bergqvist (in the Board since March 20, 2014)
- ▶ Juha Koponen (in the Board since March 20, 2014)
- ▶ Jukka Mäkinen
- ▶ Ilari Nurmi
- ▶ Pekka Puolakka (in the Board until March 20, 2014)
- ▶ Tiia Tuovinen (in the Board since March 20, 2014)

The Board members for Innofactor Group's Finnish companies are the Group CEO Sami Ensio (Chairman) and CFO Janne Martola, with General Counsel Katja Tammelin as a deputy member.

The Board members for Innofactor Group's Danish companies are the Group CEO Sami Ensio (Chairman), CFO Janne Martola, and Christian Andersen.

The Board members for Innofactor Group's Swedish company are the Group CEO Sami Ensio (Chairman), CFO Janne Martola, and Staffan Arbring.

CEO and Managing Directors

Innofactor Plc's CEO is Sami Ensio.

Ensio is also the Managing Director of the Innofactor Group's Finnish companies Innofactor Software Ltd, Innofactor SW Ltd, Innofactor CS Ltd, Innofactor VM Ltd, Venenum Ltd, and Soloplus Ltd. The Managing Director of Innofactor Business Solutions Ltd is Juha Rokkanen. The Managing Director of Innofactor Group's Danish companies Innofactor A/S, Innofactor Business Solution ApS, Innofactor holding ApS, and Enabling holding ApS is Christian Andersen. The Managing Director of Innofactor Group's Swedish company Innofactor AB is Staffan Arbring.

Executive Board

In 2014, the Innofactor Group's Executive Board consisted of

- ▶ Sami Ensio, CEO and Chairman of the Executive Board
- ▶ Christian Andersen, Country Manager in Denmark
- ▶ Heikki Jekunen, Director of Product and Service Business
- ▶ Elina Jokinen, HR Vice President
- ▶ Mikko Karvinen, CFO and Deputy CEO (until April 30, 2014)
- ▶ Mikko Lampi, deputy for the Vice President of the Finland's SI Business and Vice President of the Customer Solutions Business Unit
- ▶ Janne Martola, International System Integrator Operations and Acquisitions (until July 9, 2014), CFO and Deputy CEO (since July 9, 2014)
- ▶ Ingrid Peura, Vice President responsible for Group Communications and Brand Management (until October 1, 2014)
- ▶ Tiina Pulli, CFO (May 1 to July 8, 2014)
- ▶ Juha Rokkanen, Country Manager in Finland

Auditor

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

Board of Directors' Proposal on the Distribution of Profits

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 Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) that exceeds 10%, the maximum dividend allowed by the state of the business. For 2014, EBITDA was 9.3%. 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 2014, the distributable assets of the Group's parent company were EUR 36,555,724.64.

The Board of Directors proposes that no dividend be distributed for the financial period of 2014.

Key Figures per Share

	2014	2013
Earnings per share (EUR)	0.0563	0.0432
Equity/share attributable to the shareholders of the parent company (EUR)	0.706	0.635
Highest price of the share (EUR)	1.59	1.83
Lowest price of the share (EUR)	0.75	0.46
Market value of the shares (EUR thousand)	24,758	38,945
Turnover of shares (pcs)	6,449,837	11,609,606
Turnover of shares (%)	20.1	35.6
Weighted average of the number of shares during the financial period	32,126,456	32,589,585
Number of shares at the end of financial period	32,153,737	30,909,052

Comprehensive Consolidated Profit and Loss Statement, IFRS

EUR thousand	Note	2014	2013
Net sales	4	44,119	32,685
Other operating income		337	321
Materials and services		-4,141	-2,542
Employee benefits/expenses (-)	7	-30,349	-22,576
Depreciation (-)	6	-1,387	-1,029
Other operating expenses (-)	5	-5,859	-4,604
Operating profit		2,720	2,255
Financial income	9	541	769
Financial expenses (-)	10	-1,002	-1,161
Profit before taxes		2,259	1,863
Income taxes	11	-452	-456
Profit for the period		1,807	1,407
Other comprehensive income			
Items that may be later transferred into profit or loss:			
Exchange differences		-1	-3
Total comprehensive income		1,806	1,404
Distribution of the profit and comprehensive income			
To shareholders of the parent company		1,806	1,404
Earnings per share calculated from the profit attributable to equity holders of the parent:			
basic earnings per share (EUR)	12	0.0563	0.0432
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 Innofactor SW Oy's old option programs will be replaced with a new share-based performance bonus system.

Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2014	Dec 31, 2013
ASSETS			
Non-current assets			
Other tangible assets	13	690	868
Goodwill	14	19,584	19,335
Other intangible assets	14	3,407	3,916
Deferred tax assets	15	7,175	7,604
		30,856	31,723
Current assets			
Trade and other receivables	16, 20	15,782	13,957
Cash and cash equivalents	17	997	991
		16,779	14,948
TOTAL ASSETS		47,635	46,671

Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2014	Dec 31, 2013
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to the shareholders of the parent company			
Share capital	18	2,100	2,100
Share premium reserve	18	72	72
Reserve fund	18	59	59
Fund for invested unrestricted equity	18	14,995	13,427
Hybrid bond		3,200	3,200
Retained earnings		2,287	767
Total shareholders' equity		22,713	19,626
Non-current liabilities			
Loans from financial institutions		7,705	10,035
Deferred tax liabilities	15	845	887
		8,550	10,922
Current liabilities			
Trade and other payables	21	13,335	14,121
Tax liabilities based on the taxable profit for the financial period		104	82
Current financial liabilities		2,933	1,920
		16,372	16,123
Total liabilities		24,922	27,045
Total shareholders' equity and liabilities		47,635	46,671

Consolidated Cash Flow Statement, IFRS

EUR thousand	Note	2014	2013
Cash flow from operating activities			
Operating profit		2,720	2,255
Adjustments:			
Depreciation	22	1,387	1,029
Non-cash transactions		142	-278
Changes in working capital:			
Change in trade or other receivables (+/-)		-1,697	-1,495
Change in trade and other payables (+/-)		252	529
Interests paid (-)		-503	-681
Interests received		0	10
Total cash flow from operating activities		2,301	1,369
Investment cash flow			
Acquisition of subsidiaries		0	-2,450
Investments in intangible and tangible assets (-)		-690	-365
Total cash flow from investments		-690	-2,815
Cash flow from financing			
Loans withdrawn		267	4,554
Issuing a hybrid bond		0	3,200
Loans paid		-1,584	-2,642
Purchase of treasury shares (-)		0	-3,331
Interest payments on the hybrid bond		-288	0
Total cash flow from financing		-1,605	1,781
Change in cash and cash equivalents (+/-)		6	335
Cash and cash equivalents, opening balance		991	656
Cash and cash equivalents, closing balance		997	991

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 shareholders' equity
Shareholders' equity Jan 1, 2014		2,100	72	59	13,427	0	768	3,200	19,626
Comprehensive income									
Profit for the financial period							1,807		1,807
Other comprehensive income:									
Exchange differences							-1		-1
Total comprehensive income		0	0	0	0	0	1,806		1,806
Transactions with shareholders									
Share issue					1,568		0		1,568
Transactions with shareholders in total		0	0	0	1,568	0	0		1,568
Interest payments on the hybrid bond							-288		-288
Shareholders' equity Dec 31, 2014		2,100	72	59	14,995	0	2,287	3,200	22,713

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 shareholders' equity
Shareholders' equity Jan 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:									
Exchange differences							-3		-3
Total comprehensive income		0	0	0	0	0	1,404		1,404
Transactions with shareholders									
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 Dec 31, 2013		2,100	72	59	13,427	0	768	3,200	19,626

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 focused on Microsoft solutions in the Nordic Countries. Innofactor delivers to its customers IT projects as a system integrator and develops its own software products and services.

A copy of the consolidated financial statements is available at the company's Internet address www.innofactor.com or at the head office, address Keilaranta 9, 02150 Espoo, Finland.

Innofactor Plc's Board of Directors has approved these financial statements for publishing in its meeting on February 23, 2015. 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, 2014. 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, 2014, the Group has applied the following new and amended standards and interpretations:

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.

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.

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 changes in the standard have not had significant impact on the consolidated financial statements.

The Group will introduce the following standards on January 1, 2015, or on later financial periods, provided that the EU approves them.

Annual Improvements Made to the IFRS Standards

Annual Improvements made to the IFRS standards in 2010-2012 and 2011-2013 (to be applied mainly on financial periods starting on July 1, 2014, or later) and 2012-2014 (to be applied on financial periods starting on January 1, 2016, or later). Through the Annual Improvements procedure, small and less urgent changes are collected into a whole, which will be implemented once a year. The effects of the changes vary by standards. The changes are estimated to not have a significant impact on the consolidated financial statements.

Amendment to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The change in the standard removes the method of depreciation and amortization of tangible assets that is based on the net sales and allows limited application of the method of depreciation and amortization based on the net sales for intangible assets. The changes are estimated to not have an impact on the consolidated financial statements.

Amendment to IAS 19 Employee Benefits

The changes in the standard clarify the accounting when a benefit-based arrangement requires payments from employees or third parties. The changes are estimated to not have an impact on the consolidated financial statements.

Amendment to IFRS 11 Joint Arrangements

The change in standard requires applying the accounting principles of combining business operations for joint arrangements, when business arrangements are concerned. The changes are estimated to not have an impact on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

The new IFRS 15 standard includes five-step instructions for recognizing sales profits received on the basis of customer contracts. The sales profit is recognized when the control over the goods or services to be sold has been transferred to the customer. The revenue recognition model includes instructions that are clearly more detailed than the current IAS 11 Construction Contracts and IAS 18 Revenue. Also the requirements for notes are significantly increased. The Group is in the process of estimating the effects of the standard.

IFRS 9 Financial Instruments

The new IFRS 9 standard replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 changes the classification and valuation of financial assets and includes a new model, based on expected credit losses, for estimating depreciation of financial assets. Classification and valuation of financial liabilities correspond for the main part to the requirements of current IAS 39. For hedge accounting, there are still three hedge accounting types. More risk positions than before can be included in hedge accounting and principles of hedge accounting have been unified with risk management. The Group is in the process of estimating the effects of the standard.

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

Segment Structure

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

Subsidiaries

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

Mutual holdings in the Group are eliminated using the acquisition cost method. The consideration transferred and the acquired company's identifiable assets and assumed liabilities are measured at fair value at the acquisition date. The acquisition costs, excluding the costs to issue debt or equity securities, have been recognized as a cost. The consideration transferred does not include transactions treated separately from the acquisition. The impact of these is recognized in profit or loss in connection with the acquisition. Possible contingent additional consideration has been measured at fair value at the acquisition date and has been classified as liability or equity. Contingent additional consideration classified as debt is measured at fair value at 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 is calculated using the straight-line method over the estimated useful lives. The estimated useful lives are as follows:

Machinery and equipment 3-10 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 original acquisition 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 2013 and 2014, 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. Depreciations 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 based on other lease agreements are recognized as costs in profit or loss in equal installments during the lease period. Incentives received have been deduced 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 whose cash flows can be separated from and are largely independent of the cash flows of other corresponding units.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

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

An impairment loss is recognized, if the carrying amount of the asset is higher than its recoverable amount. The impairment loss is recognized immediately in profit or loss. An impairment loss of a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets of the unit pro rata. The useful life of the depreciated asset is re-evaluated in connection with the recognition of an impairment loss. An impairment loss recognized for an asset other than goodwill is reversed, if a change has taken place in the estimates used to determine the recoverable amount of the asset. However, the maximum reversal of an impairment loss amounts to the carrying amount of the asset had no impairment loss been recognized. An impairment loss recognized for goodwill is not reversed in any situation. No impairment losses were recognized in 2013 and 2014.

Employee Benefits

Pension Obligations

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

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

Share-Based Payments

The Group has incentive 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 arrangements on profit or loss is recognized under employee benefit expenses, the counter item being retained earnings.

The expense determined at the time of issuing the options 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 is determined on the basis of the Black-Scholes option pricing model.

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

Taxes Based on Taxable Income and Deferred Taxes for the Financial Period

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

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

The largest temporary differences arise from the depreciation of 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.

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 are 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.

Derivative Agreements

Initially, derivative agreements are recognized at fair value on the date when the Group becomes a party of the agreement, and later they will continue to be valued at fair value. Profit and loss for valuing at fair value are treated in the accounting in a way defined by the purpose of use of the derivative agreements. Hedge accounting has not been applied to the derivative agreement.

Shareholders' Equity

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

Operating Profit

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 used estimates and assumptions are sufficiently exact for determining fair value. In addition, the Group examines at every closing date or, if necessary, more frequently if there are any 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 2014

There are no new business acquisitions during the financial period 2014.

Acquisitions in the Financial Period 2013

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 portion 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 cost 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	28
Acquired customer relationships	220
Trade and other receivables	638
Cash and cash equivalents	127
Total assets	1,014
Financial liabilities at market value	422
Other payables *)	490
Total liabilities	912
Net assets	102
Acquisition cost	3,134
Adjustment of the additional purchase price	-400
Goodwill	3,032
*) includes a deferred tax liability of 44	
Purchase price paid in cash	40
Cash and cash equivalents of the acquired subsidiary	127
Rahavirtavaikutus	+87

The value of the 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 of EUR 3,032 thousand. The goodwill 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.

The amendment of the additional purchase price made during the review period and related to the acquisition, EUR 400 thousand, has been taken into account in the calculation based on the estimated final purchase price that has been updated during the review period. The acquisition cost calculation is preliminary.

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 was 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 agreed minimum purchase price of the shares was the EUR 1,200 thousand already paid and the maximum was EUR 2,500 thousand. Of the rest of the purchase price, EUR 0-1,300 thousand, 45% was intended to be paid in cash and 55% in Innofactor shares. Prerequisites entitling to an additional purchase price did not realize, so the remaining part of the purchase price, based on the realized operating margin (EBITDA) of June 1, 2013-May 31, 2014, is EUR 0.

Along with Innofactor, atBusiness Oy has been one of the 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 made Innofactor one of the five largest Nordic providers focused on Microsoft technologies. The new size gives 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 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. In 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 final acquisition cost 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	16
Intangible assets	2,458
Deferred tax asset	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 payables	3,538
Total liabilities	17,245
Net assets	-11,004
Acquisition cost	2,500
Adjustment of the additional purchase price	1,300
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 348.

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

- consideration transferred and
- 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 of the acquisition, after taking into account the deferred taxes, is EUR 13,504 thousand. The goodwill 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 based on 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.

Note 4. Net Sales

EUR thousand	2014	2013
Revenue from services	24,937	18,036
Revenue recognized from long-term projects	19,182	14,649
Total	44,119	32,685

From long-term projects in progress at the balance sheet date, a total of EUR 14.5 million (2013: EUR 9.2 million) of realized revenues had been recognized.

For advance payments for long-term projects in progress the balance sheet included EUR 527 thousand on December 31, 2014, (EUR 95 thousand on December 31, 2013).

On January 1–December 31, 2014, about 82 percent of the net sales came from Finland and about 18 percent from Denmark.

Net Sales by Country

EUR thousand	2014	2013
Finland	35,944	28,253
Rest of Europe	8,175	4,432
Total net sales	44,119	32,685

Note 5. Other Operating Expenses

EUR thousand	2014	2013
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The following table shows four of the most significant items included in other operating expenses:

Business premises expenses	1,679	1,381
Voluntary indirect employee costs	654	521
Impairments of receivables	474	0
Marketing expenses	459	375
Total	3,266	2,277
Other unspecified operating expenses	2,593	2,327
Other operating expenses, total	5,859	4,604

Remuneration of the Auditors

EUR thousand	2014	2013
Auditing	100	97
Certificates and declarations	7	26
Tax consultancy	53	9
Other services	43	14
Total	203	146

Note 6. Depreciation, Amortization and Impairment

EUR thousand	2014	2013
Depreciation by asset group		
Intangible assets	612	712
Total	612	712
Tangible assets		
Machinery and equipment	775	317
Total	775	317
Total depreciation	1,387	1,029

Note 7. Employee Benefits/Expenses

EUR thousand	2014	2013
Wages and salaries	25,250	18,795
Pension expenses – defined contribution plans	4,119	3,013
Other indirect employee costs	980	768
Total	30,349	22,576

Group's personnel	2014	2013
Average in the financial period	421	307
At the end of the financial period	411	416

Information on management benefits in Note 26 Related Party Transactions.

Note 8. Research and Development Costs

The research and development costs recognized as expenses totaled EUR 1,981 thousand in 2014 (EUR 2,067 thousand in 2013).

Note 9. Financial Income

EUR thousand	2014	2013
Interest income	0	10
Other financial income	541	759
Total	541	769

“Other financial income for 2014 included financial income of EUR 541 thousand for the additional purchase price related to the acquisition. Other financial income for 2013 included financial income of EUR 758 thousand for the additional purchase price related to the acquisition.”

Note 10. Financial Expenses

Items recognized in profit or loss

EUR thousand	2014	2013
Interest expenses	-602	-681
Other financial expenses	-400	-480
Total financial expenses	-1,002	-1,161

"Other financial expenses for 2014 included a financing cost reserve of EUR 400 thousand for the additional purchase price related to the acquisition. Other financial expenses for 2013 included a financing cost of EUR 480 thousand for the additional purchase price related to the acquisition."

Note 11. Income Taxes

EUR thousand	2014	2013
Current income tax liabilities	-104	-82
Deferred tax related to temporary differences	-348	-126
Deferred tax related to change in the tax rate	0	-248
Total	-452	-456

Reconciliation between the income tax expense and the taxes calculated at the 20.0% tax rate valid in the Group's home country.

EUR thousand	2014	2013
Earnings before taxes	2,259	1,863
Taxes calculated at the domestic tax rate	-452	-456
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	0
Tax in the profit and loss statement	-452	-456

The tax rate used in the calculation of deferred taxes is the Finnish tax rate at the end of the financial period, which is 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.

	2014	2013
Profit for the year attributable to shareholders of the parent company (EUR)	1,807,220	1,406,298
Weighted average number of shares during the financial period	32,126,456	32,589,585
Basic earnings per share (EUR/share)	0.0563	0.0432

Note 13. Tangible Assets

EUR thousand	Machinery and equipment	Total
Acquisition cost, January 1, 2014	1,794	1,794
Additions in 2014	597	597
Acquisition costs, December 31, 2014	2,391	2,391
Accumulated depreciation, amortization and impairment, January 1, 2014	-926	-926
Depreciation in 2014	-775	-775
Carrying amount, January 1, 2014	868	868
Carrying amount, December 31, 2014	690	690
Acquisition cost, January 1, 2013	1,060	1,060
Additions	323	323
Business combination	411	411
Acquisition costs, December 31, 2013	1,794	1,794
Depreciation	-926	-926
Carrying amount, January 1, 2013	451	451
Carrying amount, December 31, 2013	868	868

Note 14. Intangible Assets

EUR thousand	Goodwill	Other intangible assets	Total
Acquisition cost, January 1, 2014	19,523	5,379	24,902
Additions in 2014	249	103	352
Acquisition cost, December 31, 2014	19,772	5,482	25,254
Accumulated depreciation, amortization and impairment, January 1, 2014	-188	-1,463	-1,651
Depreciation, amortization and impairment in 2014	0	-612	-612
Accumulated depreciation, amortization and impairment, December 31, 2014	-188	-2,075	-2,263
Carrying amount, January 1, 2014	19,335	3,916	23,251
Carrying amount, December 31, 2014	19,584	3,407	22,991
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

Intangible Assets

Impairment Testing

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

In impairment testing, all the Group's 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 8.1% (2013: 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 2014 and 2013.

According to the sensitivity analysis that the Group carried out on goodwill, a decrease of 7% in the net sales compared to the estimated net sales of 2015 or a decrease of 49% in profitability compared with the estimated net sales of 2015 would indicate a need for impairment. On the basis of the sensitivity analysis, an increase of the discount rate to 17.5% would cause a need for impairment.

Recognition of Goodwill

EUR thousand	2014	2013
Software business	19,584	19,335
Goodwill	19,584	19,335

Note 15. Deferred Tax Assets and Liabilities

Changes in deferred taxes in 2014:

EUR thousand	Dec 31, 2013	Recognized in profit or loss	Recognized in comprehensive income	Recognized in equity	Reclassified from equity to profit and loss statement	Translation differences	Acquired/sold operations	Dec 31, 2014
Deferred tax assets								
From Group combinations and confirmed losses	7,952	-428	0	0	0	0	0	7,524
Effect of changes in tax rates on deferred taxes *	-349	0	0	0	0	0	0	-349
Total	7,604	-428	0	0	0	0	0	7,175

Deferred tax liabilities

Measurement of intangible assets and tangible assets at market value in

business combinations	-884	0	0	0	0	0	0	-884
From combination transactions	-135	42	0	0	0	0	0	-93
Effect of changes in tax rates on deferred taxes	132	0	0	0	0	0	0	132
Total	-887	42	0	0	0	0	0	-845

* 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 2013:

EUR thousand	Dec 31, 2012	Recognized in profit or loss	Recognized in comprehensive income	Recognized in equity	Reclassified from equity to profit and loss statement	Translation differences	Acquired/sold operations	Dec 31, 2013
Deferred tax assets								
From Group combinations and confirmed losses	7,775	177	0	0	0	0	0	7,952
Effect of changes in tax rate 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 market 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 rate on deferred taxes	39	93	0	0	0	0	0	132
Yhteensä	-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.

Note 16. Trade and Other Receivables

EUR thousand	2014	2013
Trade and other receivables		
Trade receivables	10,334	8,400
Receivables from customers for long-term projects	4,852	4,971
Loan receivables	153	194
Accrued income	443	392
Total	15,782	13,957

EUR thousand	2014	2013
Breakdown of trade receivables by age		
Not past due	8,589	6,825
Past due		
Past due 1-30 days	1,069	1,141
Past due over 30 days	676	434
Total	10,334	8,400

The Group's sales receivables and project receivables (receivables for long-term projects from customers), a total of EUR 15.2 million, includes a total of about EUR 2 million of receivables for which the valuation may include some uncertainty. No other 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. The principles for managing credit risks are described in Note 20.

Note 17. Cash and Cash Equivalents

Cash and cash equivalents as per cash flow statement:

EUR thousand	2014	2013
Bank accounts	997	991
Total	997	991

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

Note 18. Notes Concerning Shareholders' Equity

EUR thousand	Number of shares (1,000)	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Hybrid bond	Treasury share	Total
Dec 31, 2012	30,166	2,100	72	59	8,834	0	-129	10,936
Share issue	5,993	0	0	0	4,593		0	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
Dec 31, 2013	30,909	2,100	72	59	13,427	3,200	0	18,859
Share issue	1,245				1,568			1,568
Dec 31, 2014	32,154	2,100	72	59	14,995	3,200	0	20,427

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

Dividends

No dividends were distributed in 2014. The Board of Directors has proposed that no dividends be distributed for the financial period of January 1–December 31, 2014.

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 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). According to the authorization, shares may be acquired from the sellers of atBusiness Oy 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 treasury shares 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 financial period of 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.

Innofactor Plc canceled these treasury shares during the financial period of 2013 and had no treasury shares on December 31, 2014.

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 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, 2014, the Group has a share-based incentive scheme implemented in January 1–December 31, 2010, and directed to the key personnel of Innofactor SW Ltd (old Innofactor Ltd). In accordance with the terms and conditions of the incentive schemes,

the options are given without monetary compensation. All the incentive schemes of the Group are conditional. The essential conditions of the schemes, such as vesting conditions, are presented in the table 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	July 1, 2009–July 1, 2014	July 1, 2011–July 1, 2016
Series 2	July 1, 2010–July 1, 2014	July 1, 2012–July 1, 2016
Series 3	July 1, 2011–July 1, 2014	July 1, 2013–July 1, 2016
Series 4	July 1, 2012–July 1, 2014	July 1, 2014–July 1, 2016
Vesting conditions	Employment until subscription date	Employment until subscription date
Implementation	As shares	As shares

* Subscription time for type C options ended on July 1, 2014. At the end of the financial period, there is 0 options of type C and no subscriptions have been made by the end of the option scheme.

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:

	2014		2013	
	Exercise price, weighted average EUR/share	Number of options	Exercise price, weighted average EUR/share	Number of options
Beginning of financial period	4.2	61,625	4.2	101,400
Granted new options	0	0	0	0
Exercised options	0	0	0	0
Returned options	3	-18,425	3	-16,700
End of financial period	6.0	43,200	4.2	84,700
Exercisable options at the end of the financial period	6.0	43,200	1.8	61,625

The table below 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 (vuosina)	Number of shares
2014	6.0	1.5	43,200
2013	1.5–6.0	1.5	84,700

Determination of Fair Value

The company has 4 series in the option scheme D. The determination of the fair value has been performed 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 2014 and 2013:

Scheme	D	
	2014	2013
Expected volatility	35%	35%

Expected contractual life of the option at granting date (years)

Series 1	3.0	3.0
Series 2	3.5	3.5
Series 3	4.0	4.0
Series 4	4.5	4.5

Risk-free interest

Series 1	1.43%	1.43%
Series 2	1.79%	1.79%
Series 3	1.79%	1.79%
Series 4	2.15%	2.15%

Expected dividends (dividend yield)	5.5%	5.5%
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Fair value of the instrument determined at granting date

Series 1	0.003	0.003
Series 2	0.006	0.006
Series 3	0.009	0.009
Series 4	0.013	0.013

Note 20. Financial Risk Management

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

Interest Risk

At the closing date, the company had a fluctuating rate bank loan totaling EUR 10.4 million (EUR 12.0 million). In 2013, Innofactor withdrew 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.

The company has been subjected to the cash flow interest risk through the loan portfolio. The goal of the company's risk management as concerns the interest risk is to minimize the negative impacts of interest rate changes on the company's result. As the implementation method for interest risk management, the company uses various protective interest instruments. The average interest rate of the loans was 4.1 percent (3.5%).

The realized average balances of the fluctuating rate loans during the financial period have been used in the sensitivity analysis. At the closing date, the effect of the fluctuating rate interest-bearing loans on the result before taxes would have been +/- EUR 115 thousand (EUR 94 thousand) had the interest rate been increased or decreased by 1 percentage point.

Credit Risk

Credit risk management and credit control have been concentrated in 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 Group has not used credit insurance to guarantee receivables. The aging analysis of the trade receivables is presented in Note 16 Trade and Other Receivables.

Risks Related to the Cash Position

The Group continually estimates and monitors the amount of financing required for the 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
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Dec 31, 2014

Maturity distribution of financial liabilities

Loans from financial institutions

	10,638	1,634	1,299	7,705
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Trade and other payables

	13,439	10,589	2,850	0
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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. Decisions of the General Meeting and authorizations it has granted to the Board of Directors are presented in section "Share and shareowners" of the Annual Report. 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.

	2014	2013
Interest-bearing liabilities	10,638	11,955
Cash and cash equivalents	- 997	-991
Total shareholders' equity	22,713	19,626
Net gearing	42.4%	55.9%

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 40% 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 3.0 in the financial statement of December 31, 2014, and a maximum of 3.0 on the check point of 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.

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. These value correspond with the consolidated balance sheet values.

EUR thousand	Note	Dec 31, 2014		Dec 31, 2013	
		Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	16	15,782	15,782	13,957	13,957
Cash and cash equivalents	17	997	997	991	991
Total		16,779	16,779	14,948	14,948
Loans from financial institutions		10,638	10,638	11,955	11,955
Trade and other payables		13,236	13,236	14,121	14,121
Interest rate swap agreements, not in hedge accounting *)		99	99	0	0
Deferred tax liabilities	15	845	845	887	887
Tax liabilities based on the taxable profit for the financial period		104	104	82	82
Total		24,922	24,922	27,045	27,045

*) fair value hierarchy level 2

Derivatives

Fair value of derivative agreements has been defined based on available market information.

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

	2014	2013
Non-cash transactions		
Depreciation	1,387	1,029
Adjustments of the additional purchase price	142	-278
Total	1,529	751

Note 23. Other Leases

Group as Lessee

The Group leases all the premises it uses. The average lease period is 2–4 years, normally with an option to renew the lease after the original date of expiry.

Minimum lease payments paid on non-cancellable other leases:

EUR thousand	2014	2013
Within one year	1,268	1,608
Within more than one but less than five years	3,588	4,702
Total	4,856	6,310

In 2014, the amount of lease payments based on other leases recognized in profit or loss was EUR 1,679 thousand (EUR 1,381 thousand in 2013).

Note 24. Financial Liabilities

EUR thousand	2014	2013
Non-current financial liabilities measured at amortized cost		
Operating lease liabilities	234	313
Total	234	313
Current financial liabilities measured at amortized cost		
Operating lease liabilities	262	393
Total	262	393

Due Dates of Operating Lease Liabilities

EUR thousand	2014	2013
Within one year	262	393
Within more than one but less than five years	234	313
Total	496	706

Note 25. Contingent Liabilities and Assets and Acquisition Commitments

EUR thousand	2014	2013
Collateral given for own commitments		
Collateral for rent	90	490
Mortgages on company assets *	16,250	16,250
Mortgages on company assets have been given as collateral for the credit limit and a loan.		
Bank guarantees	303	283
Bank guarantee has been given as collateral for rental agreements.		

* Of the mortgages on company assets, EUR 1,250 thousand was in the company's possession on December 31, 2014. The accrued interest on the hybrid bond was EUR 9 thousand on December 31, 2014.

Disputes, Litigations and Other Issues Requiring Clarification

The Group has no essential open or ongoing disputes or litigations, except one ongoing disagreement on interpretation of terms of an agreement with a customer.

A tax inspection was carried out in the Group in 2013. The tax inspection report received in 2014 indicates that an adjustment on the Group's income tax is proposed. According to Innofactor's own view and an expert opinion, the observations of the tax inspection 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%
Innofactor Business Solutions ApS	Denmark	100%	100%
Innofactor AB	Sweden	100%	100%
Innofactor Software Ltd	Finland	100%	100%
Innofactor Business Solutions Ltd	Finland	100%	100%
Innofactor A/S	Denmark	100%	100%
Innofactor Holding ApS	Denmark	100%	100%
Innofactor SW Ltd	Finland	100%	100%
Innofactor CS Ltd	Finland	100%	100%
Innofactor VM Ltd	Finland	100%	100%
Soloplus Ltd	Finland	100%	100%
Venenum Ltd	Finland	100%	100%

Management's Employment Benefits

EUR thousand	2014	2013
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	1,714	1,663
Total	1,714	1,663

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

EUR thousand	2014	2013	
Salaries and fees paid to the CEO and Board Members			
CEO	478	268	
Board members and deputy members			
Lautsuo Pyry	Chairman of the Board of Directors	33	36
Bergqvist J.T.	Board Member	21	0
Koponen Juha	Board Member	3	24
Mäkinen Jukka	Board Member	24	24
Nurmi Ilari	Board Member	24	21
Puolakka Pekka	Board Member	3	24
Tuovinen Tiia	Board Member	21	0
Total	607	397	

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.

Transactions with Related Parties, EUR thousand		Dec 31, 2014	Dec 31, 2013
Hybrid bond	Board member Jukka Mäkinen through his company	100	100

Note 27. Events After the Closing Date

On January 1, 2015, Innofactor announced in a stock exchange release that after discussing with other major owners, Innofactor's Chairman of the Board, Sami Ensio, has given the Board of Directors of the company a proposal for the Annual General Meeting of 2015, according to which the Board of Directors will propose to the Annual General Meeting the following: The Board of Directors shall consist of six (6) members and the following persons shall be elected for the next period, which will end as the General Meeting of 2016 ends.

J.T. Bergqvist, Sami Ensio, Jukka Mäkinen and Ilari Nurmi are proposed to be re-elected. Pekka Puolakka and Ari Rahkonen are proposed to be elected as new members. Based on his discussions with major owners and the persons proposed to be elected to the Board of Directors, Sami Ensio states that the members of the Board of Directors support the motion of electing Ari Rahkonen as the new Chairman.

The Board of Directors will propose that the Chairman of the Board of Directors shall be paid a fee totaling EUR 48,000 per year (previously EUR 36,000) and the other members of the Board of Directors shall be paid a fee totaling EUR 24,000 per year (same as before). 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, 2015. In case shares will not be acquired due to a reason arising from the company or the Board member, the entire fee will be paid in cash. 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 Board of Directors decided to assign Ari Rahkonen, who is a nominee for the Chairman of the Board, as Innofactor Plc's advisor until the next General Meeting. Rahkonen was the CEO of Microsoft Oy until December 31, 2014.

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

Parent Company Financial Statements, FAS

EUR

PARENT COMPANY FINANCIAL STATEMENTS	Note	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
		12 months	12 months
NET SALES	11	3,560,675	2,507,927
Other operating income	2	56,530	157,682
Personnel expenses	3	-2,135,400	-1,779,235
Depreciation			
Planned depreciation	4	-7,503	-1,974
Other operating expenses		-1,558,131	-786,044
OPERATING PROFIT		-83,830	98,356
Financial income and expenses	5		
Interest and financial income		1,316,912	741,700
Interest and other financial expenses		-467,892	-271,731
EARNINGS BEFORE EXTRAORDINARY ITEMS		765,190	568,324
Extraordinary items			
Extraordinary income	6	1,500,000	2,579,523
PROFIT FOR THE FINANCIAL PERIOD		2,265,190	3,147,847

Parent Company Balance Sheet, FAS

EUR

ASSETS	Note	Dec 31, 2014	Dec 31, 2013
NON-CURRENT ASSETS			
Intangible assets			
Intangible rights		4,333	0
Tangible assets			
Machinery and equipment	7	22,460	4,471
Investments			
Shares in group companies	8	29,470,805	18,570,805
TOTAL NON-CURRENT ASSETS		29,497,598	18,575,275
CURRENT ASSETS			
Receivables			
Short-term			
	9		
Trade receivables		4,199,958	3,110,590
Other receivables		20,151,023	29,686,167
Accrued income		2,035,124	3,015,630
Cash and bank receivables		246,397	445,439
TOTAL CURRENT ASSETS		26,632,502	36,257,826
ASSETS		56,130,100	54,833,102
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		21,740,371	20,172,067
Profit from the previous financial periods		12,550,164	9,402,317
Profit/loss for the financial period		2,265,190	3,147,847
Total shareholders' equity		40,655,725	36,822,232
LIABILITIES			
	11		
Non-current			
Loans from financial institutions		2,308,938	3,153,646
Hybrid bonds		3,200,000	3,200,000
Current			
Loans from financial institutions		844,708	422,354
Trade payables		41,330	287,955
Other payables		6,951,727	5,992,505
Accrued expenses		2,127,672	4,954,410
Total liabilities		15,474,375	18,010,870
LIABILITIES		56,130,100	54,833,102

Parent Company Cash Flow Statement

EUR

	Jan 1–Dec 31, 2014	Jan 1–Dec 31, 2013
Cash flow from operating activities		
Operating profit/loss	-83,830	98,356
Adjustments:		
Depreciation	7,503	1,782
Non-cash transactions	1,092,519	5,649,240
Change in working capital		
Change in trade or other receivables	-465,683	-11,365,963
Change in trade and other payables	990,919	6,484,732
Interests received	224,393	149,352
Paid interests and other financial expenses	-436,346	-271,731
Total cash flow from operating activities	1,329,474	745,767
Cash flow from investments		
Investments in subsidiary shares	0	-240,403
Reinforcement of the shareholders' equity of the subsidiaries	-900,000	-2,702,030
Investments in fixed assets	-29,825	-1,352
Total cash flow from investments	-929,825	-2,943,785
Cash flow before financing	399,650	-2,198,019
Cash flow from financing		
Changes in short-term and long-term loans	-422,354	7,200,000
Loans granted	-176,338	-1,549,000
Purchase of treasury shares	0	-3,331,031
Total cash flow from financing	-598,692	2,319,969
Change in cash and cash equivalents as per cash flow statement	-199,042	121,950
Change in cash and cash equivalents	-199,042	121,950
Cash and cash equivalents, opening balance	445,440	323,490
Cash and cash equivalents, closing balance	246,397	445,440

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 2014 have been prepared in accordance with the provisions of the Finnish Accounting Act (FAS).

Intangible and Tangible Assets

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

- intangible assets	3 years
- tangible assets	3–5 years

Securities Included in Financial Assets

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

Items in Foreign Currency

Items in foreign 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	2014	2013
Finland	3,067,629	2,371,896
Rest of Europe	493,046	136,031
Total net sales	3,560,675	2,507,927

2. Other operating income	2014	2013
Rental revenue	56,530	0
Compensation for damage	0	157,682
Other operating income	56,530	157,682

3. Personnel expenses	2014	2013
Wages and salaries	1,740,671	1,521,059
Pension expenses	305,886	203,259
Other indirect employee costs	88,844	54,916
Total personnel expenses	2,135,400	1,779,235

Management salaries and fees	606,844	396,726
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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.

Average number of personnel	18	13
-----------------------------	----	----

4. Planned depreciation	2014	2013
For intangible rights	2,167	0
For machinery and equipment	5,336	1,974
Total	7,503	1,974

5. Financial income and expenses	2014	2013
Interests and other financial income		
From companies of the group	1,316,361	741,104
From others	550	596
Total interests and other financial income	1,316,912	741,700
Interests and other financial expenses		
Interest expenses to others	-467,145	-105,074
Other financial expenses	-747	-166,657
Total interests and other financial expenses	-467,892	-271,731
Total financial income and expenses	849,019	469,969

6. Extraordinary income and expenses	2014	2013
Extraordinary income		
Group contribution	1,500,000	2,579,523
Total extraordinary income and expenses	1,500,000	2,579,523

Balance sheet notes (EUR)

7. Tangible assets	2014	2013
Intangible assets		
Opening balance	0	0
Increases during the financial period	6,500	0
Acquisition cost	6,500	0
Depreciation for the period	-2,167	0
Closing balance	4,333	0
Tangible assets		
Opening balance	4,471	5,092
Increases during the financial period	23,324	1,352
Acquisition cost	27,795	6,444
Depreciation for the period	-5,336	-1,974
Closing balance	22,460	4,471

8. Investments	2014	2013
Opening balance	18,570,805	13,447,724
Increases during the financial period	10,900,000	5,633,709
Decreases during the financial period	0	-510,628
Closing balance	29,470,805	18,570,805

Shares and holdings of the parent company

Subsidiary shares:	Domicile	Country	Carrying amount
Innofactor Software Ltd	Espoo	Finland	22,405,715
Innofactor Holding ApS	Copenhagen	Denmark	531,381
Innofactor Business Solutions Ltd	Espoo	Finland	3,400,000
Enabling Holding ApS	Copenhagen	Denmark	3,133,709
Oy Soloplus Ab	Helsinki	Finland	0
Innofactor SW Ltd	Espoo	Finland	0
Subsidiary shares in total			29,470,805

9. Receivables	2014	2013
Receivables from group companies:		
Trade receivables Innofactor Software Ltd	1,848,422	1,819,915
Trade receivables Innofactor A/S	179,170	81,565
Trade receivables Innofactor Business Solutions Ltd	1,902,095	1,062,803
Trade receivables Innofactor CS Ltd	49,906	62,338
Trade receivables Innofactor Business Solutions ApS	49,310	0
Trade receivables Innofactor Holding ApS	159,895	83,970
Accrued income, group contribution	12,904,136	24,493,913
Loan receivable Innofactor A/S	256,338	80,000
Loan receivable Innofactor Holding ApS	2,088,985	2,088,985
Capital loan receivable Innofactor Business Solutions Ltd	6,741,758	5,649,240
Receivables from group companies in total:	26,180,014	35,422,728

10. Shareholders' equity	2014	2013
Shareholders' equity, opening balance	2,100,000	2,100,000
Shareholders' equity, closing balance	2,100,000	2,100,000
Revaluation fund, opening balance	2,000,000	2,000,000
Revaluation fund, closing balance	2,000,000	2,000,000
Unrestricted shareholders' equity		
Fund for invested unrestricted equity, opening balance	20,172,067	15,579,395
Directed issue to the owners of atBusiness Oy	0	3,354,862
Directed issue to the owners of Bridgeconsulting	0	1,237,810
Directed issue to the owners of Enabling	1,568,303	0
Fund for invested unrestricted equity, closing balance	21,740,370	20,172,067
Profit/loss from the previous periods, opening balance	12,550,165	12,733,348
Cancellation of treasury shares	0	-3,331,030
Profit from the previous financial periods, closing balance	12,550,165	9,402,318
Result for the financial period	2,265,190	3,147,847
Total unrestricted shareholders' equity	36,555,725	32,722,232
Total shareholders' equity	40,655,725	36,822,232

Calculation of distributable funds	2014	2013
Result from the previous financial periods	12,550,165	12,733,348
Result for the financial period	2,265,190	3,147,847
Fund for invested unrestricted equity	21,740,370	20,172,067
Cancellation of treasury shares	0	-3,331,030
Total	36,555,725	32,722,232

11. Liabilities	2014	2013
Non-current liabilities		
Loans from financial institutions	2,308,938	3,153,646
Hybrid bonds	3,200,000	3,200,000
Total non-current liabilities	5,508,938	6,353,646
Current liabilities		
Loans from financial institutions	844,708	422,354
Trade payables	41,330	287,955
Other payables	719,593	575,371
Accrued expenses	2,127,672	4,954,410
Liabilities to group companies		
Loans Innofactor Software Ltd	6,232,134	5,417,134
Total current liabilities	9,965,437	11,657,224

12. Commitments and contingent liabilities	2014	2013
Bank guarantees		
Bank guarantee has been given as collateral for rental agreements	252,960	0
Lease liabilities		
To be paid on the next financial period	39,605	0
To be paid later	128,716	0
Total	168,321	0
Rental liabilities		
To be paid on the next financial period	1,025,238	0
To be paid later	3,588,334	0
Total	4,613,572	0
Mortgages on company assets as collateral for loan		
Mortgages on company assets as collateral for loan	4,000,000	4,000,000

Board of Directors' Proposal on the Distribution of Profits

At the end of the financial period of 2014, the distributable assets of Innofactor Plc are EUR 36,555,724.64. The Board of Directors proposes that no dividend be distributed for the financial period of 2014.

Company Shares

Innofactor Plc has one series of shares. The number of shares is 32,153,737. 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

Storing the Accounting Material

Innofactor Plc, Keilaranta 9, FI-02150 Espoo, Finland

SIGNATURES FOR THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Espoo, February 23, 2015

Sami Ensio
Chairman of the Board of
Directors and CEO

J.T. Bergqvist
Board Member

Jukka Mäkinen
Board Member

Ilari Nurmi
Board Member

Tiia Tuovinen
Board Member

AUDITOR'S NOTE

The report on the audit has been issued today.

Helsinki, February 23, 2015

Ernst & Young Oy
Authorized Public Accountant Firm

Juha Hilmola, APA

Additional Information

Shareholding

On December 31, 2014, Innofactor Plc had 11,287 shareholders including the administrative registers (9). The share of administratively registered shares was 8.5% of the total number of shares.

Distribution of shareholding at December 31, 2014

Shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-100	7,782	68.95	213,259	0.66
101-1 000	2,496	22.11	1,036,514	3.22
1 001-10 000	838	7.42	2,522,195	7.84
10 001-100 000	138	1.22	3,769,167	11.72
yli 100 000	33	0.29	24,612,602	76.55
Total	11,287	100.0	32,153,737	100.0

Shareholders by shareholder group December 31, 2014 (% of shares)

Other foreign	1.31
Administratively registered	8.50
Financial and insurance institutions	0.53
Enterprises	3.23
Public entities	0.00
Non-profit organizations	0.00
Private households	86.43
Total	100.00

Calculation of Key Figures

Percentage of return on equity:
$$\frac{\text{Profit or loss before taxes} - \text{Taxes}}{\text{Shareholders' equity}}$$
Percentage of return on investment:
$$\frac{\text{Profit or loss before taxes} + \text{Interest and other financial expenses}}{\text{Shareholders' equity} + \text{Interest bearing financial liabilities}}$$
Net gearing:
$$\frac{\text{Interest bearing liabilities} - \text{Cash funds}}{\text{Shareholders' equity}}$$
Equity ratio, %:
$$\frac{\text{Shareholders' equity}}{\text{Balance sheet total} - \text{Advances received}}$$
Result / Share:
$$\frac{\text{Profit before taxes attributable to equity holders of the parent} - \text{Taxes}}{\text{Average number of shares on the financial period adjusted after the share issue}}$$
Shareholders' equity / Share:
$$\frac{\text{Shareholders' equity attributable to equity holders of the parent}}{\text{Undiluted number of shares on the date of the financial statement}}$$

Auditor's report

To the Annual General Meeting of Innofactor Plc

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Innofactor Plc for the year ended 31 December, 2014. 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, 23 February 2015

Ernst & Young Oy, Authorized Public Accountant Firm

Juha Hilmola, Authorized Public Accountant





INNOFACTOR



INNOFACTOR[®]

Innofactor Plc
Keilaranta 9
FI-02150 Espoo, Finland

Tel. +358 10 272 9000
Fax. +358 010 272 9001
contact@innofactor.com
www.innofactor.com