INNOFACTOR®

Annual Report 2016

Puzzles challenge people's problem-solving ability and patience. The Innofactor Campus in Espoo is home to a collection of more than 2,000 different puzzles, which is the largest of its kind in the Nordic region. Puzzles are closely related to solution-oriented thinking, innovation and perseverance. We feel that these factors reflect Innofactor's Nordic spirit and values: the desire to solve the customer's challenges, innovation, empowerment, and trust in one's own abilities as well as the abilities of others.

Innofactor Plc Annual Report January 1 to December 31, 2016

Innofactor in Brief

Innofactor is a leading provider of digitalization and cloud solutions in the Nordic countries. Our task is to help our customers digitalize their business, promote a collaborative way of working, and develop business processes by utilizing intelligent cloud services. We offer our customers business-critical solutions, project deliveries and maintenance services, and develop our own software products and services. Our offering is focused on solutions for Microsoft ecosystem organizations, whose markets are growing faster than the IT market on average.

Our solutions are already being used by more than 1,500 organizations in the private, public, and membership-based organizations in the Nordic countries. We are a strong and valued partner. Our long-term customer relationships are evidence of the customers' trust in Innofactor. We utilize a proactive and flexible delivery model that creates added value and helps us establish a superior position in the market.

Innofactor employs more than 600 enthusiastic and motivated top professionals in Finland, Sweden, Denmark, and Norway. We are united by our desire to work on the front line of innovation and new technology. We take pride in our highly competent professionals and significantly invest in competence development. Our employees maintain and improve their professional skills by acquiring technological qualifications, such as Microsoft Certified Professional, and by participating in training provided by our own Innofactor Academy. Their high level of expertise is evidenced by the more than 1,600 individual Microsoft certificates in our organization.

Our net sales in 2016 amounted to EUR 59.6 million, up 34.1 percent from the previous year. Our operating margin (EBITDA) was EUR 4.8 million, or 8.1 percent of net sales. The five-year growth rate of our net sales in 2012–2016 was 28 percent annually on average (CAGR), and EBITDA averaged 8.3% of net sales in 2012–2016. The long-term goals specified in our strategy are to achieve annual organic growth of about 20 percent and an operating margin (EBITDA) of about 20 percent in relation to net sales, both by 2020, as well as maintain positive cash flow and ensure a solid financial standing in all situations.

The Innofactor Plc share is listed on the main list of Nasdaq Helsinki Ltd. Innofactor is one of the fastest-growing companies as measured by net sales on Nasdaq Helsinki. Innofactor has more than 10,000 shareholders.

Content

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.

Innofactor Expanded to All of the Nordic Countries in Line with Its Strategy

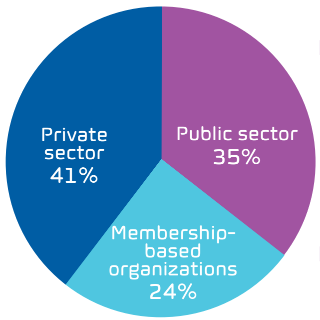
The year 2016 was marked by significant progress in the implementation of our strategy. Innofactor acquired the Swedish company Cinteros AB at the start of the year and, in October, Innofactor acquired Lumagate group, which operates in Sweden, Norway, and Denmark. With these acquisitions, Innofactor realized its vision of being the leading provider of Microsoft-based solutions in the Nordic countries. Our new vision is to be the leading provider of cloud solutions and digital transformation in each of the Nordic countries (Finland, Sweden, Denmark, and Norway). Our net sales in 2016 were EUR 59.6 million (+34.1%) and our operating profit before depreciation and amortization was EUR 4.8 million (+30.4%).

The Innofactor Group's net sales in 2016 were EUR 59,616 thousand (EUR 44,452 thousand in 2015), showing an increase of 34.1 percent. Operating profit before depreciation and amortization (EBITDA) was EUR 4,831 thousand (EUR 3,705 thousand in 2015). The share of EBITDA of net sales was 8.1 percent (8.3 percent in 2015).

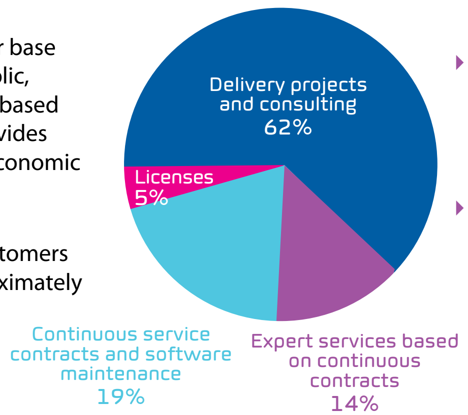
Microsoft chose us again as a finalist in two of their international categories. This is an important acknowledgement for us, as no Finnish partner company has previously achieved a similar number of recognitions from Microsoft. We also won the international Quality Innovation of the Year award with our learning analytics software Innofactor Skilli. Due to continuing strong growth, Innofactor was ranked 33rd on the 2016 Deloitte Technology Fast 50 list (25th in 2015). The list presents the 50 technology companies in Finland that have grown the most in the past five years. We have been featured on this list of the 50 fastest-growing companies since 2008.

Innofactor acquired the entire share capital of the Swedish company Cinteros AB from its management on January 8, 2016. Cinteros (subsequently renamed as Innofactor AB) is one of the leading Swedish IT services companies focusing on providing Microsoft Dynamics CRM-based solutions. Cinteros' net sales for the financial year preceding the acquisition (January 1–December 31, 2015) were approximately EUR 11 million (about SEK 100 million) and its EBITDA margin was approximately 9%. The company has over 100 employees in Sweden. Cinteros and its financial information has been consolidated with the Innofactor Group as of January 1, 2016.

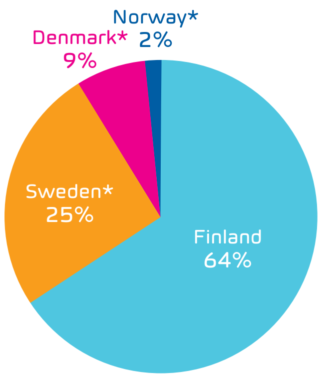
In October 2016, Innofactor acquired the entire share capital of the Lumagate group from its management. Lumagate is one of the leading Nordic IT service providers focused on cloud-based solutions in the Microsoft ecosystem. The Lumagate group's net sales for the previous financial year (January 1–December 31, 2015) was about EUR 8.7 million and its operating margin (EBITDA) was approximately 3% of net sales. The company has over 70 employees in multiple offices located in Sweden, Norway, and Denmark. Lumagate and its financial information has been consolidated with the Innofactor Group starting from October 1, 2016.



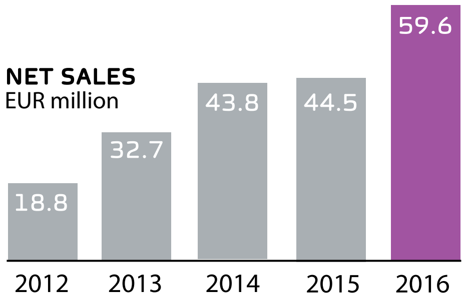
- A strong customer base in the private, public, and membership-based organizations provides stability against economic cycles
- The 10 largest customers account for approximately 29% of net sales

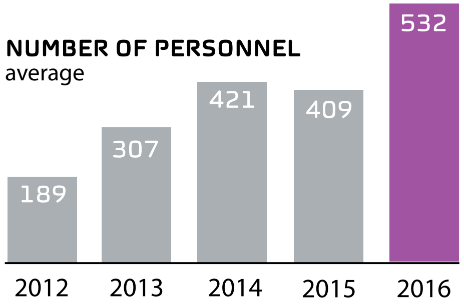


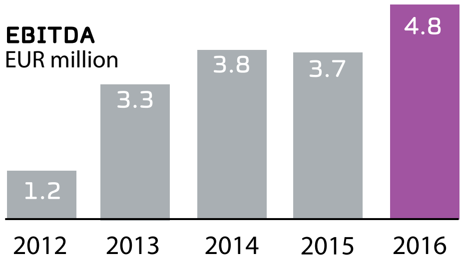
- Continuous service contracts and license sales create a competitive edge and stability for the business
- Professional services are increasingly moving towards frame agreements and continuous maintenance

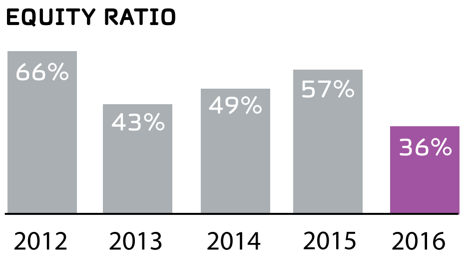


- Sweden, Denmark, and Norway represented a significant part of Innofactor's net sales (*Lumagate only included in Q4/2016)
- In the future, we aim to achieve a strong position in all of the Nordic countries.





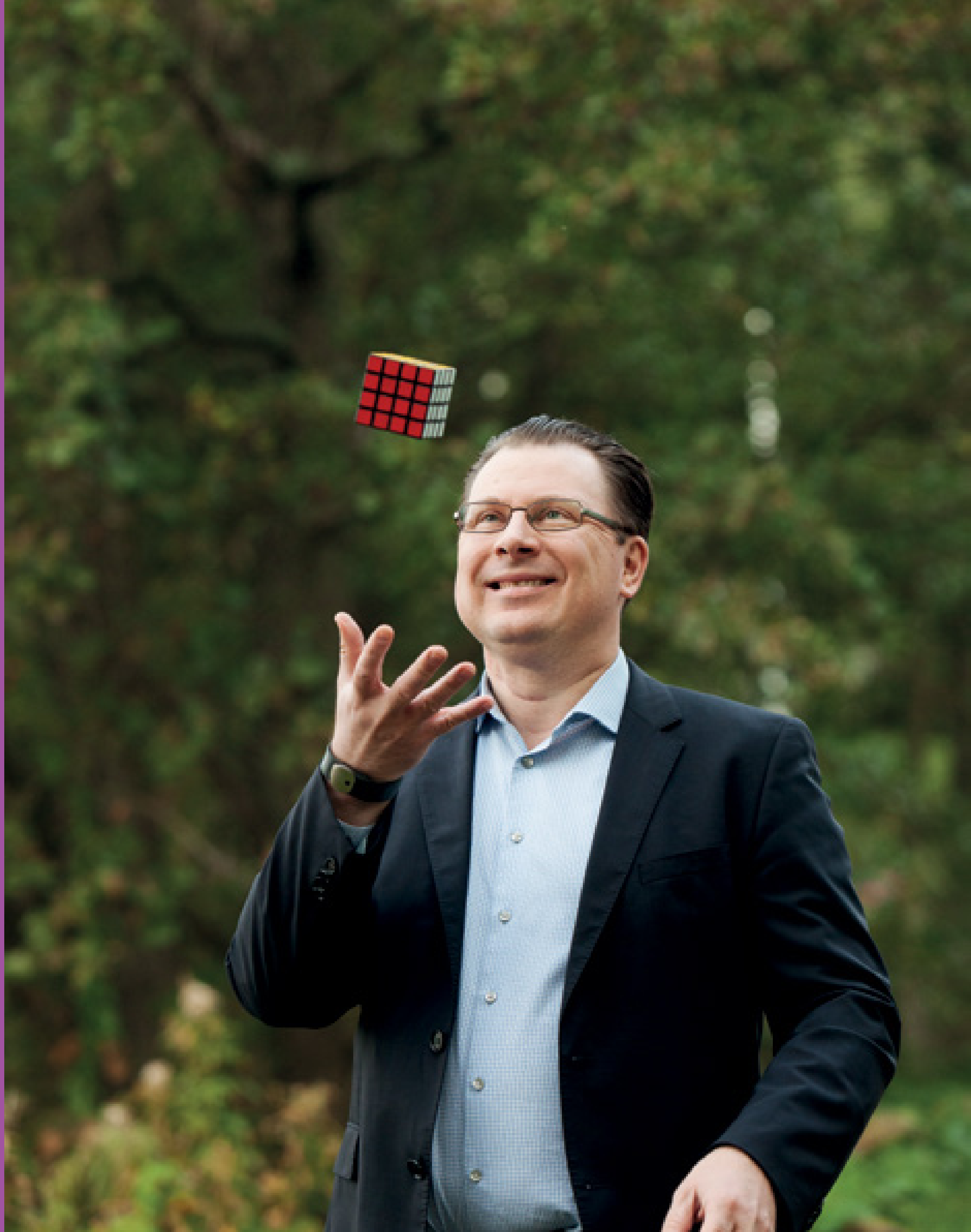




	2016	2015	2014	2013	2012
Net sales, EUR thousand	59,616	44,452	43,834	32,685	18,818
Operating profit before depreciation and amortization (EBITDA), EUR thousand	4,831	3,705	3,794	3,284	1,215
percentage of net sales	8.1%	8.3%	8.7%	10.0%	6.5%
Operating profit (EBIT), EUR thousand	2,332	2,542	2,407	2,255	620
percentage of net sales	3.9%	5.7%	5.5%	6.9%	3.3%
Earnings before taxes, EUR thousand	1,920	1,935	1,946	1,863	591
percentage of net sales	3.2%	4.4%	4.4%	5.7%	3.1%
Earnings, EUR thousand	1,536	1,548	1,556	1,407	449
percentage of net sales	2.6%	3.5%	3.5%	4.3%	2.4%
Shareholders' equity, EUR thousand	22,501	24,534	22,462	19,626	13,760
Interest bearing liabilities, EUR thousand	16,701	9,219	10,638	11,955	1,393
Cash and cash equivalents, EUR thousand	902	843	997	991	656
Deferred tax assets, EUR thousand	5,760	6,704	7,238	7,604	7,767
Return on equity, %	6.5%	6.6%	7.4%	8.4%	3.4%
Return on investment, %	6.4%	7.6%	9.1%	12.9%	4.5%
Net gearing, %	70.2%	34.1%	42.9%	55.9%	5.4%
Equity ratio, %	35.8%	56.9%	48.7%	43.1%	66.1%
Balance sheet total, EUR thousand	63,587	43,983	47,413	46,671	22,173
Research and development, EUR thousand	3,394	2,495	1,981	2,067	2,488
percentage of net sales	5.7%	5.6%	4.5%	6.3%	13.2%
Personnel on average during the year	532	409	421	307	189
Personnel at the end of the year	591	415	411	416	193
Number of shares at the end of the year	32,901,377	33,453,737	32,153,737	30,909,052	30,165,900
Earnings per share (EUR)	0.0467	0.0475	0.0485	0.0432	0.015
Shareholders' equity per share (EUR)	0.684	0.733	0.699	0.635	0.460

New Strategy Aims at Market Leadership in Each of the Nordic Countries, Organic Growth, and Profitability

Five years ago, in 2011, we set a strategic goal of expanding our operations into Finland's neighboring countries. We recognized that this could only be achieved through acquisitions. We have subsequently carried out seven acquisitions; three of them were in Finland and four in the other Nordic countries. During the 2012–2016 period, these business combinations saw Innofactor acquire more than 400 new employees, hundreds of customers, three new operating countries and a wealth of interesting new products and technologies. In October 2016, I had the extraordinary pleasure of confirming that, together with our employees, we have realized our vision of being the leading provider of Microsoft-based solutions in the Nordic region as a whole. Going forward, our aim is to become the leading provider of cloud solutions and digital transformation in each of the Nordic countries. Many thanks for the year 2016 to our customers, partners, employees and investors!



We further deepened our cooperation with customers in 2016. We received significant new orders, such as a content management system for web services for the public sector pension provider Keva, cloud services for the Joint Authority for the Hospital District of Helsinki and Uusimaa (HUS), a management system for ABB as well as several other significant projects in Finland, Sweden, Denmark, and Norway. I would like to thank our customers and partners for the trust that you have shown in Innofactor.

Our strategy focuses on the platforms provided by Microsoft. As the markets are changing, Microsoft and its ecosystem are growing faster than the IT markets on average. Our partnership with Microsoft has become even closer than before in many ways, especially at the Nordic level. Microsoft chose Innofactor again as a finalist in the international category. No other Finnish partner has achieved the same level of recognition from Microsoft. I would like to thank Microsoft for their trust in Innofactor.

In October 2016, we acquired the entire share capital of the Lumagate group from its management. Lumagate is one of the leading Nordic IT service providers focused on cloud-based solutions in the Microsoft ecosystem. The company has over 70 employees, more than 10 of whom have achieved the Microsoft Most Valuable Professional (MVP) award. Following the Lumagate acquisition, Innofactor is in possession of the leading Microsoft-based expertise in the Nordic region, powered by more than 600 employees. We serve more than 1,500 customers in the private, public, and membership-based organizations in Finland, Sweden, Denmark, and Norway. Our solid customer base with visionary key customers supports the continued development of our products and services and creates a foundation for future growth. Lumagate strengthens Innofactor's comprehensive offering of Microsoft-based solutions, products, and services, particularly with respect to infrastructure services related to the Microsoft Azure cloud computing platform, which provides us with excellent opportunities to further increase our sales throughout the Nordic region. At the same time, it enables us to deliver Innofactor's services developed in Finland, Sweden, and Denmark to Lumagate's customers, while also bringing in Norway as a new market.

Innofactor's strength lies in our highly competent and motivated personnel. In 2016, we further strengthened our team, revised our shared values, and developed our management style. We want to use all means available to ensure success in the Nordic playing field. I am very proud of our employees' enthusiasm toward driving the organization in the same direction and finding new ways to innovate solutions, further improve customer satisfaction, work more efficiently, and increase productivity. For that, I am grateful to all of you.

A successful and growing company needs committed investors. In 2016, the value of the Innofactor share increased by 25 percent and the share's trading volume grew by 77.3 percent. I would like to thank all of our investors for their long-term trust in Innofactor's strategy and success.

In cooperation with our customers, partners, employees, and investors, we produce solutions that help our customers and society as a whole to succeed. We are moving forward with enthusiasm and confidence.

"We are now the leading provider of Microsoft-based solutions in the Nordic countries. Going forward, our aim is to be the leading provider of cloud services and digital transformation in each of the Nordic countries. Furthermore, we aim to achieve an annual organic growth rate of 20 percent and EBITDA of 20 percent of net sales by 2020. These are ambitious targets, but I am confident that our highly competent personnel, market-leading solutions offering, excellent team spirit and visionary customers will help us achieve them."

Sami Ensio
Innofactor's founder, major owner, and CEO

Microsoft Partner
Microsoft

Gold Application Development
Gold Application Integration
Gold Cloud Customer Relationship Management
Gold Cloud Platform
Gold Cloud Productivity
Gold Collaboration and Content
Gold Customer Relationship Management
Gold Data Analytics
Gold Datacenter
Gold Data Platform
Gold Devices and Deployment
Gold Enterprise Mobility Management
Gold Enterprise Resource Planning
Gold Identity and Access
Gold Project and Portfolio Management

Aiming for 20 Percent Organic Growth and 20 Percent Profitability by 2020

We estimate that the growth rate of the Nordic IT services market will be approximately 3–4% in 2017. We believe that Innofactor can grow significantly faster than the market as a whole. Our task is to help our customers digitalize their business, promote a collaborative way of working, and develop business processes by utilizing intelligent cloud services. Going forward, we will continue to develop our in-depth customer understanding of commercial, public sector and membership-based organizations in the Nordic countries. We invest in employing the best Microsoft professionals in the Nordic region. We offer our customers a proactive and flexible delivery model that creates added value.

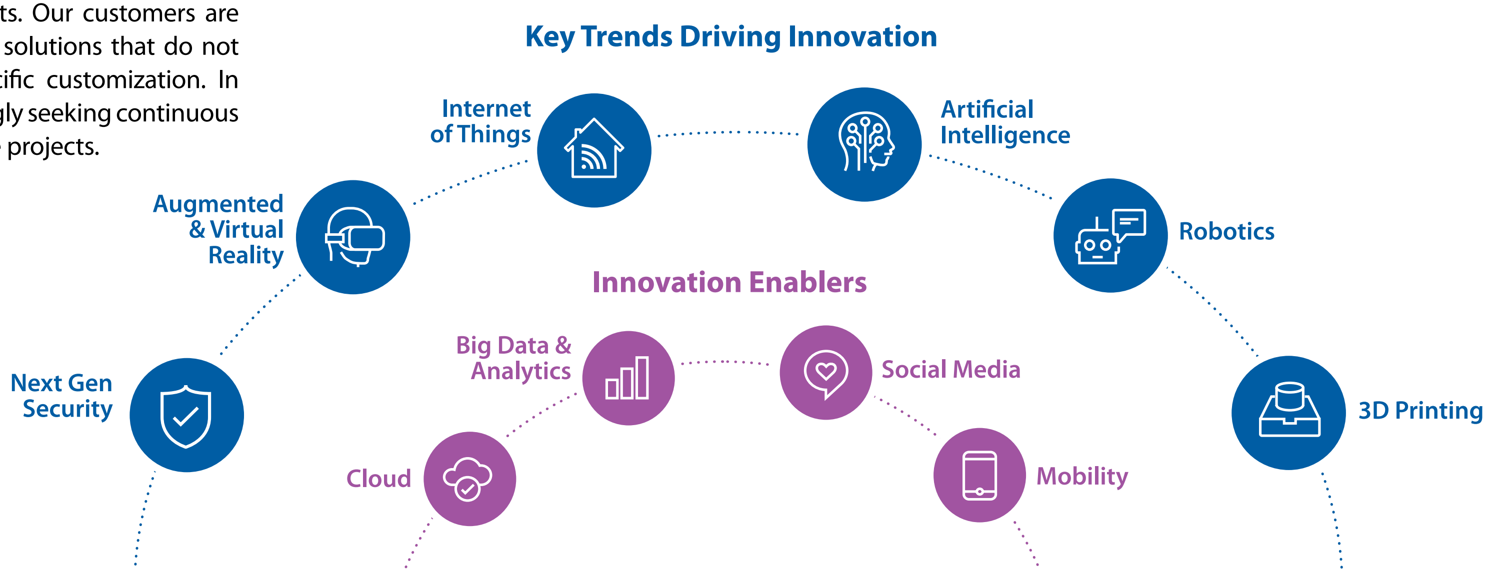
We Expect Market Growth in 2017

The key innovation trends and drivers of change in the market include augmented and virtual reality, the Internet of Things (IoT), artificial intelligence and robotics, with facilitating roles being played by software services moving to the cloud, Big Data and analytics, social media, and the use of mobile devices. The purchasing behavior of our customers has continued to evolve as part of this business transformation. Our customers' expectations for their IT provider are characterized by a greater focus on business benefits rather than technological benefits. Our customers are looking for more out-of-the-box solutions that do not require extensive customer-specific customization. In addition, customers are increasingly seeking continuous services instead of large one-time projects.

We estimate that the growth rate of the Nordic IT services market was approximately 2–3% in 2016. The growth rate in Finland remained slightly below those of the other Nordic countries, but there were signs of recovery. We estimate that the growth rate of the Nordic IT services market will be approximately 3–4% in 2017. The Competitiveness Pact signed in 2016 is expected to have a positive impact on the Finnish market. Our estimate is based on forecasts by research institutes and our own views regarding the development of the market.

Becoming the Leading Provider of Cloud Services and Digital Transformation in Each of the Nordic Countries

We have made a strategic choice to focus on solutions implemented with or supported by Microsoft platforms, and we have achieved a leading position in the Nordic region in this market. Going forward, our aim is to become the leading provider of cloud solutions and digital transformation in each of the Nordic countries. Our goal is to achieve 20 percent annual organic growth and 20 percent profitability by 2020.



Mission:

We empower organizations and people to make a difference in the digital world.

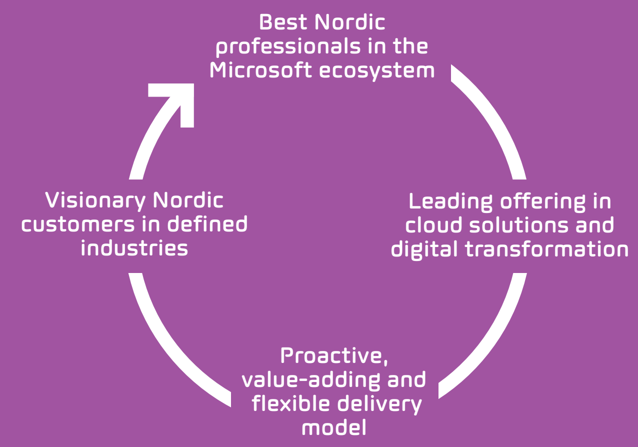
Vision:

We are the leading provider of cloud solutions and digital transformation in each of the Nordic countries (Finland, Sweden, Denmark and Norway).

Our long-term financial goal is to grow profitably:

- by achieving annual organic growth of about 20 percent by 2020
- by achieving about 20 percent EBITDA in relation to the net sales by 2020
- by keeping the cash flow positive and securing solid financial standing in all situations

Strategy



We Believe that We Can Reach an Organic Growth Rate of 20% through the Following Priorities, Among Other Things:

- We will focus on those industries and customer segments in the Nordic countries that present large growth potential related to the digital transformation and the implementation of cloud services. Social, health, and well-being services are one example of a sector that we will focus on in 2017 and beyond.
- We will enhance the selling of our products and services in our existing customer relationships to compete for a growing share of the customers' budgets allocated to the digital transformation and develop our customer relationships in the long run.
- We will invest in using modern digital marketing methods to enhance new customer acquisition and strengthen the customer perception of Innofactor as the leading Nordic provider of cloud services and digital transformation as well as to enhance our sales operations.

In Addition to Applying the Priorities Mentioned Above, We Believe We Can Reach Our EBITDA Target of 20% of Net Sales by the Following Means, Among Other Things:

- In the future, we will increasingly shift the focus of our offering to our own products and productized services that make it easier for our customers to switch to cloud services and maintain them. By doing this, we can provide better service and higher added value to our customers while also strengthening our long-term customer relationships.
- We will continuously strengthen the professional competence of our experts to ensure that our customers see significant added value in their expertise compared to our competitors and are, therefore, prepared to pay prices that are above the industry average.
- We will develop our flexible and quick delivery model, which facilitates the creation of added value, in such a way as to further increase customer satisfaction. In the development of our delivery model, our focus is on planning the work as efficiently as possible and minimizing unnecessary work that does not generate added value for the customer.
- We will invest in achieving cost synergies at the Nordic level, for example, by deploying the cloud-based Microsoft Dynamics 365 for Operations enterprise resource planning system in our operations in the Nordic countries in 2017.

The competitive landscape for Microsoft-based solutions in the Nordic region is fragmented. The first group of competitors consists of large enterprises that operate in all of the Nordic countries. They provide a wide range of IT solutions that are needed by organizations using several competing technologies, one of which is the Microsoft ecosystem. The second group consists of smaller companies that focus on a niche solution area at the Nordic level, also using several different technologies. The third group consists of small and medium-sized IT companies that only operate in their domestic market focusing on certain clearly defined solution areas, technologies, and industries.

Microsoft's fragmented Nordic partner network, which consists of small and medium-sized IT companies, continues to offer interesting acquisition opportunities for us. In the future, our acquisition strategy will likely be focused on slightly smaller companies that operate in a single country. This will help us expand our offering at the country-specific level as well as acquire cloud-based product and service business. Our good reputation, fast and profitable growth, successful acquisitions and entrepreneurial spirit make us an attractive partner with whom to develop business.

Our Strong Expertise and Modern Solutions Are the Keys to the Customer's Success

We help our customers take advantage of the new and more efficient ways of working enabled by cloud technologies and digitalization, which also allows them to serve their stakeholders even better than before. Our modern and comprehensive solutions are based on our in-depth understanding of the customer's industry as well as our leading products, services, and expertise. We serve more than 1,500 customers in the private, public, and membership-based organizations in Finland, Sweden, Denmark, and Norway. Read on for examples of how we have improved our customers' competitiveness by our innovative IT solutions.

Developing a Modern Organization

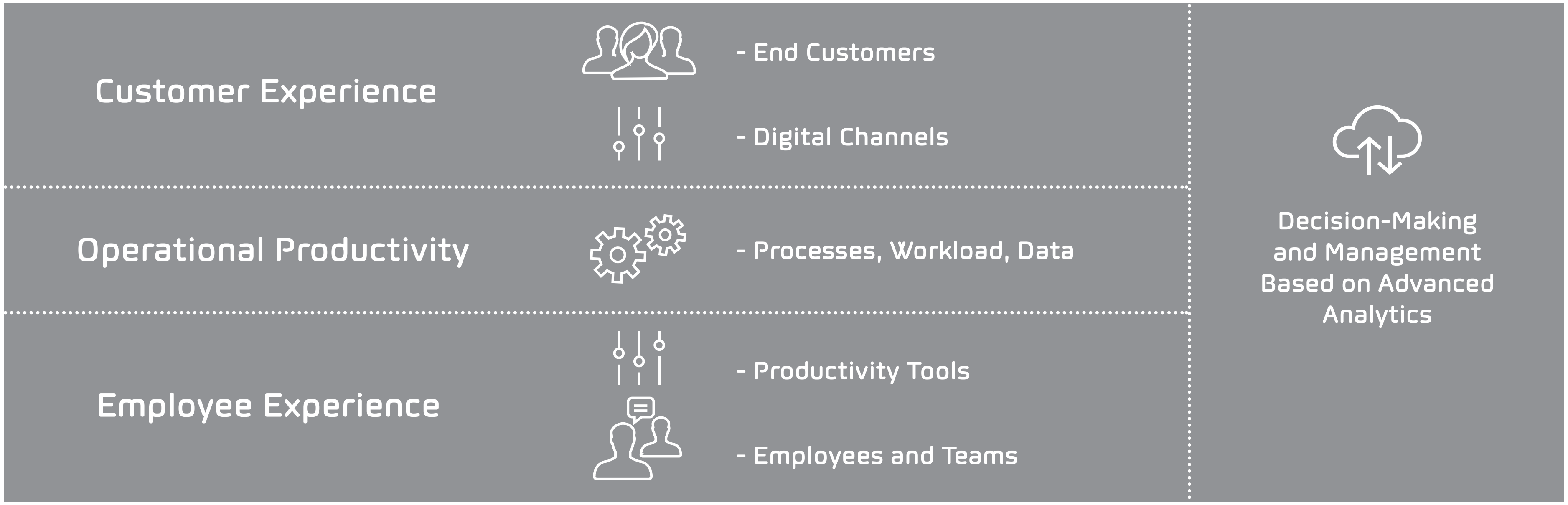
Innofactor has a vision of a modern organization that leverages the opportunities created by cloud solutions and digitalization in all areas of its operations. It achieves success by being agile in adapting to changes in the operating environment and customer needs, and it has the ability to serve its customers in new and more personalized ways. A modern organization provides its employees with flexible and intelligent tools for work, decision-making, collaboration, and sharing of information. Innofactor's vision of a modern organization is based on four factors that, when appropriately planned and implemented, enable a significant digital leap for our customers.

- **Customer Experience** – the ways in which our customer organizations can serve their end customers even more efficiently and personally. This is achieved by utilizing digital channels and services and by being present and accessible in the same channels that the customers use.
- **Operational Productivity** – increasing the efficiency of the customer's operations and processes through the use of leading cloud-based solutions, such as enterprise resource planning (ERP), customer relationship management (CRM), management systems, and case processing systems.
- **Employee Experience** – efficient and intelligent productivity and collaboration tools that change the way work is performed and outsourced, making it easier and more convenient to share information between the customer's employees and stakeholders.
- **Decision-Making and Management Based on Advanced Analytics** – the ways in which the customer organization can leverage the latest cloud technologies and IoT to collect and analyze the data created in its operating environment. This supports better decisions and the development of new services.

The vision of a modern organization can be created for each customer by considering their industry, organizational structure, processes, and current stage of digital transformation. The vision defines the customer's goals and objectives and the way the customer can take advantage of digitalization to achieve concrete and significant benefits in all of the aforementioned areas. We refer to this as the digital vision of the modern organization.

Building a Shared Digital Vision Ensures that the Supplier and Customer Are Committed to Their Joint Effort

Together with the customer, we carry out a broad review of the organization's processes and operating environment and define the shared goals and objectives from the perspective of digitalization. We listen to the customer and take advantage of our industry insight to build a shared digital vision of a modern organization. We then put our agile and flexible delivery model into action to implement solutions and services in accordance with the customer's priorities. The shared digital vision ensures that the customer can feel confident that all solutions and services will be planned in a way that enables seamless cooperation and collaborative development now and in the future. Our experience shows that this operating method leads to successful long-term customer relationships.

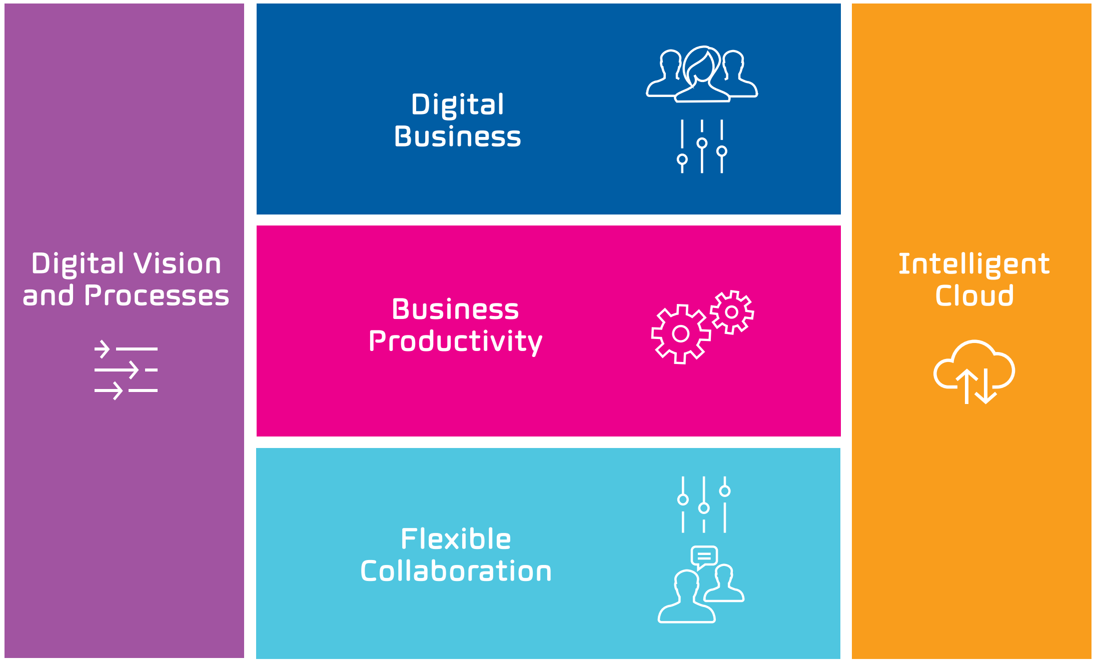


The Innofactor Offering – the Keys to Realizing the Digital Vision of a Modern Organization

Comprised of five solution areas, Innofactor's offering is designed to help our customers achieve the benefits of digitalization on an organization-wide basis. Our offering covers the building of the modern organization's digital vision, process planning and development, and solutions and services that match the customer's needs. This quickly produces concrete benefits such as a better customer experience, higher business productivity and work productivity as well as improved profitability and competitiveness.

Our comprehensive, integrated solutions are based on concrete customer needs and state-of-the-art technologies. Combined with our expertise in the latest cloud services, our experience and customer insight enable us to provide high-quality deliveries with quick customer benefits. We have worked with Microsoft and the leading players within its ecosystem for more than 15 years, which enables us to provide our customers with the best possible support.

Our offering and the related products, services and technologies are described in more detail on pages 13–25.



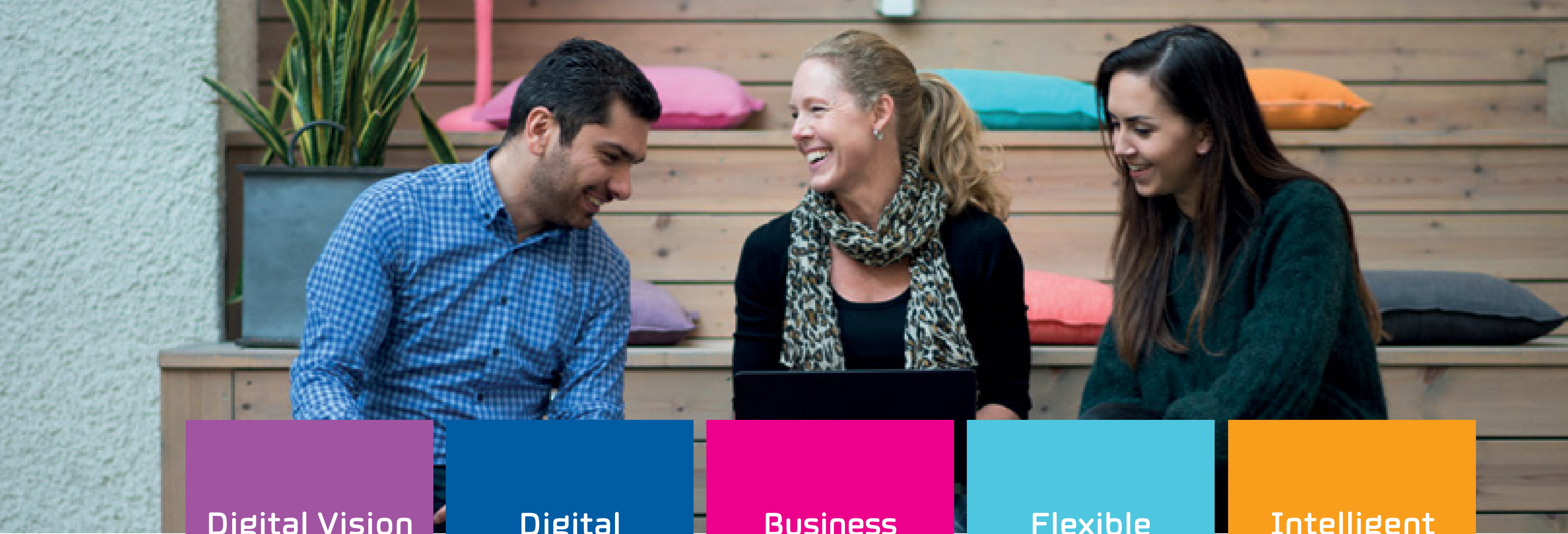
Our Agile Engagement Model Ensures Fast Results

The implementation of an individual solution begins with a cost-efficient Quick Start that includes increasing the customer's competencies related to the selected solution area, consultancy, and an overall evaluation of the customer's environment and requirements. At the same time, we typically implement a Proof of Concept (PoC) or a demo to provide immediate value for the customer.

In the second phase, we work together with the customer to define the Scope, Cooperation Model, and required delivery project in more detail. The Scope typically includes defining business objectives, functional requirements, the architectural framework, as well as security and performance requirements. The Cooperation Model typically includes selecting the right delivery, service, support, and governance models.

The Delivery and Deployment phase consists of efficient project management, requirements planning and specifications, technical implementation, and documentation. Quality assurance and testing play a central role in all of our deliveries. We utilize proactive risk management to ensure successful delivery, whether the project involves the traditional waterfall model or agile development. Implementation design, training, and user support for the new solution are all part of our successful delivery.

Solution deployment is followed by Continuous Services and Development. We provide our customers with the service level and support they need to operate successfully. After delivery, we also offer our customers the opportunity to develop their operations and processes in collaboration with our consultants.



Digital Vision and Processes

Modern Organization

- Customer Relations, Marketing, Sales, and Support
- Production, Logistics, Delivery, and Projects
- Business and Product Development and Innovation
- Financial Management and Business Forecasting
- HR, Quality, Risk Management, ICT, and Legal Matters

Digital Business

Modern Customer Experience

- Service Design
- Digital Marketing
- Websites and Mobile Applications
- Digital Customer Service

Business Productivity

Modern Business Experience

- Customer Relationship Management (CRM) and xRM
- Project and Portfolio Management (PPM)
- Enterprise Resource Planning (ERP) and Customized Solutions
- Information, Case, and Quality Management
- Business Intelligence (BI)

Flexible Collaboration

Modern Employee Experience

- Mobile Productivity
- Digital Collaboration
- Enterprise Communication

Intelligent Cloud

Modern Cloud Experience

- Azure Managed Services
- Identity Management
- Enterprise Mobility Services (EMS)
- Operations Management Suite (OMS)
- Advanced Analytics, Machine Learning, and IoT

Digital Vision and Processes

Significant Development in Customers' Operations through the Digital Vision and Modern Processes

- Using Innofactor's industry experience and competencies related to the key processes of organizations, we work with our customers to create a shared digital vision of a modern organization
- We innovate our customers' processes to meet today's requirements by utilizing modern technologies, such as the Internet of Things (IoT), self-service, analytics, and machine learning
- We create significant competitive advantage, substantial cost savings and even entirely new operating models for our customers

Digital Vision and Processes

- **Customer Relations, Marketing, Sales, and Support**
- **Production, Logistics, Delivery, and Projects**
- **Business and Product Development and Innovation**
- **Financial Management and Business Forecasting**
- **HR, Quality, Risk Management, ICT, and Legal Matters**

Our objective is to build a digital vision for a modern organization and provide better business processes for our customers.

Building the digital vision is based on our broad experience and insight into the opportunities presented by digitalization. We actively guide our customers to look for the seeds of new competitive advantage and ways of working from areas that are often overlooked: the cross-sections and interfaces of organizations, units, and processes. These are often blind spots that receive no attention from anyone. The modern business models and process innovations enabled by digitalization are often found in these areas.

Our consultants have the ability to question traditional ways of working. The benefits of advanced analytics and cloud technology, or moving certain workflows from the organization's own employees to the customer or to artificial intelligence, often include higher operational quality and lower costs.

Examples of Our Services

We give our expert opinion on the customer's development plans. We also evaluate the current state of the customer's operating models and future possibilities with regard to digitalization and advanced IT.

The Digital Vision and Processes service area includes the following services implemented by our leading consultants: building a digital vision for a modern organization, process mapping, development planning, the digital transformation of defined and renewed processes by means of Innofactor's extensive service offering and the latest technologies, such as machine learning, IoT and cloud technology, and continuous, comprehensive and systematic development of process innovation.

Hospital District of Helsinki and Uusimaa

Digital Channels in Hospitals – the Health Village Brings Technology to People

Health Village is an online service that has been jointly developed by experts and patients. It provides information and support to all of the parties concerned: medical care for patients and tools for healthcare professionals. Citizens and various patient groups receive understandable and reliable information about health, self-care and getting treatment for medical conditions. The service can be used 24/7 regardless of the user's physical location.

Health Village consists of virtual buildings dedicated to different life situations and symptoms, such as pain management, rehabilitation, mental health, and weight management. The menu also includes rare medical conditions, a women's house, and the Helsinki Biobank. The virtual buildings support self-care and the monitoring of medical care through related online services as well as self-care guides, service counseling, applications, and mobile technology.

Innofactor implemented Health Village as a cloud service based on the Microsoft Azure and SharePoint Online platforms. The development of digital services is coordinated under the Virtual Hospital project led by HUS during the period 2015–2018. Health Village services are being continuously developed and their effectiveness is being studied in cooperation with universities, research institutes, and educational institutions. The cooperation network also includes industry companies, application suppliers, and the developers of eHealth games. HUS Health Village was named as a finalist in the 2016 Microsoft Public Sector Health Award. The Health Village project also received the Reinventing Productivity recognition at Microsoft's Empowering Health event held in Brussels, Belgium, in January 2016.

Microsoft Partner of the Year
2016 Finalist
Public Sector: Health Award

"The aim of developing virtual and electronic services that are closely intertwined with patients' service paths is to design customer-focused and multi-channel services, enhance the prevention of illnesses and the efficiency of care, facilitate customers' timely access to treatment and increase the effectiveness of remote appointments. The use of eHealth services makes it possible to allocate human resources to more demanding service areas in which patient counseling and care requires a broader range of competencies."

Sirpa Arvonen
Project Director
HUS Virtual Hospital project

Digital Business

Digital Business Creates the Foundation for Our Customers' Operations on the Web

- We facilitate the digital transformation of our customers' processes by utilizing the most advanced IT solutions
- Our service designers create a unique service experience for end-users in the digital channels: the Web, social media, and mobile applications
- We always deliver comprehensive and technologically advanced services that are integrated with back-end systems and offer advanced analytics to support business

Digital Business

- **Service Design**
- **Digital Marketing**
- **Websites and Mobile Applications**
- **Digital Customer Service**

Our aim is to provide a modern experience to our customers and to their end-users.

Digital business and electronic services are primarily about creating experiences on a channel-independent basis. The customer's brand must be presented favorably on the web, social media, and mobile channels. Our talented service design team creates a unique and differentiated experience for the customers who use the services.

However, it is not enough that the service looks good. Digital business requires process modifications, self-service design, and the seamless integration of solutions with back-end business systems. Our experience in business technology solutions helps our customer organizations deliver service experiences that exceed expectations. We help our customers achieve quick results on their journey of digital transformation in a constantly changing operating environment, where new business models based on cloud technology can change the playing field at a moment's notice.

Examples of Our Services

With the help of our solutions, our customers have produced a superior customer experience in their digital channels, improved their service and increased their net sales.

With the help of our service design tool box and in collaboration with our customers, we build cross-channel processes that support an excellent customer experience and boost internal processes. Our User Experience experts deliver easy-to-use user interfaces that users will love even in the most challenging operating environments. Our portfolio includes solutions for various customer cases, such as digital customer service, self-service solutions, and customer dialog. Marketing produces genuinely measurable data and enables improved business decisions. Our solution combines business data with marketing data.

Foundation for Student Housing in the Helsinki Region (Hoas)

Finding the Ideal Roommate with a Smartphone – a Digital Service for Apartment Sharing

Students using online services to apply for apartments is nothing new, but students in the Helsinki region can now use the Hoas Matchie service to find a roommate. The service is the only one of its kind in Europe.

Hoas Matchie is a new and innovative service concept that allows apartment seekers to get to know each other in a safe online environment. Once they find a match, they can apply for a Hoas apartment together. Users can specify their own habits and personality traits as well as those of their ideal roommate to quickly find the best matching person to live with.

Accommodation sharing is a growing trend, especially in cities, where there is a shortage of apartments and rents are high. Students are particularly keen to share an apartment. They are attracted by lower rental costs as well as the social dimension of having a roommate and the opportunity to meet new people. Approximately 20 percent of the higher education students in the Helsinki region live in Hoas apartments, corresponding to some 18,000 tenants. Hoas is planning to increase its housing production from the current level of producing new homes for 200 students per year to approximately 400–500 students.

Hoas Matchie has seen a rapid increase in the number of users since its launch in October 2016. More than 100 users registered during the first 24 hours. By the end of the first week, the service had over 400 users. The number of registered users now exceeds 1,300, with some 600 active profiles currently using the service to find the roommate of their dreams. The first matches made via the service moved into Hoas apartments at the turn of the year, and more matches are being made all the time.

"Hoas provides many students with their first home. Leaving the nest and potentially moving to a different city represents a major life change. Hoas Matchie gives students the opportunity to choose their roommate instead of having the landlord randomly assign two strangers to the same apartment. This entirely new form of accommodation combines the best aspects of living in a student dormitory and sharing an apartment with a friend. Hoas Matchie gives the new roommates the opportunity to get to know each other before moving in together, which can help increase their peace of mind."

Tommi Ora
Director, Innovations & Brand
Hoas

Business Productivity

Business Productivity Helps Our Customers Make the Most of Their Organization

- We create the best business experience for our customers with advanced operational systems integrated with each other and the latest communication, collaboration, and analytics solutions
- We modify our solutions, such as CRM and ERP systems, to match the requirements of our customers through extensive industry expertise and ready-made solutions
- We provide our customers with an organized and reliable way to manage their information and related workflows and approvals

Business Productivity

- **Customer Relationship Management (CRM) and xRM**
- **Project and Portfolio Management (PPM)**
- **Enterprise Resource Planning (ERP) and Customized Solutions**
- **Information, Case, and Quality Management**
- **Business Intelligence (BI)**

Our objective is to provide a modern business experience to our customers.

In an environment of constant change, success depends on the ability to predict the future and react quickly. In order to succeed, our customers need enterprise resource planning systems that are flexible to implement and adaptive to changes.

Innofactor solutions map the basic processes with the organization's central requirements so that the solution that supports the business is easy to put into use and can be modified in an agile manner to suit the particular needs of the organization. We create the tools with which the customer's personnel can flexibly react to changes in customer requirements, the operating environment, and business requirements.

Examples of Our Services

We provide private, public, and membership-based organizations with solutions that help serve their customers, operate on a growing scale, and offer a flexible and motivational way for the employees to achieve their goals also via secure cloud services.

Innofactor's CRM solution provides an easy-to-use way to manage customer paths: targeting marketing actions, managing sales cases and handling customer requirements generated by the customer service function and identified, for example, through social media. In addition to basic ERP functions, such as financial management, customers can utilize industry-specific services represented by Innofactor for the needs of service enterprises and manufacturing companies, for example. Innofactor's conceptualized BI solutions produce easy-to-use analytics with illustrative graphics for use by the customer's entire organization. The project business package conceptualized by Innofactor helps to manage business projects and steers business management through project portfolios. Using information management, case management and quality management solutions makes it much easier for the customer organization to manage its information flows involving increasingly large amounts of data. In addition to ready-made solutions, we are able to implement demanding customer-specific solutions to support the operations of our customers.

Kommunal

Better and More Personalized Services and Communications for Members

Kommunal is the largest trade union in Sweden. It has more than 500,000 members in approximately 230 different occupations. The majority of Kommunal's members work in local government, but the union is also seeing steady growth among private sector employees.

Kommunal needed to find a new, more modern and sophisticated information system to replace its 17-year-old member database. The purpose of the new solution was to help the union provide a full range of services to its members as well as include membership management, contract management, and account management functionality. It was important for Kommunal to implement a flexible solution that meets the diverse needs of its various professional groups while also supporting the processes, regulations, and structures that are typical of a trade union.

Innofactor delivered its Membership Management Solution (MMS) to Kommunal, fully supporting Kommunal's existing business processes, such as recruitment, training, administration, and member services. The MMS is based on the standard version of the Microsoft Dynamics CRM software and it has a modern user interface. For Kommunal, the delivered MMS is an easy-to-use, flexible, and appropriate platform that also has the capacity to meet future requirements.

"We chose Innofactor because they genuinely understood our needs. They offered a ready-to-use solution customized to the needs of this membership-based organization. We also found that their Microsoft Dynamics CRM expertise was the most comprehensive in all of Sweden."

Hanna Stenholm
Head of Membership Administration
Kommunal

Flexible Collaboration

Our Flexible Collaboration Solutions Help Our Customers Transform Their Operations to Meet the Needs of the Mobile World

- We create the best collaboration and communication experiences for our customers' employees and partners
- Our modern collaborative solutions help our customers make their organizations more productive, innovative, and streamlined
- Our efficient communication and collaboration solutions enable our customers to offer their end-customers the best service and benefits through our digital customer communication and services

Flexible Collaboration

- **Mobile Productivity**
- **Digital Collaboration**
- **Enterprise Communication**

Our objective is to provide our customers with a modern employee experience.

We provide our customers with methods and tools that help them operate as efficiently and inspiringly as possible, relying on up-to-date and organized information.

Innofactor's flexible collaboration offering supports the organization's internal operational development and communication with their partners. Together with our customers, we create a model of internal development that allows the customer to become a pioneer in using new technology. Traditional operations following the organization and command chain no longer ensures sufficient speed in the face of a rapidly changing environment. The amount of data is increasing at a dramatic rate, making it challenging to find the most critical information and make collaboration-related decisions. We help our customers bring essential information to the organization's frontlines to ensure decision-making without unnecessary delay.

Examples of Our Services

Our service package expedites change in the customer's ways of working, from implementing new services to significantly increasing the competitiveness of the organization and its stakeholders.

Mobile productivity solutions ensure that users can securely access all of the relevant information regardless of place and time. The solutions enable the processing of information via any device and create a consistent end-user experience. Digital collaboration allows the customer organization to operate as a community and improves the accessibility of information. It ensures successful digital collaboration in the customer's day-to-day operations, both within the organization and among its closest stakeholders. The basis of organizational communication is a cutting-edge intranet community that supports targeted communications to personnel. We also provide tools for video conferencing, instant messaging, and broadcasting communications. The services can be implemented through an organization-specific server environment or as a cloud service that enables secure digital collaboration.

Red Barnet – Save the Children Denmark

More Funds for Helping Children Through Better Collaboration and Greater Convenience at Work

Save the Children is an international politically and religiously independent non-governmental organization that focuses particularly on promoting children's rights and supporting children who live in difficult conditions. Established in 1919 in the United Kingdom, the organization now operates in more than 120 countries.

Innofactor's Danish subsidiary partnered with Save the Children Denmark to establish the Champion program to promote the digital transformation of the work community. The Champion program's purpose is to help Save the Children Denmark carry out its mission of improving the way children are treated and achieving immediate and permanent improvements in the lives of children in Denmark and throughout the world. The program facilitates collaboration within the organization and makes work more efficient and convenient, which also reduces the administrative costs. This helps ensure that as much of the donated funds as possible goes directly to children in need.

The Champion program was participated in by eight employees who formed a network of key individuals. The participants represented different units within the Save the Children Denmark organization. They had a common desire to change the way day-to-day work is performed, and they were all interested in and committed to the project. The employees participating in the Champion network received training in the modern working methods and skills supported by Microsoft Office 365, which they could subsequently teach to other members of their respective teams. The participants also began using Yammer, which is a flexible and lightweight platform for sharing information. It made work easier and made it convenient to share experiences and questions related to day-to-day work. The members of the network still meet each other regularly and act as facilitators of the Save the Children organization's digital transformation. For Save the Children, their experiences of the program as a whole and Innofactor as a program partner have been very positive.

"We decided to invest in the Champion program to promote change in our working culture. The main focus of the program was to have key members of the organization introduce new, modern working methods to their workplaces based on Microsoft Office 365 services. The primary goal was to train these key individuals to ensure that they recognize the value of the Microsoft Office 365 toolbox. Further priorities included abandoning old ways of working and learning new and more flexible organization-wide collaboration methods. Innofactor helped us with this process and provided a structure for it. They have worked in close cooperation with us and we find that our constructive dialogue with Innofactor brought a great deal of added value to the project. We now have a highly active community of key individuals who help drive change within the organization and help us get more out of the Microsoft Office 365 services."

Rikke Bygballe Møller
Project Manager
Red Barnet

Mads Gaub
CIO
Red Barnet

Intelligent Cloud

Intelligent Cloud Makes Information Technology Flexible and Smarter than Ever Before

- Our easy-to-use managed service helps our customers make full use of the Microsoft cloud platforms, such as Azure and Office 365
- We boost our customers' business with intelligent cloud services, including Analytics, Machine Learning, and the Internet of Things
- Our specialists help customers ensure the best services for identity management, device and service management, integrations, and information security

Intelligent Cloud

- **Azure Managed Services**
- **Identity Management**
- **Enterprise Mobility Services (EMS)**
- **Operations Management Suite (OMS)**
- **Advanced Analytics, Machine Learning, and IoT**

Our objective is to offer a modern cloud experience to our customers.

We make purchasing cloud services easy and flexible for our customers. We ensure that the cloud service portfolio selected by the customer fits their operations in the best possible way.

The Innofactor Intelligent Cloud offering and service model are based on Microsoft cloud technologies. We offer comprehensive solutions consisting of licenses, cloud technologies, hybrid environments, and services for maintenance and continuous development. Making full use of new advanced analytics solutions is no longer a privilege restricted to large enterprises, as flexible cloud-based operating models now make advanced analytics and machine learning applications available for smaller organizations as well. The most significant benefits of cloud service development can be made available to any organization without major front-end investments, and they also enable fast experimentation with cloud services.

Examples of Our Services

Innofactor provides a comprehensive offering consisting of cloud technologies, hybrid environments, identity management, equipment and service management, data security, continuous services and service development, and licenses. We have developed our service offering as well as a service model that is based on Microsoft platforms. These platforms are characterized by continuous technological development. Our experts actively monitor these advancements to ensure that our customers stay on the leading edge of development.

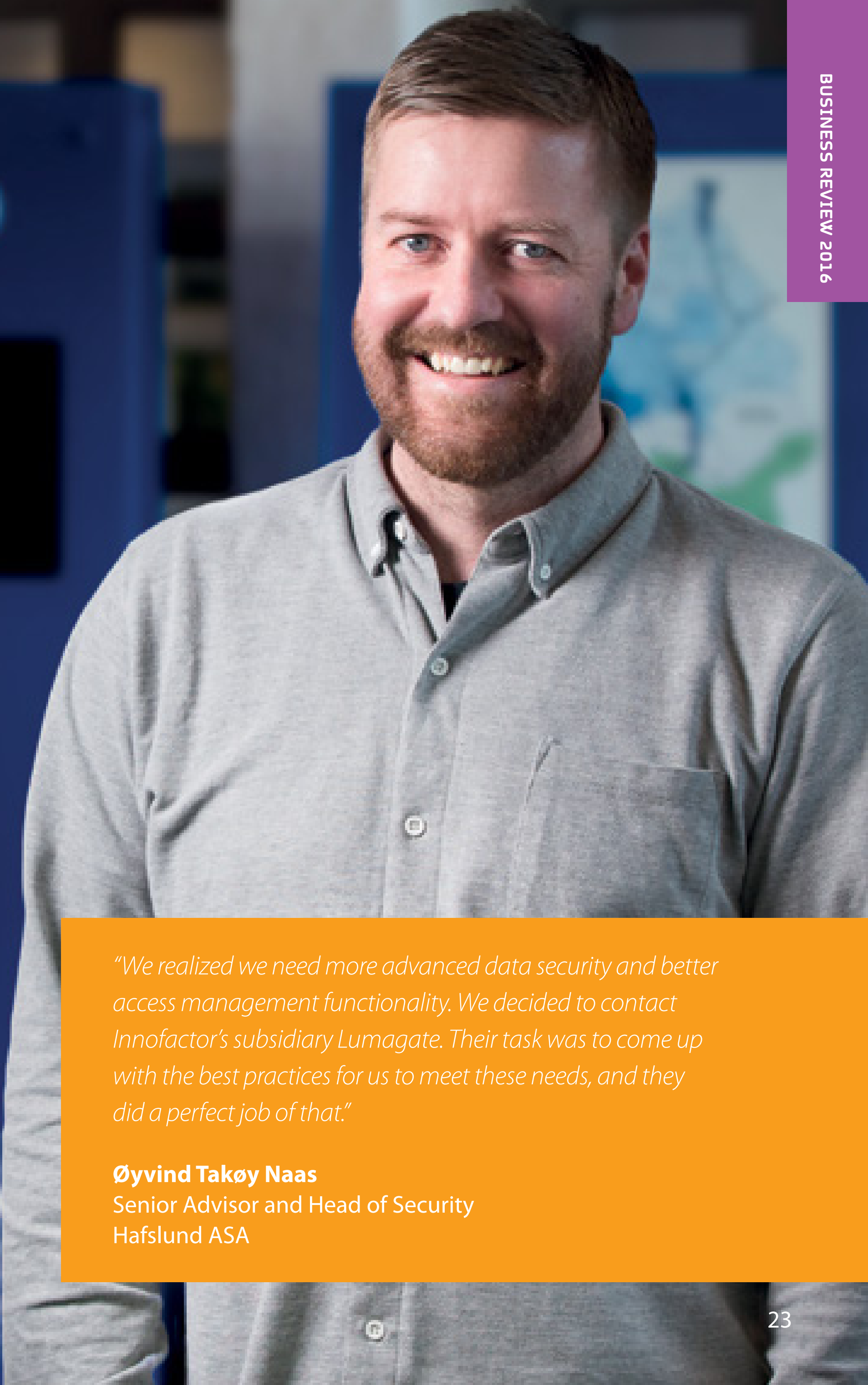
Innofactor provides intelligent cloud services under the Innofactor and Lumagate brands. The Lumagate group was acquired by Innofactor in October 2016.

Hafslund ASA

Using Enterprise Mobility & Security (EMS) to Increase Data Security and Control in the Cloud

Hafslund ASA is one of the largest electricity companies in the Nordic countries. It owns the electricity and district heating networks in the Oslo region and is the largest seller of electricity to consumers in Norway. Hafslund ASA was established in 1898 and is listed on the Oslo stock exchange. Its net sales amounted to NOK 13.8 billion in 2016. Hafslund's strategy is to take advantage of state-of-the-art technology in all operations. The company works with leading technology consultants to ensure that it has access to the best expertise in each field. Hafslund's commitment to new technology is reflected by its own DevOps team, which produces innovative e-services on a weekly basis. "As the deployment of cloud services becomes easier and easier, data security and service management becomes increasingly significant to us," says Øyvind Takøy Naas, Senior Advisor and Head of Security at Hafslund. Conditional access, end-user self-service functionality and access management are the key areas of Hafslund's data security design. The right design and implementation make Hafslund's employees' day-to-day work significantly easier and more independent. "We realized that we need more advanced data security and better access management functionality. We decided to contact Innofactor's Norwegian subsidiary Lumagate. Their task was to come up with the best practices for us to meet these needs, and they did a perfect job of that." With Lumagate's support, Hafslund deployed parts of Microsoft Enterprise Mobility & Security to enhance its management of systems and costs. "The solution included password renewal as a self-service, multi-stage user identification and an Active Directory federation service to integrate our on-premise Active Directory with Azure AD. It works great."

Old systems are a challenge for many companies. Shutting down previously used applications and platforms takes time. Hafslund aims to shut down old services and systems one at a time, replacing them with cloud-based solutions. "In an ideal world, we would acquire the cloud services that best suit our needs from the best service providers. If a service were to be below our standards, it would be easy to replace it with an alternative solution." This makes it essential to choose the right platform. Hafslund has spent a lot of time on developing its Microsoft Azure platform to make it as functional as possible. More than 1,000 new features are added to Microsoft Azure each month. The large number of new features makes understanding and utilizing them challenging, which is why Hafslund utilizes leading consultants specializing in the platform to stay at the forefront of development. "Last week over lunch, we were talking about a feature that we felt was missing from Microsoft Azure. When we got back to the office after lunch, we noticed that the very same feature had just been released. That exemplifies the rapid rate of innovation in today's world. We saved a lot of time by not having to write the code and use batch commands to implement the feature we needed. Instead, our problem was solved by a few clicks of the mouse. We simply don't have the time to look for answers and go through all the new information, so I was very pleased that our partner told us about it. This example shows how important it is to work with the leading professionals in the field," Naas adds.



"We realized we need more advanced data security and better access management functionality. We decided to contact Innofactor's subsidiary Lumagate. Their task was to come up with the best practices for us to meet these needs, and they did a perfect job of that."

Øyvind Takøy Naas
Senior Advisor and Head of Security
Hafslund ASA

Innofactor's Own Software Products and Services

The development of the company's own software products and services is an integral aspect of Innofactor's DNA and an engine of future growth. Innofactor Product & Services, our product and service development organization, operates as an independent Nordic profit center. It employs over 40 leading experts in cloud technology and architecture who specialize in software and service development. Innofactor's and Lumagate's software products and services are sold throughout the Nordic region. They have tens of thousands of daily users across hundreds of private, public, and membership-based organizations. Delivering continuous cloud services to our customers is one of the Products & Services unit's rapidly growing business areas. We provide our customers with services for application deployment, monitoring and management, as well as joint further development under the turnkey principle.

Strong Investment in Own Software and Service Development

Our goal is to offer modern productized cloud solutions based on our strong industry expertise as part of Innofactor's overall offering. We invest in continuous product development: in 2016, we invested 5.7% of our net sales in research and product development. Our solutions are efficiently scalable and we leverage our local Nordic sales expertise and presence effectively in our new customer acquisition. Innofactor's own software products and services are delivered as part of the previously described service areas, such as Business Productivity and Intelligent Cloud.

Examples of Innofactor's Software Product and Service Portfolio

Innofactor's Continuous Azure Services provide our customers with a carefree and secure solution for moving their services to the cloud under the turnkey principle.

Innofactor Quality First is a highly refined quality management system with more than 20,000 users globally in dozens of customer enterprises.

Innofactor Membership Management System (MMS) is the leading comprehensive solution in the Nordic region for trade unions and membership-based organizations to efficiently perform customer relationship management functions and day-to-day operations. Based on the Microsoft Dynamics CRM product, Innofactor MMS is used by Swedish customer organizations with more than 3.7 million members combined.

Innofactor Prime is an ERP and facility reservation system that is used extensively by several public and private sector organizations and parishes in Finland. Innofactor Dynasty is a public sector case management solution with hundreds of customer organizations in Finland.

Innofactor Dynasty is a public sector case management solution with hundreds of customer organizations in Finland.

Innofactor Skilli is an award-winning cloud-based learning analytics solution that supports the new Finnish curriculum and utilizes Microsoft Office 365 and Azure. The solution is already in use in a large number of Finnish schools and it has been the subject of extensive international interest.

Lumagate One Identity provides a convenient and user-friendly solution for customer organizations' identity management. Based on Microsoft Identity Manager, the solution is suitable for all types of organizations.

Varma Mutual Pension Insurance Company

VarmaWorks Makes Life Easier for Companies and Entrepreneurs by Providing Flexible and Community-Oriented Business Premises

Varma Mutual Pension Insurance Company manages the employment-based pension security of 61,000 companies and entrepreneurs, or more than 870,000 people in total. Varma is Finland's largest pension insurance company and private investor. Its investment portfolio was valued at EUR 42.9 billion at the end of 2016. Customer benefit is the starting point of all operational development by Varma. Varma encourages companies to pursue growth and supports entrepreneurship. It continuously develops services and seeks ways to make life easier for companies and entrepreneurs.

Innofactor is one of the key suppliers for the VarmaWorks service implemented by Varma in 2016. VarmaWorks is a modern business premises concept that sees Varma provide entrepreneurs with flexible access to high-quality workspace and meeting rooms located in the traditional Finlayson district in central Tampere. Entrepreneurs and private individuals can purchase access to a vacant workstation in a shared working area, a specific workstation for regular and more long-term use in the shared working area, or reserve teamwork space for teams of various sizes.

The VarmaWorks service was implemented as a hybrid solution combining a convenient Microsoft Azure-based facilities booking system maintained by Innofactor and the Innofactor Prime resource reservation and customer relationship management system at the core of the reservation solution. Innofactor Prime allows Varma to design and implement the reservation, pricing and invoicing of facilities use in a flexible manner and deliver the best possible facilities reservation experience for its customers. With the first experiences of VarmaWorks being very promising, Varma and Innofactor will continue to work together to develop the service further in 2017.

"We were looking for a suitable management tool that would be a good fit with VarmaWorks' flexible customer relationship management as well as integration with a payment processor. We found the Innofactor Prime system very convincing. Innnofactor's personnel were able to work on a very tight schedule to deliver the system we wanted. We expect this excellent cooperation and service development to continue in 2017."

Benjamin Kalliola
Real Estate Developer
Varma Mutual Pension Insurance Company

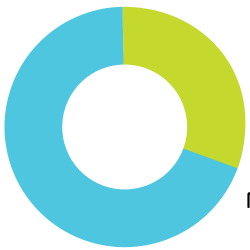
Leading Microsoft Know-How in the Nordic Region

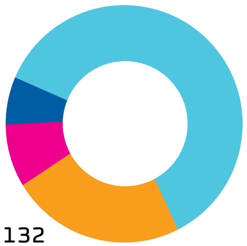
Innofactor's growth and development are made possible by our growth-driven personnel. Our key themes in 2016 included Nordic expansion and related integration, the renewal of the company's core values and investing in management development.

Number of Personnel and Key Figures

Innofactor had a total of 532 employees on average in 2016 (2015: 409), up 30.1% from the previous year. These figures exclude employees who are on leave for a period exceeding three months.

At the end of 2016, the number of personnel was 591 (2015: 415), up 42.4% from the previous year. The average age of the company's personnel at the end of the review period was 39.4 years (2015: 40.1). Women accounted for 28% of the personnel and men for 72% (2015: 28% and 72%).





Nordic Expansion and Integration

Expansion into Sweden and Norway was among Innofactor's key events during the year. Successful integration is essential for achieving the synergies and benefits of all business acquisitions. The focus of the integration of the Swedish operations was on the annual Innofactor InSpirit employee event held in May. Integration was also promoted by means such as harmonizing internal communication practices and operating processes as well as sharing best practices between countries. The integration processes will continue in 2017.

Competence is a Precondition for Success

Innofactor's large and diverse customer base calls for the organization to have a strong capacity to learn and refine new information. As part of our close partnership with Microsoft, the Gold Competencies defined by Microsoft play a central role in the development of our technical skills. We are proud to have achieved as many as 15 corporate-level Microsoft Gold Competencies.

In addition to certification processes, we develop our competencies through on-the-job learning and job rotation. Broader development needs are evaluated as part of the development of our strategy. Development discussions play a key role in planning competence development at the individual level. In the development discussions, the skills and development needs of the personnel are assessed to create a plan for the development of each individual's professional skills and career.

We began preparatory work on our new Innofactor Academy concept in late 2016. The Academy started at the beginning of 2017. It supports more systematic sharing of the knowledge and competencies of Innofactor's experts to promote organizational competence development. In addition to Innofactor's own experts, external partners are also used as trainers when necessary. Innofactor Academy is seen as a key tool for the implementation of systematic competence development at the Nordic level. The Academy will also support the Group's Nordic integration.

As operations grow, the recruitment process is also an important tool for ensuring the necessary competencies. The development of the recruitment process began in 2015, which supported an increase in the rate of recruitment in 2016. Innofactor recruited more than 100 experts in 2016. Successful recruitment is key to long-term success.

Recruited by Innofactor through the Microsoft Azure Academy, Matti Somppi is one of the more than 100 new professionals who joined the company in 2016.

Well-Being Increases Productivity

Innofactor invested in employee well-being in various ways in 2016. In Finland, we conducted a comprehensive well-being survey in the spring in cooperation with our occupational health service provider, Mehiläinen Oy, to identify corrective measures at the individual and organizational levels. Employees were encouraged to engage in physical exercise with various campaigns related to the HeiaHeia application, and the Espoo office developed smart commuting models in a joint project with Helsinki Region Transport.

Innofactor's employees were active in organizing collective recreational Fun Club activities in all of our operating locations. The Fun Club focuses on various sporting activities that increase employee well-being as well as activities that promote team spirit and job satisfaction. The Fun Club program in 2016 included participation in the Company Rock event as well as karting, paintball, stand-up comedy, a boat tour of the archipelago and much more. One of the highlights of the year was Innofactor's group winning the Best Fans award at the finals of the Company Rock Finland event, which speaks to Innofactor's strong team spirit.

Employee Satisfaction at an Excellent Level

Employees are Innofactor's most important resource. Accordingly, employee satisfaction is one of our key indicators. We have monitored employee satisfaction on a quarterly basis for several years now. Year after year, these surveys reveal positive employee feedback regarding their immediate supervisors and great colleagues. The overall employee satisfaction index has been on an upward trajectory for several consecutive years and it reached a record high in 2016. We measure employee satisfaction in all of our countries of operation. Lumagate, which was acquired by Innofactor in late 2016, showed excellent results in its first employee satisfaction survey as part of the Innofactor Group. It is important for us to ensure that employees acquired in business combinations are satisfied with their jobs and committed to Innofactor.

Corporate Responsibility and Governance

Responsibility is a integral aspect of Innofactor's day-to-day operations. Our operations are guided by the company's strategy, values, corporate governance, quality system, personnel policy, corporate responsibility, and legislation.

The Environment and Sustainable Development

As a provider of digital solutions and a pioneer in new technology, we help our customers operate in more environmentally ways. In our operations, we adhere to the principles of sustainable development and the environmental guidelines of the Federation of Finnish Technology Industries. We help our customers achieve their environmental goals and contribute to the sustainable development of society through the digital solutions that we have developed. We deliver digital solutions and web services that decrease the environmental impact of our customers' operations.

The continuous assessment and development of a more environmentally friendly work community play a key role in our own operations. In 2016, we invested in more energy-efficient equipment and new digital solutions. Our current operating model makes it possible for our employees to work remotely and interact with customers and colleagues via online channels. This has significantly reduced the CO2 emissions of our day-to-day operations. We encourage our employees to make environmentally friendly commuting choices. In 2016, we were awarded the "Employer that makes you move" certificate for smart commuting by Helsinki Region Transport.

Innofactor's environmental policy ensures that key environmental issues are taken into account in day-to-day operations and their development. The principles underpinning Innofactor's environmental policy are the continuous improvement of environmental matters and reacting to changing environmental factors.

Social Responsibility

We aim to promote well-being at our workplaces, local communities, and at the Nordic level. We provide our employees with an inspiring and supportive environment that promotes their continued professional development. Employee well-being is essential for our operations. We ensure employee well-being by maintaining a stable, safe, communicative and engaging atmosphere, and by building reliable paths for future development. Each year, we invest in the development of employee well-being and arrange various well-being campaigns. We also invest in employee training, mainly through on-the-job learning and job rotation. Innofactor's high level of job satisfaction, which continues to rise from one year to the next, is evidence of the continuous improvement of employee well-being.

In 2016, Innofactor engaged in the goal-oriented recruitment of young talents and participated in several employment-oriented training programs, such as the Microsoft Azure Academy. Being a growing company, we have had an excellent opportunity for several years now to employ and train new talents. This allows us to promote youth employment and help employees adapt to the changes brought about by digitalization and globalization both in local communities and at the Nordic level. In 2016, the work of our experts supported the activities of Save the Children Denmark as well as the digital transformation of Finland as a nation through participation in "Code for Finland", a workshop-type course organized by Technology Industries of Finland and the Finnish Ministry of Transport and Communications.

We strive to establish long-term partnerships with our customers and other ICT companies, adding value and providing innovative solutions through a network of complementary expertise. By working actively with partners, universities and stakeholders that develop business at the local and national levels, we continuously create new partner networks to lower the globalization threshold in our industry and play a part in developing the software business in the Nordic region.

Financial Responsibility

Responsible growth and employee commitment are in everyone's interest. Innofactor has more than 10,000 shareholders and a strong tradition of creating employee commitment through subsidized share programs. We continuously pursue profitable growth through acquisitions as well as organic growth. As a company that is listed on the main list of Nasdaq Helsinki Ltd stock exchange, we operate transparently and in compliance with all regulatory principles. We have been one of the fastest-growing companies in terms of net sales for several years now, and all of our investment decisions are made based on careful analyses and sustainable growth forecasts, utilizing the best available expertise. This helps us ensure that Innofactor is an attractive and stable investment now and in the future.

Corporate Governance

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

Starting from January 1, 2016, Innofactor has complied with the Corporate Governance Code 2015 for Finnish listed companies issued by the Securities Market Association. 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 elects the Board of Directors. The duties of the Board of Directors are based on the Finnish 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 in accordance with the best interests of the company and its shareholders.

It is the duty of Innofactor Plc's Board of Directors to ensure that the monitoring of the Group's bookkeeping and financial control have been properly arranged. Internal monitoring in the Group is implemented by the Board of Directors together with the CEO and the director of legal matters. 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. This 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, the task of which is to help the CEO manage the company's day-to-day business.

The Corporate Governance of Innofactor was last updated on March 6, 2017. Innofactor's Corporate Governance Statement, which has been drawn up in accordance with the Finnish Securities Markets Act and the Corporate Governance Code 2015 for Finnish listed companies, is provided separately from the Annual Report.

The Board of Directors of Innofactor Plc

Ari Rahkonen, Chairman
BBA. Chairman and member of the Board of Directors since 2015. Born in 1963. Holds 30,000 shares in the company.

Sami Ensio
M.Sc. (Tech.) Innofactor Plc's CEO, member of the Board of Directors since 2010. Innofactor Ltd's founder and CEO since 2000. Born in 1971. Holds 7,460,715 shares in the company.

Jukka Mäkinen
M.Sc. (Econ. & Bus. Adm.) Member of the Board of Directors since 2012. Born in 1954. Holds 83,491 shares in the company.

Ilari Nurmi
M.Sc. (Tech.) Member of the Board of Directors since 2013. Born in 1975. Holds 63,328 shares in the company.

Pekka Puolakka
LL.M. Member of the Board of Directors since 2015 and from 2010 to 2014. Born in 1971. Holds 194,403 shares in the company.

Share ownership information as of December 31, 2016.

Executive Board of the Innofactor Group

Sami Ensio, CEO
M.Sc. (Tech.) Innofactor Plc's CEO and member of the Board of Directors. Innofactor Ltd's founder and CEO since 2000. Born in 1971. Holds 7,460,715 shares in the company.

Robert Erlandsson
M.Sc. (Econ. & Bus. Adm.) Country Manager for Sweden. Co-founder and CEO of Cinteros since 2005, employed by Innofactor since 2016. Born in 1966. Holds 0 shares in the company.

Jari Hahl
Diploma in Business Information Technology. Country Manager for Finland. Employed by Innofactor since 2016. Born in 1962. Holds 66,793 shares in the company.

Janne Heikkinen
M.Sc. (Tech.) CTO and Executive Vice President, Products and Services. Employed by Innofactor since 2015. Born in 1974. Holds 83,044 shares in the company.

Jørgen Krog Kaufmann
Country Manager for Denmark. Employed by Innofactor since 2016. Born in 1959. Holds 83,044 shares in the company.

Sanna Lindner
M.Sc. (Psych.) Executive Vice President, Human Resources. Employed by Innofactor since January 1, 2017. Born in 1973. Holds 0 shares in the company.

Stig Nerland
M.Sc. (Marketing). Country Manager for Norway. Employed by Innofactor since 2016. Born in 1979. Holds 0 shares in the company.

Patrik Pehrsson
M.Sc. (Econ. & Bus. Adm.) CFO. Employed by Innofactor since 2016. Born in 1971. Holds 83,044 shares in the company.

Share ownership information as of December 31, 2016.

Innofactor Plc

Annual Report and Financial Statement

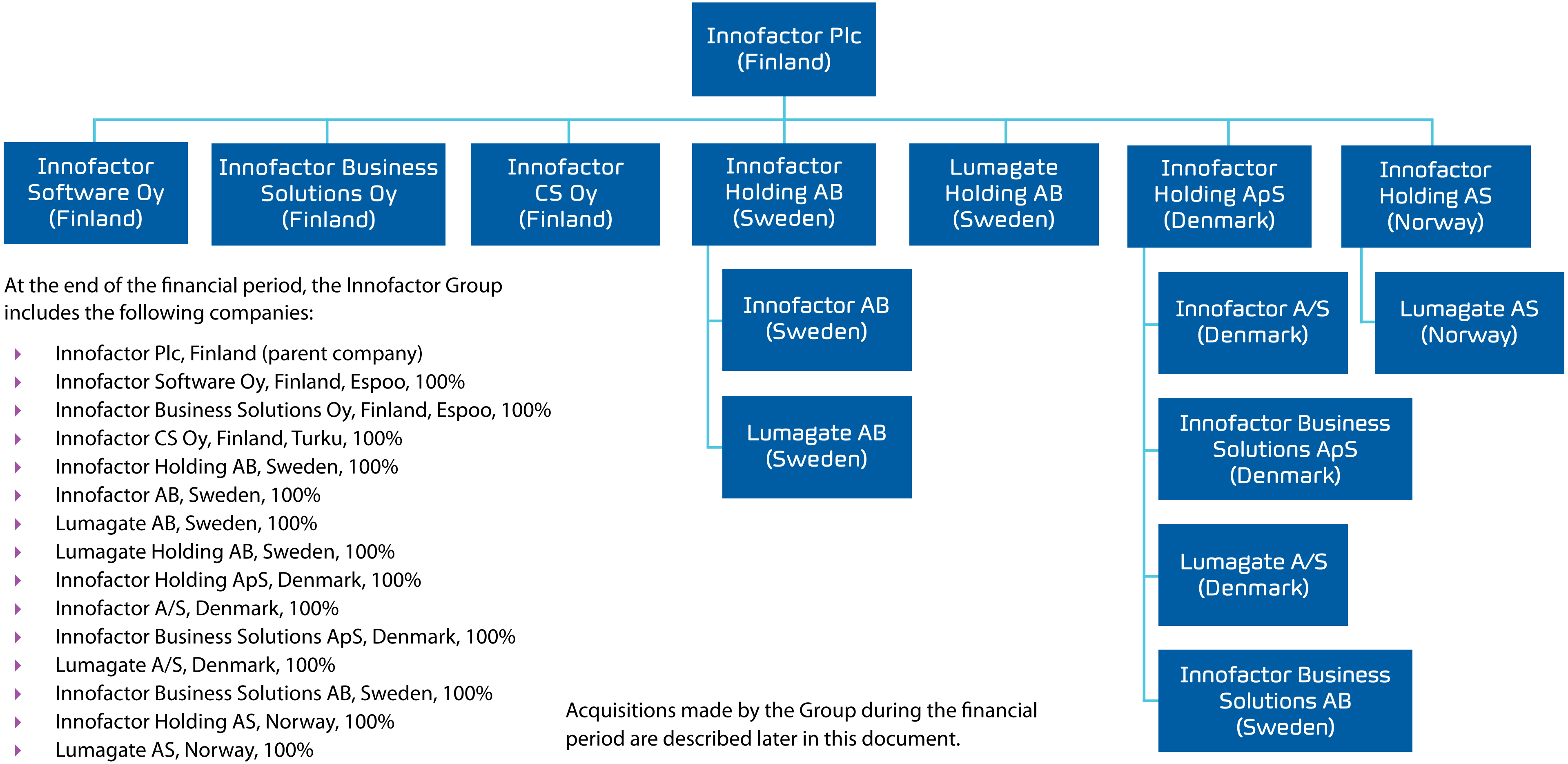
Financial period January 1, 2016 – December 31, 2016

Annual Report of the Board of Directors for 2016

Innofactor Group

Innofactor is a leading software provider focused on Microsoft solutions in the Nordic countries. Innofactor delivers IT projects to its customers as a system integrator and develops its own software products and services. The focus area in Innofactor's own product development is Microsoft's cloud solutions. Approximately 1/3 of Innofactor's net sales comes from recurring contracts related to Innofactor's own products and from other recurring service contracts. Innofactor's customers include over 1,500 private, public, and membership-based organizations. In its operation, Innofactor strives for long-term customer relationships. Innofactor has over 600 motivated and skilled employees in over 15 locations in Finland, Sweden, Denmark and Norway.

The structure of the Innofactor Group at the end of the financial period 2016 is presented below.



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

- Innofactor Plc, Finland (parent company)
- Innofactor Software Oy, Finland, Espoo, 100%
- Innofactor Business Solutions Oy, Finland, Espoo, 100%
- Innofactor CS Oy, Finland, Turku, 100%
- Innofactor Holding AB, Sweden, 100%
- Innofactor AB, Sweden, 100%
- Lumagate AB, Sweden, 100%
- Lumagate Holding AB, Sweden, 100%
- Innofactor Holding ApS, Denmark, 100%
- Innofactor A/S, Denmark, 100%
- Innofactor Business Solutions ApS, Denmark, 100%
- Lumagate A/S, Denmark, 100%
- Innofactor Business Solutions AB, Sweden, 100%
- Innofactor Holding AS, Norway, 100%
- Lumagate AS, Norway, 100%

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

Financial Performance and Position

Key Figures	2016	2015	2014	2013	2012
Net sales, EUR thousand	59,616	44,452	43,834	32,685	18,818
Operating profit before depreciation and amortization (EBITDA), EUR thousand	4,831	3,705	3,794	3,284	1,215
percentage of net sales	8.1%	8.3%	8.7%	10.0%	6.5%
Operating profit (EBIT), EUR thousand	2,332	2,542	2,407	2,255	620
percentage of net sales	3.9%	5.7%	5.5%	6.9%	3.3%
Earnings before taxes, EUR thousand	1,920	1,935	1,946	1,863	591
percentage of net sales	3.2%	4.4%	4.4%	5.7%	3.1%
Earnings, EUR thousand	1,536	1,548	1,556	1,407	449
percentage of net sales	2.6%	3.5%	3.5%	4.3%	2.4%
Shareholders' equity, EUR thousand	22,501	24,534	22,462	19,626	13,760
Interest bearing liabilities, EUR thousand	16,701	9,219	10,638	11,955	1,393
Cash and cash equivalents, EUR thousand	902	843	997	991	656
Deferred tax assets, EUR thousand	5,760	6,704	7,238	7,604	7,767
Return on equity, %	6.5%	6.6%	7.4%	8.4%	3.4%
Return on investment, %	6.4%	7.6%	9.1%	12.9%	4.5%
Net gearing, %	70.2%	34.1%	42.9%	55.9%	5.4%
Equity ratio, %	35.8%	56.9%	48.7%	43.1%	66.1%
Balance sheet total, EUR thousand	63,587	43,983	47,413	46,671	22,173
Research and development, EUR thousand	3,394	2,495	1,981	2,067	2,488
percentage of net sales	5.7%	5.6%	4.5%	6.3%	13.2%
Personnel on average during the year	532	409	421*	307*	189*
Personnel at the end of the year	591	415	411*	416*	193*
Number of shares at the end of the year	32,901,377	33,453,737	32,153,737	30,909,052	30,165,900
Earnings per share (EUR)	0.0467	0.0475	0.0485	0.0432	0.015
Shareholders' equity per share (EUR)	0.684	0.733	0.699	0.635	0.460

* Currently, Innofactor primarily monitors the number of active personnel. The number of active personnel does not include employees who are on a leave of over 3 months. However, for 2014, 2013 and 2012, the figures include also these persons, so the figures cannot be compared.

Net Sales

Innofactor's net sales in 2016 were EUR 59,616 thousand (2015: 44,452), which shows an increase of 34.1 percent.

Financial Performance

Innofactor's operating margin (EBITDA) in 2016 was EUR 4,831 thousand (2015: 3,705), which shows an increase of 34.1 percent. EBITDA accounted for 8.1 percent of the net sales (2015: 8.3%).

Innofactor's operating profit in 2016 was EUR 2,332 thousand (2015: 2,542), which shows a decrease of 8.3 percent. Operating profit accounted for 3.9 percent of the net sales (2015: 5.7%).

Financial Position, Liquidity and Investments

Innofactor's balance sheet total at the end of 2016 was EUR 63,587 thousand (2015: 43,983). The growth in the balance sheet total was mainly due to the acquisitions of Cinteros AB and Lumagate. The Group's liquid assets totaled EUR 902 thousand (2015: 843), consisting totally of cash funds.

The operating cash flow in 2016 remained strong and was EUR 3,442 thousand (2015: 3,943). The investment cash flow was significantly affected by the acquisitions of Cinteros AB and Lumagate, realized during the year, and it was EUR -7,318 thousand (2015: -2,162).

The equity ratio at the end of 2016 was 35.8 percent (2015: 56.9%) and net gearing was 70.2 percent (2015: 34.1%). During the year, Innofactor redeemed the EUR 3.2 million hybrid bond, which decreased the equity ratio and increased the net gearing.

At the end of 2016, the company had EUR 7,663 thousand in current interest bearing liabilities (2015: 4,428) and EUR 9,038 thousand in non-current interest bearing liabilities (2015: 4,791). The total amount of interest bearing liabilities was EUR 16,701 thousand (2015: 9,219). Additionally, on December 31, 2016, the Group had an unused credit limit of EUR 1.4 million. For the acquisitions of Cinteros AB and Lumagate Group, the company took loans for approximately EUR 9.1 million in 2016, which increased the amount of interest bearing liabilities.

The return on investment in January 1–December 31, 2016, decreased from the previous year and was 6.4 percent (2015: 7.6%). The return on equity in January 1–December 31, 2016, decreased slightly from the previous year and was 6.5 percent (2015: 6.6%).

The non-current assets in Innofactor's balance sheet at the end of the year were EUR 43,876 thousand in total and consisted of the following items:

- Tangible assets EUR 628 thousand
- Goodwill value EUR 27,690 thousand
- Other intangible assets EUR 9,141 thousand
- Shares and holdings EUR 62 thousand
- Receivables EUR 595 thousand
- Deferred tax assets EUR 5,760 thousand

Innofactor's gross investments in tangible assets in 2016 were EUR 479 thousand (2015: 447), consisting of normal additional and replacement investments required by growth.

The write-offs on intangible assets were EUR 1,978 thousand (2015: 587). The growth was mainly due to increased write-offs on intangible assets resulting from the acquisitions of Cinteros AB and Lumagate Group. Additionally, the company has activated development costs of the ERP system since October 1, 2016, for a total of EUR 322 thousand.

Mergers, Acquisitions and Changes in the Group Structure

On December 22, 2015, Innofactor announced in a stock exchange release that Innofactor will acquire the entire share capital of the Swedish company Cinteros AB from the company's management. The acquisition was realized on January 8, 2016, and Cinteros AB and its financial figures have been consolidated into the Innofactor Group as of January 1, 2016. Cinteros AB is 100% owned by the Swedish subsidiary Innofactor Holding AB, which Innofactor Plc acquired in connection with the acquisition and which is 100% owned by Innofactor Plc. The name of Cinteros AB was changed to Innofactor AB on May 31, 2016.

On October 10, 2016, Innofactor announced in a stock exchange release that on October 9, 2016, it had signed an agreement on acquiring the entire share capital of the Nordic Lumagate group from the company's key persons. The group consists of three operative companies: Lumagate AB (Sweden), Lumagate AS (Norway) and Lumagate A/S (Denmark).

No other acquisitions or other changes in the Group structure were carried out in 2016.

Personnel

Primarily, Innofactor monitors the number of active personnel. The number of active personnel does not include employees who are on a leave of over 3 months.

In the Cinteros AB acquisition, realized at the beginning of the year, approximately 100 new employees were transferred to Innofactor in Sweden. The Lumagate acquisition, realized in October, brought approximately 70 new employees to Innofactor in Sweden, Norway and Denmark.

The average number of active personnel in 2016 was 532 persons (2015: 409), which shows an increase of 30.1 percent.

In 2016, net sales per active person was approximately EUR 112.1 thousand (2015: 108.7), which shows an increase of EUR 3.4 thousand per person.

At the end of the year, the number of active personnel was 591 (2015: 414), which shows an increase of 42.4 percent.

At the end of the year, the average age among personnel was 39.4 years (2015: 40.1).

Women accounted for 28 percent (2015: 28%) of the personnel. Men accounted for 72 percent (2015: 72%) of the personnel.

Strategy

Innofactor is a leading provider of digitalization and cloud solutions in the Nordic countries. Innofactor has the widest solution offering and leading know-how in the Microsoft ecosystem in the Nordic countries. Innofactor has over 600 enthusiastic and motivated top specialists in Finland, Sweden, Denmark and Norway. Innofactor's customers include over 1,500 companies and public administration and third sector organizations. During the years 2017-2020, Innofactor will primarily strive to unify its offering in the Nordic countries in its selected areas. This may happen either through organic growth or selected acquisitions.

Innofactor's mission: We empower organizations and people to make a difference in the digital world.

Innofactor's vision: We are the leading provider of cloud solutions and digital transformation in each of the Nordic countries (Finland, Sweden, Denmark and Norway).

Innofactor's strategy for achieving this vision includes:

- The best Nordic professionals in the Microsoft ecosystem
- The leading offering in cloud solutions and digital transformation
- A proactive, value-adding and flexible delivery model
- Visionary Nordic customers in defined industries

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

- by achieving annual organic growth of about 20 percent by 2020
- by achieving about 20 percent EBITDA in relation to the net sales by 2020
- by keeping the cash flow positive and securing solid financial standing in all situations

We believe that we can reach an organic growth rate of 20% through the following priorities, among other things:

- We will focus on those industries and customer segments in the Nordic countries that present large growth potential related to the digital transformation and the implementation of cloud services. Social, health, and well-being services are one example of a sector that we will focus on in 2017 and beyond.
- We will enhance the selling of our products and services in our existing customer relationships to compete for a growing share of the customers' budgets allocated to the digital transformation and develop our customer relationships in the long run.
- We will invest in using modern digital marketing methods to enhance new customer acquisition and strengthen the customer perception of Innofactor as the leading Nordic provider of cloud services and digital transformation as well as to enhance our sales operations.

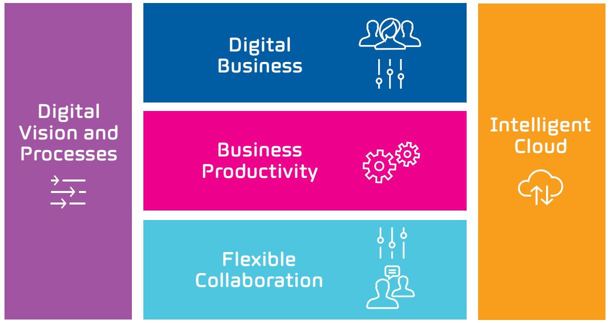
In addition to applying the priorities mentioned above, we believe we can reach our ebitda target of 20% of net sales by the following means, among other things:

- In the future, we will increasingly shift the focus of our offering to our own products and productized services that make it easier for our customers to switch to cloud services and maintain them. By doing this, we can provide better service and higher added value to our customers while also strengthening our long-term customer relationships.
- We will continuously strengthen the professional competence of our experts to ensure that our customers see significant added value in their expertise compared to our competitors and are, therefore, prepared to pay prices that are above the industry average.
- We will develop our flexible and quick delivery model, which facilitates the creation of added value, in such a way as to further increase customer satisfaction. In the development of our delivery model, our focus is on planning the work as efficiently as possible and minimizing unnecessary work that does not generate added value for the customer.
- We will invest in achieving cost synergies at the Nordic level, for example, by deploying the cloud-based Microsoft Dynamics 365 for Operations enterprise resource planning system in our operations in the Nordic countries in 2017.

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 understanding 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's offering is divided into the following five areas:



Our comprehensive solutions, which are integrated into each other, are based on real customer needs and on utilizing the latest technology. We achieve high-quality deliveries and provide our customers with fast benefits due to our experience and understanding of our customers combined with our knowledge of the latest cloud services. Over 15 years of cooperation with Microsoft and leading operators in its ecosystem ensure the best possible support for our customers.

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 cyclicality in the business operations. Recurring services account for about 33 percent of Innofactor's net sales.

In 2016, Innofactor's business operations were focused on Finland, Sweden, Denmark and Norway. Approximately 64 percent of the net sales came from Finland, approximately 25 percent from Sweden, approximately 9 percent from Denmark and approximately 2 percent from Norway. Lumagate's net sales in Sweden, Norway and Denmark are included only in the figures of the last quarter. Innofactor had no business operations in Norway before the Lumagate acquisition.

Of the net sales in 2016, approximately 41% came from private clients, approximately 35% from public sector clients and approximately 24% from membership-based organizations.

Innofactor's net sales in 2016 came from the following sources:

- approximately 62% from IT system delivery projects and consulting
- approximately 14% from specialist work based on recurring service contracts, such as smaller customer-specific changes and further development of IT systems
- approximately 19% from services based on recurring service contracts, such as SaaS, cloud and hosting services, and from software maintenance
- approximately 5% from licenses, of which the share of licensing income to third parties was about 2% of the net sales

Innofactor's 10 largest clients accounted for about 29 percent of the net sales in 2016. Significant growth compared to the previous year (2015: 23 percent) is mainly due to the fact that the Swedish subsidiary Innofactor AB (former Cinteros AB), which was merged into Innofactor on January 1, 2016, had several major projects in progress in 2016.

Major Events in the Financial Period

- On January 25, 2016, Innofactor announced in a stock exchange release that Keva has selected Innofactor in a public procurement competition as the provider of a web content management system and related services. The system delivery includes the implementation project, maintenance and support services. The comparison price (excluding VAT) of the procurement for the contract period is EUR 549,324.

- On January 26, 2016, Innofactor announced in a stock exchange release that starting from January 26, 2016, Innofactor's CEO Sami Ensio will take a sick leave of approximately two months related to an operation he is going to have and the recovery from it. During Sami Ensio's sick leave, his deputy will be Innofactor's CFO Janne Martola.

- On January 28, 2016, Innofactor announced in a stock exchange release that the Board of HKL (Helsinki City Transport) decided on January 27, 2016, to cancel the procurement decision for the situational information system for the Metro's total security as Tieto Finland Oy, which came third in the bidding competition, has made a claim for rectification concerning the procurement. Additionally, the Board gave the Managing Director the authorization to interrupt the procurement. On November 26, 2015, HKL had made a procurement decision, selecting Innofactor as the provider of the system. The system concerned in the procurement will guarantee Metro's safe operation for the customers. As stated by the customer, the procurement price (excluding VAT) for the period of four years is EUR 2,909,000. The framework arrangement of the procurement was intended to remain in effect for a maximum of 15 years. For this total time, Innofactor has stated that the total price according to the tender will be EUR 7,025,500. Innofactor considers the HKL's decision on cancelling the procurement decision to be clearly in violation of the Procurement Act, and Innofactor will make a complaint about the matter to The Market Court, unless the City of Helsinki changes the decision. The legal process concerning the legality of the decision will possibly take about 2–3 years. The Local Government Act still gives the Helsinki City Government the right to take the matter into handling, and this gives the City Government the option to overrule the HKL Board decision.

- On January 28, 2016, 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 and expert services related to the cloud services. In its invitation to tender, HUS estimated that the value of the delivery would be about EUR 1.5 million during the contract period of 2016–2017. However, the final value of the deal during the contract period cannot be stated for certain at this point. The whole includes transferring the existing On-Premises applications and infrastructure solutions of HUS into a Microsoft Azure cloud environment and also monitoring, management and support consultation services. The delivery also includes cloud architecture development, application and infrastructure service design/planning for individual projects and implementation of HUS' own solutions, such as Virtual Hospitals. Project deliveries and services related to the cloud transfer are planned to be delivered in stages during 2016–2017.

- On February 29, 2016, Innofactor announced in a stock exchange release that Innofactor has redeemed its EUR 3.2 million hybrid bond in full in cash. Innofactor has no other hybrid bonds. Innofactor did not take a new bank loan to redeem the hybrid bond. Currently, Innofactor has bank loans for a total of approximately EUR 11.3 million.

- On March 29, 2016, Innofactor announced in a stock exchange release that that the share repurchase program started in autumn 2015 has ended. The Board of Directors decided to cancel the 552,360 treasury shares.

- On April 18, 2016, Innofactor announced in a stock exchange release that the company had cancelled 552,360 treasury shares. The cancellation of the shares has been registered in the Trade register on April 18, 2016. After the registrations, the total number of Innofactor Plc shares is 32,653,737.

- On May 13, 2016, Innofactor announced in a stock exchange release that Innofactor Plc's CFO and deputy CEO Janne Martola has handed in his resignation on his own initiative on May 12, 2016. Innofactor's Board of Directors and Martola have agreed that Martola will continue as the CFO until the end of the third quarter on September 30, 2016.

- On June 7, 2016, Innofactor announced in a stock exchange release that in its meeting on June 6, 2016, the Board of Directors of Innofactor Plc decided to start the acquisition of the company's own shares. A maximum of 800,000 shares will be acquired, equaling approximately 2.43% of the total number of the company's shares. The decision is based on the authorization, given to the Board by the General Meeting on March 29, 2016, to acquire a maximum of 8,000,000 shares. The acquisition of own shares will start at the earliest on July 1, 2016, and will end on March 31, 2017, at the latest.

- On June 23, 2016, Innofactor announced in a stock exchange release that ABB Oy in Finland and Innofactor Plc signed an agreement on June 23, 2016, concerning the delivery of an Azure-based Integrated Management System to be used by ABB in Finland and the Baltic countries. The total value of the agreement is approximately EUR 925 thousand. The solution is based on Innofactor's Quality First out-of-the-box product, and the management system is used in a Microsoft Azure cloud environment. The three-year agreement encompasses management system licenses and their maintenance, the delivery project, support and maintenance services as well as Innofactor's Azure Managed Services.

- On July 7, 2016, Innofactor announced in a stock exchange release that Innofactor's Board of Directors had appointed Patrik Pehrsson as Innofactor Plc's new Chief Financial Officer (CFO) as of October 1, 2016. Previously, Mr. Pehrsson has worked as a CFO at Microsoft Oy since 2008. In his new role, Mr. Pehrsson, M.Sc. (Econ. & Bus. Adm.), will be a member of Innofactor's Executive Board, reporting to CEO Sami Ensio.

- On October 10, 2016, Innofactor announced in a stock exchange release that Innofactor will acquire Lumagate.

- On October 10, 2016, Innofactor announced in a stock exchange release that it will renew its vision and long-term financial goals.

- On December 21, 2016, Innofactor announced in a stock exchange release that Innofactor's General Counsel has resigned.

Major Events After the Financial Period

- On February 17, 2017, Innofactor announced in a stock exchange release that Anna-Maria Palmroos has been appointed as Innofactor's General Counsel.

There are no other significant events in Innofactor after 2016.

Future Outlook

Innofactor's net sales and operating margin (EBITDA) in 2017 is estimated to increase from 2016, during which the net sales were EUR 59.6 million and operating margin was EUR 4.8 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 Innofactor Plc's 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 the group companies that carry on its business operations.

Skilled personnel and its availability: The development of Innofactor's operations and deliveries depends greatly on the Group having skilled personnel and being able to replace persons, who are leaving, with properly skilled persons. 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 2016, about 70% 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 the Nordic countries 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 strives to affect the development of personnel costs via interest groups. It also aims at increasing the share of work done by subcontractors and abroad, when it makes sense from the point of view of business operations, for example, in large product development projects.

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.

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 also notable legal resources, and they can use these when competing with Innofactor for the same deliveries. Additionally, new, small startup companies increase competition in certain deliveries. The price competition in the field is expected to remain tough. If the competition becomes tougher, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor continuously strives to improve its competitiveness. Regarding this, the company has published the financial goals for 2020.

Research and product development: In Innofactor's operation, research and product development play a central role. In 2016, about 5.7% 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.

Changes in the technology and field of business: 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. Important changes under way include, for example, the transfer of software into cloud technologies, digitalization, artificial intelligence, and Internet of Things (IoT). If Innofactor cannot react to these changes, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor strives to actively invest in new technologies and central areas of know-how.

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 often in the past. It is possible that the IT market in Innofactor's market area will not grow or may even shrink in 2017. 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.

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 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. Additionally, the company strives to create a management model and common processes and information systems supporting these that will decrease the risks in global operations. A main part of this is the implementation of the Nordic ERP system in 2016–2018.

Uncertainties related to acquisitions: The growth has partly been 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 significant 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 January 2016, Innofactor took a bank loan package totaling approximately EUR 4.1 million for the Cinteros AB acquisition, on February 29, 2016, the company redeemed the EUR 3.2 million hybrid bond, and in March 2016, the company reorganized its other loans. In October 2016, Innofactor took another bank loan of approximately EUR 5.0 million for the Lumagate acquisition. In total at the end of the year, Innofactor had approximately EUR 16.7 million in interest bearing debts.

Innofactor has committed itself to the following covenants: equity ratio calculated every 6 months is at least of 30% on December 31, 2016, and at least 35% on June 30, 2017, and December 31, 2017. After this, the equity ratio calculated on every 6-month check point must be at least 40%. Additionally, interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA), including the pro forma effect of acquisitions, is a maximum of 3.5 on December 31, 2016. At the next check point on June 30, 2017, the requirement is 3.0 at the maximum, and on the check point on December 31, 2017, and every 6-month check point after that, 2.5 at the maximum. 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.

Interest risk: An interest risk in mainly due to the Group's short-term and long-term loans and the derivatives used for protecting them. Loans with fluctuating rates pose an interest risk to the Group's cash flow. This risk is decreased, for example, by using interest rate swap agreements.

Exchange rate risk: The Innofactor group operates globally and is susceptible to risks related to the currencies of the countries in which it operates. Changes in exchange rates, especially the rates of Swedish krona and Norwegian krone, affect the Group's net sales and profitability. After the Cinteros and Lumagate acquisitions, Innofactor has significant business operations based on Swedish krona and Norwegian krone. The exchange rate risk is mainly due to the assets and liabilities registered in the balance sheet and the net investments made in the subsidiaries abroad. Also the business contracts made by subsidiaries pose an exchange rate risk, although these contracts are mainly made in the currency the unit uses in its operation. The management of exchange rate risks in the Group aims at minimizing the uncertainty that changes in exchange rates cause in the result through cash flows and assessment of receivables and liabilities.

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 4.6 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. Should the company's profitability decrease significantly in the long run, it is possible that the Group would not be able to utilize in full the receivables currently activated in the balance sheet.

Risks Related to Shares

The number of Innofactor Plc shares traded on January 1–December 31, 2016, increased by 77.3% compared to the same period in the previous year. In 2016, share trading was 38.4% of the share capital, which is a fairly large number compared to many Small Cap companies. However, in the Helsinki stock exchange, companies' average trade in 2016 was approximately 62.6% of the market value. 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. Additionally, Innofactor has a market maker agreement that has been valid since May 24, 2012. According to the agreement, S-Pankki Oy will quote bids and offers for Innofactor Plc's share so that the spread of the bid and offer prices is a maximum of 4% calculated on the bid price. The bids and offers quoted must be for an amount of shares corresponding to the minimum of EUR 4,000.

Corporate Governance Report

Innofactor Plc complies with the recommendations of the Corporate Governance Code 2015 for Finnish listed companies, published by the Securities Market Association.

The General Meeting of March 29, 2016, decided that the number of Board members is five. Of the current members of the Board of Directors, Sami Ensio, Jukka Mäkinen, Ilari Nurmi, Pekka Puolakka and Ari Rahkonen were re-elected. In their organizing meeting held immediately after the General Meeting, the Board of Directors elected Ari Rahkonen as the Chairman of the Board.

The General Meeting approved the proposal to appoint the auditing firm PricewaterhouseCoopers Oy as the auditor for the company, with Samuli Perälä, APA, as the main responsible auditor.

Innofactor has drawn up a separate Corporate Governance Statement for the financial period of 2016.

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

Research and Product Development

Innofactor's research and development costs recognized in profit or loss for 2016 were approximately EUR 3,394 thousand (2015: 2,495), which accounts for 5.7 percent of the net sales (2015: 5.6%).

Corporate Responsibility

Our operations are guided by the company's strategy, values, corporate governance, quality system, personnel policy, corporate responsibility, and legislation. We strive to act in accordance with our policies by being proactive and always keeping our promises, by giving people the necessary freedom to succeed, by offering added value through innovations, and by earning our customers' trust every day. Responsibility is an important part of Innofactor's everyday operations.

Environment and Sustainable Development

As a provider of digital solutions and a pioneer in new technology, we help our customers operate in more environmentally ways. In our operations, we adhere to the principles of sustainable development and the environmental guidelines of the Federation of Finnish Technology Industries. We help our customers achieve their environmental goals and contribute to the sustainable development of society through the digital solutions that we have developed. We deliver digital solutions and web services that decrease the environmental impact of our customers' operations.

The continuous assessment and development of a more environmentally friendly work community play a key role in our own operations. In 2016, we invested in more energy-efficient equipment and new digital solutions. Our current operating model makes it possible for our employees to work remotely and interact with customers and colleagues via online channels. This has significantly reduced the CO2 emissions of our day-to-day operations. We encourage our employees to make environmentally friendly commuting choices. In 2016, we were awarded the "Employer that makes you move" certificate for smart commuting by Helsinki Region Transport.

Innofactor's environmental policy ensures that key environmental issues are taken into account in day-to-day operations and their development. The principles underpinning Innofactor's environmental policy are the continuous improvement of environmental matters and reacting to changing environmental factors.

Social Responsibility

We aim to promote well-being at our workplaces, local communities, and at the Nordic level. We provide our employees with an inspiring and supportive environment that promotes their continued professional development. Employee well-being is essential for our operations. We ensure employee well-being by maintaining a stable, safe, communicative and engaging atmosphere, and by building reliable paths for future development. Each year, we invest in the development of employee well-being and arrange various well-being campaigns. We also invest in employee training, mainly through on-the-job learning and job rotation. Innofactor's high level of job satisfaction, which continues to rise from one year to the next, is evidence of the continuous improvement of employee well-being.

In 2016, Innofactor engaged in the goal-oriented recruitment of young talents and participated in several employment-oriented training programs, such as the Microsoft Azure Academy. Being a growing company, we have had an excellent opportunity for several years now to employ and train new talents. This allows us to promote youth employment and help employees adapt to the changes brought about by the digital transformation and globalization both in local communities and at the Nordic level. In 2016, the work of our experts supported the activities of Save the Children Denmark as well as the digital transformation of Finland as a nation through participation in "Code for Finland", a workshop-type course organized by Technology Industries of Finland and the Finnish Ministry of Transport and Communications.

We strive to establish long-term partnerships with our customers and other ICT companies, adding value and providing innovative solutions through a network of complementary expertise. By working actively with partners, universities and stakeholders that develop business at the local and national levels, we continuously create new partner networks to lower the globalization threshold in our industry and play a part in developing the software business in the Nordic region.

Financial Responsibility

Responsible growth and employee commitment are in everyone's interest. Innofactor has more than 10,000 shareholders and a strong tradition of creating employee commitment through subsidized share programs. We continuously pursue profitable growth through acquisitions as well as organic growth. As a company that is listed on the main list of Nasdaq Helsinki Ltd stock exchange, we operate transparently and in compliance with all regulatory principles. We have been one of the fastest-growing companies in terms of net sales for several years now, and all of our investment decisions are made based on careful analyses and sustainable growth forecasts, utilizing the best available expertise. This helps us ensure that Innofactor is an attractive and stable investment now and in the future.

Share and Shareowners

At the end of the year, Innofactor Plc's share capital was EUR 2,100,000.00 and the total number of shares was 32,153,737, of which the company held 163,839 shares. Innofactor Plc has one series of shares. Each share is entitled to one vote.

In 2016, the highest price of the company share was EUR 1.22 (2015: EUR 1.20), the lowest price was EUR 0.75 (2015: EUR 0.76), and the average* price was EUR 0.99 (2015*: EUR 0.96). The closing price for the year on December 30, 2016, was EUR 1.15 (2015: EUR 0.98).

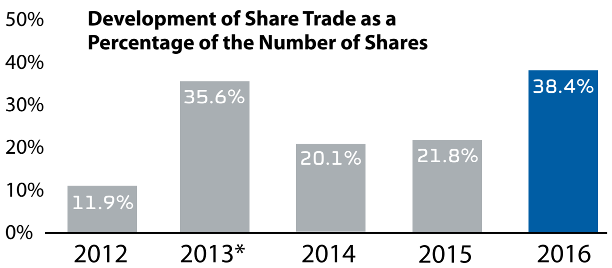
Vuoden päätöskurssi 30.12.2016 oli 1,15 euroa (2015: 0,98 euroa).

* 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 public trading in 2016, a total of 12,617,494 shares were traded (2015: 7,118,343 shares), which corresponds to 38.4 percent (2015: 21.8%) of the average number of shares on the said period.

In 2016, there were 32,871,577 shares on the average (2015: 32,579,614*). The share trading increased by 77.3 percent compared to the corresponding period in 2015.

* The average number of shares does not include treasury shares.



* The high number of shares traded in 2013 is due to the at-Business Oy acquisition and the related option, which the company exercised to buy back approximately 4.7 million of its own shares. This trade formed approximately 29 percent of the share trading that year.

The market value of the share capital at the closing price of EUR 1.15, on December 31, 2016, was EUR 37,837 thousand (2015: 32,785), which shows an increase of 15.4 percent.

On December 31, 2016, the company had 11,158 shareowners (2015: 10,771), including administrative registers.

The Board of Directors has the following authorizations:

- Until June 30, 2017, 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 March 29, 2016); the authorization has not been used.
- Until June 30, 2017, to decide on a transfer of a maximum of 1,000,000 treasury shares (decided by the General Meeting of March 29, 2016); the authorization has not been used.

On February 22, 2016, Innofactor published a flagging announcement pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act, stating that as a result of a share transaction made on February 22, 2016, Jyrki Salminen's ownership of Innofactor Plc has decreased to below 5 percent.

Treasury Shares

The General Meeting of March 29, 2016, authorized the Board of Directors to decide on acquiring of a maximum of 8,000,000 of the company's own shares in one or several parts with the company's unrestricted equity. The authorization entitles the Board to deviate from the shareholders' proportional shareholdings (directed acquisition). Own shares may be acquired at the purchase price formed for them in public trading at the day of purchase or at another market price. The number of treasury shares at a time may be, at the maximum, one tenth of the total number of shares in the company. Shares may be purchased to be used in company acquisitions or implementing other arrangements relating to the company's business operations, improving the company's capital or financing structure, as a part of the company's incentive system, or otherwise to be handed over or voided. 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 June 30, 2017. This authorization replaces the Board's earlier authorizations concerning share repurchase. On the basis of the authorization, Innofactor Plc purchased a total of 163,839 of its own shares during the year. After the purchases made in 2016, the authorization remains valid for 7,836,161 shares.

On March 29, 2016, Innofactor announced in a stock exchange release that the share repurchase program started in autumn 2015 has ended. The Board of Directors decided to cancel the 552,360 treasury shares the company had on March 31, 2016. They were cancelled on April 18, 2016.

On June 7, 2016, Innofactor announced in a stock exchange release that in its meeting on June 6, 2016, the Board of Directors of Innofactor Plc decided to start the acquisition of the company's own shares. A maximum of 800,000 shares will be acquired, equaling approximately 2.43% of the total number of the company's shares. The decision is based on the authorization, given to the Board by the General Meeting on March 29, 2016, to acquire a maximum of 8,000,000 shares. The acquisition of own shares started on July 1, 2016, and will end on March 31, 2017, at the latest. On December 31, 2016, Innofactor Plc had a total of 163,839 (0.50%) treasury shares.

Share Owning by the Management

Share Owning by the Board of Directors:

- Ari Rahkonen, 30,000 shares, 0.09%
- J.T. Bergqvist, 50,000 shares, 0.15% (until March 29, 2016)
- Sami Ensio, 7,460,715 shares, 22.68%
  - *Sami Ensio, 5,286,955 shares, 16.07%*
  - *minor under guardianship, 724,588 shares, 2.20%*
  - *minor under guardianship, 724,586 shares, 2.20%*
  - *minor under guardianship, 724,586 shares, 2.20%*
- Jukka Mäkinen, 83,491 shares, 0.25%
- Ilari Nurmi, 63,328 shares, 0.19%
- Pekka Puolakka, 194,403 shares, 0.59%
  - *Hillside Ou, 105,670 shares, 0.32%*
  - *Pekka Puolakka, 88,733 shares, 0.27%*

Share Owning by the CEO:

- Sami Ensio, 7,460,715 shares, 22.68%
  - *Sami Ensio, 5,286,955 shares, 16.07%*
  - *minor under guardianship, 724,588 shares, 2.20%*
  - *minor under guardianship, 724,586 shares, 2.20%*
  - *minor under guardianship, 724,586 shares, 2.20%*

Share Owning by Other Members of the Executive Board:

- Robert Erlandsson, 0 shares, 0%
- Anthony Gyursanszky, 0 shares, 0% (until August 1, 2016)
- Jari Hahl, 66,793 shares, 0.20%
- Janne Heikkinen, 83,044 shares, 0.25%
- Elina Jokinen, 53,979 shares, 0.16% (until December 31, 2016)
- Jørgen Krog Kaufmann, 83,044 shares, 0.25% (as of February 1, 2016)
- Janne Martola, 170,000 shares, 0.52% (until September 30, 2016)
- Stig Nerland, 0 shares, 0% (as of November 1, 2016)
- Patrik Pehrsson, 83,044 shares, 0.25% (as of October 1, 2016)

Largest Shareholders

According to the share register maintained by Euroclear Finland Oy, the share ownership of the 20 largest Innofactor Plc shareowners at the end of the year, on December 31, 2016, was as follows.

Name	Number of shares	% of share capital
1. Ensio Sami	7,460,715	22.68%
Ensio Sami	*5,286,955*	*16.07%*
minor under guardianship	*724,588*	*2.20%*
minor under guardianship	*724,586*	*2.20%*
minor under guardianship	*724,586*	*2.20%*
2. Tilman Tuomo Tapani	2,747,492	8.35%
3. Keskinäinen Eläkevakuutus-yhtiö Ilmarinen	1,550,000	4.71%
4. Laiho Rami Tapani	1,392,519	4.23%
5. Linturi Kaija ja Risto	1,266,411	3.85%
R. Linturi Oyj	*499,107*	*1.52%*
Linturi Kaija Anneli	*430,000*	*1.31%*
Linturi Risto Erkki Olavi	*337,304*	*1.03%*
6. Ärje Matias Juhanpoika	933,278	2.84%
7. Mäki Antti-Jussi	930,201	2.83%
8. Muukkonen Teemu	522,230	1.59%
9. Lampi Mikko Olavi	508,579	1.55%
10. Kukkonen Heikki-Harri	326,021	0.99%
11. Järvenpää Janne-Olli	322,804	0.98%
12. Laiho Jari Olavi	270,000	0.82%
13. Rausanne Oy	245,000	0.74%
14. Damén Klaus Antero	210,001	0.64%
15. Karppinen Antti Sakari	200,000	0.61%
16. Hellen Stefan Andreas	180,000	0.55%
17. Martola Janne Matti Juhani	170,000	0.52%
18. Innofactor Oyj	163,839	0.50%
19. Vakuutusosakeyhtiö Henki-Fennia	150,000	0.46%
20. Mäkinen Antti Vilho Juhani	140,000	0.43%

Board of Directors and the Company's Management

Board of Directors

In 2016, the members of the Innofactor Plc's Board of Directors were:

- Ari Rahkonen (Chairman)
- Sami Ensio
- J.T. Bergqvist (until March 29, 2016)
- Jukka Mäkinen
- Ilari Nurmi
- Pekka Puolakka

The Board members for Innofactor Group's Finnish group companies and Swedish, Danish and Norwegian holding companies are the Group CEO Sami Ensio (Chairman) and CFO Patrik Pehrsson (Janne Martola until September 30, 2016), with General Counsel Katja Tammelin as a deputy member.

The Board members for Innofactor Group's Swedish, Danish and Norwegian group companies are the Group CEO Sami Ensio (Chairman) and CFO Patrik Pehrsson (Janne Martola until September 30, 2016), and the local Managing Directors. CEO Innofactor Plc's CEO is Sami Ensio. Mr. Ensio also acts as the CEO of the Innofactor Plc's Finnish group companies. In Sweden, Denmark and Norway, the local Country Managers act as the Managing Directors of the operative companies.

CEO

Innofactor Plc's CEO is Sami Ensio. Mr. Ensio also acts as the CEO of the Innofactor Plc's Finnish group companies. In Sweden, Denmark and Norway, the local Country Managers act as the Managing Directors of the operative companies.

Executive Board

In 2016, the Innofactor Group's Executive Board consisted of

- Sami Ensio, CEO, Chairman of the Executive Board
- Robert Erlandsson, Country Manager, Sweden
- Anthony Gyursanszky, Operative Manager (until August 1, 2016)
- Jari Hahl, Country Manager, Finland
- Janne Heikkinen, EVP, Products and Services
- Elina Jokinen, HR Director (until December 31, 2016)
- Jørgen Kaufmann, Country Manager, Denmark (as of February 1, 2016)
- Janne Martola, CFO (until September 30, 2016)
- Stig Nerland, Country Manager, Norway (as of November 1, 2016)
- Patrik Pehrsson, CFO (as of October 1, 2016)

Auditor

The auditing firm PricewaterhouseCoopers Oy acted as the auditor for the company, with Samuli Perälä, APA, as the main responsible auditor.

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 operating margin (EBITDA) that exceeds 10%, the maximum dividend allowed by the state of the business. For 2016, the operating margin (EBITDA) was 8.1% of the net sales. 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 2016, the distributable assets of the Group's parent company were EUR 41,020,610.27.

The Board of Directors proposes that no dividend be distributed for the financial period of 2016.

Consolidated Financial Statements

Comprehensive Consolidated Profit and Loss Statement, IFRS

EUR thousand	Note	2016	2015
Net sales	4	59,616	44,452
Other operating income		569	234
Materials and services		-5,482	-3,464
Employee benefits/expenses	7	-40,697	-30,708
Depreciation	6	-2,499	-1,163
Other operating expenses	5	-9,175	-6,809
Operating profit		2,332	2,542
Financial income	9	5	1
Financial expenses	10	-417	-608
Profit before taxes		1,920	1,935
Income taxes	11	-384	-387
Profit for the period		1,536	1,548
Other comprehensive income			
Items that may be later transferred into profit or loss:			
Exchange differences		-20	0
Total comprehensive income		1,516	1,548
Distribution of the profit and comprehensive income			
To shareholders of the parent company		1,516	1,548
Earnings per share calculated from the profit attributable to equity holders of the parent:			
basic earnings per share (EUR)	12	0.0467	0.0475
diluted earnings per share (EUR)	12	0.0467	0.0475

Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2016	Dec 31, 2015
ASSETS			
Non-current assets			
Other tangible assets	13	628	541
Goodwill	14	27,690	19,584
Other intangible assets	14	9,141	2,934
Shares and holdings		62	62
Receivables	16	595	663
Deferred tax assets	15	5,760	6,704
		43,876	**30,488**
Current assets			
Trade and other receivables	16, 20	18,809	12,652
Cash and cash equivalents	17	902	843
		19,711	**13,495**
TOTAL ASSETS		**63,587**	**43,983**

Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2016	Dec 31, 2015
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	16,153	16,153
Treasury shares		-161	-345
Hybrid bond		0	3,200
Retained earnings		4,278	3,295
Total shareholders' equity		**22,501**	**24,534**
Non-current liabilities			
Loans from financial institutions	21	9,038	4,791
Deferred tax liabilities	15	2,234	840
		11,272	**5,631**
Current liabilities			
Current financial liabilities	21	7,663	4,428
Trade and other payables	21	22,151	9,390
		29,814	**13,818**
Total liabilities		**41,086**	**19,449**
Total shareholders' equity and liabilities		**63,587**	**43,983**

Consolidated Cash Flow Statement, IFRS

EUR thousand	Note	2016	2015
Cash flow from operating activities			
Operating profit		2,332	2,542
Adjustments:			
Depreciation	22	2,499	1,163
Changes in working capital:			
Change in trade or other receivables		-186	2,120
Change in trade and other payables		-838	-1,535
Interests paid		-370	-348
Interests received		5	1
Total cash flow from operating activities		**3,442**	**3,943**
Investment cash flow			
Acquisition of subsidiaries		-6,475	-1,685
Investments in intangible and tangible assets		-843	-477
Total cash flow from investments		**-7,318**	**-2,162**
Cash flow from financing			
Loans withdrawn		13,783	1,390
Loans paid		-6,302	-2,809
Payments received from share issue		0	117
Purchase of own shares		-300	-345
Redemption of the hybrid bond		-3,200	0
Interest payments on the hybrid bond		-47	-288
Total cash flow from financing		**3,934**	**-1,935**
Change in cash and cash equivalents		**58**	**-154**
Cash and cash equivalents, opening balance		843	997
Cash and cash equivalents, closing balance		**902**	**843**

Consolidated Statement of Change in Shareholders' Equity, IFRS

EUR thousand	Note 18	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Treasury shares	Retained earnings	Issuing a hybrid bond	Total share-holders' equity
			Equity attributable to the shareholders of the parent company						
Shareholders' equity Jan 1, 2016		**2,100**	**72**	**59**	**16,153**	**-345**	**3,295**	**3,200**	**24,534**
Comprehensive income									
Profit for the financial period							1,536		**1,536**
Other comprehensive income:									
Exchange differences							-20		**-20**
Total comprehensive income		**0**	**0**	**0**	**0**	**0**	**1,516**		**1,516**
Transactions with shareholders									
Purchase of own shares						-301			-301
Cancellation of treasury shares						485	-485		0
Transactions with shareholders in total		**0**	**0**	**0**	**0**	**184**	**-485**	**0**	**-301**
Redemption of the hybrid bond								-3,200	-3,200
Interest payments on the hybrid bond							-47		-47
Shareholders' equity Dec 31, 2016		**2,100**	**72**	**59**	**16,153**	**-161**	**4,278**	**0**	**22,501**
Shareholders' equity Jan 1, 2015		**2,100**	**72**	**59**	**14,995**	**0**	**2,036**	**3,200**	**22,462**
Comprehensive income									
Profit for the financial period							1,548		1,548
Other comprehensive income:									
Exchange differences							-1		**-1**
Total comprehensive income		**0**	**0**	**0**	**0**	**0**	**1,547**	**0**	**1,547**
Transactions with shareholders									
Share issue					1,158		0		1,158
Purchase of own shares						-345			-345
Transactions with shareholders in total		**0**	**0**	**0**	**1,158**	**-345**	**0**	**0**	**813**
Interest payments on the hybrid bond							-288		-288
Shareholders' equity Dec 31, 2015		**2,100**	**72**	**59**	**16,153**	**-345**	**3,295**	**3,200**	**24,534**

Accounting Principles of the Consolidated Financial Statements (IFRS)

1. Basic Information on the Group

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

Innofactor is a leading provider of digitalization and cloud solutions in the Nordic countries. The company has the widest solution offering and leading know-how in the Microsoft ecosystem in the Nordic countries. Innofactor is a system integrator, delivering business critical solutions and maintenance services for its customers, and it develops its own software products and services. The focus area in the company's own product development is Microsoft-based cloud solutions.

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 March 6, 2017. 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.

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, 2016. 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, 2016, the Group has applied the following new and amended standards and interpretations:

Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative
Due to the change, the Group presents the notes in the order of relevancy.

The following changes in the standards have not had significant impact on the consolidated financial statements:

Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative

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.

Amendment to IAS 16 Tangible Assets and IAS 38 Intangible Assets: 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.

Annual Improvements to IFRS standards 2012-2014

The Group Will Apply the Following Standards and Interpretations Later Than in the Financial Period Starting on January 1, 2017.
The group will apply each standard on the date it takes effect or, if the effective date is other than the first day of a reporting period, at the beginning of the next reporting period, assuming that the EU will accept them.

IFRS 16 Leases
(Estimated to take effect on January 1, 2019.) The draft for the standard defines a lease as an agreement according to which the lessor gives the lessee the right to use a specified commodity for a specified time against payment or recurring payments. In accordance with the previous IAS 17 instructions, the lessee was obligated to make a difference between a finance lease (in the balance sheet) and an operating lease (not in the balance sheet), but in the new model, all leases of over 1 year in length will be entered into the balance sheet. Classification of leases affects, for example, the amounts registered into the profit and loss statement. The Group

estimates that this standard will affect the consolidated financial statements, and the Group will continue its assessment on the effects of the changes. The EU has not yet accepted the standard.

Amendment to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 28 Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception
(Estimated to take effect on January 1, 2017.) Narrow changes to IFRS 10, IFRS 12 and IAS 28 clarify the requirements concerning the bookkeeping of investment entities. The changes also make things easier in certain circumstances, thus lowering the costs of applying the standard. The changes are estimated to not have an impact on the consolidated financial statements.

IFRS 9 Financial Instruments
(Estimated to take effect on January 1, 2018.) The 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 estimates that these amendments will not have significant impacts on future consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers
The new standard will be applied for the annual reporting periods beginning on or after January 1, 2018. The new standard defines a five-step model to recognize revenue based on contracts with the customers and replaces the current standards IAS 18 and IAS 11 as well as the related interpretations. The standard includes new guidance for license revenue, accounting for costs, determining transaction price, among other things, and also increases disclosure requirements on revenue from customer contracts. Innofactor is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

Some Innofactor delivery projects include software licenses which currently are recognized at the time of delivering the license to the customer or at the time of entering into agreement with the customer. If these arrangements in certain cases should be treated as a single performance obligation, revenue and cost of the software licenses should be deferred and recognized over time together with the related project.

Currently, some software licenses are recognized at the time of delivery to the customer or at the time of entering into agreement with the customer. Innofactor is assessing whether in some cases the control of the software is transferred to customer during or at the end of the delivery project. If so, revenue and cost of the software license should be recognized at a later point in time than currently.

Some Innofactor maintenance contracts include a set-up activity. If the set-up activity does not constitute a separate performance obligation, revenue relating to the activity would need to be deferred and recognized over time. Also related costs would be capitalized, if the criteria under IFRS 15 would be met.

Based on the above findings, it is likely that profit from some Innofactor agreements will be deferred to a certain extent in comparison to current accounting principles. At this stage, Innofactor is not yet able to quantify the impact of the new principles on the consolidated financial statements. Innofactor continues to prepare for the new standard and will give more detailed information on financial impact in the interim reports during 2017. Moreover, as the transition proceeds, it is possible that other affected areas will be discovered

Innofactor will adopt the new standard on January 1, 2018, using the modified retrospective approach.

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 the 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 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 a 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.

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 exceeding the Group's share of the fair value of the net assets of the acquired company at the time of acquisition.

Goodwill is not subject to depreciation, but it is tested annually for impairment. 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 2015 and 2016, 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.

During the last quarter, Innofactor activated EUR 322 thousand in costs related to acquiring an ERP system. These costs will be amortized in 5 years.

The major part of other intangible assest has been formed in relation to business acquisitions and consists of customer relationships and technology. The amortization period is defined separately for each acquisition and is 5-9 years.

The amortization period for software is 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 financial leases. An asset acquired by means of a financial 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 a financial 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 of each reporting period 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 whether there are any indications of impairment: goodwill and intangible assets with an infinite useful life.

The recoverable amount is the asset's fair value less costs to sell or its value in use, whichever is higher. 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 2015 and 2016.

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 for taxable temporary differences when the deferred tax liability arises from the initial recognition of goodwill, or if the liabilities 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 (or loss recognized in taxation) 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 of the reporting period.

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 of the reporting period on whether the conditions for recognizing deferred tax assets are met.

Revenue Recognition Principles

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

Sold Services

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

Long-Term Projects

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

If the estimate of the outcome of the project changes, the recognized sales 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.

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.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 of the reporting period.

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 expenses in the period in which they have 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 agreements.

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 the 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 the 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 of the reporting period. 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 of the reporting period 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, for example, 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. Additionally, the Group examines at every closing date of a reporting period 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 are 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.

3. Business Acquisitions

Acquisitions on the Financial Period 2016

The Final Acquisition Cost Calculation for Cinteros AB

On December 21, 2015, Innofactor Plc signed an agreement on acquiring the entire share capital of Cinteros AB from the company's management. According to the agreement published by the company on December 22, 2015, the purchase price will be determined by Cinteros' realized operating margin in 2016 and growth of sales in 2017. The Enterprise Value (EV) is a minimum of approximately SEK 25 million (approximately EUR 2.7 million) and it was paid in SEK as the agreement was signed on January 8, 2016, and all of Cinteros AB shares were transferred to the ownership of Innofactor. In connection with signing the agreement, the sellers were paid approximately SEK 28 million in cash (approximately EUR 3.1 million). The payment in its entirety was financed with a new bank loan.

The rest of the Enterprise Value, which is a maximum of SEK 49 million (at the exchange rate of the time of publishing the deal, a maximum of EUR 5.3 million), is intended to be paid mainly in Innofactor shares during 2017 and 2018. The Enterprise Value (EV) is a maximum of SEK 74 million (at the exchange rate of the time of publishing the deal, a maximum of EUR 8.0 million). The part of the purchase price to be paid in shares includes a transfer restriction, which will be gradually released during a period of 36 months and which concerns 75 percent of the shares.

The figures for Cinteros AB were consolidated into the Innofactor Group's balance sheet as of January 1, 2016, and, thus, they are not included in the balance sheet of December 31, 2015. Cinteros AB's name was changed to Innofactor AB on May 31, 2016, after which the Cinteros services are offered under the Innofactor brand.

The acquisition cost according to IFRS is the estimated purchase price of the shares, which in the acquisition cost calculation is EUR 9,342 thousand and has been presented in more detail in the following calculation. The calculation is final and there are no changes compared to the preliminary calculation.

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

The values are based on a preliminary acquisition cost calculation.

EUR thousand	Preliminary values registered for consolidation
Tangible assets	82
Intangible assets	6,696
Deferred tax assets	64
Deferred tax assets	97
Trade and other receivables	2,856
Cash and cash equivalents	1,858
Total assets	11,654
Other payables *)	4,923
Total liabilities	4,923
Net assets	6,731
Acquisition cost **)	9,342
Goodwill	2,611

*) Includes a deferred tax liability of 1,473

**) Cash 4,073, conditional compensation 5,269

Purchase price paid in cash	4,073
Cash funds of the acquired subsidiary	1,858
Cash flow effect	-2,215

The value of the customer contracts and the related customer relationships included in the intangible assets (EUR 2,805 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 fair value of the products and technologies included in the intangible assets (EUR 3,891 thousand) has been defined on the basis of the discounted net cash flows resulting from license orders of new customers ordering products, estimated license income from other new customers, and estimated maintenance contracts related to product licenses.

The amendment of the additional purchase price related to the acquisition, EUR 691 thousand, has been taken into account in the calculation.

The acquisition created a preliminary goodwill of EUR 2,611 thousand. The goodwill is based on the expected synergy benefits arising from the acquisition of Cinteros AB and on making use of the common sales and marketing network in the group and expanding customer relationships. The acquisition cost calculation is final.

The Preliminary Acquisition Cost Calculation for Lumagate

On October 10, 2016, Innofactor Plc signed an agreement on acquiring the entire share capital of Lumagate Holding AB from the company's management. According to the agreement published by the company on October 10, 2016, the purchase price will be determined by Lumagate's realized operating margin in 2016 and the operating margins of 2017 and 2018. The Enterprise Value (EV) is a minimum of approximately SEK 45 million (approximately EUR 4.7 million) and it was paid in SEK as the agreement was signed on October 14, 2016, and all of Lumagate shares were transferred to the ownership of Innofactor. In connection with signing the agreement, the sellers were paid approximately SEK 45 million in cash (approximately EUR 4.7 million). The payment in its entirety was financed with a new bank loan.

The rest of the Enterprise Value, which is a maximum of SEK 55 million (at the fixed exchange rate defined in the agreement, a maximum of EUR 5.7 million), is intended to be paid mainly in Innofactor shares in 2018 and 2019. The Enterprise Value (EV) is a maximum of SEK 100 million (at the fixed exchange rate defined in the agreement, a maximum of EUR 10.4 million). The part of the purchase price to be paid in shares includes a transfer restriction, which will be gradually released during a period of 24 months and which concerns 90 percent of the shares.

The figures for Lumagate were consolidated into the Innofactor Group's balance sheet as of October 1, 2016.

The acquisition cost according to IFRS is the estimated purchase price of the shares, which in the preliminary acquisition cost calculation is EUR 6,756 thousand and has been presented in more detail in the following calculation. The 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	Preliminary values registered for consolidation
Tangible assets	32
Intangible assets	1,058
Deferred tax assets	27
Trade and other receivables	2,716
Cash and cash equivalents	367
Total assets	4,200
Other payables *)	3,013
Total liabilities	3,013
Net assets	1,187

Acquisition cost **)	6,684

Goodwill	5,496

*) Includes a deferred tax liability of 227
**) Cash 4,627, conditional compensation 2,057

Purchase price paid in cash	4,627
Cash funds of the acquired subsidiary	367
Cash flow effect	-4,260

The value of the customer contracts and the related customer relationships included in the intangible assets (EUR 426 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 fair value of the products and technologies included in the intangible assets (EUR 606 thousand) has been defined on the basis of the discounted net cash flows resulting from license orders of new customers ordering products, estimated license income from other new customers, and estimated maintenance contracts related to product licenses.

The acquisition created a preliminary goodwill of EUR 5,496 thousand. The goodwill is based on the expected synergy benefits arising from the acquisition of Lumagate and on making use of the common sales and marketing network in the group and expanding customer relationships.

4. Net Sales

EUR thousand	2016	2015
Revenue from services	39,767	27,538
Revenue recognized from long-term projects	19,849	16,914
Total	**59,616**	**44,452**

From long-term projects in progress at the balance sheet date, a total of EUR 17.6 million (EUR 11.8 million in 2015) of realized revenues had been recognized.

For advance payments for long-term projects in progress, the balance sheet included EUR 371 thousand on December 31, 2016, (EUR 198 thousand on December 31, 2015).

On January 1–December 31, 2016, about 64% of the net sales came from Finland, about 25% from Sweden, about 9% from Denmark, and about 2% from Norway.

Net Sales by Customer Location

EUR thousand	2016	2015
Finland	37,712	36,111
Rest of Europe	20,324	8,266
Rest of the world	1,580	75
Total net sales	**59,616**	**44,452**

5. Other Operating Expenses

EUR thousand	2016	2015

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

Business premises expenses	2,413	1,701
Voluntary indirect employee costs	1,034	650
Marketing expenses	647	360
Total	4,094	2,711
Other unspecified operating expenses	5,081	4,098
Other operating expenses, total	**9,175**	**6,809**

Remuneration of the Auditors

EUR thousand	2016	2015
Auditing	142	102
Certificates and declarations	0	11
Tax consultancy	0	5
Other services	49	66
Total	**191**	**184**

A total of EUR 142 thousand in auditing fees (including the previous auditor Ernst & Young Oy, fee of EUR 51 thousand in 2016) was paid in 2016.

6. Depreciation, Amortization and Impairment

EUR thousand	2016	2015
Depreciation by asset group		
Intangible assets	1,978	586
Total	**1,978**	**586**
Tangible assets		
Machinery and equipment	521	577
Total	**521**	**577**
Total depreciation	**2,499**	**1,163**

7. Employee Benefits/Expenses

EUR thousand	2016	2015
Wages and salaries	32,488	25,506
Pension expenses		
– defined contribution plans	4,802	4,253
Other indirect employee costs	3,407	949
Total	**40,697**	**30,708**

Group's personnel	2016	2015
Average in the financial period	532	409
At the end of the financial period	591	415

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

8. Research and Development Costs

The research and development costs recognized as expenses totaled EUR 3,394 thousand in 2016 (EUR 2,495 thousand in 2015).

9. Financial Income

EUR thousand	2016	2015
Interest income	5	1
Other financial income	0	0
Total	**5**	**1**

10. Financial Expenses

Items Recognized in Profit or Loss

EUR thousand	2016	2015
Interest expenses	-417	-608
Other financial expenses	0	0
Total financial expenses	**-417**	**-608**

11. Income Taxes

EUR thousand	2016	2015
Current income tax liabilities	181	69
Deferred tax related to temporary differences	-565	-456
Deferred tax related to change in the tax rate	0	0
Total	**-384**	**-387**

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	2016	2015
Earnings before taxes	1,920	1,935
Taxes calculated at the domestic tax rate	-384	-387
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	**-384**	**-387**

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%.

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.

	2016	2015
Profit for the year attributable to shareholders of the parent company (EUR)	1,535,710	1,548,141
Weighted average number of shares during the financial period	32,871,577	32,579,614
Basic earnings per share (EUR/share)	0.0467	0.0475

13. Tangible Assets

EUR thousand	Machinery and equipment	Total
Acquisition cost, Jan 1, 2016	2,818	2,818
Additions in 2016	608	608
Deductions in 2016	0	0
Acquisition costs, Dec 31, 2016	**3,426**	**3,426**
Accumulated depreciation, amortization and impairment, Jan 1, 2015	-2,277	-2,277
Depreciation in 2016	-521	-521
Carrying amount, Jan 1, 2016	541	541
Carrying amount, Dec 31, 2016	**628**	**628**
Acquisition cost, Jan 1, 2015	2,391	2,391
Additions	447	447
Deductions	-20	-20
Acquisition costs, Dec 31, 2015	**2,818**	**2,818**
Depreciation	-2,277	-2,277
Carrying amount, Jan 1, 2015	690	690
Carrying amount, Dec 31, 2015	**541**	**541**

14. Intangible Assets

EUR thousand	Goodwill	Other intangible assets	Total
Acquisition cost, Jan 1, 2016	19,772	5,595	25,367
Additions in 2016	8,106	8,186	16,292
Acquisition cost, Dec 31, 2016	**27,878**	**13,781**	**41,659**
Accumulated depreciation, amortization and impairment, Jan 1, 2016	-188	-2,662	-2,850
Depreciation, amortization and impairment in 2016	0	-1,978	-1,978
Accumulated depreciation, amortization and impairment, Dec 31, 2016	**-188**	**-4,640**	**-4,828**
Carrying amount, Jan 1, 2016	19,584	2,934	22,518
Carrying amount, Dec 31, 2016	**27,690**	**9,141**	**36,831**
Acquisition cost, Jan 1, 2015	19,772	5,482	25,254
Additions in 2015	0	113	113
Acquisition cost, Dec 31, 2015	**19,772**	**5,595**	**25,367**
Accumulated depreciation, amortization and impairment, Jan 1, 2015	-188	-2,075	-2,263
Depreciation, amortization and impairment in 2015	0	-587	-587
Accumulated depreciation, amortization and impairment, Dec 31, 2015	**-188**	**-2,662**	**-2,850**
Carrying amount, Jan 1, 2015	19,584	3,407	22,991
Carrying amount, Dec 31, 2015	**19,584**	**2,934**	**22,518**

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 Operating Margin** – The value of the variable is based on the realized operating margin (adjusted for one-off items) for the last three years and the management's estimate on the development of the operating margin during the next three years. During the forecast period, no essential changes are expected in the adjusted operating margin.

2. **Change in Working Capital** – The value of the variable is based on the relative change in the working capital (adjusted for one-off items) for the last three years and the management's estimate on changes in the working capital during the next three years. During the forecast period, no essential changes are expected in the change in the working capital.

3. **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 7.2% (2015: 7.6%).

4. **Growth Rate in the Forecast Period** – The company considers the used growth factor to be conservative, considering the realized growth of the field and of Innofactor's business.

According to the impairment testing, the recoverable amounts exceed the corresponding balance sheet values. No impairment losses were recognized in 2016 and 2015.

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 2017 or a decrease of 58% in profitability compared with the estimate for 2017 would indicate a need for impairment. On the basis of the sensitivity analysis, an increase in the discount rate to 16.0% would cause a need for impairment.

Recognition of Goodwill

EUR thousand	2016	2015
IT services	27,690	19,584
Goodwil	**27,690**	**19,584**

15. Deferred Tax Assets and Liabilities

Changes in Deferred Taxes in 2016:

EUR thousand	Dec 31, 2015	Recognized in profit or loss	Acquired/ sold operations	Dec 31, 2016
Deferred tax assets				
From Group combinations and confirmed losses				
	6,704	-690	-254	5,760
Total	**6,704**	**-690**	**-254**	**5,760**
Deferred tax liabilities				
Measurement of intangible assets and tangible assets at market value in business combinations				
	-840	306	-1,700	-2,234
Total	**-840**	**306**	**-1,700**	**-2,234**

* 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 2015:

EUR thousand	Dec 31, 2014	Recognized in profit or loss	Dec 31, 2015
Deferred tax assets			
From Group combinations and confirmed losses			
	6,704	0	6,704
Total	**6,704**	**0**	**6,704**
Deferred tax liabilities			
Measurement of intangible assets and tangible assets at market value in business combinations			
	-845	0	-845
From combination transactions	0	5	5
Total	**-845**	**5**	**-840**

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

16. Trade and Other Receivables

EUR thousand	2016	2015
Trade and other receivables		
Trade receivables	12,523	9,906
Receivables from customers for long-term projects	3,752	2,182
Loan receivables	52	71
Accrued income	2,482	493
Total	**18,809**	**12,652**

EUR thousand	2016	2015
Breakdown of trade receivables by age		
Not past due	8,474	6,681
Past due		
Past due 1-30 days	2,900	2,293
Past due over 30 days	1,149	932
Total	**12,523**	**9,906**

No significant credit risk concentrations are associated with the receivables. The balance sheet values correspond best to the maximum amount of the credit risk, excluding the fair value of collateral, in cases where the other parties to the agreement are unable to fulfill their obligations related to financial instruments. The Group's operating practices do not include the acquisition of collateral for trade and other receivables. The principles for managing credit risks are described in Note 20.

17. Cash and Cash Equivalents

EUR thousand	2016	2015
Bank accounts	902	843
Total	**902**	**843**

18. Notes Concerning Shareholders' Equity

Number of shares	2016	2015
Outstanding shares, Jan 1	33,453,737	32,153,737
Share issue		1,300,000
Cancellation of treasury shares	-552,360	
Outstanding shares, Dec 31	32,901,377	33,453,737

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 2016. The Board of Directors has proposed that no dividends be distributed for the financial period of January 1–December 31, 2016.

Treasury Shares
The General Meeting of March 29, 2016, authorized the Board of Directors to decide on acquiring of a maximum of 8,000,000 of company's own shares in one or several parts with the company's unrestricted equity. The authorization entitles the Board to deviate from the shareholders' proportional shareholdings (directed acquisition). Own shares may be acquired at the purchase price formed for them in public trading at the day of purchase or at another market price. The number of treasury shares at a time may be, at the maximum, one tenth of the total number of shares in the company. Shares may be purchased to be used in company acquisitions or implementing other arrangements relating to the company's business operations, improving the company's capital or financing structure, as a part of the company's incentive system, or otherwise to be handed over or voided. 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 June 30, 2017. This authorization replaces the Board's earlier authorizations concerning share repurchase. On the basis of the authorization, Innofactor Plc purchased a total of 163,839 (0.50%) of its own shares during the review period. After the purchases made during the review period, the authorization remains valid for 7,836,161 shares.

On March 29, 2016, Innofactor announced in a stock exchange release that that the share repurchase program started in autumn 2015 has ended. The Board of Directors decided to cancel the 552,360 treasury shares the company had on March 31, 2016. They were cancelled on April 18, 2016.

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 was 9.00%. The bond had no due date, but the company had the right to redeem it in February 2016, before the rate would have increased to 12.00%. The bond was redeemed in accordance with the agreement on February 29, 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.

The hybrid bond was redeemed on February 29, 2016.

19. Share-Based Payments

Terms and Conditions of Share-Based Incentive Schemes

At the end of the financial period on December 31, 2016, the Group had no valid share-based incentive schemes. There have been no costs related to options in 2016 and 2015. The share-based incentive scheme implemented during the financial period January 1–December 31, 2010, and directed to the key personnel of Innofactor SW Oy (former Innofactor Oy) ended on July 1, 2016. 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		D
Type of scheme		**Share options**
Granting date		**December 15, 2010**
Number of granted instruments as shares	Series 1	35,269
	Series 2	35,268
	Series 3	35,269
	Series 4	35,269
Subscription price, EUR		6.00
Share price at granting date, EUR	Series 1	1.50
	Series 2	1.50
	Series 3	1.50
	Series 4	1.50
Date of subscription	Series 1	July 1, 2011–July 1, 2016
	Series 2	July 1, 2012–July 1, 2016
	Series 3	July 1, 2013–July 1, 2016
	Series 4	July 1, 2014–July 1, 2016
Vesting conditions		Employment until subscription date
Implementation		As shares

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

Outstanding Options

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

	2016		2015	
	Exercise price, weighted average EUR/share	Number of options	Exercise price, weighted average EUR/share	Number of options
Beginning of financial period	4.2	41,400	4.2	43,200
Granted new options	0	0	0	0
Exercised options	0	0	0	0
Returned options	3	-41,400	3	-1,800
End of financial period	**6.0**	**0**	**6.0**	**41,400**
Exercisable options at the end of the financial period	**6.0**	**0**	**6.0**	**41,400**

There are no outstanding options at the end of the financial period, because the subscription period ended on July 1, 2016, and no shares were subscribed. The following shows the fluctuation range of the exercised prices and the weighted average of the remaining time as per agreement:

	Exercised price (EUR)	Contractual life (years)	Number of shares
2016	6.0	0	0
2015	6.0	0.5	41,400

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 2016 and 2015:

Scheme	D	
	2016	2015
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%
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

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, exchange rate risks, and interest 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 16.7 million (EUR 9.2 million on December 31, 2015).

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 interest rate swap agreements. The average interest rate of the loans was 3.4 percent (3.1% in 2015).

The company has interest rate swap agreements, which have been measured at fair value, which is based on the market price at the closing date of the reporting period.

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 133 thousand (2015: EUR +/-93 thousand) had the interest rate been increased or decreased by 1 percentage point.

Exchange Rate Risk

The Innofactor group operates globally and is susceptible to risks related to the currencies of the countries in which it operates. Changes in exchange rates, especially the rate of Swedish krona, affect the Group's net sales and profitability. After the Cinteros AB acquisition on January 8, 2016, Innofactor has significant business operations based on Swedish krona. The exchange rate risk is mainly due to the assets and liabilities registered in the balance sheet, the net investments made in the subsidiaries abroad, and possible additional payments related to acquisitions. Also the business contracts made by subsidiaries pose an exchange rate risk, although these contracts are mainly made in the currency the unit uses in its operation. The management of exchange rate risks in the Group aims at minimizing the uncertainty that changes in exchange rates cause in the result through cash flows and assessment of receivables and liabilities.

Credit Risk

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. Credit risk management and credit control have been concentrated in the Group's financial department.

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, for example, 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, and assesses the effect of possible acquisitions on the cash position.

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

EUR thousand	Balance sheet value	0-6 months	6-12 months	over 1 year
Dec 31, 2016				
Maturity distribution of financial liabilities				
Loans from financial institutions				
	16,701	5,376	2,287	9,038
Trade and other payables				
	22,224	17,990	4,234	0

Capital Structure Management

The shareholders' equity in the consolidated balance sheet is managed as capital assets. The goal of capital structure management is to ensure operational preconditions of the Group and increase shareholder value in the long term. The capital structure can be managed through decisions concerning, for example, dividend distribution, acquisition and transfer of treasury shares, and share issues. The Group has no specific dividend distribution policy, and there are no limitations to the distribution of dividends. The shareholders' equity in the consolidated balance sheet is managed as capital assets. No external capital requirements are applied to the Group.

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

	2016	2015
Interest-bearing liabilities	16,701	9,219
Cash and cash equivalents	- 902	-843
Cash and cash equivalents	22,501	24,534
Net gearing	70.2%	34.1%

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 30% on December 31, 2016, 35 percent on June 30, 2017, and December 31, 2017, and 40 percent on every 6-month check point after that.

Additionally, interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA), including the pro forma effect of acquisitions, is a maximum of 3.5 in the review point of December 31, 2016, and 3.0 in the review point of June 30, 2017, and a maximum of 2.5 in the review point of December 31, 2017, and on each 6-month review period after that.

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 values correspond with the consolidated balance sheet values.

EUR thousand		**Dec 31, 2016**	**Dec 31, 2015**
	Note	**Carrying amount**	**Carrying amount**
Trade and other receivables	16	18,809	13,315
Cash and cash equivalents	17	902	843
Total		**19,711**	**14,158**
Loans from financial institutions		16,701	9,219
Trade and other payables		22,090	9,323
Interest rate swap agreements, not in hedge accounting *)		61	67
Total		**38,852**	**18,609**

*) fair value hierarchy level 2

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.

Loans from Financial Institutions

The carrying amount of loans corresponds with their fair value.

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.

Derivatives

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

22. 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	2016	2015
Within one year	1,976	1,244
Within more than one but less than five years	2,034	2,563
Total	**4,010**	**3,807**

In 2016, the amount of lease payments based on other leases recognized in profit or loss was EUR 2,171 thousand (EUR 1,701 thousand in 2015).

23. Financial Lease Liabilities

EUR thousand	2016	2015
Non-current financial liabilities measured at amortized cost		
Financial lease liabilities	341	144
Total	**341**	**144**
Current financial liabilities measured at amortized cost		
Financial lease liabilities	303	137
Total	**303**	**137**

Due Dates of Financial Lease Liabilities

EUR thousand	2016	2015
Within one year	303	137
Within more than one but less than five years	341	144
Total	**644**	**281**

24. Contingent Liabilities and Assets and Acquisition Commitments

EUR thousand	2016	2015
Collateral given for own commitments		
Collateral for rent	212	85
Mortgages on company assets *	17,453	16,250
Mortgages on company assets have been given as collateral for the credit limit and a loan.		
Bank guarantees	303	303
Bank guarantees have been given as collateral for rental agreements.		

* Of the mortgages on company assets, EUR 500 thousand was in the company's possession on December 31, 2016.

Other Leases

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

25. Related Party Disclosures

The related parties of the Group include the members of the Board of Directors and the Group's Executive Board, including the CEO.

Management's Employment Benefits

EUR thousand	2016	2015
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	1,521	1,484
Total	**1,521**	**1,484**

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

EUR thousand		2016	2015
Salaries and fees paid to the CEO and Board Members			
CEO and Board Member Sami Ensio		296	458
Board members and deputy members			
Rahkonen Ari	Chairman of the Board of Directors	48	44
Bergqvist J.T.	Board Member	6	21
Mäkinen Jukka	Board Member	24	24
Nurmi Ilari	Board Member	24	24
Puolakka Pekka	Board Member	21	24
Tuovinen Tiia	Board Member	0	3
Total		**419**	**598**

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		Dec 31, 2016	Dec 31, 2015
Hybrid bond	Board member Jukka Mäkinen through his company	0	100

The hybrid bond was redeemed on February 29, 2016.

26. Group Companies

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

- Innofactor Plc, Finland (parent company)
- Innofactor Software Oy, Finland, Espoo, 100%
- Innofactor Business Solutions Oy, Finland, Espoo, 100%
- Innofactor CS Oy, Finland, Turku, 100%
- Innofactor Holding AB, Sweden, 100%
- Innofactor AB, Sweden, 100%
- Lumagate AB, Sweden, 100%
- Lumagate Holding AB, Sweden, 100%
- Innofactor Holding ApS, Denmark, 100%
- Innofactor A/S, Denmark, 100%
- Innofactor Business Solutions ApS, Denmark, 100%
- Lumagate A/S, Denmark, 100%
- Innofactor Business Solutions AB, Sweden, 100%
- Innofactor Holding AS, Norway, 100%
- Lumagate AS, Norway, 100%

27. Events After the Closing Date

Events After the Review Period

On February 17, 2017, Innofactor announced in a stock exchange release that Anna-Maria Palmroos has been appointed as Innofactor's General Counsel.

There are no other significant events in Innofactor after the financial period.

Parent Company Financial Statements, FAS

EUR

PARENT COMPANY FINANCIAL STATEMENTS	Note	Jan 1-Dec 31, 2016	Jan 1–Dec 31, 2015
		12 months	**12 months**
NET SALES	**1**	**4,659,948**	**3,972,846**
Other operating income	2	1,526,360	76,644
Personnel expenses	3	-2,563,145	-2,185,382
Depreciation			
Planned depreciation	4	-22,926	-16,160
Other operating expenses		-2,175,920	-1,901,960
OPERATING PROFIT		**1,424,318**	**-54,012**
Financial income and expenses	5		
Interest and financial income		451,854	1,422,414
Interest and other financial expenses		-269,955	-370,262
EARNINGS BEFORE TAXES		**1,606,217**	**998,141**
PROFIT FOR THE FINANCIAL PERIOD		**1,606,217**	**998,141**

Balance Sheet, FAS

EUR			
ASSETS	**Note**	**Dec 31, 2016**	**Dec 31, 2015**
NON-CURRENT ASSETS			
Intangible assets			
Intangible rights		117,379	5,642
Goodwill		603,840	0
Tangible assets			
Machinery and equipment	6	30,394	45,635
Investments			
Shares in group companies	7	41,016,892	28,190,237
Other shares and holdings		62,100	62,100
TOTAL NON-CURRENT ASSETS		**41,830,604**	**28,303,614**
CURRENT ASSETS			
Receivables			
Non-current			
Loan receivables		594,900	663,329
Other receivables	8	21,141,098	23,669,322
Current	8		
Trade receivables		6,365,523	4,911,614
Accrued income		160,808	174,742
Cash and bank receivables		78,149	249,726
TOTAL CURRENT ASSETS		28,340,478	29,668,733
ASSETS		**70,171,082**	**57,972,348**

EUR			
LIABILITIES	**Note**	**Dec 31, 2016**	**Dec 31, 2015**
SHAREHOLDERS' EQUITY	9		
Share capital		2,100,000	2,100,000
Revaluation fund		2,000,000	2,000,000
Fund for invested unrestricted equity		24,246,591	22,898,171
Treasury shares		-160,713	-345,249
Profit from previous financial periods		15,328,515	14,815,354
Profit/loss for the financial period		1,606,217	998,141
Total shareholders' equity		**45,120,610**	**42,466,416**
LIABILITIES	10		
Non-current			
Loans from financial institutions		7,590,741	1,464,230
Hybrid bonds		0	3,200,000
Long term liabilities total		7,590,741	4,664,230
Current			
Loans from financial institutions		2,634,374	844,708
Trade payables		160,976	59,908
Other payables		14,103,739	9,422,814
Accrued expenses		560,641	514,272
Current liabilities total		**17,459,731**	**10,841,702**
Total liabilities		**25,050,472**	**15,505,932**
LIABILITIES		**70,171,082**	**57,972,349**

Parent Company Cash Flow Statement

EUR	Jan 1-Dec 31, 2016	Jan 1-Dec 31, 2015
Cash flow from operating activities		
Operating profit/loss	1,293,033	-54,012
Adjustments:		
Depreciation	22,925	16,160
Non-cash transactions	0	1,223,621
Change in working capital		
Change in trade or other receivables	-1,985,094	-143,987
Change in trade and other payables	4,875,156	1,917,145
Interests received	0	198,793
Paid interests and other financial expenses	-222,733	-370,262
Total cash flow from operating activities	**3,983,287**	**2,787,459**
Cash flow from investments		
Investments in subsidiary shares	-4,636,043	-1,853,141
Selling of subsidiary shares	0	3,133,708
Investments in fixed assets	-119,421	-40,644
Loans granted	-3,767,914	-2,951,015
Total cash flow from investments	**-8,523,378**	**-1,711,093**
Cash flow before financing	**-4,540,091**	**1,076,366**
Cash flow from financing		
Loans withdrawn	9,030,886	0
Loans paid	-1,114,708	-844,708
Payments received from share issue	0	116,920
Redemption of the hybrid bond	-3,200,000	0
Interest payments on the hybrid bond	-47,222	0
Purchase of own shares	-300,443	-345,249
Total cash flow from financing	**4,368,513**	**-1,073,037**
Change in cash and cash equivalents as per cash flow statement	**-171,578**	**3,329**
Change in cash and cash equivalents	**-171,578**	**3,329**
Cash and cash equivalents, opening balance	249,726	246,397
Cash and cash equivalents, closing balance	78,149	249,726

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 2016 have been prepared in accordance with the provisions of the Finnish Accounting Act.

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.

Derivatives

The company has interest rate swap agreements, which are registered at fair value, which is based on the market price at the closing date of the reporting period.

Notes to the Financial Statements (EUR)

1. Net sales (EUR) by market area	**2016**	**2015**
Finland	3,462,794	3,511,660
Rest of Europe	1,197,154	461,186
Total net sales	**4,659,948**	**3,972,846**

2. Other operating income	**2016**	**2015**
Rental revenue	18,516	36,000
Other operating income	1,507,844	40,644
Total other operating income	**1,526,360**	**76,644**

3. Personnel expenses	**2016**	**2015**
Wages and salaries	2,117,709	1,794,326
Pension expenses	353,528	319,870
Other indirect employee costs	91,907	71,186
Total personnel expenses	**2,563,145**	**2,185,382**
Management salaries and fees	420,692	598,213

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	27	24

4. Planned depreciation	**2016**	**2015**
For intangible rights	5,200	2,167
For machinery and equipment	17,725	13,994
Total	**22,926**	**16,160**

5. Financial income and expenses	2016	2015
Interests and other financial income		
From companies of the group	451,733	1,422,258
From others	121	156
Total interests and other financial income	**451,854**	**1,422,414**
Interest and other financial expenses		
Interest expenses to others	-269,955	-370,262
Total interests and other financial expenses	**-269,955**	**-370,262**
Total financial income and expenses	**181,899**	**1,052,152**

Balance Sheet Notes (EUR)

6. Intangible and tangible assets	2016	2015
Intangible assets		
Opening balance	5,642	4,333
Increases during the financial period	116,937	3,475
Acquisition cost	122,579	7,808
Depreciation for the period	-5,200	-2,166
Closing balance	**117,379**	**5,642**

The increases for intangible assets include the activation of the development costs for Innofactor's ERP system, EUR 110,187.

Goodwill		
Opening balance	0	0
Increases during the financial period	603,840	0
Acquisition cost	603,840	0
Closing balance	**603,840**	**0**
Tangible assets		
Opening balance	45,635	22,460
Increases during the financial period	2,484	37,168
Acquisition cost	48,119	59,628
Depreciation for the period	-17,724	-13,994
Closing balance	**30,394**	**45,635**

7. Investments	2016	2015
Opening balance	28,190,238	29,470,805
Increases during the financial period	12,826,653	1,853,141
Decreases during the financial period		-3,133,708
Closing balance	**41,016,892**	**28,190,237**

Shares and holdings of the parent company

Subsidiary shares:	Domicile	Country	Carrying amount
Innofactor Software Oy	Espoo	Finland	22,405,715
Innofactor Holding ApS	Copenhagen	Denmark	2,384,522
Innofactor Business Solutions Oy	Espoo	Finland	11,365,379
Innofactor Holding AB	Stockholm	Sweden	5,420
Lumagate Holding AB	Stockholm	Sweden	4,627,249
Innofactor Holding AS	Oslo	Norway	3,374
Innofactor CS Oy	Espoo	Finland	225,232
Subsidiary shares in total			**41,016,892**

8. Receivables	2016	2015
Trade receivables from group companies	6,360,856	4,866,666
Other receivables from group companies	21,141,098	23,669,322
Receivables from group companies in total	**27,501,954**	**28,535,988**

9. Shareholders' equity	2016	2015
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	22,552,921	21,740,370
Increase / Merger of Innofactor SW Oy	1,348,420	0
Directed issue to the personnel		626,400
Directed issue to the owners of Enabling		531,400
Purchase of own shares	184,537	-345,249
Fund for invested unrestricted equity, closing balance	**24,085,878**	**22,552,921**
Profit/loss from previous periods, opening balance	15,813,496	14,815,355
Cancellation of treasury shares	-484,980	0
Profit from previous financial periods, closing balance	15,328,516	14,815,355
Result for the financial period	**1,606,217**	**998,141**
Total unrestricted shareholders' equity	**41,020,610**	**38,366,416**
Total shareholders' equity	**45,120,610**	**42,466,416**

Calculation of distributable funds	**2016**	**2015**
Result from previous financial periods	15,328,516	14,815,355
Profit for the financial period	1,606,217	998,141
Fund for invested unrestricted equity	24,085,878	22,552,921
Total	**41,020,610**	**38,366,416**

10. Liabilities	2016	2015
Non-current liabilities		
Loans from financial institutions	7,590,741	1,464,230
Hybrid bond		3,200,000
Total non-current liabilities	**7,590,741**	**4,664,230**
Current liabilities		
Loans from financial institutions	2,634,374	844,708
Trade payables	160,976	59,908
Other payables	819,619	836,326
Accrued expenses	560,641	514,272
Liabilities to group companies	**13,284,120**	**8,586,488**
Total current liabilities	**17,459,731**	**10,841,702**

11. Commitments and contingent liabilities	2016	2015
Bank guarantees		
Bank guarantee has been given as collateral for rental agreements	252,960	252,960
Lease liabilities		
To be paid on the next financial period	52,236	62,126
To be paid later	67,721	113,398
Total	**119,957**	**175,524**
Rental liabilities	**2016**	**2015**
To be paid on the next financial period	1,029,526	1,025,238
To be paid later	1,029,526	2,563,096
Total	**2,059,052**	**3,588,334**
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 2016, the distributable assets of Innofactor Plc are EUR 41,020,610.27. The Board of Directors proposes that no dividend be distributed for the financial period of 2016.

Company Shares

Innofactor Plc has one series of shares. The number of shares is 32,901,377. 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.

SIGNATURES FOR THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Espoo, March 6, 2017

Sami Ensio
CEO

Ari Rahkonen
Chairman of the Board of Directors

Jukka Mäkinen
Board Member

Ilari Nurmi
Board Member

Pekka Puolakka
Board Member

AUDITOR'S NOTE
The report on the audit has been issued today.

Helsinki, March 13, 2017

PricewaterhouseCoopers Oy
Auditing firm

Samuli Perälä
APA

Auditor's Report

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

What We Have Audited

We have audited the financial statements of Innofactor Oyj (business identity code 0686163-7) for the period 1 January 2016 to 31 December 2016. The financial statements comprise:

- the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies

- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our Audit Approach

Overview

Materiality

- Overall group materiality: € 600 thousand, which has been defined based on net sales

Group Scoping

- Audit scope: Our audit encompassed the parent company and group companies in Finland, Sweden and Denmark.

Key Audit Matters

- Revenue recognition of long-term projects
- Impairment of goodwill and intangible assets
- Accounting treatment of business acquisitions

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall Group Materiality
€ 600 thousand

How We Determined It
1% of net sales for the period 2016

Rationale for the Materiality Benchmark Applied
We chose net sales as described above as the benchmark because, in our view, it reflects the volume and growth objectives of the group's business. The percentage selected in the calculation to be applied conforms with good auditing practice.

How We Tailored Our Group Audit Scope
We tailored the scope of our audit, taking into account the structure of the Innofactor group, the accounting processes and controls, and the industry in which the group operates.

The Innofactor group operates in software business, the principal market of which is Finland and other Nordic countries. Our audit encompassed the parent company and group companies in Finland, Sweden and Denmark.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key Audit Matter in the Audit of the Group

Revenue Recognition of Long-Term Projects
Information on revenue recognition is presented in Accounting Policies and in note 4. Net Sales

The percentage of completion method applied to revenue recognition is subject to inherent management judgement, which affects the net sales, gross margin and measurement of certain balance sheet items.

The percentage of completion is determined as the ratio of costs incurred to date to the total estimated costs of the project.

Revenue and expenses from long-term projects are recognised as revenue or expenses, 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 changed in the period in which the change is discovered and can be estimated reliably.

Revenue recognition of long-term projects was treated as a key audit matter, because net sales are a key item in the financial statements and since percentage of completion method is subject to management judgement, both of which affect the amount of sales recognised.

How Our Audit Addressed the Key Audit Matter

Our audit procedures included e.g. the following measures:

- We assessed accuracy of estimates prepared by the management by comparing the final realisation of the projects not completed by the end of the last financial year to previous year estimates.
- We met with company personnel and discussed progress of the projects in general as well as challenged the factors of uncertainty associated with estimated hours pertaining to the projects.
- We tested mathematical accuracy of the tables that were used to define the percentage of completion of the projects. In addition, we reviewed the revenue recognised for the period based on the percentage of completion method, as well as the relevant periodizations made.
- We tested through a selected sample that projects had been handled and approved according to the approval matrix of the company.
- We tested estimated hours of new projects to ascertain they were based on appropriate supporting documentation.

Impairment of Goodwill and Intangible Assets
Information on goodwill and intangible assets is presented in the Accounting Policies as well as notes 3. Business Acquisitions and 14. Intangible Assets

Impairment of Goodwill
The company is obliged to test goodwill in view of impairment at least once a year. Group goodwill totalled € 27.9 million as at closing date. This area is important for the audit, since impairment testing is based on several estimates approved by the management covering e.g. budgeted gross margin, change in working capital, discount rate and growth rate for the forecast period. We focused on estimates relating to cash flow, since these involve most inherent judgement.

Impairment of Intangible Assets
Intangible assets acquired in business combinations are recognized at market value based on estimates of cash flows related to the assets, since no data has been available in the market for purchases of similar assets. The amount of cash flows and determination of amortization period involve management judgement. The value of intangible assets acquired in business combinations totalled € 8.2 million at the closing date.

Our audit procedures included e.g. the following measures:

- We assessed estimates on annual growth of net sales and gross margin used in impairment testing, and compared these to the estimates for 2017 approved by the Board of Directors.
- We assessed the management estimates of future cash flow, the discount rate used, and reviewed the process by which estimates are formed.
- We verified mathematical accuracy of the impairment calculations prepared by the management.
- We compared the realised results of the year ended with estimates used the previous year, in order to assess accuracy of realisation of the management estimates.
- We reviewed the sensitivity analyses prepared by the management, which were made by assessing the effects of growth in net sales, profitability and change of discount rate, alone and in aggregate, to the outcomes of the impairment calculations.
- We assessed valuation of intangible assets acquired in business combinations in the earlier accounting periods as well as management estimates of amortization periods prepared by the management for eventual indication of impairment.

Accounting Treatment of Business Acquisitions
Information on business acquisitions is presented in Accounting Policies and note 3. Business Acquisitions

During the financial period 2016 the company has acquired Cinteros AB and the Lumagate Group, for which a goodwill totalling € 8.2 million and tangible assets totalling € 7.8 million have been recorded in the balance sheet. In addition, a deferred tax liability totalling € 1.7 million for the business acquisitions has been recorded during the period.

In connection with business combinations, acquisition cost calculations are prepared, where purchase price is allocated against identifiable assets and assumed liabilities.

Identifiable assets and assumed liabilities are measured at fair value at time of acquisition based on future cash flows generated by the assets. Definition of the amount of cash flows and identifiable assets, which generally are intangible by nature, as well as amortization periods of these requires management judgement. In addition business combinations often involve contingent sales price mechanisms, observation of which calls for management judgement e.g. as regards evaluation of the amount of contingent consideration.

As definition of identifiable assets, amortization periods and eventual additional sales prices as well as measurement of these requires management judgement, accounting treatment of business acquisitions is a key audit matter.

Our audit procedures included e.g. the following measures:

- We reviewed the computation logic and mathematical accuracy of purchase price calculations prepared by the management.
- We reviewed the sales contracts related to the business acquisitions to ensure that assets and liabilities based on the contracts have been appropriately accounted for in the calculations.
- We reviewed the logic for recordings of the new intangible assets acquired in business combinations and the assessment criteria for the cash flows estimated by the management.
- We assessed the logic of amortization periods of intangible assets defined by the management and ensured these are in line with the cash flows.
- In addition, we ensured the discount rate used by the management in assessment of fair values is appropriately defined and that the estimated cash flows are based on justifiable calculations.
- We reviewed management calculations of additional purchase price and criteria for measurement of additional sales prices.
- We ensured additional purchase prices observed in the purchase price calculations are based on the sales contracts.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the information included in the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 13 March 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Samuli Perälä
Authorised Public Accountant (KHT)

Additional Information

Key Figures per Share

	2016	2015
Earnings per share (EUR)	0.0467	0.0475
Equity/share attributable to the shareholders of the parent company (EUR)	0.684	0.733
Highest price of the share (EUR)	1.22	1.20
Lowest price of the share (EUR)	0.75	0.76
Market value of the shares (EUR thousand)	37,837	32,785
Turnover of shares (pcs)	12,617,494	7,118,343
Turnover of shares (%)	38.4	21.8
Weighted average of the number of shares during the financial period	32,871,577	32,579,614
Number of shares at the end of the financial period	32,901,377	33,453,737

Shareholding

On December 31, 2016, Innofactor Plc had 11,158 shareholders including the administrative registers (9). The share of administratively registered shares was 6,9% of the total number of shares.

Distribution of shareholding at December 31, 2016

Shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-100	7,069	63.35	195,551	0.59
101-1 000	2,626	23.53	1,180,824	3.59
1 001-10 000	1,238	11.10	3,968,748	12.06
10 001-100 000	191	1.71	5,103,647	15.51
over 100 000	34	0.30	22,452,607	68.24
Total	**11,158**	**100.00**	**32,901,377**	**100.00**

Shareholders by shareholder group December 31, 2016 (% of shares)	
Other foreign	0.47
Administratively registered	6.86
Financial and insurance institutions	0.83
Enterprises	5.24
Public entities	4.71
Non-profit organizations	0.04
Private households	81.84
Total	**100.00**

Calculation of Key Figures

Percentage of Return on Equity:

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

Percentage of Return on Investment:

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

Net Gearing:

$$\frac{\text{Interest bearing liabilities - Cash funds}}{\text{Shareholders' equity}}$$

Equity Ratio, %:

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

Result / Share:

$$\frac{\text{Profit before taxes attributable to equity holders of the parent - Taxes}}{\text{Average number of shares on the financial period adjusted after the share issue}}$$

Shareholders' Equity / Share:

$$\frac{\text{Shareholders' equity attributable to equity holders of the parent}}{\text{Undiluted number of shares on the date of the financial statement}}$$

Innofactor Plc
Keilaranta 9
FI-02150 Espoo, Finland

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