



INNOFACTOR®

Annual Report 2017



# Innofactor Plc Annual Report January 1 to December 31, 2017

## Innofactor in Brief

Innofactor is a leading provider of digitalization and cloud solutions in the Nordic countries. Our goal is to help our customers digitalize their business, promote a collaborative way of working, and develop their business processes by utilizing data-driven decision making and secure 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 third sectors 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 2017 amounted to EUR 66.1 million, up 10.9 percent from the previous year. Our operating margin (EBITDA) was EUR 1.7 million, or 2.6 percent of net sales. The five-year growth rate of our net sales in 2013–2017 was 20.2 percent annually on average (CAGR), and EBITDA averaged 7.5% of net sales in 2013–2017. The long-term goals specified in our strategy are to achieve annual growth of about 20 percent, primarily through organic growth, an operating margin (EBITDA) of about 20 percent in relation to net sales, and to maintain positive cash flow and ensure a solid financial standing in all situations.

Innofactor Plc shares are 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 and has approximately 12,000 shareholders.

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.

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# Innofactor's Nordic Integration Presented Challenges to Business Operations

In 2017, Innofactor focused on the integration of the Nordic companies it had previously acquired in Sweden, Denmark, and Norway. Establishing harmonized Nordic operating models and systems proved to be slower than expected. The transition period manifested itself in the second half of the year as larger-than-anticipated impacts on the management of the company's operations and, consequently, an unexpected negative EBITDA figure in the third quarter. Our net sales in 2017 were EUR 66.1 million (+10.9%) and our operating profit before depreciation and amortization was EUR 1.7 million (-64.2%).

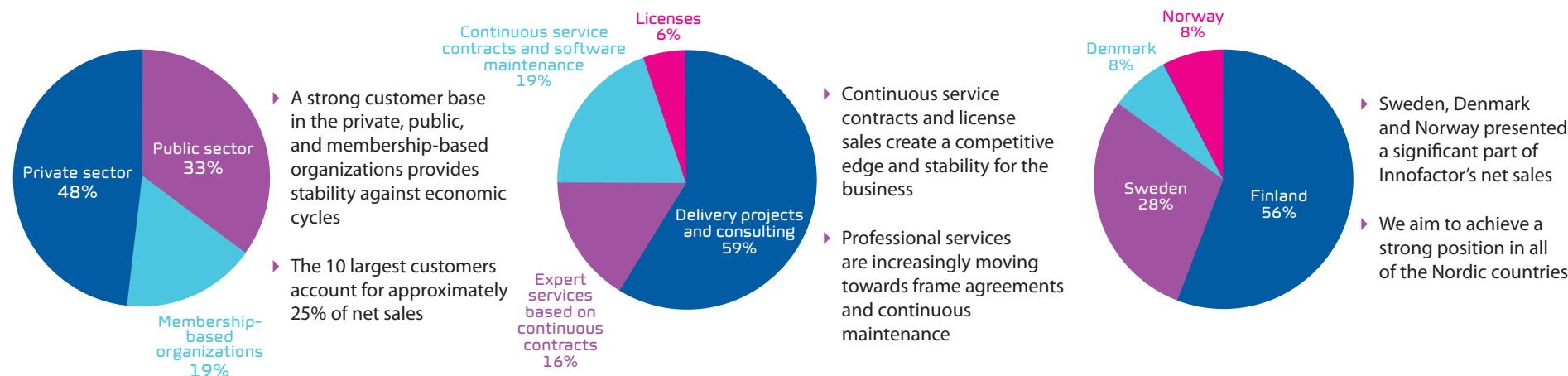
The Innofactor Group's net sales in 2017 were EUR 66,088 thousand (EUR 59,616 thousand in 2016), showing an increase of 10.9 percent. Operating profit before depreciation and amortization (EBITDA) was EUR 1,730 thousand (EUR 4,831 thousand in 2016). The share of EBITDA of net sales was 2.6 percent (8.1 percent in 2016).

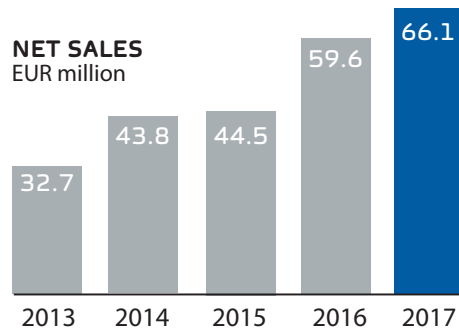
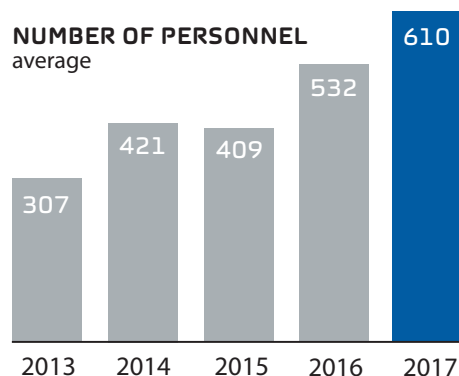
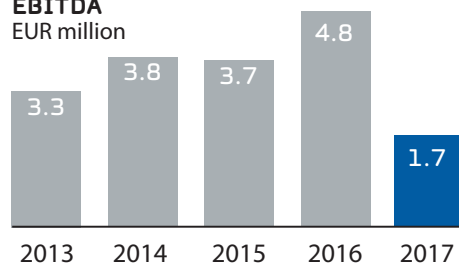
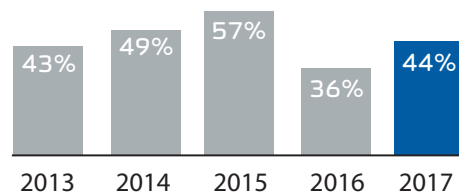
Due to our continued strong growth, we were again included in the 2017 Deloitte Technology Fast 50 list, in 47th place (33rd in 2016). The list presents the 50 technology companies in Finland that have grown the most in the past five years. We have been featured

on this list of the 50 fastest-growing companies for ten straight years since 2008.

One example of Innofactor's successful solutions is Health Village, a virtual hospital solution developed in cooperation with the Hospital District of Helsinki and Uusimaa (HUS) that covers specialized medical care throughout Finland. In 2017, Innofactor signed a partnership agreement with HUS with the aim of marketing and selling the solution in Sweden, Denmark, and Norway. In March 2018, the solution won the international Microsoft Health Innovation Award in the Outstanding Innovation category. Innofactor also

joined the CleverHealth network in 2017 for the purpose of collaborating with HUS as well as leading research institutes and enterprises to develop healthcare solutions for the international market. Innofactor achieved ISO 13485 certification in 2017, which enables the production of the most challenging human healthcare solutions. We also recruited a Nordic industry lead for Healthcare and Welfare in 2017. The Healthcare and Welfare sector is an example of Innofactor's growing investment in select industries. Other key segments included the Public Sector, Service Industry and Manufacturing, which we intend to increasingly invest in during the coming years.



**NET SALES**  
EUR million**NUMBER OF PERSONNEL**  
average**EBITDA**  
EUR million**EQUITY RATIO**

	2017	2016	2015	2014	2013
Net sales, EUR thousand	66,088	59,616	44,452	43,834	32,685
Operating profit before depreciation and amortization (EBITDA), EUR thousand	1,730	4,831	3,705	3,794	3,284
percentage of net sales	2.6%	8.1%	8.3%	8.7%	10.0%
Operating profit (EBIT), EUR thousand	-1,039	2,332	2,542	2,407	2,255
percentage of net sales	-1.6%	3.9%	5.7%	5.5%	6.9%
Earnings before taxes, EUR thousand	-1,157	1,920	1,935	1,946	1,863
percentage of net sales	-1.8%	3.2%	4.4%	4.4%	5.7%
Earnings, EUR thousand	-926	1,536	1,548	1,556	1,407
percentage of net sales	-1.4%	2.6%	3.5%	3.5%	4.3%
Shareholders' equity, EUR thousand	25,101	22,501	24,534	22,462	19,626
Interest bearing liabilities, EUR thousand	14,228	16,701	9,219	10,638	11,955
Cash and cash equivalents, EUR thousand	910	902	843	997	991
Deferred tax assets, EUR thousand	5,583	5,760	6,704	7,238	7,604
Return on equity	-3.9%	6.5%	6.6%	7.4%	8.4%
Return on investment	-1.3%	6.4%	7.6%	9.1%	12.9%
Net gearing	53.1%	70.2%	34.1%	42.9%	55.9%
Equity ratio	43.8%	35.8%	56.9%	48.7%	43.1%
Balance sheet total, EUR thousand	58,609	63,587	43,983	47,413	46,671
Research and development, EUR thousand	3,298	3,394	2,495	1,981	2,067
percentage of net sales	5.0%	5.7%	5.6%	4.5%	6.3%
Personnel on average during the year	610	532	409	421	307
Personnel at the end of the year	601	591	415	411	416
Number of shares at the end of the year	36,188,225	32,901,377	33,453,737	32,153,737	30,909,052
Earnings per share (EUR)	-0.0262	0.0467	0.0475	0.0485	0.0432
Shareholders' equity per share (EUR)	0.694	0.684	0.733	0.699	0.635

## We Will Focus on Completing Our Nordic Integration and Leveraging the Opportunities Presented by the Technological Transformation

The year 2017 was a challenging one for our business. The implementation of our Nordic integration processes turned out to be a larger task than we anticipated. Innofactor's vision is to be the leading provider of cloud services and digital transformation in each of the Nordic countries. We are confident in our chosen Nordic strategy and our ability to achieve our long-term goals. This will require perseverance and determination from the company's management, employees, and investors alike. In 2018, Innofactor will focus on completing the ongoing integration processes and leveraging the opportunities presented by the technological transformation. Personally, I look forward to putting all of my energy into taking on these challenges. We would like to thank our customers, partners, employees, and investors for a great 2017!



We further deepened our cooperation with customers in 2017. We received several significant new orders during the year, such as IT specialist services for the Unemployment Insurance Fund (TVR), a repeat order for Health Village, Virtual Hospital, and cloud service architecture development for the Joint Authority for the Hospital District of Helsinki and Uusimaa (HUS), the further development of a membership management system for IF Metall in Sweden, an ERP system for a Finnish service company, an information system for volunteer management for the Finnish Red Cross, the maintenance and further development of the domain name system of the Finnish Communications Regulatory Authority (FICORA), the chemical data digital management system for the Finnish Safety and Chemicals Agency (Tukes), the renewal of the damage and compensation of a financial sector organization, and 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. In 2017, Microsoft's management of the partnership with Innofactor was transferred from a country-specific model to the Nordic level under Microsoft's Western European organization. I would like to thank Microsoft for their trust in Innofactor.

We serve more than 1,500 customers in the commercial, public, and third sectors in Finland, Sweden, Denmark, and Norway. Our solid customer base with key visionary customers supports the continued development of our products and services and creates a foundation for future growth. Our solutions have attracted widespread interest in all of the Nordic countries. For the Health Village solution we developed in collaboration with the Hospital District of Helsinki and Uusimaa (HUS), we signed a cooperation agreement to make the highly popular technology platform available in Sweden, Denmark, and Norway exclusively through Innofactor. Cloud Journey, an operating model we developed in Norway to support organizations in transitioning to cloud services, has proved to be popular across all of the Nordic countries.

Innofactor's strength lies in our highly competent and motivated personnel. In 2017, we further strengthened our team, trained our personnel, 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 for all of you.

A successful and growing company needs committed investors. The price of Innofactor's share fluctuated substantially in 2017 due to the challenging business circumstances. Nevertheless, the share's trading volume continued to grow by as much as 88.6 percent. The total trading volume in 2017 was 67.3 percent of the value of the share capital, which made the Innofactor share one of the most liquid Small Cap shares in the Helsinki stock exchange. I would like to thank all of our investors for their long-term trust in Innofactor's strategy and success.

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

*"The technological transformation will present IT companies with unparalleled opportunities during the coming years. Innofactor holds a highly advantageous position as the leading Nordic player in the Microsoft ecosystem. Microsoft sets the direction of development in many areas, and the Nordic countries have typically been on the forefront of utilizing new technologies. I am confident that we will be able to substantially improve our organic growth and profitability with the help of our highly competent personnel, market-leading solutions offering, tremendous team spirit and visionary customers."*

#### **Sami Ensio**

Innofactor's founder, major owner, and CEO

## Microsoft Partner



- 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 Data Platform
- Gold Datacenter
- Gold Enterprise Mobility Management
- Gold Enterprise Resource Planning
- Gold Identity and Access
- Gold Project and Portfolio Management
- Gold Windows and Devices

# Long-Term Goals of 20 Percent Annual Growth and 20 Percent Profitability

We estimate that the growth rate of the Nordic IT services market will be approximately 3–5 percent in 2018. Our growth target for the next few years is to at least match the market growth rate, and our long-term goal is annual growth of approximately 20 percent. Our goal is to help our customers digitalize their business, promote a collaborative way of working, and develop their business processes by utilizing secure cloud services. Going forward, we will continue to develop our in-depth understanding of customers in private, public, and third sector 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 2018

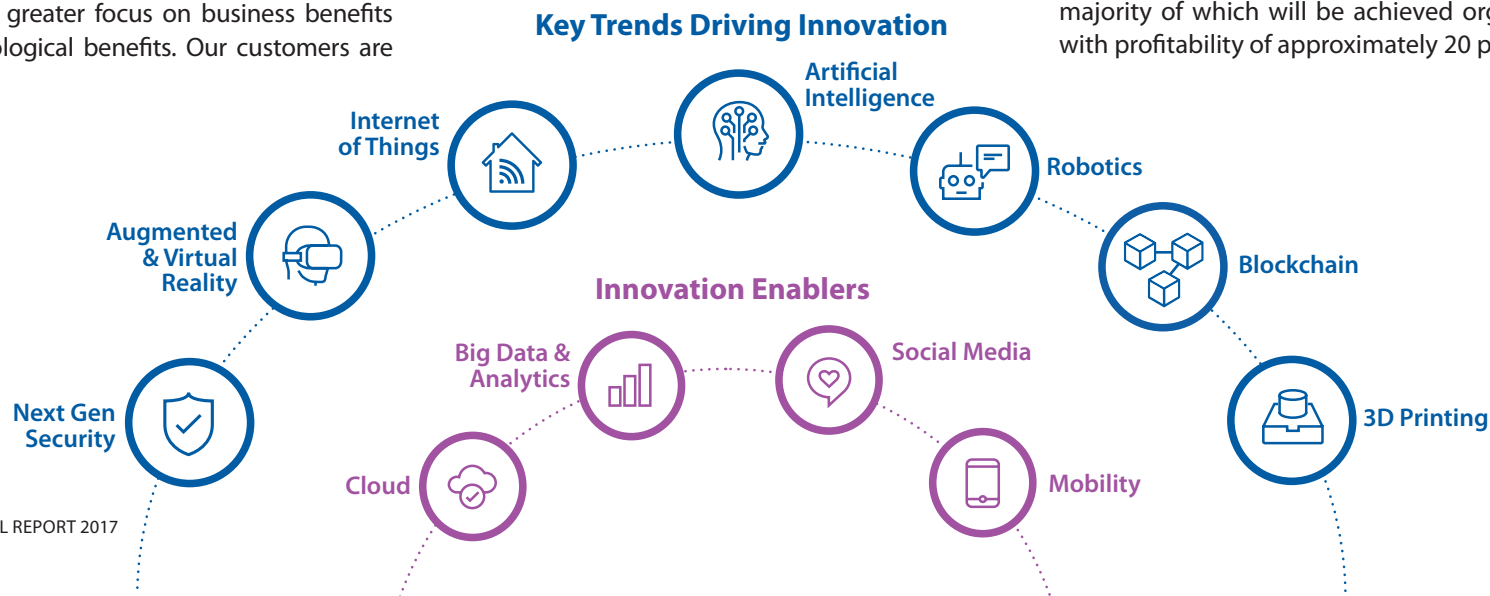
The key innovation trends and drivers of change in the market include augmented reality, virtual reality, the Internet of Things (IoT), artificial intelligence, robotics, and blockchains, with facilitating roles being played by software services moving to the cloud, data analytics, social media, and 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 3–5 percent in 2017. We further estimate that the growth rate of the Nordic IT services market will again be 3–5 percent in 2018. 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 long-term goal is annual growth of 20 percent, the majority of which will be achieved organically, along with profitability of approximately 20 percent.





## Mission:

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

## Vision:

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

## Our Long-Term Financial Goal is to Grow Profitably:

- By achieving annual growth of about 20 percent, of which majority is intended to be achieved by organic growth
- By achieving approximately 20 percent operating margin (EBITDA) in relation to the net sales
- By keeping cash flow positive and securing a solid financial standing in all situations

## Strategy



## We Believe That We Can Reach 20% Growth 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 2018 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.
- ▶ We will focus on competence management, recruitment and resource optimization at the Nordic level to ensure the continuous availability of highly competent personnel for our business needs.

## 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:

- ▶ We will increasingly shift the focus of our offering to 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 perceive 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 operating efficiency by developing the Financial Quarterly Accountability (FQA) of our business, as well as our internal information systems and predictability.

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 medium-sized companies that focus on a niche solution area at the Nordic level, also using several different technologies. The third group consists of medium-sized companies operating in a single country, typically providing a broad range of solutions based on several competing technologies. The fourth group consists of small 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.

# We Help Our Customers to Build a Modern Digital Organization

Our offering and delivery model are designed to deliver our customers long-term value by leveraging new technology and innovations in ways that take into account their current state and objectives.

Based on years of experience working at the forefront of digitalization with more than 1,500 private, public and third sector customers and the expertise of over 600 leading business and cloud technology professionals, we have developed a vision of a Modern Digital Organization. It's founded on a framework we're successfully using to help our customers take advantage

of cloud technology and new innovations across their organization and operations. The approach is simple and effective, delivering quick, tangible results and paving the way for long-term customer relationships. We start with defining the big picture – helping our customers determine their current state, define their objectives and build a digitalization roadmap for their

organization. We then continue our joint journey to build a modern digital organization leveraging the five areas of our framework. Innofactor offers leading solutions, services and products in each area, as well as an agile delivery model that helps our customers to successfully design, deploy and continuously develop new solutions.



## The Objective: Modern Digital Organization

Build a vision and roadmap to become a modern digital organization taking into account your current state and objectives.



## 1. More Personal Digital Customer Experience

Engage your customers digitally in a way that's most convenient for them.



## 2. Higher Operational Productivity

Create business value, accelerate innovation and increase productivity by digitalizing your operations.



### 3. Modern Employee Experience

Empower your employees through personal engagement and modern collaboration tools to make their daily work more meaningful and productive.



### 4. Secure Cloud Platform

Build a secure, scalable cloud platform that makes your operations more agile and puts you in control of your IT.



### 5. Data-Driven Business

Enable data-driven business and decision making in your organization by leveraging advanced analytics, AI and machine learning.

# Our Solutions and Services for Building a Modern Digital Organization



# Our Modern Delivery Model Ensures Effective Deployment and Adoption to Maximize the Lifetime Value of New Solutions

Our delivery model is based on years of experience in delivering both traditional IT projects as well as cloud services. It consists of five stages, each of which delivers our customers quick, tangible value. We offer our customers five productized delivery models, called **Journeys**, that are founded on our Modern Organization framework. The value of our deliveries is based on not only helping our customers to design and implement a specific solution, but also supporting them in adopting it within their organization and evaluating its impact to their business processes and IT architecture. In our delivery model, we focus on providing managed

services and continuous development of our solutions throughout their lifecycle.

In the **Storyboard phase**, we assess our customer's current state, define the objectives for the new solution and build a digital vision for their organization. This phase may also include the implementation of a Proof of Concept (PoC) that helps the customer to quickly evaluate the potential benefits of the new solution. In the **Foundation phase**, we build the structure, processes and governance model required to successfully deploy the new solution. In the **Implementation and**

**Delivery phase** the solution is deployed, or if necessary, developed and tailored to meet even the most detailed customer needs, leveraging our expertise and proven concepts and platforms. In the **Adoption phase**, we focus on our customer's organization and users to help ensure that the new solution is successfully taken into use so that its benefits are realized from a user, developer and IT perspective. Finally, in the **Managed Services and Continuous Development phase** we offer customers long-term support including managed services, continuous development and solution lifecycle management.



**Customer Experience Journey** – Engage your customer digitally in a way that's most convenient for them

**Digital Operations Journey** – Create business value, accelerate innovation and increase productivity by digitalizing your operations

**Employee Experience Journey** – Empower your employees through personal engagement and modern collaboration tools

**Cloud Journey** – Successfully design, implement and utilize cloud services and build a secure, scalable cloud platform

**Data-Driven Business Journey** – Empower your leadership and employees to make better decisions leveraging advanced analytics and AI

# More Personal Digital Customer Experience

## We'll Help You to Engage Your Customers Digitally in a Way That's Most Convenient for Them

The modern digital organization serves its customers personally, effectively and on their terms regardless of time, place or device. Innofactor helps organizations put their customer in the center and design engaging, personalized digital customer services in all channels where their customers are present. This ensures end users have a best-in-class customer experience, as well as quick and convenient access to relevant services and information.



### Our Solutions for Digital Customer Experience

- ▶ **Service Design**
- ▶ **Websites & Mobile Apps**
- ▶ **Digital Customer Service & Marketing Automation**

Our promise is to help our customers provide their end users a more modern and personal digital customer experience.

### Key Benefits for Our Customers

- ▶ Provide your customers better, more personal and impactful service to increase their satisfaction and loyalty
- ▶ Get a deeper understanding of your end users' digital customer journey based on measurable and actionable data
- ▶ Lower your customer acquisition cost and increase your marketing return-on-investment through more cost-effective and targeted digital marketing efforts
- ▶ Improve your lead-to-revenue funnel volume and velocity through higher conversion rate from lead to sales
- ▶ Make sure your services, processes and architecture for managing customer personal information are compliant with data protection regulations throughout the customer lifecycle

### Our Partners and Competencies in Digital Customer Experience

- ▶ Microsoft Gold Application Development
- ▶ Microsoft Gold Application Integration
- ▶ Microsoft Gold Cloud Customer Relationship Management
- ▶ EpiServer Premium Partner

## The Finnish Red Cross

### Oma Red Cross – Digital Tools for Volunteering

The Finnish Red Cross is one of the largest non-governmental organizations in Finland. Its mission is to help those who need it most, both in Finland and abroad. The organization helps when a catastrophe or accident occurs and trains people to be prepared. The Finnish Red Cross also helps the victims of natural disasters and armed conflicts and engages in development cooperation around the world. The organization has 86,000 members, 100,000 regular donors and 132,000 blood donors.

The organization's volunteer activities are continuously growing. The 40,000 active volunteers of the Finnish Red Cross operate in 500 local branches. Volunteers play a significant role in the organization's activities. It is important to make the operations as smooth and efficient as possible. The aim is to find new digital opportunities and tools.

The Finnish Red Cross and Innofactor worked together to develop Oma Red Cross, an information system for volunteers. The system provides an easy way to participate in volunteer activities as well as new tools for performing volunteer tasks. Volunteers create personal profiles on the system to find volunteer tasks, events and training that suits their needs and preferences.

Oma Red Cross is part of Finnish Red Cross' broader digital program, and nearly 100 volunteers participated in its user-driven design. The system also serves as the platform for the renewal of the organization's friend services to enable convenient connection, with a high level of information security, regardless of place and time. As the Finnish Red Cross is also an emergency response organization, its systems must be able to deal with rapidly changing and exceptional circumstances.

*"The Finnish Red Cross has taken an energetic approach to solving the equation of digitality, volunteering and NGO activity. The success of this project can have a significant impact on Finnish society and the people in Finland. Our development strategy is focused on making volunteering easy. As our local activities are reliant on volunteers, the second key point of the strategy is to build digital services for local key volunteers to make organizing and leadership easier. The starting point for our digital program has been to identify which services are important from the users' perspective. This has helped us establish the foundation on which we are now building together with Innofactor."*

**Ippo Kiiskinen**  
Communications Director  
Finnish Red Cross

# Higher Operational Productivity

## We'll Help You Create Business Value, Accelerate Innovation and Increase Productivity by Digitalizing Your Operations

To stay ahead of the game, the modern organization must be able to transform its operations at a faster pace than ever before. Digitalizing business processes and leveraging new cloud based business applications enables companies to do so by giving them better control over their operations. This is achieved by optimizing the usage of resources and leveraging the wealth of information spread across the organization to make better decisions and accelerating innovation by making business processes more agile.



### Our Solutions for Digitalizing Your Operations

- ▶ **Customer Relationship Management (CRM)**
- ▶ **Enterprise Resource Planning (ERP)**
- ▶ **Project & Portfolio management (PPM)**
- ▶ **Quality & Management Solutions**
- ▶ **Information & Case Management**
- ▶ **HR & Talent Management**

Our promise is to provide a modern business experience by digitalizing our customers' operations.

### Key Benefits for Our Customers

- ▶ Save time and money for your organization with better connected, integrated and automated business processes
- ▶ React faster to new business opportunities and launch new operations in a more agile way
- ▶ Get real-time visibility of your operations, such as resource availability and utilization, invoicing ratio and warehouse inventory
- ▶ Leverage data in different systems across your organization to create intelligent services and make faster and better decisions
- ▶ Adapt and respond faster to disruptive business models and competition and leverage organizational learning and innovation effectively through agile business processes

### Our Partners and Competencies in Digitalizing Operations

- ▶ Microsoft Gold Application Development
- ▶ Microsoft Gold Application Integration
- ▶ Microsoft Gold Cloud Customer Relationship Management
- ▶ Microsoft Gold Cloud Platform
- ▶ Microsoft Gold Data Analytics
- ▶ Microsoft Gold Data Platform
- ▶ Microsoft Gold Datacenter
- ▶ Microsoft Gold Enterprise Resource Planning
- ▶ Microsoft Gold Project and Portfolio Management



# Prevent 360

## Accelerating Digital Change with Cloud-Based ERP

Prevent 360 is a Finnish security company. It was established in the beginning of 2017, when ISS Security Ltd. acquired the funds managed by Intera Partners. Prevent 360 provides its customers with comprehensive security services, and is one of the largest security service providers in Finland. The company employs 1,500 professionals in 14 locations. The net sales for 2016 were EUR 67 million.

Prevent's cloud-based enterprise resource planning system is one of the first Microsoft Dynamics 365 solutions in Finland. The modern business platform combines business operations management, core processes, and customer relationship management as a whole while integrations are minimized. This provides employees with a straightforward way of utilizing the same solution and the information contained therein.

The Microsoft Azure-based system is used throughout the organization and will continue to play an important role in enhancing work and optimizing processes. It consists of ready-made applications with integrated processes for supporting business operations in further stages.

Innofactor successfully implemented the first phase of the project in 2017 and the co-operation will continue in the form of small-scale development and support in 2018.

*"Prevent 360 is a Finnish company which understands the needs of Finnish companies. We focus on proactivity and use the latest digital tools to achieve the best results. By combining expertise, modern technology, and the best professionals in the industry as a seamless entity, current and future security risks can be anticipated and prevented. The D365 solution provided by Innofactor was implemented in a timely manner, and will provide a good starting point for business development in the future."*

### **Sari Nordblad**

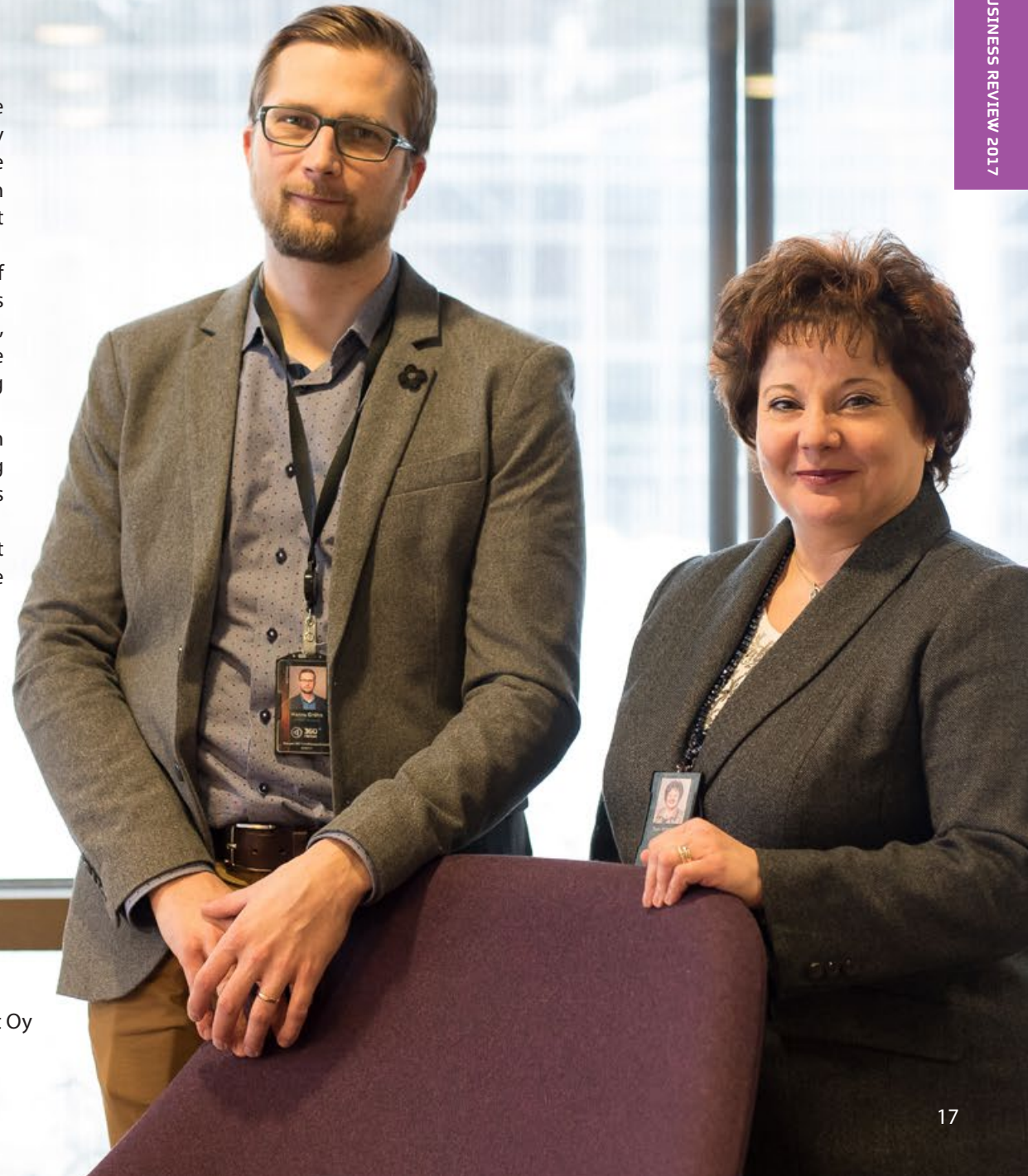
Group CFO

Prevent 360 Turvallisuuspalvelut Oy

### **Hannu Gröhn**

CIO

Prevent 360 Turvallisuuspalvelut Oy



# Modern Employee Experience

## We'll Help You Empower Your Employees through Personal Engagement and Modern Collaboration Tools to Make Their Daily Work More Meaningful and Productive

Digitalization has essentially changed the way we collaborate and work. A modern organization empowers its employees to effectively interact and collaborate with co-workers, customers and other stakeholders and provides them the skills and tools needed to access and share relevant data effectively and securely - regardless of time and place. As a result, its employees are both more productive, as well as more motivated and able to react to changes in customer needs and the organization's business environment.



### Our Solutions for Modern Employee Experience

#### ▶ Digital Collaboration & Mobile Work

Our promise is to provide a modern and engaging employee experience to our customers' employees.

### Key Benefits for Our Customers

- ▶ Make communications, accessing and sharing data seamless and secure for all your employees
- ▶ Increase employee satisfaction, motivation and productivity by providing everyone modern tools for mobile work
- ▶ Ensure your environment fulfills the requirements of information security and data privacy regulations, such as GDPR
- ▶ Adopt modern collaboration and productivity solutions in your organization successfully to ensure you'll get tangible value for your investment

### Our Partners and Competencies in Modern Employee Experience

- ▶ Microsoft Gold Application Development
- ▶ Microsoft Gold Application Integration
- ▶ Microsoft Gold Cloud Platform
- ▶ Microsoft Gold Cloud Productivity
- ▶ Microsoft Gold Collaboration and Content
- ▶ Microsoft Gold Data Platform
- ▶ Microsoft Gold Datacenter
- ▶ Microsoft Gold Enterprise Mobility Management
- ▶ Microsoft Gold Windows and Devices

# Social and Healthcare Organizations in the Nordic Countries

## New Digital Tools Deliver a Better User Experience for Social and Health Services Professionals

The social and health service sector has taken major leaps in digitalization over the past few years. Innofactor has played an important role in implementing solutions to serve the needs of the Nordic social and health service sector, and Innofactor continuously invests in the development of digital healthcare services from the dual perspective of the customer as well as the social and health service professional.

Jointly developed by HUS experts, patients and Innofactor's IT specialists, Health Village is an online service for digital specialized medical care. It provides information and support to all of the parties concerned: medical care for patients and advanced tools for healthcare professionals. The service consists of 24 virtual buildings dedicated to different life situations, medical conditions and symptoms, available around the clock. The remote monitoring of patients' self-care, video appointments and remote communication with patients as well as other healthcare professionals introduce flexibility to the work of professionals in the social and health services sector. The platform used for communication between social and health services professionals is based on the advanced Microsoft Office 365 and Dynamics 365 cloud services. User volumes are constantly growing and the monthly user volume doubled in 2017 to reach 250,000 visitors. Health Village has won several prizes, most recently the Microsoft

Health Innovation Award in the Outstanding Innovation category. The award was given out at the HIMSS conference in Las Vegas on March 7, 2018.

Our solutions emphasize information security, patient privacy and GDPR compliance. We have developed the Innofactor Innolog solution for the automatic monitoring of log data for personal data files. The solution is currently used by major Nordic social and health service providers, among others. The solution collects and analyzes log data from selected personal data files, detects abnormal and unusual searches based on preset and customizable rules and reports any irregularities immediately. This ensures the appropriate use of patient data without additional work.

In 2017, Innofactor joined the CleverHealth Network, an ecosystem for enterprises and leading healthcare experts to leverage health data to develop even better healthcare solutions for Finns, better user experiences for healthcare professionals and successful health technology export products for the companies involved. In June 2017, Innofactor was awarded the ISO 13485 Management System Certificate (Medical Devices) for devices and accessories used in healthcare. The certification enables Innofactor to develop even more challenging health and medical care solutions than before.

Microsoft Health  
Innovation Awards 2018  
WINNER



*"Innofactor has evolved into a significant driver of digitalization in social services and healthcare. Innofactor's strong expertise and industry insight enable the development of innovative solutions for the needs of social services and healthcare operators in a rapidly changing world, where information must be accessible securely, regardless of time and place, using various devices. Watching Innofactor expand and grow as a healthcare solutions provider has been a source of great pleasure for us."*

**Pekka Horo**  
General Manager  
Microsoft Oy

# Secure Cloud Platform

## We'll Help You Build a Secure, Scalable Cloud Platform that Makes Your Operations More Agile and Puts You in Control of Your IT

Cloud computing has become the backbone of digitalization and a core requirement for sustainable innovation in a modern organization. It enables faster business transformation by allowing organizations to access and analyze data, as well as take new functionality and improved solutions into use quickly and effectively. Still, for millions of professionals worldwide, the overall understanding and knowledge around cloud technology is weak. To truly leverage the potential of cloud technology, one needs to re-evaluate everything one knows about IT. This is where we come in to help.



### Our Solutions for Secure Cloud Platform

- ▶ **Cloud Infrastructure, Governance, Security & GDPR**
- ▶ **Identity & Access Management**
- ▶ **Enterprise Mobility + Security (EM+S)**
- ▶ **Managed Cloud Services**

Our promise is to help our customers to successfully design, deploy and use cloud solutions with a high level of emphasis on information security.

### Key Benefits for Our Customers

- ▶ Assess your organization's cloud readiness and build a cloud solution roadmap that best supports your objectives
- ▶ Understand the resource and cost implications of using cloud solutions compared to your current state
- ▶ Learn the best ways to adopt new technology so your organization can make best use of it
- ▶ Get the best tools in place for your IT professionals and developers
- ▶ Focus on creating value for your organization and customers and ensure a high level of information security by managing your platform and developer tools together with a partner

### Our Partners and Competencies in Secure Cloud Platform

- ▶ Microsoft Gold Cloud Platform
- ▶ Microsoft Gold Cloud Productivity
- ▶ Microsoft Gold Collaboration and Content
- ▶ Microsoft Gold Datacenter
- ▶ Microsoft Gold Enterprise Mobility Management
- ▶ Microsoft Gold Identity and Access
- ▶ Microsoft Gold Windows and Devices

# Sparebanken Vest

## Using Microsoft Azure to Manage Growth and Operating Expenses

With more than 250,000 private and corporate customers, Sparebanken Vest (SPV) is the third-largest savings bank in Norway. Headquartered in Bergen, the bank plays a central role in the development of economic activity throughout Western Norway.

SPV is a pioneer in the development of local IT solutions. A group of 150 specialists, consisting of the bank's internal information management function and external consultants, have developed digital solutions for SPV's own use and for the bank's customers. According to CIO Jørn Torsvik, there are three key factors behind the chosen strategy: the proximity of the bank's own IT development, which creates strong ownership of the bank's IT solutions, the developers having significant industry insight, and enabling quick moves in response to regulatory changes.

SPV has recognized that moving to the cloud is essential for enabling growth. Infrastructure that was previously housed locally in data centers in Bergen was moved to Microsoft Azure, which provides scalability and flexibility to suit SPV's needs. Innofactor (which will operate in Norway under the name Lumagate until May 2018) was selected as the consultant to ensure that SPV has comprehensive control over its operating expenses.

In order to use cloud platforms efficiently, SPV needed to implement changes in working methods. The best practices and essential frameworks were created in cooperation with Innofactor's specialists. This ensured that regulatory requirements were satisfied.

SPV had to decide whether to continue as a traditional bank or start to proactively deliver new digital experiences to its customers. SPV's mission is to be the best savings bank in Norway. This will be achieved through a simplified digital customer experience and maintaining a strong brand image. This differentiates SPV from other banks and ensures its continued strong social commitment. SPV decided it wants to remain an agile operator that is at the leading edge of the coming changes.

A portrait of Jørn Torsvik, CIO of Sparebanken Vest, smiling. He is wearing a dark suit jacket over a light blue shirt. The background is a blurred office setting with large windows.

*"The local infrastructure has now been moved to the cloud. This was made possible by Innofactor's specialists, who have a strong understanding of the big picture as well as in-depth expertise. We had used Innofactor's consultants before, so it was an easy decision to turn to them for assistance and advice. Our cooperation with Innofactor has become even stronger after we selected Microsoft Azure as our solution. Innofactor knows Azure inside and out!"*

**Jørn Torsvik**  
CIO  
Sparebanken Vest

# Data-Driven Business

## We'll Help You Enable Data-Driven Business and Decision Making in Your Organization by Leveraging Advanced Analytics, AI and Machine Learning.

The amount of data created within an organization increases exponentially and is fragmented in multiple sources and databases. It ranges from various forms of operational data points to information about customers, projects, employees and partners. New capabilities such as advanced analytics and machine learning, as well as enabling technologies like IoT, have emerged to facilitate the consolidation and analysis of vast amounts of data from various internal and external sources. The modern organization empowers its employees, decision makers and stakeholders by leveraging real-time data and artificial intelligence to support their decision making.



### Our Solutions for Data-Driven Business

- ▶ **Business Intelligence**
- ▶ **Advanced Analytics, Artificial Intelligence & Machine Learning**
- ▶ **Internet of Things (IoT)**

Our promise is to empower our customers to make better decisions and enable data-driven business.

### Key Benefits for Our Customers

- ▶ Enable decision makers in your organization to leverage real-time data from any source with advanced analytics solutions
- ▶ Utilize predictive analysis in your decision making by transforming your processes and operations into a real-time, location-based data source with IoT applications
- ▶ Gain competitive advantage by leveraging ready-made advanced analytics models and visualizations
- ▶ Increase customer satisfaction and loyalty by improving your understanding of your customers' needs
- ▶ Develop new business models by leveraging the data you collect

### Our Partners and Competencies in Data-Driven Business

- ▶ Gold Application Development
- ▶ Gold Application Integration
- ▶ Gold Cloud Platform
- ▶ Gold Data Analytics
- ▶ Gold Data Platform
- ▶ Prophix Partner

# Mitsubishi Motors

Better and More Personal Customer Service with Microsoft Dynamics CRM

Mitsubishi Motors is a renowned organization in the automotive industry. MMC Bilar Sverige AB manages Mitsubishi's car wholesale trade in Sweden. The company's headquarters is located in Upplands Väsby, in the outer Stockholm area. The organization has over 30 employees, 75 retailers and 100 service locations around Sweden. Mitsubishi wants to create a comprehensive view of its customer engagement using CRM.

The project objective was to strengthen the relationship and dialogue with customers. The project started out with planning the framework for customer communication, so that the dialogue happens in real-time and in the right channel, while at the same time, taking into consideration the needs of different stakeholders. As a result, Mitsubishi can select and analyze large amounts of data to make even better strategic decisions and offer its customers exceptional service.

Mitsubishi implemented the business-critical Microsoft Dynamics CRM 365 Online solution in the first phase of the project. The aim was to build lasting and profitable relationship with everyone involved, including customers, retailers and garages. To better align, customize and automate Mitsubishi's customer communications in Sweden, the organization integrated a marketing automation solution, DirectSmile, with the CRM.

The next phase of the project, starting in March-April 2018, will focus on integrating working procedures, administrative processes and increasing the frequency of communication between garages, customers and Mitsubishi's employees.

*"We have had the pleasure to work with Innofactor in this business-critical project. It's a major initiative, that will strengthen our customer relationships and dialogue, building lasting and profitable relations between our customers, retailers and garages. Taking into account the significance of the investment, it feels particularly good to be able to trust Innofactor's experience and knowhow."*

**Karl-Thomas Albinsson**  
CRM Manager  
Mitsubishi Motors Sweden



# Innofactor's Own Software Products and Services

## The Development of Our Own Software Products and Services is an Integral Part of Innofactor's DNA and an Engine for Future Growth

Innofactor Products & 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 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 a rapidly growing business areas of the Products & Services unit. We provide our customers with services for application deployment, monitoring and management, as well as joint contiguous development under the turnkey principle.

## Our Own IP Focus Areas

- Digital customer service and business process digitalization solutions, particularly for the healthcare and welfare industry
- Public sector case management solutions
- End-to-end solutions for membership based organizations
- Quality and Management Solutions
- Industry vertical resource and e-transaction management solutions
- Cloud solution delivery and managed services

## Continued Strong Investment in Own Software and Service Development

Our goal is to offer our customers modern productized cloud solutions based on our strong industry expertise as part of Innofactor's total offering. In 2017, we invested 5.0% of our net sales in research and product development, which shows our continued focus in own product development. Our solutions are built from the bottom up for scalability which allows us to leverage our local Nordic sales expertise and presence effectively in new customer acquisition. In 2017, we succeeded in scaling two new solutions from one Nordic market to another.

## Examples of Innofactor's Software Product and Service Portfolio

**Innofactor QualityFirst** is a highly refined quality and management solution with more than 20,000 users in dozens of customer organizations globally.

**Innofactor Membership Management System (MMS)** is the leading Nordic solution for comprehensive customer relationship and operations management for trade unions and membership-based organizations. It's used by customer organizations with more than 3.7 million members.

**Innofactor Innolog** is an easy-to-deploy, cost-efficient solution for the monitoring of personal data files, log data management and ensuring GDPR compliance in public sector and healthcare and welfare organizations.

**Innofactor Dynasty** is a leading public sector case management solution with over 250 local, regional and central government customers.

**Innofactor Prime** is a modular and flexible solution for resource and e-transaction management in various industries.

**Innofactor Managed Azure** services provide our customers with a care-free and secure solution for moving their services to the cloud under the turnkey principle.

**Innofactor Skilli** is an award-winning cloud-based learning analytics solution that supports the new Finnish curriculum leveraging 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.





## Linco Food Systems A/S

### Innofactor QualityFirst Helps With Updating and Sharing the Organization's Quality Documentation

Linco Food Systems specializes in the development, design and manufacturing of poultry processing equipment. The company is part of the BAADER Group, a world-renowned manufacturer and supplier of advanced high-quality food processing machinery and solutions.

Linco Food Systems chose Innofactor QualityFirst for several compelling reasons. It wanted to streamline the administration, updating and access to quality management documentation across the company. Linco wanted a widely-used advanced solution, based on a standardized Microsoft SharePoint platform.

QualityFirst met the requirements and did not need any additional development, which was one of Linco's key selection criteria. Consequently, the solution could be implemented directly to support the organization's existing processes. A standard solution ensured a faster return on investment and made QualityFirst a more attractive solution compared to competitors.

QualityFirst has been implemented quite recently at Linco Food Systems. The solution is expected to help increase the organization's productivity, product quality, and work safety, as well as give better control over case and quality management.

*"We chose Innofactor QualityFirst because it met our requirements, and did not need any further development. The solution was adapted directly into our current process management model."*

**Mogens From Winther**

Quality Manager  
Linco Food Systems A/S

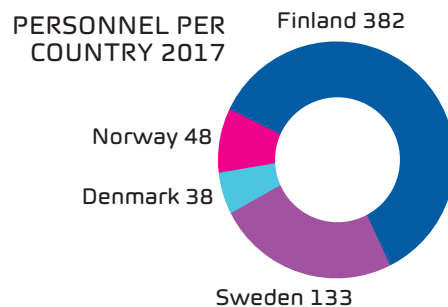
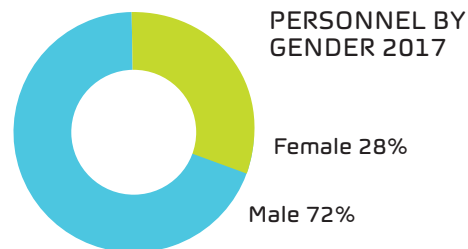
# Toward Harmonized Operating Models

Highly competent employees, good leaders and Nordic integration support Innofactor's long-term goals. In 2017, Innofactor initiated long-term projects aimed at strengthening leadership, competences, and integration.

## Number of Personnel and Key Figures

Innofactor had a total of 610 employees on average in 2017 (2016: 532), up 14.7% from the previous year. These figures exclude employees who are on leave for a period exceeding three months.

At the end of 2017, the number of personnel was 601 (2016: 591). The number of personnel increased by 1.7%. The average age of the company's personnel at the end of the review period was 38.9 years (2016: 39.4). Women accounted for 28% of the personnel and men for 72% (2016: 28% and 72%).



## Innofactor Academy Focuses on Competence Development

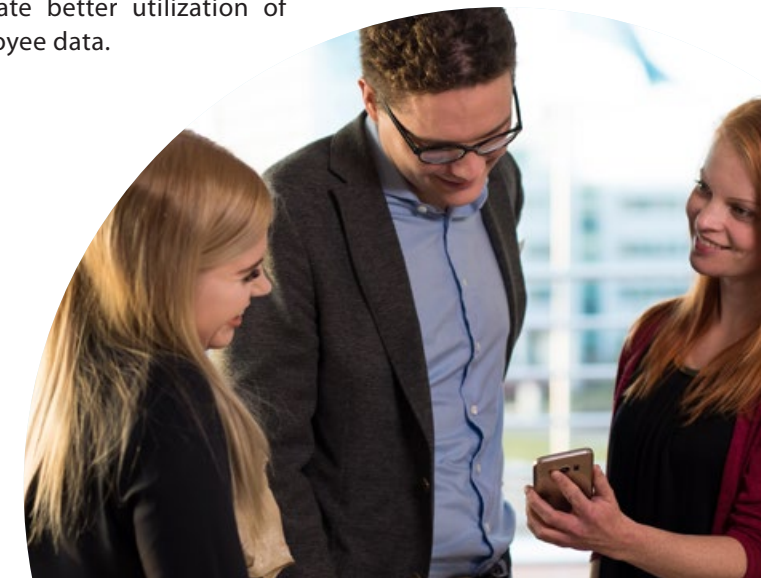
Two key cornerstones of Innofactor's success are highly competent personnel and the capability for the renewal of expertise. Innofactor established Innofactor Academy in early 2017 to support the competence development of the Group's personnel. In its first year, Innofactor Academy focused on becoming more systematic in competence development, on providing centrally training courses to wider audiences and on improving the visibility of courses for the company's personnel. The Academy has conducted programs on sales management as well as on various concepts, such as PRINCE2 and ITIL. The Academy facilitates the sharing of knowledge and expertise within the company, but also utilizes external expertise on a selective basis. Innofactor Academy's activities have included classroom training as well as online training. The company aims to continue the gradual development of Innofactor Academy and competence development in general.

## A Growing Company Needs Harmonized Operating Models

When a company grows, the renewal of its operating model, processes and tools becomes necessary. Harmonized basic processes help support Innofactor's Nordic growth. Annual development discussions and performance management are key management models that are used to ensure the systematic setting

of targets, the monitoring of their achievement and the development of the company's personnel. Innofactor harmonized its performance management processes across the Nordic countries in 2017 to ensure that a uniform model is applied in development discussions and performance evaluations throughout the organization. A further goal has been to emphasize the employee's long-term development in the discussions as well as focus on how the employee's current role supports their long-term competence development.

Innofactor has already deployed the Microsoft Dynamics 365 ERP system in Finland, Denmark and Norway, and the use of the system will be expanded to Sweden in 2018. Using a shared HR system enables consistent ways of working and a harmonized management culture throughout the organization. The system also automates the reporting of personnel information and, going forward, it will facilitate better utilization of employee data.



## The Leadership Culture Supports Integration

Innofactor's business operations are based on competent employees with a good work-life balance and high work satisfaction. The single most significant factor in employee satisfaction is the leadership capability of the immediate supervisor. Innofactor initiated a systematic leadership development program for team leads. A group of team leads from each country organization was selected for the first three-day program. The program focused on identifying each participant's natural leadership style, applying the right leadership style to different situations, and practicing coaching skills through concrete exercises. The practical program featured concrete exercises to provide the team leads with tools to improve their day-to-day leadership skills. The development of leadership skills is set to continue, and the plan is to have team leads participate in the same program in all of the Nordic countries.



# Sustainability

The key operating principles governing sustainability at Innofactor are documented in the company's Code of Conduct and environmental policy. The Code of Conduct is based on legal requirements and the underlying international standards, such as the ILO Declaration on Fundamental Principles and Rights at Work, the UN Universal Declaration of Human Rights, the UN Sustainable Development Goals and the ICC Business Charter for Sustainable Development.

Innofactor's internal operations are managed through various processes and standards. The key processes related to sustainability include the company's processes pertaining to legal affairs, risk management and employees, which govern many of the key aspects of corporate responsibility. The framework for Innofactor's operations is provided by the ISO 9001, ISO 27001, ISO 13485 and AQAP-2110 standards, which the company's various processes adhere to.

Innofactor is committed to supporting the achievement of the UN Sustainable Development Goals (SDGs) by 2030. Accordingly, we have mapped the main objectives from the perspective of our business operations.

## Good Health and Well-Being



We invest in the digital transformation of social services and healthcare, which has a broad impact on society. We are part of the national Virtual Hospital project, coordinated by the Joint Authority for the Hospital District of Helsinki and Uusimaa (HUS), under which we have played an important role in the implementation of HUS' unique Health Village concept. The online service gives citizens access to

reliable information on health, self-care and getting treatment for medical conditions, regardless of the time and the user's location.

We also look after the well-being of our employees by providing comprehensive occupational health services and emphasizing workplace ergonomics at our offices.

## Quality Education



At Innofactor, we develop digital services that support inclusive education and promote lifelong learning. With Innofactor Skilli, we have contributed to the personalization of students' learning in schools across Finland. Our application helps learners reflect on and evaluate their learning and provides teachers with valuable information on the students' learning. For example, with Skilli, teachers can get information on which learning methods are the most effective for improving the learners' skills and how the students have felt about the different learning sessions.

We develop the learning and development of our employees through Innofactor Academy, which we launched in 2017. Innofactor Academy arranges

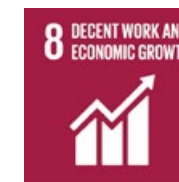
training for our employees on various topics. Innofactor Academy is being continuously developed in accordance with the employees' suggestions.

## Gender Equality



We offer equal opportunities to all of our employees, regardless of gender and regard Innofactor's workplace diversity as one of our most valuable assets. Women currently represent 28 percent of our personnel. To further promote the employment of women in the ICT sector, we joined Women in Tech in 2017. The network aims to inspire more women to enter the technology industry and stimulate discussion on choices related to studying and career choices.

## Decent Work and Economic Growth



We contribute to economic growth through innovation and new technologies. The measures we have taken to employ young people also help support this goal.

## Environmental Responsibility

Innofactor's environmental impacts are guided by our environmental policy, which was revised in 2017. The long-term goal of the policy is to continuously improve our environmental impacts and proactively respond to the changing expectations and requirements of society.

We carried out an energy survey for major companies, as required by the Energy Efficiency Act, in 2015. Based on the survey, we have implemented measures to improve energy efficiency in our organization and regularly monitor our energy consumption. We are preparing for another energy survey in 2019 and strive to actively identify further energy saving opportunities within our organization.

Public transport access to Innofactor's head office at the Espoo Campus was substantially improved when the west metro began operating in the end of 2017. In addition to the Espoo Campus, Innofactor's other offices are also easily accessible by public transport. We encourage our employees to commute by bicycle and use virtual meetings instead of travelling, whenever possible.

For several years, we have recycled waste and reduced our paper consumption at our offices, reflecting our commitment to environmental values. Innofactor's remote work policy motivates our employees to take advantage of flexible working arrangements and reduces our total carbon footprint.

## Social Responsibility

In 2017, Innofactor systematically recruited young talents and participated in several employment-oriented training programs, such as the Microsoft Azure Academy and Microsoft Dynamics 365 Academy.

We participated in the Microsoft Azure Academy and Dynamics 365 Academy again as a Microsoft partner company. The main objective of the six-month Academy is to find employment for the participants in a Microsoft partner company at the end of the program. The Dynamics 365 Academy includes participation in practical projects, a Boot Camp training period, practical exercises and two Microsoft certification tests. Our aim is to help the participants accumulate valuable work experience and develop them into experts in their field. In 2017, we recruited a total of seven employees through the Microsoft Academy programs.

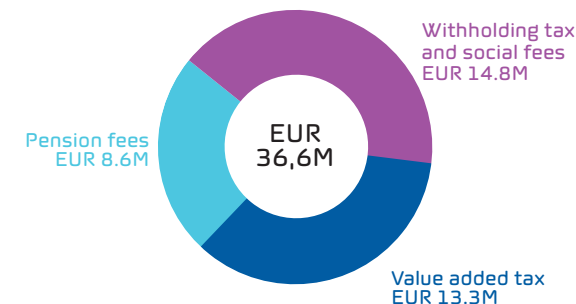
Youth unemployment is one of the most significant challenges in the Nordic countries today. We are committed to promoting the employment of young people through our Young Talent Recruitment program. We employed 14 young talents through the program. Young people coming in through the recruitment program are placed in various types of positions at Innofactor.

In May, we organized our annual InSpirit employee event and invited our employees from all the Nordic countries to participate. The event featured Nordic networking, presentations of our different country organizations and the sharing of knowledge and expertise related to our customers and products.

Innofactor monitors employee well-being by conducting an annual employee satisfaction survey. The results of the survey are processed at the team level and by the Group's various management teams. Based on the results, we identify development areas that we can improve to further increase employee

satisfaction among our personnel. We support the recreational activities of our employees in various ways, including the Innofactor Fun Club, which covers many different activities ranging from culture to sports.

### Innofactor Group's Tax Footprint 2017



## Respecting Human Rights, Anti-Corruption and Anti-Bribery

Innofactor launched its Code of Conduct in summer 2017. The Code of Conduct is an important risk management tool that defines the general principles and guidelines that the company's employees and partners must adhere to. The Code of Conduct was approved by Innofactor's Board of Directors, it has been covered in various training events, and it is binding on all of the Group's business areas.

At Innofactor, we are committed to conducting our business transparently and in accordance with the highest ethical standards. We encourage our employees and other stakeholders to report suspected infringements against the Code of Conduct through our anonymous whistleblowing channel. All information collected via the whistleblowing channel is processed in strict confidence.

## 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 7,468,823 shares in the company.



### **Anni Vepsäläinen**

M.Sc. (Tech.) Member of the Board of Directors since 2017. Born in 1963. Holds 8,108 shares in the company.



### **Jukka Mäkinen**

M.Sc. (Econ. & Bus. Adm.) Member of the Board of Directors since 2012. Born in 1954. Holds 91,599 shares in the company.



### **Ilari Nurmi**

M.Sc. (Tech.) Member of the Board of Directors since 2013. Born in 1975. Holds 71,436 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 202,511 shares in the company.

*Anni Vepsäläinen joined the Board of Directors on April 4, 2017. The share ownership information is as of December 31, 2017.*

# 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 7,468,823 shares in the company.



## Per Bendix Olsen

MBA. Managing Director, Country Manager for Denmark as of January 2018. Employed by Innofactor since 2017. Born in 1958. Holds 0 shares in the company.



## Jari Hahl

Diploma in Business Information Technology. Executive Vice President, 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.



## Sanna Lindner

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



## Viktor Lundqvist

M. Sc. (Computer Engineering). Managing Director, Country Manager for Sweden as of January 2018. Employed by Innofactor since 2016. Born in 1982. Holds 0 shares in the company.



## Stig Nerland

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



## Vesa Syrjäkari

M.Sc. (Econ.) Executive Vice President, Business Development and Operational Excellence. Employed by Innofactor since 2017. Born in 1960. Holds 50,000 shares in the company.

*Robert Erlandsson acted as the MD, Country Manager for Sweden until mid-January, and Jørgen Krog Kaufmann as the MD, Country Manager for Denmark until August 2018. Patrik Pehrsson acted as CFO until September 2017. The share ownership information is as of December 31, 2017.*







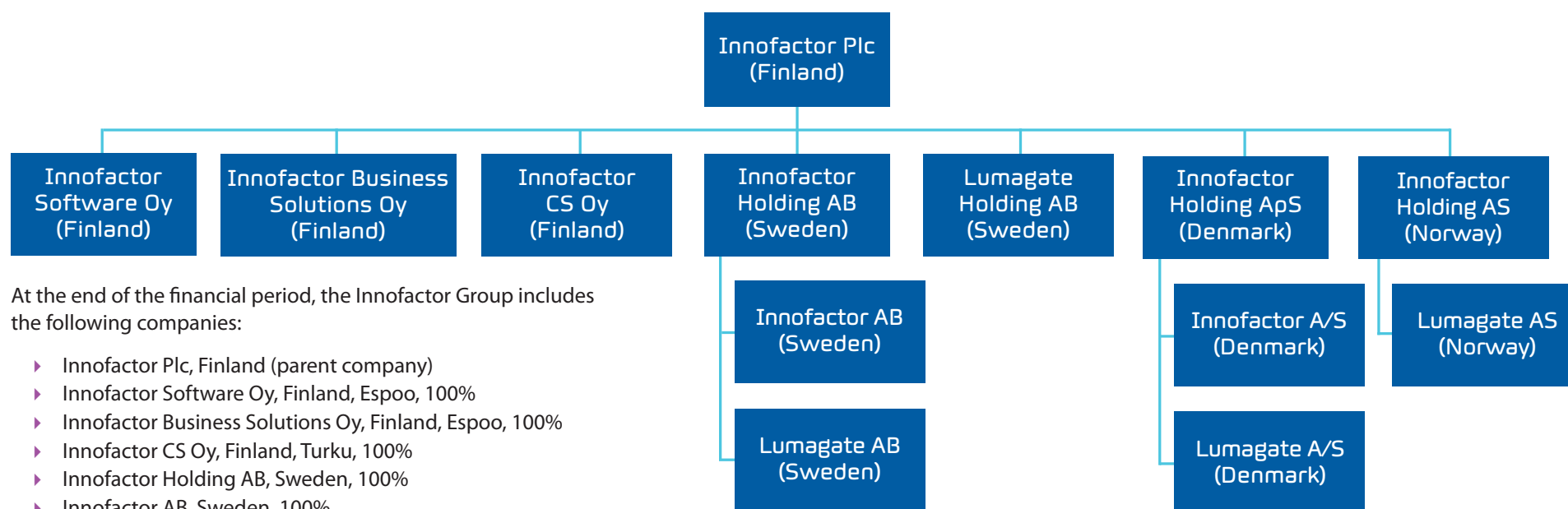
# Annual Report of the Board of Directors for 2017

## Innofactor Group

Innofactor is one of the leading software providers focused on Microsoft solutions in the Nordic countries. Innofactor delivers to its customers IT projects as a system integrator and develops its own software products and services. 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 companies and public administration and third sector 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 2017 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%
- ▶ Lumagate A/S, Denmark, 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	2017	2016	2015	2014	2013
Net sales, EUR thousand	66,088	59,616	44,452	43,834	32,685
Operating profit before depreciation and amortization (EBITDA), EUR thousand	1,730	4,831	3,705	3,794	3,284
percentage of net sales	2.6%	8.1%	8.3%	8.7%	10.0%
Operating profit (EBIT), EUR thousand	-1,039	2,332	2,542	2,407	2,255
percentage of net sales	-1.6%	3.9%	5.7%	5.5%	6.9%
Earnings before taxes, EUR thousand	-1,157	1,920	1,935	1,946	1,863
percentage of net sales	-1.8%	3.2%	4.4%	4.4%	5.7%
Earnings, EUR thousand	-926	1,536	1,548	1,556	1,407
percentage of net sales	-1.4%	2.6%	3.5%	3.5%	4.3%
Shareholders' equity, EUR thousand	25,101	22,501	24,534	22,462	19,626
Interest bearing liabilities, EUR thousand	14,228	16,701	9,219	10,638	11,955
Cash and cash equivalents, EUR thousand	910	902	843	997	991
Deferred tax assets, EUR thousand	5,583	5,760	6,704	7,238	7,604
Return on equity	-3.9%	6.5%	6.6%	7.4%	8.4%
Return on investment	-1.3%	6.4%	7.6%	9.1%	12.9%
Net gearing	53.1%	70.2%	34.1%	42.9%	55.9%
Equity ratio	43.8%	35.8%	56.9%	48.7%	43.1%
Balance sheet total, EUR thousand	58,609	63,587	43,983	47,413	46,671
Research and development, EUR thousand	3,298	3,394	2,495	1,981	2,067
percentage of net sales	5.0%	5.7%	5.6%	4.5%	6.3%
Personnel on average during the year	610	532	409	421	307
Personnel at the end of the year	601	591	415	411	416
Number of shares at the end of the year	36,188,225	32,901,377	33,453,737	32,153,737	30,909,052
Earnings per share (EUR)	-0.0262	0.0467	0.0475	0.0485	0.0432
Shareholders' equity per share (EUR)	0.694	0.684	0.733	0.699	0.635

\* 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 and 2013, the figures include also these persons, so the figures cannot be compared.

## Net Sales

Innofactor's net sales in 2017 were EUR 66,088 thousand (2016: 59,616), which shows an increase of 10.9 percent.

## Financial Performance

Innofactor's operating margin (EBITDA) in 2017 was EUR 1,730 thousand (2016: 4,831), which shows a decrease of 64.2 percent. EBITDA accounted for 2.6 percent of the net sales (2016: 8.1%). Innofactor's operating loss in 2017 was EUR 1,039 thousand (2016: operating profit EUR 2,332), which shows a decrease of 144.6 percent. The operating profit accounted for -1.6 percent of the net sales (2016: 3.9%).

## Financial Position, Liquidity and Investments

Innofactor's balance sheet total at the end of 2017 was EUR 58,609 thousand (2016: 63,587). The Group's liquid assets totaled EUR 910 thousand (2016: 902), consisting totally of cash funds.

The operating cash flow in 2017 remained strong and was EUR 4,169 thousand (2016: 3,442). The investment cash flow was EUR -1,488 thousand (2016: -7,318).

The equity ratio at the end of 2017 was 43.8 percent (2016: 35.8%) and net gearing was 53.1 percent (2016: 70.2%).

At the end of 2017, the company had EUR 6,948 thousand in current interest bearing liabilities (2016: 7,663) and EUR 7,280 thousand in non-current interest bearing liabilities (2016: 9,038). The total amount of interest bearing liabilities was EUR 14,228 thousand (2016: 16,701).

The return on investment in 2017 decreased from the previous year and was -1.3 percent (2016: 6.4%).

The return on equity in 2017 decreased from the previous year and was -3.9 percent (2016: 6.5%).

The non-current assets in Innofactor's balance sheet at the end of 2017 were EUR 40,822 thousand in total and consisted of the following items:

- ▶ Tangible assets EUR 640 thousand
- ▶ Goodwill value EUR 26,398 thousand\*
- ▶ Other intangible assets EUR 7,797 thousand\*
- ▶ Shares and holdings EUR 62 thousand
- ▶ Receivables EUR 342 thousand
- ▶ Deferred tax assets EUR 5,583 thousand

Innofactor's gross investments in tangible and intangible assets in 2017 were EUR 1,688 thousand (2016: 843), consisting of normal additional and replacement investments required by growth.

The write-offs on intangible assets were EUR 2,222 thousand (2016: 1,978). In 2017, the company has activated development costs of its ERP system for a total of EUR 1,089 thousand.

\* Goodwill and intangible assets arising from acquiring foreign companies are considered as assets of the foreign unit and they are converted at the closing date's rate. The resulting exchange differences are recognized in comprehensive income.

## Mergers, Acquisitions and Changes in the Group Structure

In 2017, Innofactor made no acquisitions, but focused on integrating Cinteros AB, acquired in 2015, and the Lumagate companies, acquired in 2016, into the Innofactor Group. The company group consisting of several companies after the acquisitions has been simplified during 2017 as follows: the Danish subsidiary Innofactor Business Solutions ApS was merged into Innofactor A/S on September 1, 2017, and the Swedish company Innofactor Business Solutions AB, which

had no business operations, was sold on November 8, 2017, to Bolagspartner Avveckling i Sverige AB for liquidation. Also, in Denmark, internal arrangements have been started to transfer Lumagate A/S operations to Innofactor A/S. The arrangement is intended to be implemented during the spring 2018.

## 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.

The average number of active personnel in 2017 was 610 persons (2016: 532), which shows an increase of 14.7 percent.

In 2017, net sales per active person was approximately EUR 108.3 thousand (2016: 112.1), which shows an approximate decrease of EUR 3.7 thousand per person. In the future, we will focus on increasing the net sales per active person.

At the end of 2017, the number of active personnel was 601 (2016: 591), which shows an increase of 1.7 percent. At the end of the year, the average age among personnel was 38.9 years (2016: 39.4). Women accounted for 28 percent (2016: 28%) of the personnel. Men accounted for 72 percent (2016: 72%) of the personnel.

## Strategy and its Realization in 2017

Innofactor is the one of the leading implementers of cloud solutions and digitalization 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 2018–2020, Innofactor will primarily strive to unify its operating model and offering in the Nordic countries in its selected areas. Unifying the offering may take place 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 implementer of cloud solutions and digitalization 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:

- ▶ To achieve annual growth of approximately 20 percent, of which majority is intended to be achieved by organic growth
- ▶ To achieve approximately 20 percent operating margin (EBITDA) in relation to the net sales
- ▶ To keep the cash flow positive and to secure solid financial standing in all situations

Innofactor's net sales in 2017 grew by 10.9 percent and the main part of this was based on inorganic growth resulting from the Lumagate acquisition. The company did not reach the goal it had set for organic growth.

Innofactor's operating margin (EBITDA) in relation to net sales was 2.6 percent in the review period. This is a record low and very far away from the set target level of 20 percent.

The main actions for reaching the approximately 20 percent growth and 20 percent operating margin:

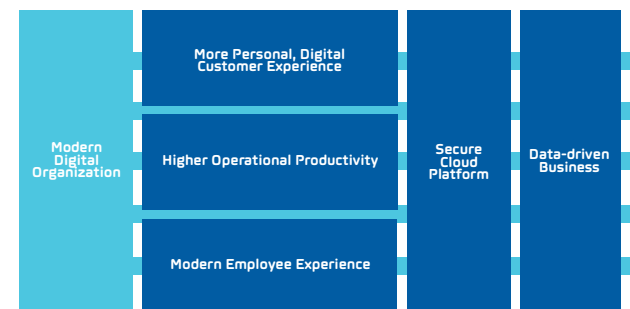
- ▶ In the Nordic countries, we will focus on those fields and customer segments, which have great growth potential, such as social services and health services.
- ▶ We will improve sales of our products and services to existing customers in order to get a greater share of the budget the customers are using for digitalization.
- ▶ We will invest in using modern digital marketing methods to improve our sales.
- ▶ We will concentrate on management of know-how, recruiting, and resource optimization in the Nordic level.
- ▶ We will move the focus in our offering and net sales more and more to products and productized services.
- ▶ We will continuously improve our specialists' skills, so customers will be willing to pay a higher than the average price on the field for them and our leading offering.
- ▶ We will develop our flexible delivery model, which enables fast added value, in such a way that the amount of unnecessary work is minimized and our billing rate and customer satisfaction improve.
- ▶ We will invest in operative efficiency by developing the Financial Quarterly Accountability (FQA), internal information systems and predictability.

Innofactor's operating cash flow in the review period of January 1–December 31, 2017, was EUR 4.2 million positive (2016: EUR 3.4 million). Innofactor's financial stability is good. Net gearing at the end of the review period was 53.1 percent (2016: 70.2 percent).

## 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 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 services, play an important role in Innofactor's business activities. Continuous services essentially decrease cyclicity in the business operations.

In 2017, Innofactor's business operations were focused on Finland, Sweden, Denmark and Norway. Of the net sales in 2017, approximately 56 percent came from Finland, approximately 28 percent from Sweden, approximately 8 percent from Denmark and approximately 8 percent from Norway.

Of the net sales in 2017, approximately 48% came from commercial clients, approximately 33% from public sector clients and approximately 19% from third sector clients.

Innofactor's net sales in 2017 came from the following sources:

- ▶ approximately 59 percent from IT system delivery projects and consulting
- ▶ approximately 16 percent from specialist work based on continuous service contracts, such as smaller customer-specific changes and further development of IT systems
- ▶ approximately 19 percent from services based on continuous service contracts, such as SaaS, cloud and hosting services, and from software maintenance
- ▶ approximately 6 percent from licenses, of which the share of licensing income to third parties was approximately 4 percent of the net sales

Innofactor's 10 largest clients accounted for approximately 25 percent of the net sales during the review period January 1–December 31, 2017.

## Major Events in 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.

- ▶ On March 8, 2017, Innofactor announced in a stock exchange release that Innofactor paid the adjustment payment of the Cinteros AB deal in 2016 partly with new company shares.

- ▶ On March 8, 2017, Innofactor announced in a stock exchange release that the share repurchase program started on July 7, 2016, has ended.

- ▶ On March 21, 2017, Innofactor announced in a stock exchange release that Innofactor was selected as the provider of IT specialist services for the Unemployment Insurance Fund (TVR) and that the value of deal will be approximately EUR 1.0 million during 2017–2019.

- ▶ On March 27, 2017, Innofactor announced in a stock exchange release that Innofactor Plc had conveyed some of its own shares to Svalroma Consulting AB as part of Cinteros AB's purchase price.

- ▶ On March 27, 2017, Innofactor announced in a stock exchange release that the new Innofactor Plc shares, related to the payment of the Cinteros AB's additional purchase price, had been registered in the Trade Register.

- ▶ On March 28, 2017, Innofactor published a flagging announcement pursuant to Chapter 9, Section 5 of the Finnish Securities Markets Act, stating that Svalroma Consulting AB's ownership of the Innofactor Plc votes and shares exceeds five percent (5%) due to receipt of the company shares as purchase price for Cinteros AB.

- ▶ On April 6, 2017, Innofactor announced in a stock exchange release that the Hospital District of Helsinki and Uusimaa (HUS) has selected Innofactor as the developer of the Terveyskylä (Health Village) applications. The value of the deal during the contract period is approximately EUR 1.8 million, which is estimated to be registered for 2017.

- ▶ On April 10, 2017, Innofactor announced in a stock exchange release that IF Metall in Sweden selected Innofactor as the provider of the further development and support of IF Metall's membership management system and that the value of the deal is approximately EUR 0,6 million at the minimum and EUR 4 million at the maximum in 2017–2020.

- ▶ On May 3, 2017, Innofactor announced in a stock exchange release that Innofactor's Board of Directors has decided to establish a Remuneration Committee.

- ▶ On May 3, 2017, Innofactor announced in a stock exchange release that Innofactor's market maker agreement ends as of June 1, 2017.

- ▶ On May 8, 2017, Innofactor announced in a stock exchange release about managers' transactions concerning the buying of Innofactor Plc shares for Sami Ensio, Ilari Nurmi, Jukka Mäkinen, Pekka Puolakka and Anni Vepsäläinen as a fee for their work in the Board of Directors as decided by the General Meeting.

- ▶ On May 30, 2017, Innofactor announced in a stock exchange release that the Hospital District of Helsinki and Uusimaa (HUS) has selected Innofactor as the implementer of its cloud service architecture. The value of the deal during the contract period is approximately EUR 1.2 million, which is estimated to be registered for 2017–2018.

- ▶ On May 31, 2017, Innofactor announced in a stock exchange release that it will deliver an ERP system for a Finnish service company. The value of the implementation of the first phase is approximately EUR 0.5 million, which is estimated to be registered for 2017.

- ▶ On August 30, 2017, Innofactor announced in a stock exchange release that Innofactor will implement a "Vapaaehtoisten tietojärjestelmä" solution for the Finnish Red Cross.
- ▶ On September 1, 2017, Innofactor announced in a stock exchange release that CEO Sami Ensio takes temporarily over the role of CFO.
- ▶ On October 13, 2017, Innofactor announced in a stock exchange release that Innofactor is revising the guidance for 2017.
- ▶ On October 31, 2017, Innofactor announced in a stock exchange release that Innofactor is revising its long-term financial goals. These have been described in more detail in the section "Strategy and its realization in the review period."
- ▶ On November 30, 2017, Innofactor announced in a stock exchange release that the Finnish Communications Regulatory Authority had selected Innofactor as the partner for maintenance and further development of the domain name system. The value of the deal is approximately EUR 0.9 million, which is estimated to be registered for 2018.
- ▶ On December 5, 2017, Innofactor announced in a stock exchange release that the Finnish Safety and Chemicals Agency (Tukes) had selected Innofactor as the provider for the chemical data digital management (KemiDigi) system. The value of the deal is approximately EUR 0.6 million, which is estimated to be registered for 2018.
- ▶ On December 21, 2017, Innofactor announced in a stock exchange release that it will deliver the renewal of the damage and compensation system for a financial sector organization. The value of the deal is approximately EUR 0.6 million, which is estimated to be registered for 2018.

## Major Events After the Financial Period

- ▶ On January 2, 2018, Innofactor announced in a stock exchange release that Marko Lehtonen has been appointed as Innofactor's Chief Financial Officer (CFO) and will start in his position on March 12, 2018, at the latest.
- ▶ On January 24, 2018, Innofactor announced in a stock exchange release that Folkuniversitetet in Sweden selected Innofactor as the implementer of their Course and Event Management System. The value of the deal is approximately EUR 0.5 million, which is estimated to be registered for 2018 and 2019.
- ▶ On February 6, 2018, Innofactor announced in a stock exchange release that Innofactor's operating margin (EBITDA) for the fourth quarter (Q4) of 2017 is less than expected in the Interim Report for the third quarter (Q3) of 2017.
- ▶ On February 7, 2018, Innofactor announced in a stock exchange release that the Swedish Teachers' Union (Läraryrket) selected Innofactor as the partner for a pilot project for membership management, recruiting and membership analysis. The value of the deal is approximately EUR 0.5 million, which is estimated to be registered for 2018.
- ▶ On March 5, 2018, Innofactor announced in a stock exchange release that the Supreme Administrative Court did not overrule HKL's decision to cancel the procurement decision of November 26, 2015, awarded to Innofactor in a bidding competition concerning situational information system for the Metro's total security.

There are no other significant events in Innofactor after 2017.

## Future Outlook

Innofactor's net sales and operating margin (EBITDA) in 2018 are estimated to increase from 2017, during which the net sales were EUR 66.1 million and operating margin was EUR 1.7 million.

## Major Risks and Uncertainties

Innofactor's operations and finances 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 2017, about 70% of the net sales, including depreciations). 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 and has included it as a central part of the remuneration system.

**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 its long-term financial goals.

**Research and product development:** In Innofactor's operation, research and product development play a central role. In 2017, approximately 5.0% 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 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, blockchain 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.

**Data protection:** The enforcement of the new EU data protection regulation ("GDPR", regulation (EU) 2016/679) will affect business operations of Innofactor and its customers. Neglecting the required actions or procedures may lead to losses in net sales or, in the worst case, penalty charges set by the supervising authority. In 2017, Innofactor started detailed study of the issue

to decrease risks, invested in solutions related to GDPR and hired a Chief Information Security Officer, who the company has also nominated as Data Protection Officer.

**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 has the 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 2018. 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 always involve higher risks than operations 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 finishing the implementation of the Nordic ERP system by the end of 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 changes in the general financial situation 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 total at the end of the year, Innofactor had approximately EUR 14.2 million in interest bearing debts, which have been taken out to finance earlier acquisitions.

Innofactor has committed itself to the following covenants: equity ratio calculated every 6 months is at least of 40%. Additionally, interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 2.5. The Innofactor Group's interest bearing liabilities divided by the 12-month operating margin (EBITDA) on December 31, 2017, exceeded the covenant limit of 2.5 agreed on with the financial institution. However, the financial institution issued a waiver accepting this deviation. 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 6.1 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.

## 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.

On April 4, 2017, the General Meeting decided that the number of Board members is six. Of the current members of the Board of Directors, Sami Ensio, Jukka Mäkinen, Ilari Nurmi, Pekka Puolakka and Ari Rahkonen were re-elected. Anni Vepsäläinen was elected to the Board of Directors as a new member. 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 2017.

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

<https://www.innofactor.com/invest-in-us/corporate-governance>

## Research and Product Development

In the Innofactor strategy, renewed at the end of 2015, the role of product and service development gained more importance and investments were increased. The acquisitions of Cinteros AB and the Lumagate companies in 2016 and their products, which have thus become Innofactor's products, support this strategic development.

In the product development during the review period, focus was on renewing existing products, increasing cloud capabilities, and continuous further development in order to support the growth of product-based business.

Regardless of the challenges of 2017, Innofactor managed to keep the research and development costs almost on the same level as in the previous year. Innofactor's research and development costs recognized in profit or loss for 2017 were approximately EUR 3,298 thousand (2016: 3,394), which accounts for 5.0 percent of the net sales (2016: 5.7%).

## Reporting Non-Financial Information

Business Model: Innofactor's business model is based on offering aimed at the IT service market and on Innofactor's strong partnership with Microsoft, with the focus on solutions developed on Microsoft platforms and solutions that use them. Innofactor aims to increasingly become an implementer of cloud solutions and digitalization. Innofactor is a system integrator and software development company. Thus, the core of the

business model and the enabler of company growth and development is the competent personnel with the ability to advance. The digital solutions delivered by Innofactor help our customers to reach their environmental goals and reduce the harmful effects on the environment. Innofactor can impact the environmental effects of its own operations by developing an even more environmentally friendly work environment.

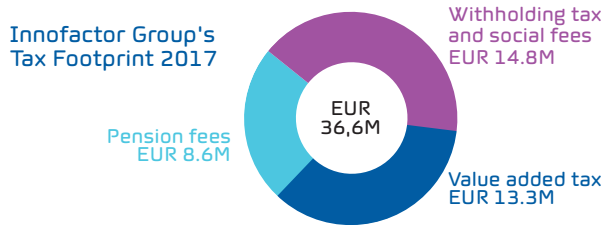
Principles guiding sustainability: The main operating principles concerning Innofactor's sustainability are described in the organization's Code of Conduct and environmental policy. The Code of Conduct is based on national legislation and international standards, such as the ILO Declaration on Fundamental Principles and Rights at Work, UN Universal Declaration of Human Rights, UN Sustainable Development Goals, and ICC Business Charter for Sustainable Development.

Innofactor's internal operations are managed through different processes and agreed standards. Innofactor's quality system describes the company's business model and has been divided into seven documented business processes and eight support service processes. These processes are monitored in the company's quality system. The company's support service processes related to human resources management, risk management and legal issues define the main issues with regards to corporate responsibility. Each process has its own Process Performance Indicators that are monitored within the company and set annually for the process owner. The framework for Innofactor's operations is provided by the ISO 9001, ISO 27001, ISO 13485 and AQAP-2110 standards, which the company's various processes adhere to. In the external audits performed in 2017, no deviations were discovered, which is an excellent result.

Main non-financial figures: Innofactor's other main meters in addition to operative ones are customer and employee satisfaction, which remained on a high level in 2017.

At the end of 2017, the total number of customers was 1,500 and the number of active personnel was 601. The relative share of women from the entire personnel was 28 percent. Accidents at work leading to absence were 0 days in 2017.

In addition, Innofactor monitors its tax footprint, which can be illustrated as follows for 2017:



**Environmental responsibility:** Innofactor's aims to improve its environmental impacts based on our environmental policy, which was revised in 2017. The goal of the policy is to continuously improve our environmental impacts and proactively respond to the changing requirements of society.

We carried out an energy survey for major companies, as required by the Energy Efficiency Act, in 2015. Based on the survey, we have implemented measures to improve the energy efficiency in our organization, in addition to monitoring energy consumption regularly. We are preparing for another energy survey in 2019 and strive to actively identify further energy saving opportunities within our organization.

Public transportation access to Innofactor's head office at the Espoo Campus was substantially improved when the west metro began operating at the end of 2017. In addition to the Espoo Campus, Innofactor's other offices are also easily accessible by public transport. We encourage our employees to commute by bicycles and use virtual meetings instead of traveling.

For several years, we have recycled waste and reduced our paper consumption, with the help of Secure Printing functionality, at our offices, reflecting our commitment to environmental values. Innofactor's remote work policy motivates our employees to take advantage of flexible

working arrangements and reduces our total carbon footprint.

**Social responsibility:** In 2017, Innofactor systematically recruited young talents and participated in several employment-oriented training programs, such as the Microsoft Azure Academy and Dynamics 365 Academy.

Youth unemployment is one of the most significant challenges in the Nordic countries today. We are committed to promoting the employment of young people through our Young Talent Recruitment program. We employed 14 young talents through the program in 2017. Young people coming in through the recruitment program are placed in various types of positions at Innofactor.

We participated in the Microsoft Azure Academy and Dynamics 365 Academy again as a Microsoft partner company. The main objective of the six-month Academy is to find employment for the participants in a Microsoft partner company at the end of the program. The Dynamics 365 Academy includes participation in practical projects, a Boot Camp training period, practical exercises and two Microsoft certification tests. Our aim is to help the participants accumulate valuable work experience and develop them into experts in their field. In 2017, we recruited a total of seven employees through the Microsoft Academy programs.

In May, we organized our annual InSpirit employee event and invited our employees from all the Nordic countries to participate. The event featured Nordic networking, presentations of our different country organizations and the sharing of knowledge and expertise related to our customers and products.

Innofactor monitors employee well-being by conducting an annual employee satisfaction survey. The results of the survey are processed at the team level and by the Group's various management teams. Based on the results, we identify areas of development in which we can improve the employee satisfaction. We support the recreational activities of our employees in various ways, including the Innofactor Fun Club, which covers many

different activities from culture to sports.

**Respecting human rights, anti-corruption and anti-bribery:** Innofactor launched its Code of Conduct in summer 2017. The Code of Conduct is an important risk management tool that defines the general principles and guidelines that the company's employees and partners must adhere to. The Code of Conduct was approved by Innofactor's Board of Directors, it has been covered in various trainings and it is binding on all of the company's business operations. The Code of Conduct binds the company to operate transparently in accordance with the highest ethical standards, respecting the human rights and condemning all bribery, corruption and decision-making in situations when there is a conflict of interest. We encourage our employees to report suspected infringements against the Code of Conduct through our anonymous whistleblowing channel.

**Risks related to corporate responsibility:** Innofactor's main risks related to corporate responsibility can be divided into five categories: personnel turnover, data protection, data security, corruption and bribery, and threat of terrorism. Innofactor's operation does not include actual significant environmental risks, even though the energy consumption is being monitored and there is a continuous effort to decrease it. The first three risks (personnel turnover, data protection, data security) are described under the heading "Major risks and uncertainties." Of the other risks, we state the following: Corruption and bribery: Innofactor's Code of Conduct takes a strong stance on preventing corruption and bribery, but as corruption always consists of actions of a single person or group of persons, the risk can never be removed entirely. In the Nordic countries, Innofactor operates in a very regulated environment, and in 2017, all subcontracting took place within the EEA or USA. This operating environment and in Finland, for example, the strict compliance to the Act on Contractor's Obligations and Liability, training of the employees, continuous dialog within the company's management and monitoring subcontractors are important factors related to preventing the risk.

Threat of terrorism: The weakened security situation in Europe and the unfortunate terrorist act in Drottninggatan, near Innofactor's Swedish office, in 2017, have made the threat of terrorism a clear risk to the personnel, although the risk is not estimated to be any greater than in other similar companies. To lessen the practical effects of a possible threat, Innofactor has drawn up a new crisis communications plan, based on practical operating models, in 2017.

## Share and Shareowners

At the end of the review period, Innofactor Plc's share capital was EUR 2,100,000.00 and the total number of shares was 36,188,225. Innofactor Plc has one series of shares. Each share is entitled to one vote.

Innofactor Plc arranged a share issue in which 3,286,848 new shares were issued. The shares were registered in the Trade register on March 27, 2017. On March 8, 2017, Innofactor announced in a stock exchange release that the company will use these new shares to pay part of the additional purchase price of the Cinteros AB acquisition.

In 2017, the highest price of the company share was EUR 1.80 (2016: EUR 1.22), the lowest price was EUR 0.91 (2016: EUR 0.75), and the average\* price was EUR 1.31 (2016\*: EUR 0.99).

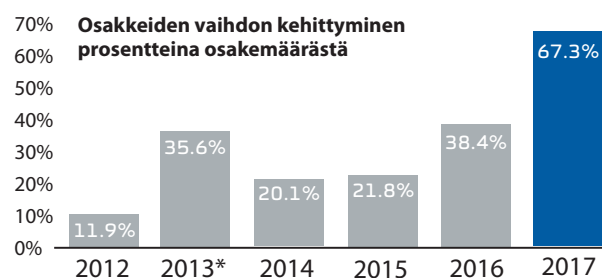
The closing price for 2017 on December 31, 2017, was EUR 0.94 (2016: EUR 1.15).

\* 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 2017, a total of 23,796,019 shares were traded (2016: 12,617,494 shares), which corresponds to 67.3 percent (2016: 38.4%) of the average number of shares on the said period. In 2017, there were 35,341,751 shares on the average (2016: 32,871,577\*).

The share trading increased by 88.6 percent compared to the corresponding period in 2016.

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



The market value of the share capital at the closing price of EUR 0.94, on December 31, 2017, was EUR 33,836 thousand (2016: 37,837), which shows a decrease of 10.6 percent.

On December 31, 2017, the company had a total of 12,371 shareowners (2016: 11,158), including administrative registers.

In 2017, the Board of Directors had the following authorizations:

- ▶ Until June 30, 2018, 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 April 4, 2017); the authorization has not been used.
- ▶ Until June 30, 2018, to decide on a transfer of a maximum of 1,000,000 treasury shares (decided by the General Meeting of April 4, 2017); the authorization has not been used.

On January 24, 2018, Innofactor published a flagging announcement pursuant to Chapter 9, Section 5 of the Finnish Securities Markets Act, stating that Tuomo Tilman's ownership of the Innofactor Plc votes and shares had decreased below five percent (5%).

## Treasury Shares

The General Meeting of April 4, 2017, 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, 2018. This authorization replaces the Board's earlier authorizations concerning share repurchase. The authorization has not been used.

At the end of 2017, the company had no treasury shares.

On March 8, 2017, Innofactor announced in a stock exchange release that the share repurchase started on July 7, 2016, has ended. The share repurchase was based on an earlier authorization, given by the General Meeting of 2016.

## Share Owning by the Management

### Share Owning by the Board of Directors:

- ▶ Ari Rahkonen, 30,000 shares, 0.08%
- ▶ Sami Ensio, 7,468,823 shares, 20.64%
  - ▶ *Sami Ensio, 5,295,063 shares, 14.63%*
  - ▶ *minor under guardianship, 724,588 shares, 2.00%*
  - ▶ *minor under guardianship, 724,586 shares, 2.00%*
  - ▶ *minor under guardianship, 724,586 shares, 2.00%*
- ▶ Jukka Mäkinen, 91,599 shares, 0.25%
- ▶ Ilari Nurmi, 71,436 shares, 0.20%
- ▶ Pekka Puolakka 202,511 shares, 0.56%
  - ▶ *Hillside Ou, 105,670 shares, 0.29%*
  - ▶ *Pekka Puolakka, 96,841 shares, 0.27%*
- ▶ Anni Vepsäläinen, 8,108 shares, 0.02%

### Share Owning by the CEO:

- ▶ Sami Ensio, 7,468,823 shares, 20.64%
  - ▶ *Sami Ensio, 5,295,063 shares, 14.63%*
  - ▶ *minor under guardianship, 724,588 shares, 2.00%*
  - ▶ *minor under guardianship, 724,586 shares, 2.00%*
  - ▶ *minor under guardianship, 724,586 shares, 2.00%*

### Share Owning by Other Members of the Executive Board:

- ▶ Robert Erlandsson, 0 shares, 0.00% (according to his own statement)
- ▶ Jari Hahl, 66,793 shares, 0.18%
- ▶ Janne Heikkinen, 83,044 shares, 0.23%
- ▶ Jørgen Krog Kaufmann (until July 31, 2017), 0 shares, 0.00% (not known)
- ▶ Sanna Lindner, 0 shares, 0%
- ▶ Stig Nerland, 0 shares, 0% (according to his own statement)
- ▶ Per Bendix Olsen, 0 shares, 0% (according to his own statement)
- ▶ Patrik Pehrsson (until August 31, 2017), 83,044 shares, 0.23%
- ▶ Vesa Syrjäkari, 50,000 shares, 0.14%

## 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, 2017, was as follows.

Name	Number of shares	% of share capital
1. Ensio Sami	7,468,823	20.64%
<i>Ensio Sami</i>	<i>5,295,063</i>	<i>14.63%</i>
<i>Minor under guardianship</i>	<i>724,588</i>	<i>2.00%</i>
<i>Minor under guardianship</i>	<i>724,586</i>	<i>2.00%</i>
<i>Minor under guardianship</i>	<i>724,586</i>	<i>2.00%</i>
2. Tilman Tuomo Tapani	1,953,286	5.40%
3. Ilmarinen Mutual Pension Insurance Company	1,800,000	4.97%
4. Laiho Rami Tapani	1,294,159	3.58%
5. Linturi Kaija ja Risto	1,256,411	3.47%
<i>R. Linturi Oyj</i>	<i>489,107</i>	<i>1.35%</i>
<i>Linturi Kaija Anneli</i>	<i>430,000</i>	<i>1.19%</i>
<i>Linturi Risto Erkki Olavi</i>	<i>337,304</i>	<i>0.93%</i>
6. Ärje Matias Juhanpoika	882,065	2.44%
7. Mäki Antti-Jussi	877,192	2.42%
8. Muukkonen Teemu	522,230	1.44%
9. Ingman Finance Oy Ab	500,000	1.38%
10. Järvenpää Janne-Olli	315,211	0.87%
11. Kukkonen Heikki-Harri	282,931	0.78%
12. Rausanne Oy	273,040	0.75%
13. Hellen Stefan Andreas	250,000	0.69%
14. Laiho Jari Olavi	235,000	0.65%
15. Mandatum life	164,954	0.46%
16. Harju Petteri	160,000	0.44%
17. Heikki Tervonen Oy	153,000	0.42%
18. Mäkinen Antti Vilho Juhani	148,000	0.41%
19. Salmela Alpo Jalmari	128,500	0.36%
20. Muurinen Hannu Olavi	125,750	0.35%

## Board of Directors and the Company's Management

### Board of Directors

In 2017, the members of the Innofactor Plc's Board of Directors were:

- ▶ Ari Rahkonen (Chairman)
- ▶ Sami Ensio
- ▶ Jukka Mäkinen
- ▶ Ilari Nurmi
- ▶ Pekka Puolakka
- ▶ Anni Vepsäläinen (since April 4, 2017)

The Board members for Innofactor Group's Finnish companies are the Group CEO Sami Ensio (Chairman) and Executive Vice President, Business Development and Operational Excellence Vesa Syrjäkari (Patrik Pehrsson until September 1, 2017), with General Counsel Anna-Maria Palmroos as a deputy member (Katja Tammelin until April 28, 2017).

The Board members for Innofactor Group's Swedish, Danish and Norwegian holding companies are the Group CEO Sami Ensio (Chairman) and Executive Vice President, Business Development and Operational Excellence Vesa Syrjäkari (Patrik Pehrsson until September 1, 2017), with General Counsel Anna-Maria Palmroos as a deputy member in the Swedish and Danish companies (Katja Tammelin in Sweden until June 27, 2017, and in Denmark until May 31, 2017).

The Board members for Innofactor Group's operative group companies are the Group CEO Sami Ensio (Chairman), Executive Vice President, Business Development and Operational Excellence Vesa Syrjäkari (Patrik Pehrsson until September 1, 2017) and the local Managing Directors of the country 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 2017, the Innofactor Group's Executive Board consisted of

- ▶ Sami Ensio, CEO, Chairman of the Executive Board
- ▶ Robert Erlandsson, Country Manager, Sweden (Viktor Lundqvist since January 15, 2018)
- ▶ Jari Hahl, Country Manager, Finland
- ▶ Janne Heikkinen, EVP, Products and Services
- ▶ Jørgen Krog Kaufmann, Country Manager, Denmark (until February 1, 2017)
- ▶ Sanna Lindner, EVP, Human Resources
- ▶ Stig Nerland, Country Manager, Norway
- ▶ Per Bendix Olsen, Country Manager, Denmark (in addition to his own tasks since August 1, 2017, permanently since January 1, 2018)
- ▶ Patrik Pehrsson, CFO (until August 31, 2017)
- ▶ Vesa Syrjäkari, Executive Vice President, Business Development and Operational Excellence (since September 1, 2017)

### 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 2017, the operating margin (EBITDA) was 2.6% 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 2017, the distributable assets of the Group's parent company were EUR 27,377,826.67.

The Board of Directors proposes that no dividend be distributed for the financial period of 2017.











# Comprehensive Consolidated Profit and Loss Statement, IFRS

EUR thousand	Note	2017	2016
Net sales	4	66,088	59,616
Other operating income		88	569
Materials and services		-6,241	-5,482
Employee benefits/expenses	7	-46,690	-40,697
Depreciation	6	-2,769	-2,499
Other operating expenses	5	-11,515	-9,175
Operating profit		-1,039	2,332
Financial income	9	526	5
Financial expenses	10	-644	-417
Profit before taxes		-1,157	1,920
Income taxes	11	231	-384
<b>Profit for the period</b>		<b>-926</b>	<b>1,536</b>
Other comprehensive income			
Items that may be later transferred into profit or loss:			
Exchange differences		-744	-20
<b>Total comprehensive income</b>		<b>-1,670</b>	<b>1,516</b>
Distribution of the profit and comprehensive income			
To shareholders of the parent company		-1,670	1,516
Earnings per share calculated from the profit attributable to equity holders of the parent:			
basic earnings per share (EUR)	12	-0.0262	0.0467
diluted earnings per share (EUR)	12	-0.0262	0.0467

# Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2017	Dec 31, 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Other tangible assets	13	640	628
Goodwill	14	26,398	27,690
Other intangible assets	14	7,797	9,141
Shares and holdings		62	62
Receivables	16	342	595
Deferred tax assets	15	5,583	5,760
		<b>40,822</b>	<b>43,876</b>
<b>Current assets</b>			
Trade and other receivables	16, 20	16,877	18,809
Cash and cash equivalents	17	910	902
		<b>17,787</b>	<b>19,711</b>
<b>TOTAL ASSETS</b>		<b>58,609</b>	<b>63,587</b>

# Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2017	Dec 31, 2016
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity attributable to the shareholders of the parent company</b>			
Share capital	18	2,100	2,100
Share premium reserve	18	72	72
Reserve fund	18	59	59
Fund for invested unrestricted equity	18	20,321	16,153
Treasury shares		0	-161
Retained earnings		2,549	4,278
<b>Total shareholders' equity</b>		<b>25,101</b>	<b>22,501</b>
<b>Non-current liabilities</b>			
Loans from financial institutions	19, 24	7,280	9,038
Deferred tax liabilities	15	1,826	2,234
		<b>9,106</b>	<b>11,272</b>
<b>Current liabilities</b>			
Current financial liabilities	19, 24	6,948	7,663
Trade and other payables	21	17,454	22,151
		<b>24,402</b>	<b>29,814</b>
<b>Total liabilities</b>		<b>33,508</b>	<b>41,086</b>
<b>Total shareholders' equity and liabilities</b>		<b>58,609</b>	<b>63,587</b>

# Consolidated Cash Flow Statement, IFRS

EUR thousand	Note	2017	2016
<b>Cash flow from operating activities</b>			
Operating profit		-1,039	2,332
Adjustments:			
Depreciation	6	2,769	2,499
Non-cash transactions		485	0
Changes in working capital:			
Change in trade or other receivables		1,924	-186
Change in trade and other payables		633	-838
Interests paid		-643	-370
Interests received		40	5
<b>Total cash flow from operating activities</b>		<b>4,169</b>	<b>3,442</b>
<b>Investment cash flow</b>			
Acquisition of subsidiaries		-59	-6,475
Investments in intangible and tangible assets		-1,688	-843
Loan receivables paid back		259	0
<b>Total cash flow from investments</b>		<b>-1,488</b>	<b>-7,318</b>
<b>Cash flow from financing</b>			
Loans withdrawn		10,087	13,783
Loans paid		-12,560	-6,302
Purchase of own shares		-199	-300
Redemption of the hybrid bond		0	-3,200
Interest payments on the hybrid bond		0	-47
<b>Total cash flow from financing</b>		<b>-2,672</b>	<b>3,934</b>
<b>Change in cash and cash equivalents</b>		<b>8</b>	<b>58</b>
Cash and cash equivalents, opening balance		902	843
<b>Cash and cash equivalents, closing balance</b>		<b>910</b>	<b>902</b>

# Consolidated Statement of Change in Shareholders' Equity, IFRS

Equity attributable to the shareholders of the parent company									
EUR thousand	Note 18	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Treasury shares	Retained earnings	Issuing a hybrid bond	Total shareholders' equity
<b>Shareholders' equity Jan 1, 2017</b>		<b>2,100</b>	<b>72</b>	<b>59</b>	<b>16,153</b>	<b>-161</b>	<b>4,278</b>	<b>0</b>	<b>22,501</b>
<b>Comprehensive income</b>									
Result for the financial period							-926		-926
Other comprehensive income:									
Exchange differences							-744		-744
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1,670</b>		<b>-1,670</b>
<b>Transactions with shareholders</b>									
Share issue						4,109			4,109
Other change *						59	-59		0
Purchase of own shares						-199			-199
Transfer of treasury shares						360			360
<b>Transactions with shareholders in total</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>4,168</b>	<b>161</b>	<b>-59</b>	<b>0</b>	<b>4,270</b>
<b>Shareholders' equity Dec 31, 2017</b>		<b>2,100</b>	<b>72</b>	<b>59</b>	<b>20,321</b>	<b>0</b>	<b>2,549</b>	<b>0</b>	<b>25,101</b>
* Change in the value of own shares									
<b>Shareholders' equity Jan 1, 2016</b>		<b>2,100</b>	<b>72</b>	<b>59</b>	<b>16,153</b>	<b>-345</b>	<b>3,295</b>	<b>3,200</b>	<b>24,534</b>
<b>Comprehensive income</b>									
Result for the financial period							1,536		1,536
Other comprehensive income:									
Exchange differences							-20		-20
<b>Total comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,516</b>		<b>1,516</b>
<b>Transactions with shareholders</b>									
Purchase of own shares						-301			-301
Cancellation of treasury shares						485	-485		0
<b>Transactions with shareholders in total</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>184</b>	<b>-485</b>	<b>0</b>	<b>-301</b>
Redemption of the hybrid bond								-3,200	-3,200
Interest payments on the hybrid bond							-47		-47
<b>Shareholders' equity Dec 31, 2016</b>		<b>2,100</b>	<b>72</b>	<b>59</b>	<b>16,153</b>	<b>-161</b>	<b>4,278</b>	<b>0</b>	<b>22,501</b>

# 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 9, 02150 Espoo.

The Innofactor Group is one of the leading software providers focused on Microsoft solutions in the Nordic Countries. Innofactor delivers to its customers IT projects as a system integrator and develops its own software products and services.

A copy of the consolidated financial statements is available at the company's Internet address [www.innofactor.com](http://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 5, 2018. 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, 2017. 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, 2017, the Group has applied the following new and amended standards and interpretations:

#### Amendment to IAS 7: Improved Notes

As a result of the change, the Group has drawn up a new note, "Reconciliation of liabilities and financing cash flow."

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

#### Amendment to IAS 12 Income Taxes:

Recognition of deferred tax assets for unrealised losses.

#### Changes that Will Take Effect During the Financial Period of 2018 or Later

The Group will apply the following standards and interpretations in the financial period starting on January 1, 2018, or later. 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 15 Revenue from Contracts with Customers

Innofactor has implemented the IFRS 15 Revenue from Contracts with Customers standard as of January 1, 2018, (mandatory implementation) and will apply it retroactively in full. The new standard defines a five-step model for recognizing revenue based on contracts with 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, and determining transaction price, among other things. It also expands requirements for notification related to revenue from customer contracts.

Innofactor made a preliminary analysis of the effects of the IFRS 15 standard in 2016, and more analyses have been made in 2017. The effects were assessed by reviewing customer contracts by using the revenue recognition model of IFRS 15. On the basis of this assessment, Innofactor has identified the types of revenue in which the new standard has an effect. Innofactor is in the process of finalizing the calculations on the standard's effects on Innofactor's earnings and reviewing the registration principles for these in order to comply with the new standard. The new standard only affects a small part of the customer contracts and the estimated effect of the standard in Innofactor's total revenue is insignificant.

The new standard affects the timing of the net sales from software licenses sold by Innofactor in cases where the licenses are sold in connection with a project delivery. In these cases, a license will be recognized as net sales based on the project's completion percentage and not as one time net sales like before. If IFRS 15 had



been implemented on January 1, 2017, in 2017, the effect on net sales and operating margin would have been EUR -422 thousand (Q1/2017: -265, Q2/2017: -303, Q3/2017: +196, and Q4/2017: -50), and it is estimated that it would have been transferred in whole to 2018. In 2018, the corresponding effect is estimated to be approximately EUR 0.5–1 million in total, which is correspondingly estimated to be transferred to 2019. The transfer to the IFRS 15 standard is not estimated to have any effect after the financial period 2018.

Some Innofactor maintenance contracts include a set-up activity. In cases where the set-up activities do not form a separate performance obligation, the revenue related to them should be registered over time from now on. Correspondingly, the related costs should be capitalized, when the criteria under IFRS 15 are met. In its review, Innofactor found no such contracts in 2017 and it estimates that there will be none in 2018.

#### **IFRS 9 Financial Instruments: Financial instruments**

Innofactor has reviewed the effects related to the IFRS 9 Financial Instruments standard, which took effect on January 1, 2018, and which replaces entirely the IAS 39 Financial Instruments: Recognition and Measurement standard. Based on preliminary calculations, Innofactor estimates that these changes will not have significant impacts on future consolidated financial statements.

#### **IFRS 16 Leases: 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.

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 2016 and 2017, 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 Group.

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.

In 2017, Innofactor activated costs related to the acquisition of the ERP system for EUR 1,809 thousand (EUR 322 thousand during the last quarter of 2016). These costs will be amortized in 5 years.

The major part of other intangible assets 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 deducted from the leases paid on the basis of the temporal distribution of the benefit.

### Impairment of Tangible Assets and Intangible Assets

The Group assesses at the closing date 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 2016 and 2017.

### 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.

### 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.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognized as part of the cost of that asset, if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the costs can be determined reliably. Other borrowing

costs are recognized as an expense in the period in which they are incurred. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. When the draw-down 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 agreement. 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 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
Non-current deposits	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
Purchase price paid in cash	4,073
Cash funds of the acquired subsidiary	1,858
Cash flow effect	-2,215

\*) Includes a deferred tax liability of 1,473

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

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 acquisition created 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 Final 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 20 million (at the fixed exchange rate defined in the agreement, a maximum of approximately EUR 2.1 million), is intended to be paid mainly in Innofactor shares in 2019. The Enterprise Value (EV) is a maximum of SEK 65 million (at the fixed exchange rate defined in the agreement, a maximum of approximately EUR 6.8 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 5,656 thousand and has been presented in more detail in the following calculation.

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

The values are based on the final acquisition cost calculation.

EUR thousand	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 **)	5,655
Goodwill	4,468
*) Includes a deferred tax liability of 227	
**) Cash 4,627, conditional compensation 1,028	
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 goodwill of EUR 4,468 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.

In the final acquisition cost calculation, the acquisition cost and goodwill have been updated as the changing part of the purchase price was specified. In the final acquisition cost calculation, the purchase price is EUR 5,655 thousand (EUR 6,684 in the preliminary calculation) and the goodwill is EUR 4,486 thousand (EUR 5,496 thousand in the preliminary calculation).

## 4. Net Sales

EUR thousand	2017	2016
Revenue from services	34,423	39,767
Revenue recognized from long-term projects	31,665	19,849
<b>Total</b>	<b>66,088</b>	<b>59,616</b>

From long-term projects in progress at the balance sheet date, a total of EUR 27.6 million (EUR 17.6 million in 2016) of realized revenues had been recognized.

For advance payments for long-term projects in progress, the balance sheet included EUR 323 thousand on December 31, 2017, (EUR 371 thousand on December 31, 2016).

On January 1–December 31, 2017, approximately 56 percent of the net sales came from Finland, approximately 28 percent from Sweden, approximately 8% from Denmark, and approximately 8% from Norway.

### Net Sales by Customer Location

EUR thousand	2017	2016
Finland	36,451	37,712
Rest of Europe	29,441	20,324
Rest of the world	196	1,580
<b>Total net sales</b>	<b>66,088</b>	<b>59,616</b>

## 5. Other Operating Expenses

EUR thousand	2017	2016
Expenses for business premises	2,553	2,413
Voluntary indirect employee costs	1,563	1,034
Marketing expenses	809	647
Total	4,925	4,094
Other unspecified operating expenses	6,590	5,081
<b>Other operating expenses, total</b>	<b>11,515</b>	<b>9,175</b>

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

### Remuneration of the Auditors

EUR thousand	2017	2016
Auditing	133	142
Tax services	4	0
Other services	39	49
<b>Total</b>	<b>176</b>	<b>191</b>



## 6. Depreciation, Amortization and Impairment

EUR thousand	2017	2016
Depreciation by asset group		
Intangible assets	2,222	1,978
<b>Total</b>	<b>2,222</b>	<b>1,978</b>
Tangible assets		
Machinery and equipment	547	521
<b>Total</b>	<b>547</b>	<b>521</b>
<b>Total depreciation</b>	<b>2,769</b>	<b>2,499</b>

## 7. Employee Benefits/Expenses

EUR thousand	2017	2016
Wages and salaries	37,373	32,488
Pension expenses		
– defined contribution plans	5,490	4,802
Other indirect employee costs	3,827	3,407
<b>Total</b>	<b>46,690</b>	<b>40,697</b>
<b>Group's personnel</b>	<b>2017</b>	<b>2016</b>
Average in the financial period	610	532
At the end of the financial period	601	591

Information on management benefits are presented in Note 25 Related party transactions.

## 8. Research and Development Costs

The research and development costs recognized as expenses totaled EUR 3,298 thousand in 2017 (EUR 3,394 thousand in 2016).

## 9. Financial Income

EUR thousand	2017	2016
Interest income	42	5
Other financial income *	484	0
<b>Total</b>	<b>526</b>	<b>5</b>

\* Other financial income for 2017 includes financial income of EUR 484 thousand related to the adjustment of the additional purchase price related to the acquisition.

## 10. Financial Expenses

### Items Recognized in Profit or Loss

EUR thousand	2017	2016
Interest expenses	-640	-417
Change in fair value registered from interest rate derivatives	-4	0
<b>Total financial expenses</b>	<b>-644</b>	<b>-417</b>

## 11. Income Taxes

EUR thousand	2017	2016
Current income tax liabilities	-165	181
Deferred tax related to temporary differences	396	-565
<b>Total</b>	<b>231</b>	<b>-384</b>

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	2017	2016
Earnings before taxes	-1,157	1,920
Taxes calculated at the domestic tax rate	231	-384
<b>Tax in the profit and loss statement</b>	<b>231</b>	<b>-384</b>

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.

	2017	2016
Profit for the year attributable to shareholders of the parent company (EUR)	-925,983	1,535,710
Weighted average number of shares during the financial period	35,341,751	32,871,577
Basic earnings per share (EUR/share)	-0.0262	0.0467

### 13. Tangible Assets

EUR thousand	Machinery and equipment	Total
Acquisition cost, Jan 1, 2017	3,426	3,426
Additions in 2017	559	559
<b>Acquisition costs, Dec 31, 2017</b>	<b>3,985</b>	<b>3,985</b>
Accumulated depreciation, amortization and impairment, Jan 1, 2017	-2,798	-2,798
Depreciation in 2017	-547	-547
Carrying amount, Jan 1, 2017	628	628
<b>Carrying amount, Dec 31, 2017</b>	<b>640</b>	<b>640</b>
Acquisition cost, Jan 1, 2016	2,818	2,818
Additions in 2016	608	608
<b>Acquisition costs, Dec 31, 2016</b>	<b>3,426</b>	<b>3,426</b>
Accumulated depreciation, amortization and impairment, Jan 1, 2016	-2,277	-2,277
Depreciation in 2016	-521	-521
Carrying amount, Jan 1, 2016	541	541
<b>Carrying amount, Dec 31, 2016</b>	<b>628</b>	<b>628</b>

## 14. Intangible Assets

EUR thousand	Goodwill	Other intangible assets	Total
Acquisition cost, Jan 1, 2017	27,878	13,781	41,659
Additions in 2017	0	1,123	1,123
Change in value from exchange rate changes	-264	-258	-522
<b>Acquisition cost, Dec 31, 2017</b>	<b>27,614</b>	<b>14,646</b>	<b>42,260</b>
Accumulated depreciation, Jan 1, 2017	-188	-4,640	-4,828
Change in the contingent additional consideration in 2017	-1,028	-2,222	-3,250
<b>Accumulated depreciation, amortization and impairment, Dec 31, 2017</b>	<b>-1,216</b>	<b>-6,849</b>	<b>-8,065</b>
Carrying amount, Jan 1, 2017	27,690	9,141	36,831
<b>Carrying amount, Dec 31, 2017</b>	<b>26,398</b>	<b>7,797</b>	<b>34,195</b>
Acquisition cost, Jan 1, 2016	19,772	5,595	25,367
Additions in 2016	8,106	8,186	16,292
<b>Acquisition cost, Dec 31, 2016</b>	<b>27,878</b>	<b>13,781</b>	<b>41,659</b>
Accumulated depreciation, amortization and impairment, Jan 1, 2016	-188	-2,662	-2,850
Depreciation in 2016	0	-1,978	-1,978
<b>Accumulated depreciation, Dec 31, 2016</b>	<b>-188</b>	<b>-4,640</b>	<b>-4,828</b>
Carrying amount, Jan 1, 2016	19,584	2,934	22,518
<b>Carrying amount, Dec 31, 2016</b>	<b>27,690</b>	<b>9,141</b>	<b>36,831</b>

## 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 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 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 7.9% (2016: 7.2%).
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 2017 and 2016.

According to the sensitivity analysis that the Group carried out on goodwill, a decrease of 3% in the net sales compared to the estimated net sales of 2018 or a decrease of 27% in profitability compared with the estimate for 2018 would indicate a need for impairment. On the basis of the sensitivity analysis, an increase in the discount rate to 11.9% would cause a need for impairment.

### Recognition of Goodwill

EUR thousand	2017	2016
IT service business	26,398	27,690
<b>Goodwill</b>	<b>26,398</b>	<b>27,690</b>

## 15. Deferred Tax Assets and Liabilities

### Changes in Deferred Taxes in 2017:

EUR thousand	Dec 31, 2016	Recognized in profit or loss	Dec 31, 2017
<b>Deferred tax assets</b>			
From Group combinations	5,760	-177	5,583
<b>Total</b>	<b>5,760</b>	<b>-177</b>	<b>5,583</b>
<b>Deferred tax liabilities</b>			
Measurement of intangible assets and tangible assets at market value in business combinations			
	-2,234	408	-1,826
<b>Total</b>	<b>-2,234</b>	<b>408</b>	<b>-1,826</b>

### Changes in Deferred Taxes in 2016:

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

## 16. Trade and Other Receivables

EUR thousand	2017	2016
Trade and other receivables		
Trade receivables	11,653	12,523
Receivables from customers for long-term projects	3,487	3,752
Loan receivables	45	52
Accrued income	1,692	2,482
<b>Total</b>	<b>16,877</b>	<b>18,809</b>

EUR thousand	2017	2016
Breakdown of trade receivables by age		
Not past due	9,035	8,474
Past due		
Past due 1-90 days	2,015	3,605
Past due over 90 days	603	444
<b>Total</b>	<b>11,653</b>	<b>12,523</b>

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	2017	2016
Bank accounts	910	902
<b>Total</b>	<b>910</b>	<b>902</b>

## 18. Notes Concerning Shareholders' Equity

Number of shares 2017	2017	2016
Outstanding shares, Jan 1	32,901,377	33,453,737
Share issue	3,286,848	
Cancellation of treasury shares	0	-552,360
Outstanding shares, Dec 31	36,188,225	32,901,377

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. For the option programs that have been decided on after the new Companies Act (21.7.2006/624) entered into force (September 1, 2006), the fees for subscriptions are recognized in full in the fund for invested unrestricted equity.

### Dividends

No dividends were distributed in 2017. The Board of Directors has proposed that no dividends be distributed for the financial period of January 1–December 31, 2017.

### Treasury Shares

The General Meeting of April 4, 2017, 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, 2018. This authorization replaces the Board's earlier authorizations concerning share repurchase. The authorization has not been used.

At the end of the review period, the company had no treasury shares.

### Hybrid Bond

On December 17, 2013, the Group issued a EUR 3.2 million hybrid bond, i.e. an equity bond. The proceeds of the hybrid bond were used to buy back about 4.7 million 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. 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 14.2 million (EUR 16.7 million on December 31, 2016). 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 3.5 percent (3.4% in 2016).

On December 31, 2017, the company had interest rate swap agreements, which had the nominal value of EUR 9.0 million and the due date of December 27, 2022, and 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 +/-135 thousand (2016: EUR +/-133 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 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.

### 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 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.

### 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	2-4 years
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Dec 31, 2017

Maturity distribution of financial liabilities

Loans from financial institutions

14,228	4,740	2,208	1,820	5,460
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Ostovelat ja muut velat

17,454	14,090	3,364	0	0
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Balance sheet value	0-6 months	6-12 months	over 1 year	2-4 years
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31.12.2016

Maturity distribution of financial liabilities

Loans from financial institutions

16,701	5,376	2,287	4,574	4,464
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Trade and other payables

22,224	17,990	4,234	0	0
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The Group's loans from financial institutions, except the checking account overdraft limit, have been combined in December 2017, that is a new loan was used to finance all old loans.

### 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.

	2017	2016
Interest-bearing liabilities	14,228	16,701
Cash and cash equivalents	- 910	-902
Total shareholders' equity	25,101	22,501
Net gearing	53.1%	70.2%

### Financial Risk Management

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 35% on 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) is a maximum of 2.5 at the check point of December 31, 2017, and on every 6-month check point after that.

The Innofactor Group's interest bearing liabilities divided by the 12-month operating margin (EBITDA) on December 31, 2017, exceeded the covenant limit of 2.5 agreed on with the financial institution. However, the financial institution issued a waiver accepting this deviation.

## 20. 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, 2017	Dec 31, 2016
	Note	Carrying amount	Carrying amount
Trade and other receivables	16	16,877	18,809
Cash and cash equivalents	17	910	902
<b>Total</b>		<b>17,787</b>	<b>19,711</b>
Loans from financial institutions		14,228	16,701
Trade and other payables:			
Trade payables		3,364	2,162
Other payables		3,321	2,544
Accrued expenses		10,720	17,384
Interest rate swap agreements, not in hedge accounting *)		49	61
<b>Total</b>		<b>17,454</b>	<b>22,151</b>

\*) 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.

## 21. 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	2017	2016
Within one year	2,007	1,976
Within more than one but less than five years	1,482	2,034
<b>Yhteensä</b>	<b>3,489</b>	<b>4,010</b>

In 2017, the amount of lease payments based on other leases recognized in profit or loss was EUR 2,298 thousand (EUR 2,171 thousand in 2016).

## 22. Financial Lease Liabilities

EUR thousand	2017	2016
Non-current financial liabilities measured at amortized cost		
Financial lease liabilities	173	341
<b>Total</b>	<b>173</b>	<b>341</b>
Current financial liabilities measured at amortized cost		
Financial lease liabilities	327	303
<b>Total</b>	<b>327</b>	<b>303</b>

### Due Dates of Financial Lease Liabilities

EUR thousand	2017	2016
Within one year	327	303
Within more than one but less than five years	173	341
<b>Yhteensä</b>	<b>500</b>	<b>644</b>

## 23. Contingent Liabilities and Assets and Acquisition Commitments

### Collateral

EUR thousand	2017	2016
Collateral given for own commitments		
Collateral for rent	188	212
Mortgages on company assets *	17,002	17,453
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, 2017.

### Other Leases

The liabilities from the Group's other leases are presented in Note 21 Other leases.

## 24. Statement of Changes in Interest Bearing Debts

EUR thousand	Non-current Interest bearing liabilities	Current Interest bearing liabilities	Total Interest bearing liabilities
<b>Liabilities Dec 31, 2016</b>	9,038	7,663	16,701
Loans withdrawn	7,793	2,294	10,087
Loans paid	-9,570	-3,009	-12,579
Changes with no related cash flow:			
Effective interest	19	0	19
<b>Liabilities Dec 31, 2017</b>	7,280	6,948	14,228

## 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	2017	2016
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	1,802	1,521
<b>Total</b>	<b>1,802</b>	<b>1,521</b>

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

EUR thousand	2017	2016
Salaries and fees paid to the CEO and Board Members		
CEO and Board Member Sami Ensio	424	296

Board members and deputy members

Rahkonen Ari	Chairman of the Board of Directors	48	48
Mäkinen Jukka	Board Member	24	24
Nurmi Ilari	Board Member	24	24
Puolakka Pekka	Board Member	24	21
Vepsäläinen Anni	Board Member	21	0
<b>Yhteensä</b>		<b>565</b>	<b>419</b>

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.

## 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%
- ▶ Lumagate A/S, Denmark, 100%
- ▶ Innofactor Holding AS, Norway, 100%
- ▶ Lumagate AS, Norway, 100%

## 27. Events After the Closing Date

### Events After the Review Period

On January 2, 2018, Innofactor announced in a stock exchange release that Marko Lehtonen has been appointed as Innofactor's Chief Financial Officer (CFO) and will start in his position on March 12, 2018, at the latest.

On January 24, 2018, Innofactor announced in a stock exchange release that Folkuniversitetet in Sweden selected Innofactor as the implementer of their Course and Event Management System. The value of the deal is approximately EUR 0.5 million, which is estimated to be registered for 2018 and 2019.

On February 6, 2018, Innofactor announced in a stock exchange release that Innofactor's operating margin (EBITDA) for the fourth quarter (Q4) of 2017 is less than expected in the Interim Report for the third quarter (Q3) of 2017.

On February 7, 2018, Innofactor announced in a stock exchange release that the Swedish Teachers' Union (Läraryrket) selected Innofactor as the partner for a pilot project for membership management, recruiting and membership analysis. The value of the deal is approximately EUR 0.5 million, which is estimated to be registered for 2018.

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

# Parent Company Financial Statements, FAS

EUR

PARENT COMPANY FINANCIAL STATEMENTS	Note	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
		12 months	12 months
<b>NET SALES</b>	<b>1</b>	<b>5,680,897</b>	<b>4,659,948</b>
Other operating income	2	30,478	1,526,360
Personnel expenses	3	-1,875,629	-2,563,145
Depreciation			
Planned depreciation	4	-200,350	-22,926
Other operating expenses		-3,678,403	-2,175,920
<b>OPERATING PROFIT</b>		<b>-43,007</b>	<b>1,424,318</b>
Financial income and expenses	5		
Dividend yield		4,046,528	0
Interest and financial income		733,315	451,854
Interest and other financial expenses		-388,662	-269,955
Depreciation on non-current asset investments		-22,320,360	0
Total financial income and expenses		-17,929,179	181,899
<b>EARNINGS BEFORE TAXES</b>		<b>-17,972,187</b>	<b>1,606,217</b>
<b>RESULT FOR THE FINANCIAL PERIOD</b>		<b>-17,972,187</b>	<b>1,606,217</b>

# Balance Sheet, FAS

EUR

ASSETS	Note	Dec 31, 2017	Dec 31, 2016
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Intangible rights	6	432,223	117,379
Goodwill	6	483,072	603,840
<b>Tangible assets</b>			
Machinery and equipment	6	54,537	30,394
<b>Investments</b>			
Shares in Group companies	7	23,696,532	41,016,892
Other shares and holdings		62,100	62,100
<b>TOTAL NON-CURRENT ASSETS</b>		<b>24,728,464</b>	<b>41,830,604</b>
<b>CURRENT ASSETS</b>			
<b>Receivables</b>			
<b>Non-current</b>			
Loan receivables		475,954	594,900
Other receivables	8	25,462,469	21,141,098
<b>Current</b>			
Trade receivables	8	12,834,640	6,365,523
Accrued income		65,136	160,808
Cash and bank receivables		60,090	78,149
<b>TOTAL CURRENT ASSETS</b>		<b>38,898,289</b>	<b>28,340,473</b>
<b>ASSETS</b>		<b>63,626,753</b>	<b>70,171,082</b>

EUR

LIABILITIES	Note	Dec 31, 2017	Dec 31, 2016
<b>SHAREHOLDERS' EQUITY</b>			
	9		
Share capital		2,100,000	2,100,000
Revaluation fund		2,000,000	2,000,000
Fund for invested unrestricted equity		28,415,281	24,246,591
Treasury shares		0	-160,713
Profit from previous financial periods		16,934,732	15,328,515
Profit/loss for the financial period		-17,972,187	1,606,217
<b>Total shareholders' equity</b>		<b>31,477,827</b>	<b>45,120,610</b>
<b>LIABILITIES</b>			
	10		
<b>Non-current</b>			
Loans from financial institutions		6,140,750	7,590,741
<b>Non-current liabilities total</b>		<b>6,140,750</b>	<b>7,590,741</b>
<b>Current</b>			
Loans from financial institutions		3,011,411	2,634,374
Trade payables		2,395,570	160,976
Other payables		20,319,791	14,103,739
Accrued expenses		281,403	560,641
<b>Current liabilities total</b>		<b>26,008,175</b>	<b>17,459,731</b>
<b>Total liabilities</b>		<b>32,148,925</b>	<b>25,050,472</b>
<b>LIABILITIES</b>		<b>63,626,752</b>	<b>70,171,082</b>

# Parent Company Cash Flow Statement

EUR	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
<b>Operating activities cash flow</b>		
Operating profit/loss	-43,007	1,293,033
Adjustments:		
Depreciation	200,350	22,925
Change in working capital		
Change in trade or other receivables	-9,932,409	-1,985,094
Change in trade and other payables	12,621,005	4,875,156
Paid interests and other financial expenses	-368,635	-222,733
<b>Total operating activities cash flow</b>	<b>2,477,304</b>	<b>3,983,287</b>
<b>Investment cash flow</b>		
Investments in subsidiary shares	-59,194	-4,636,043
Investments in fixed assets	-418,569	-119,421
Loan receivables paid back	173,230	0
Loans paid	223,839	0
Loans granted	-1,142,336	-3,767,914
<b>Total investment cash flow</b>	<b>-1,223,030</b>	<b>-8,523,378</b>
<b>Cash flow before financing</b>	<b>1,254,273</b>	<b>-4,540,091</b>
<b>Financing cash flow</b>		
Loans withdrawn	8,010,007	9,030,886
Loans paid	-9,082,962	-1,114,708
Redemption of the hybrid bond	0	-3,200,000
Interest payments on the hybrid bond	0	-47,222
Purchase of own shares	-199,377	-300,443
<b>Total financing cash flow</b>	<b>-1,272,332</b>	<b>4,368,513</b>
<b>Change in cash and cash equivalents as per cash flow statement</b>	<b>-18,058</b>	<b>-171,578</b>
<b>Change in cash and cash equivalents</b>	<b>-18,058</b>	<b>-171,578</b>
Cash and cash equivalents, opening balance	78,149	249,726
Cash and cash equivalents, closing balance	60,090	78,149



# 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 2017 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 rights                      3-5 years
- Goodwill                                      5 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)

<b>1. Net sales (EUR) by market area</b>	<b>2017</b>	<b>2016</b>
Finland	4,944,135	3,462,794
Rest of Europe	736,762	1,197,154
<b>Total net sales</b>	<b>5,680,897</b>	<b>4,659,948</b>

<b>2. Other operating income</b>	<b>2017</b>	<b>2016</b>
Rental revenue	28,750	18,516
Other operating income	1,728	1,507,844
<b>Total other operating income</b>	<b>30,478</b>	<b>1,526,360</b>

<b>3. Personnel expenses</b>	<b>2017</b>	<b>2016</b>
Wages and salaries	1,494,897	2,117,709
Pension expenses	343,166	353,528
Other indirect employee costs	37,567	91,907
<b>Total personnel expenses</b>	<b>1,875,629</b>	<b>2,563,145</b>

Management salaries and fees	564,986	420,692
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The CEO's retirement age and the basis for calculating the pension comply with the effective Employee Pensions Act. The mutual term of notice of the CEO is 6 months. If the company terminates the CEO's contract, the CEO will be paid the salary for the period of notice and also, as a compensation for the termination, a one-time payment equaling to the CEO's 12 months' salary.

Average number of personnel	28	27
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<b>4. Planned depreciation</b>	<b>2017</b>	<b>2016</b>
For intangible rights	59,373	5,200
For goodwill	120,768	0
For machinery and equipment	20,209	17,725
<b>Total</b>	<b>200,350</b>	<b>22,926</b>

5. Financial income and expenses	2017	2016
Interests and other financial income		
Dividend yield from companies of the Group	4,046,528	0
From companies of the Group	722,534	451,733
From others	10,780	121
<b>Total interests and other financial income</b>	<b>4,779,842</b>	<b>451,854</b>
Interest and other financial expenses		
To companies of the Group	-20,027	0
Interest expenses to others	-368,635	-269,955
Depreciation on non-current asset investments	-22,320,360	0
<b>Total interests and other financial expenses</b>	<b>-22,709,021</b>	<b>-269,955</b>
<b>Total financial income and expenses</b>	<b>-17,929,179</b>	<b>181,899</b>

## Balance Sheet Notes (EUR)

6. Intangible and tangible assets	2017	2016
<b>Intangible assets</b>		
Opening balance	117,379	5,642
Increases during the financial period	374,218	116,937
Acquisition cost	491,597	122,579
Depreciation for the period	-59,373	-5,200
<b>Closing balance</b>	<b>432,223</b>	<b>117,379</b>

The increases for intangible assets include the activation of the development costs for Innofactor's ERP system, EUR 495,277 (EUR 110,187 in 2016).

### Goodwill

Opening balance	603,840	0
Increases during the financial period	0	603,840
Acquisition cost	603,840	603,840
Depreciation for the period	-120,768	0
<b>Closing balance</b>	<b>483,072</b>	<b>603,840</b>

### Tangible assets

Opening balance	30,394	45,635
Increases during the financial period	44,352	2,484
Acquisition cost	74,746	48,119
Depreciation for the period	-20,209	-17,724
<b>Closing balance</b>	<b>54,537</b>	<b>30,394</b>

7. Investments	2017	2016
Opening balance	41,016,892	28,190,238
Increases during the financial period	5,000,000	12,826,653
Depreciation during the financial period	-22,320,360	0
<b>Closing balance</b>	<b>23,696,532</b>	<b>41,016,892</b>

### Shares and holdings of the parent company

Subsidiary shares:	Domicile	Country	Carrying amount
Innofactor Software Oy	Espoo	Finland	12,102,547
Innofactor Holding ApS	Copenhagen	Denmark	0
Innofactor Business Solutions Oy	Espoo	Finland	11,365,379
Innofactor Holding AB	Stockholm	Sweden	0
Innofactor Holding AS	Oslo	Norway	3,374
Innofactor CS Oy	Espoo	Finland	225,232
<b>Subsidiary shares in total</b>			<b>23,696,532</b>

8. Receivables	2017	2016
Trade receivables from Group companies	12,791,349	6,360,856
Other receivables from Group companies	25,462,469	21,141,098
<b>Receivables from Group companies in total</b>	<b>38,253,818</b>	<b>27,501,954</b>

<b>9. Shareholders' equity</b>	<b>2017</b>	<b>2016</b>
Shareholders' equity, opening balance	2,100,000	2,100,000
<b>Shareholders' equity, closing balance</b>	<b>2,100,000</b>	<b>2,100,000</b>
Revaluation fund, opening balance	2,000,000	2,000,000
<b>Revaluation fund, closing balance</b>	<b>2,000,000</b>	<b>2,000,000</b>
<b>Unrestricted shareholders' equity</b>		
Fund for invested unrestricted equity, opening balance	24,246,591	22,552,921
Increase / Merger of Innofactor SW Oy	0	1,348,420
Treasury shares	0	345,250
Directed issue for the owners of Cinteros AB	4,109,533	0
Other change*	59,157	0
<b>Fund for invested unrestricted equity, closing balance</b>	<b>28,415,281</b>	<b>24,246,591</b>
* Change in the value of own shares		
Profit from previous financial periods, closing balance	16,774,020	15,813,496
Transfer of treasury shares	360,090	0
Purchase of own shares	-199,377	0
Cancellation of treasury shares	0	-484,980
<b>Profit from previous financial periods, closing balance</b>	<b>16,934,733</b>	<b>15,328,516</b>
<b>Result for the financial period</b>	<b>-17,972,187</b>	<b>1,606,217</b>
<b>Total unrestricted shareholders' equity</b>	<b>27,377,826</b>	<b>41,020,610</b>
<b>Total shareholders' equity</b>	<b>31,477,826</b>	<b>45,120,610</b>
<b>Calculation of distributable funds</b>		
Result from previous financial periods	16,934,733	15,328,516
Result for the financial period	-17,972,187	1,606,217
Fund for invested unrestricted equity	28,415,281	24,085,878
<b>Total</b>	<b>27,377,826</b>	<b>41,020,610</b>

<b>10. Liabilities</b>	<b>2017</b>	<b>2016</b>
<b>Non-current liabilities</b>		
Loans from financial institutions	6,140,750	7,590,741
<b>Total non-current liabilities</b>	<b>6,140,750</b>	<b>7,590,741</b>
<b>Current liabilities</b>		
Loans from financial institutions	3,011,411	2,634,374
Trade payables	302,062	160,976
Other payables	1,124,699	819,619
Accrued expenses	281,403	560,641
<b>Liabilities to Group companies</b>	<b>21,288,601</b>	<b>13,284,120</b>
<b>Total current liabilities</b>	<b>26,008,176</b>	<b>17,459,731</b>

<b>11. Commitments and contingent liabilities</b>	<b>2017</b>	<b>2016</b>
<b>Bank guarantees</b>		
Bank guarantee has been given as collateral for rental agreements	252,960	252,960
<b>Lease liabilities</b>		
To be paid on the next financial period	59,162	52,236
To be paid later	22,044	67,721
<b>Total</b>	<b>81,206</b>	<b>119,957</b>
<b>Rental liabilities</b>		
To be paid on the next financial period	1,037,565	1,029,526
To be paid later	518,782	1,029,526
<b>Total</b>	<b>1,556,347</b>	<b>2,059,052</b>
<b>Mortgages on company assets as collateral for loan</b>		
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 2017, the distributable assets of Innofactor Plc are EUR 27,377,826.67. The Board of Directors proposes that no dividend be distributed for the financial period of 2017.

### **Company Shares**

Innofactor Plc has one series of shares. The number of shares is 36,188,225. The share has no nominal value. One share entitles the holder to one vote at the General Meeting. All shares entitle their holders to dividends of equal value. Innofactor Plc's share capital, paid in full and entered in the Trade Register, is EUR 2,100,000.00.

### **Books of Account**

General ledger as a computer printout

Journal as a computer printout

Accounts payable ledger as a computer printout

Accounts receivable ledger as a computer printout

Balance book for the financial period in a bound format

### **Voucher Types**

General ledger vouchers

Purchase vouchers

Sales vouchers

Bank vouchers

### **Storing the Accounting Material**

Innofactor Plc, Keilaranta 9, 02150 Espoo

INNOFACTOR PLC

**SIGNATURES FOR THE FINANCIAL STATEMENTS AND ANNUAL REPORT**

Espoo, March 5, 2018

**Sami Ensio**  
CEO, Board Member

**Ari Rahkonen**  
Chairman of the Board of Directors

**Jukka Mäkinen**  
Board Member

**Ilari Nurmi**  
Board Member

**Pekka Puolakka**  
Board Member

**Anni Vepsäläinen**  
Board Member

**AUDITOR'S NOTE**

The report on the audit has been issued today.

Helsinki, March 13, 2018

**PricewaterhouseCoopers Oy**  
Auditing firm

**Samuli Perälä**  
APA

# Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Innofactor Oyj

## 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.

Our opinion is consistent with the additional report to the Audit Committee.

### What We Have Audited

We have audited the financial statements of Innofactor Oyj (business identity code 0686163-7) for the year ended 31 December 2017. 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.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 5 to the Financial Statements.

### 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, Denmark and Norway.

### Key Audit Matters

- ▶ Revenue recognition of long-term projects
- ▶ Valuation and impairment of goodwill and intangible assets acquired from business combinations
- ▶ 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 (previous year € 600 thousand)

**How We Determined It**

Revenue from year 2017

**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 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.

Sales and expenses from long-term projects are recognised as revenue or costs, 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 is a significant item in the financial statements and

since revenue recognized based on the percentage of completion method is subject to management judgement.

**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 and specifically 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 and 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 guidance of the company.
- ▶ We tested estimated hours of new projects to ascertain they were based on appropriate supporting documentation.

### **Valuation and Impairment of Goodwill and Intangible Assets Acquired from Business Combinations**

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

Group goodwill totalled € 26.4 million as at closing date. The company is obliged to test goodwill for impairment at least once a year. Impairment testing is based on estimates of future cash flows. These estimates include significant management judgment covering e.g. budgeted gross margin, change in working capital, discount rate and growth rate for the forecast period.

The value of intangible assets acquired in business combinations totalled € 6.4 million as at the closing date. Intangible assets acquired in business combinations are recognized at fair value based on estimates of future cash flows related to the assets and amortized over their useful lives. The amount of future cash flows and determination of amortization period involve management judgment.

Valuation of goodwill and intangible assets acquired from business combinations was treated as a key audit matter due to their significance to the balance sheet and due to the management judgement involved in the valuation and periodization of these assets.

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 flows, the discount rate used, and reviewed the process by which estimates are formed.

- ▶ We tested the 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 prepared 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 2017 the company has not performed business acquisitions.

In connection with business acquisitions, the company identifies and recognizes intangible assets which are measured at fair value at time of acquisition based on future cash flows generated by the assets. If the accounting treatment of business acquisition has not been finalized by the end of reporting period, the company discloses in the financial statements a preliminary acquisition cost calculation, which is, if necessary, adjusted to reflect new information, which becomes evident during the reporting period. Business acquisitions often involve contingent sales

price mechanisms. Accounting for these mechanisms requires management judgement as regards to assessing the amount of the contingent consideration. During the reporting period, preliminary acquisition cost calculations have been updated based on updates to the information that was available at the acquisition date. In addition, the contingent consideration estimates have been updated.

Accounting treatment of business acquisitions was treated as key audit matter as it has a significant impact on the financial statements and is subject to management judgment.

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

- ▶ 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 management calculations of additional purchase price and criteria for measurement of additional sales prices.
- ▶ We tested that additional purchase prices observed in the purchase price calculations are based on the sales contracts.

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

There are no significant risks of material misstatement referred to in Article 2c of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or 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 a 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 to 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 about 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 with 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

### Appointment

We were first appointed as auditors by the annual general meeting on 29 March 2016. Our appointment represents a total period of uninterrupted engagement of 2 years.

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included 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 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, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 13 March 2018

### PricewaterhouseCoopers Oy

Authorised Public Accountants

### Samuli Perälä

Authorised Public Accountant (KHT)

# Additional Information

## Key Figures per Share

	2017	2016
Earnings per share (EUR)	-0.0262	0.0467
Equity/share attributable to the shareholders of the parent company (EUR)	0.694	0.684
Highest price of the share (EUR)	1.80	1.22
Lowest price of the share (EUR)	0.91	0.75
Market value of the shares (EUR thousand)	33,836	37,837
Turnover of shares	23,796,019	12,617,494
Turnover of shares (%)	67.3	38.4
Weighted average of the number of shares during the financial period	35,341,751	32,871,577
Number of shares at the end of the financial period	36,188,225	32,901,377

## Shareholding

On December 31, 2017, Innofactor Plc had 12,371 shareholders including the administrative registers (9). The share of administratively registered shares was 9.76% of the total number of shares.

Distribution of shareholding at December 31, 2017

Shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-100	6,909	55.85	197,790	0.55
101-1 000	3,407	27.54	1,530,722	4.23
1 001-10 000	1,787	14.45	5,636,983	15.58
10 001-100 000	233	1.88	5,948,244	16.44
yli 100 000	35	0.28	22,874,486	63.21
<b>Yhteensä</b>	<b>12,371</b>	<b>100.00</b>	<b>36,188,225</b>	<b>100.00</b>

Shareholders by shareholder group December 31, 2017 (% of shares)	
Other foreign	0.41
Administratively registered	9.76
Financial and insurance institutions	0.72
Enterprises	7.58
Public entities	5.00
Non-profit organizations	0.07
Private households	76.46
<b>Total</b>	<b>100.00</b>

# Calculation of Key Figures

## **Percentage of Return on Equity:**

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

## **Percentage of Return on Investment:**

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

## **Net Gearing:**

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

## **Equity Ratio, %:**

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

## **Result / Share:**

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

## **Shareholders' Equity / Share:**

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

*Innofactor's Espoo Campus has the largest collection of mechanical puzzles in the Nordic countries, which consists of over 2,000 different puzzles. In 2017, the puzzle collection was also extended to other Nordic headquarters; Stockholm, Copenhagen and Oslo. Puzzles are closely related to solution-orientated thinking, innovation and perseverance. These factors reflect Innofactor's Nordic spirit and values: desire to solve our customers' challenges and earn their trust, desire to provide our customers value through innovation, desire to empower people to make a difference, and desire to be responsive and deliver on promises. The collection at the headquarters is owned by its collector **Matti Linkola**.*

WE DRIVE BUSINESS EVOLUTION FORWARD



# INNOFACTOR®

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