



INNOFACTOR[®]

Annual Report 2018



Innofactor Plc Annual Report January 1 to December 31, 2018

Innofactor in Brief

Innofactor is driven by a mission to help our customers succeed by modernizing and digitalizing their organization. Innofactor's framework for a modern digital organization consists of five distinct areas: how our customers serve their customers digitally, manage their business operations, promote a collaborative way of working, move their services safely into the cloud, and renew their operations with a data-driven approach. We offer our customers planning services for business-critical solutions, project deliveries, implementation support and maintenance services, and develop our own software. We focus on the Microsoft ecosystem's Business-to-Business solutions 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 approximately 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 2018 amounted to EUR 63.1 million, down 3.8 percent from the previous year. Our operating margin (EBITDA) was EUR -1.0 million, or -1.6 percent of net sales. The five-year growth rate of our net sales in 2014–2018 was 14.1 percent annually on average (CAGR), and EBITDA averaged 5.2% of net sales in 2014–2018. The long-term goals specified in our strategy are to achieve annual growth of about 20 percent, primarily through organic growth, and an operating margin (EBITDA) of about 20 percent in relation to net sales as well as maintain positive cash flow and ensure a solid financial standing in all situations.

Innofactor Plc share is listed on the main list of Nasdaq Helsinki Ltd. Innofactor is one of the fastest-growing companies in the 2010s as measured by net sales on Nasdaq Helsinki. Innofactor has approximately 11,000 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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2018 Was Particularly Challenging for Innofactor

In the first half of 2018, Innofactor focused on the integration of the Nordic companies it had previously acquired in Sweden, Denmark, and Norway. A joint Nordic enterprise resource planning (ERP) system was introduced in all countries in the beginning of July. While the senior management's attention was focused on the implementation of integration outside Finland, the Finnish business ended in unprecedented difficulties. Innofactor carried out corrective actions during autumn 2018 in co-operation negotiations in its Finnish companies, which transferred to self-organized teams, reduced organization levels from seven to four and reduced the number of superiors from 50 to 16. Our net sales in 2018 were EUR 63.1 million (-3.8%) and our operating profit before depreciation and amortization was EUR -1.0 million (-1.6%).

The Innofactor Group's net sales in 2018 were EUR 63,144 thousand (EUR 65,666 thousand in 2017), showing a decrease of 3.8 percent. Operating profit before depreciation and amortization (EBITDA) was EUR -1,029 thousand (EUR 1,730 thousand in 2017). The share of EBITDA of net sales was -1.6 percent (2.6 percent in 2017).

Despite the business challenges, there were also many positives in 2018. We strengthened our Executive Board with a new CFO, with Marko Lehtonen taking up his position in March. We appointed new Country Managers for Sweden and Norway, Viktor Lundqvist in January and Jørn Ellefsen in December (started on March 1, 2019).

Health Village, a virtual hospital solution covering specialized medical care in the whole of Finland, designed jointly by Innofactor and the Hospital District of Helsinki and Uusimaa (HUS), won the Outstanding Innovation category in Microsoft's international 2018 Health

Innovation Awards, and the 2018 Suunnannäyttäjä ("Forerunner") award presented by the Finnish state. The Health Village technology platform is available also in other Nordic countries through us.

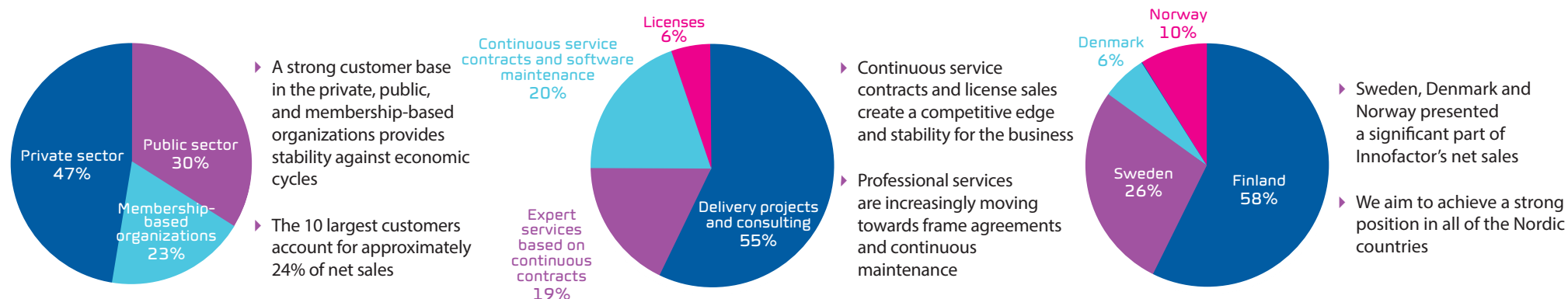
In 2018, our customers in all Nordic countries started increasingly to use the flexible Cloud Solution Provider (CSP) model when acquiring Microsoft's cloud solutions. This puts Innofactor in an even better position to act as a supplier of comprehensive solutions and services to our customers.

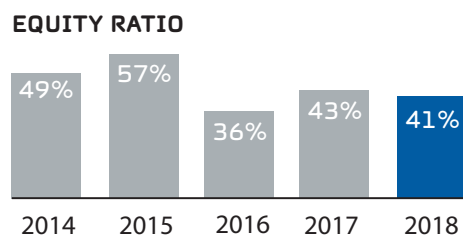
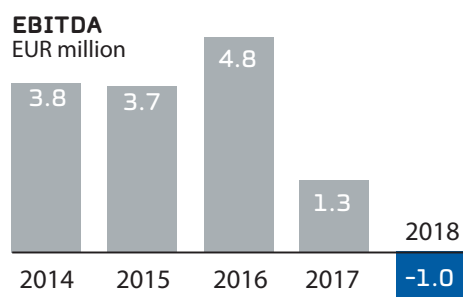
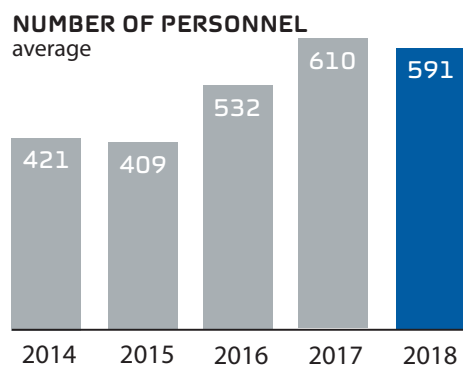
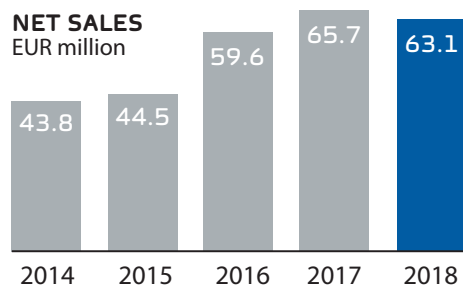
In 2018, we opened Microsoft Dynamics 365 Experience Rooms, based on a new concept we have developed, in our offices in Stockholm and Espoo. The Experience Room, targeted to companies' leadership teams, offers a unique way to see and experience tomorrow's modern digital organization. The Experience Room shows in concrete terms how the digitalization

of business processes helps on the journey towards a customer-centered and efficient organization, a modern employer and an even better business partner.

Innofactor was selected in Sweden as the Microsoft Dynamics Partner of the Year 2018 and in Norway as the Microsoft Security Partner of the Year 2018. Awards are recognition to us that our customers and key partners value us and get genuine added value from our solutions. As a comprehensive supplier of Microsoft products, we can offer our customers all stages of digitalization for their operations, ensuring high data security.

In 2018 we focused on concluding integrations in the Nordic countries. In addition to unifying our enterprise resource planning (ERP) system in 2018, we went over to a joint new Nordic website and marketing automation platform and unified our operating procedures in a number of ways.





	2018	2017	2016	2015	2014
Net sales, EUR thousand	63,144	65,666	59,616	44,452	43,834
Operating profit before depreciation and amortization (EBITDA), EUR thousand	-1,029	1,308	4,831	3,705	3,794
percentage of net sales	-1.6%	2.0%	8.1%	8.3%	8.7%
Operating profit (EBIT), EUR thousand	-3,872	-1,461	2,332	2,542	2,407
percentage of net sales	-6.1%	-2.2%	3.9%	5.7%	5.5%
Earnings before taxes, EUR thousand	-3,811	-1,579	1,920	1,935	1,946
percentage of net sales	-6.0%	-2.4%	3.2%	4.4%	4.4%
Earnings, EUR thousand	-3,462	-2,007	1,536	1,548	1,556
percentage of net sales	-5.5%	-3.1%	2.6%	3.5%	3.5%
Shareholders' equity, EUR thousand	21,303	24,764	22,501	24,534	22,462
Interest bearing liabilities, EUR thousand	15,418	14,228	16,701	9,219	10,638
Cash and cash equivalents, EUR thousand	258	910	902	843	997
Deferred tax assets, EUR thousand	5,602	5,668	5,760	6,704	7,238
Return on equity	-13.8%	-5.3%	6.5%	6.6%	7.4%
Return on investment	-7.7%	-2.4%	6.4%	7.6%	9.1%
Net gearing	71.2%	53.8%	70.2%	34.1%	42.9%
Equity ratio	41.2%	43.4%	35.8%	56.9%	48.7%
Balance sheet total, EUR thousand	51,875	58,272	63,587	43,983	47,413
Research and development, EUR thousand	2,860	3,298	3,394	2,495	1,981
percentage of net sales	4.5%	5.0%	5.7%	5.6%	4.5%
Personnel on average during the year	591	610	532	409	421
Personnel at the end of the year	550	601	591	415	411
Number of shares at the end of the year	36,188,225	36,188,225	32,901,377	33,453,737	32,153,737
Earnings per share (EUR)	-0.0880	-0.0262	0.0467	0.0475	0.0485
Shareholders' equity per share (EUR)	0.589	0.684	0.684	0.733	0.699

2018 Was a Big Disappointment – I Trust We Can Turn Things Round in 2019

2018 was an extremely challenging one for our business, definitely one of the most difficult in Innofactor's 19-year history. The last time Innofactor was in such difficulty was in the early 2000s, in the early years of the company.

Personally, it hurts me to realize that we were not able to live up to the promises we made to the market. My apologies for that.

Despite the challenges in 2018, helped by our excellent personnel, we were able to implement amazing solutions to our customers, which delights me greatly. This gives us confidence of a better future.

We would like to thank our customers, partners, employees, and investors for year 2018!



Innofactor's vision is to be the leading provider of organization's digital transformation in each of the Nordic countries. We are still 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. In 2019 we will focus on improving our business profitability. We will have to roll our sleeves up and show great perseverance, but with a twist of fun.

In 2018, we deepened our co-operation with customers further. We received numerous new major orders, such as Folkuniversitetet's course and event management system, Swedish Teachers' Union's membership management, recruiting and membership analysis pilot project, the Legal Register Centre's HAIPA system, renewal of an agreement for the Swedish trade union Kommunal's continuous services and support, the further development of electronic services system of the Funding Centre for Social Welfare and Health Organizations (STEA), delivery of the financial management system of a private Finnish healthcare company, Kuntien Tiera's office communication services, Dynasty 10 case management system updates for 13 North Karelian municipalities, renewal of Hansel's procurement announcement service

Hilma, and several other important projects in Finland, Sweden, Denmark and Norway. I would like to thank our customers and partners for the trust 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 is very strong. We are at the core of Microsoft's product development, helping them to create new versions of their cloud solutions. Innofactor was selected as Sweden's Dynamics Partner and Norway's Security Partner. I would like to thank Microsoft and its ecosystem 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 visionary key 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, and we continue to invest in innovation. One example of a service that attracted a lot of interest was the Mustikkaan? application created in our Hackathon event in April. It gives a prediction for the ripeness of blueberries based on a given location.

The calculation is based on predictive analytics and a model that utilizes open data that can describe various natural development processes, such as the development of many cultivated species.

Innofactor's strength lies in our highly competent and motivated personnel. In 2018, 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 field. I am very proud of our employees' enthusiasm toward driving the organization in the same direction and finding new ways to innovate solutions, further improve customer satisfaction, work more efficiently, and increase productivity. For that, I am grateful to all of you.

A successful and growing company needs committed investors. The price of Innofactor's share fluctuated substantially in 2018 due to the challenging business circumstances. I would like to thank all 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.

"We will get our profitability back on track in 2019 and we will do that already early in the year. This is my top priority together with our management and excellent personnel. This will form a basis for all our future activities and development."

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 2019. 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 task is to help our customers digitalize their business, manage their business operations, promote a collaborative way of working, transfer their services securely into the cloud, and to renew their operations with a data-driven approach. Going forward, we will continue to develop our in-depth customer understanding of commercial, public sector, and membership-based organizations in the Nordic countries. We invest in employing the best Microsoft professionals in the Nordic countries. We offer our customers a proactive and flexible delivery model that creates added value.

We Expect Market Growth in 2019

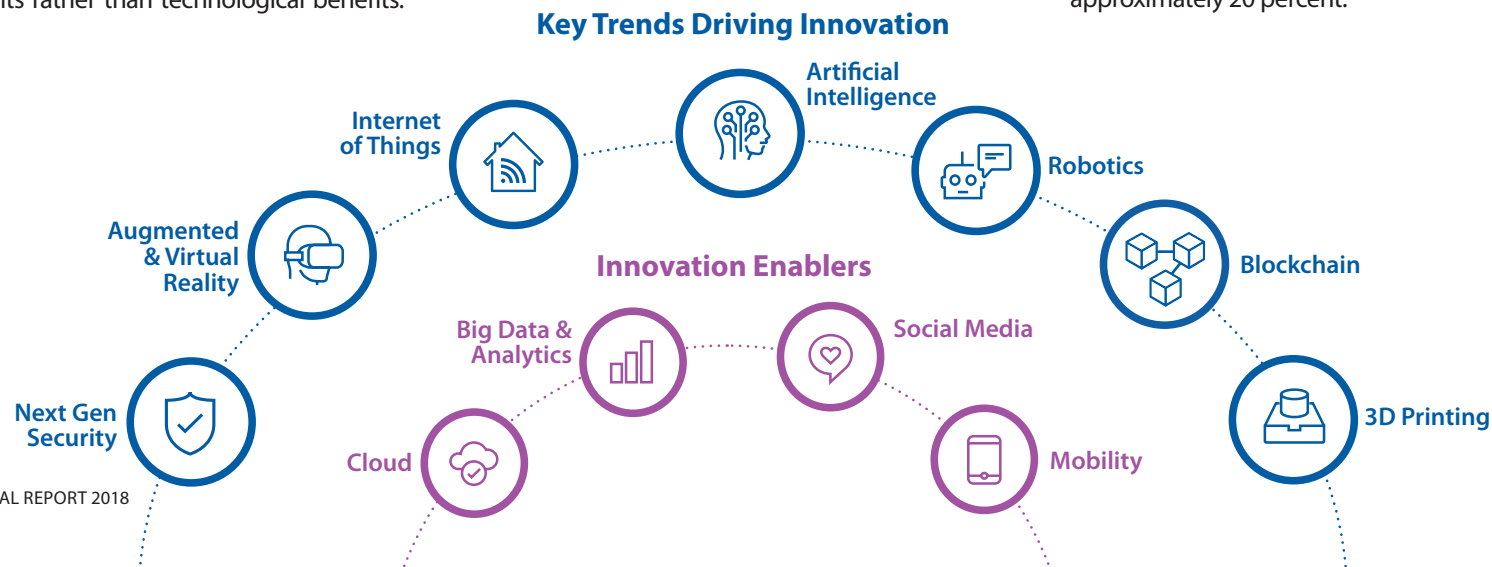
The key innovation trends and drivers of change in the market include augmented reality, virtual reality, Internet of Things (IoT), artificial intelligence, robotics, and blockchains, with facilitating roles being played by software moving to the cloud, data analytics, social media, and the use of mobile devices. The purchasing behavior of our customers has evolved 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 2018. We further estimate that the growth rate of the Nordic IT services market will again be 3–5 percent in 2019. Our estimate is based on forecasts by research institutes and our own views regarding the development of the market.

Becoming the Leading Provider of 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 countries in this market. Going forward, our aim is to become the leading player in the 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:

Driving the #ModernDigitalOrganization

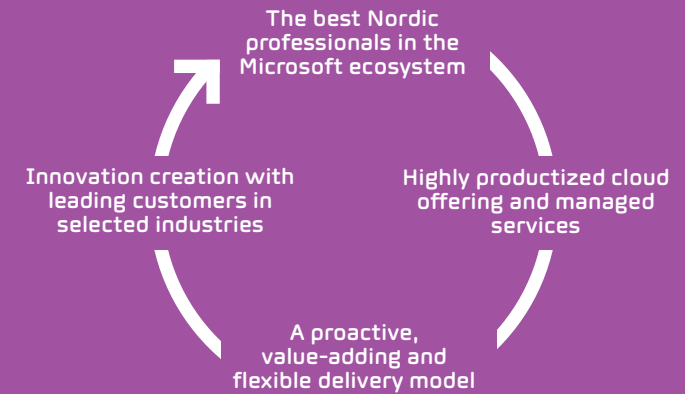
Vision:

The leading provider of organizations' digital transformation in each of the Nordic countries (Finland, Sweden, Denmark and Norway)

Our Long-Term Financial Goal is to Grow Profitably:

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

Strategy



The Main Actions for Reaching the Approximately 20 Percent Growth and 20 Percent Operating Margin:

- ▶ Focus on selected industries and solution areas (customer journeys) that provide the highest growth opportunities and allow us to best scale existing offering in the Nordics
- ▶ Focus on current customers and cross sales to get a bigger share of wallet of customers' digital transformation budgets
- ▶ Improving modern digital marketing and sales skills to achieve better and more cost-effective sales results
- ▶ Focus on competence planning, recruiting and resource optimization across Nordics
- ▶ Shifting revenues from projects and professional services toward products, IP-based and continuously managed services that support selected solution areas and industries
- ▶ Strengthening continuously our specialists' professional skills and improving our leading offering in order for our customers to pay hour price above market average
- ▶ Aiming to move to self-organized teams and to reduce organizational layers achieving better communication and faster decision making
- ▶ Continuously improving our flexible value-adding delivery model minimizing number of non-invoiced hours and maximizing customer satisfaction

The competitive landscape for Microsoft-based solutions in the Nordic countries 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, although these are not a priority for us in 2019. 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. 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 Digital 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** – Provide your customers a more personal digital customer experience
- Digital Operations Journey** – Create business value, accelerate innovation and increase productivity by digitalizing your business processes
- Employee Experience Journey** – Make your employees' daily work easier and more meaningful with modern collaboration solutions
- Secure Cloud Journey** – Successfully design, implement and utilize cloud services and build a secure, scalable cloud platform
- Data-Driven Business Journey** – Enable data-driven decision-making and business in your organization

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**

Websites & Mobile Apps 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 Solution Partner

Finnish Safety and Chemicals Agency (Tukes)

Government's Key Project KemiDigi – Chemical Data from One Service


The Finnish Safety and Chemicals Agency (Tukes) is a permit and supervisory authority with approximately 260 employees, which has promoted the safety and reliability of Finnish society since 1995. Tukes operates under several ministries, but it is the Ministry of Economic Affairs and Employment that is in charge of the ministerial governance and supervision. Tukes is tasked with protecting people, property and the environment from security risks by supervising and promoting the safety and reliability of goods, services and industrial production. Tukes is aiming towards a responsible, safe and competitive Finland.

Digital management of chemical data – KemiDigi – is one of the Government's key projects. It is a chemical database that can be accessed by companies and authorities, consisting of information about chemicals and simplifying the related notification responsibilities. The core of the service consists of a chemical register and a substance register.

KemiDigi's objective is to enable easy communication with

the authorities about chemicals, and utilization of any data created. Time will be saved as all relevant information is found in one place and there is no need to notify several different authorities anymore. Companies submit chemical data into the service, maintain chemical lists required for permit and supervision purposes, and manage their own information within the system. Authorities, on the other hand, obtain the information they need from the system, monitor data quality and integrity, provide businesses with information, create background data into the system, and maintain the substance register.

KemiDigi was created jointly by representatives from various authorities and companies, assessing each parties' needs to find a common basis. Innofactor implemented the service's basic functions in 2018. Corporate users took part in the pilot, during which the chemical notifications and chemical list function was tested. The actual launch was started in February 2019, and development work is still ongoing.



"KemiDigi project has proceeded apace and we aim to achieve many benefits for companies, authorities and society at large. The digitalization of chemical data makes it easier to harmonize various authorities' permit and notification procedures and to reduce overlap and excessive administrative procedures. Thanks to KemiDigi, we have access to up-to-date chemical data, and the authorities can direct their supervision to areas where the risks are highest. Co-operation with Innofactor has been very easy, pleasant and, first and foremost, efficient and reliable."

Kimmo Peltonen

Director General
Finnish Safety and Chemicals Agency (Tukes)

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 Higher Operational Productivity

- ▶ **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 Higher Operational Productivity

- ▶ 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

Market Partner

Microsoft Dynamics 365 for Talent for Candidate Management

Market Partner is one of the most renowned Sales Outsourcing advisors in the Nordics. The company provides marketing and business development services in IT and Telecom and designs and implements complex sales strategies for some of the strongest brands in the Nordics and the World. Market Partner supports customers in hardware, software, services and telecoms, and provides both complete and customized solutions for manufacturers, distributors and IT integrators. Market Partner identifies and profiles ideal customers, collects data, and creates Key Performance Indicators that help to solve problems and exploit opportunities. In addition, the company analyzes the impact of marketing activities on the bottom line and surveys consumer feedback on brands and products.

Market Partner needs to attract new candidates while managing existing ones in the database and matching them with different jobs. When Market Partner phased out its existing solution Access, they needed to look at different options. Microsoft Dynamics 365 for Talent was chosen because it was a standard system that was easy to customize to specific needs and included a complete palette of reports and cross-referencing tools. The solution also increases ability to search for skills sets and match individuals in large quantities of personal data. Market Partner was the first customer in Sweden to implement Microsoft Dynamics 365 for Talent for its candidate management. Getting the system quickly up and running was important and therefore the standard module, which enabled mapping individuals with positions within only two weeks, was chosen.

Market Partner has changed its whole approach by performing day-to-day tasks via Talent rather than by e-mail, meetings and phone calls. The aim is to remove manual work, save time and get a complete overview of every customer and candidate. Both company and candidates benefit from enhanced co-operation and more time-saving options.



"We understood the importance of GDPR well in advance and were already largely in compliance with it – but not fully. This became a key factor when we discussed how to move forward both internally and with our candidates with whom we are in constant contact. After a meeting with Innofactor we saw Talent's advantages and decided quickly that it was the perfect solution for us. It allowed us to get quickly up and running and gradually grow with the solution."

Christoffer Frisell
CEO
Market Partner

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 legislation, 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

"This is a really good solution, which eases a very specific challenge we were having. A lot of the busy, time-consuming, administrative work is now automatically done in the background, which relieves our employees and makes the work day more interesting. We have cut the processing time down to one third, minimizing the risk of errors and are able to expedite the fees immediately. The workflow has increased customer satisfaction and decreased financial risk. Both the development process and co-operation with Innofactor have been very positive, because they quickly understood our handling process and spotted on with the solution we needed. Innofactor has done really good job."

Steen Herløv Andersen
Operational Manager
DriveNow Denmark
– Operated by Arriva



DriveNow Denmark

Minimizing Manual Processes and Automating Customer Parking Fees with Innofactor's Workflow

DriveNow is a fast-growing car-sharing service owned by BMW, which operates in 13 European metropolitan areas: Berlin, Hamburg, Munich, Cologne, Dusseldorf, Brussels, Vienna, London, Lisbon, Milan, Helsinki, Stockholm and Copenhagen. In Denmark it is operated on a franchise basis by Arriva, Denmark's largest bus operator which operates buses throughout the country and trains in central and western Jutland.

In Copenhagen, short distances, heavy traffic and limited parking opportunities lead to many people choosing bikes or public transport for everyday life. Few,

however, can completely ignore the flexibility provided by a car for example meetings, family visits outside the city or large purchases. DriveNow makes it easy to borrow a modern, safe car for a shorter period, and people's interest towards the company is steadily increasing. DriveNow Denmark has recently added 200 cars to its car park, which operates around Copenhagen as well as in the 'satellite divisions' in Dragør and Ballerup.

The growth, however, has led to a significant administrative burden in the form of a growing number of parking fines – currently around 30–40 per day. Innofactor

created a workflow that can assist and, to a large extent, automate the work of re-billing the parking charges. The workflow is built on a combination of Microsoft Flow, SharePoint Online, and Nintex, and starts when DriveNow receives a parking fee. The workflow automatically extracts data from the invoice, builds a list of current cases in SharePoint Online, and requests image documentation to verify the fee. If the fee is correct, another part of the workflow takes over and sends an email to the customer with a copy of the fee as well as the invoice due with the parking fee amount, plus the administration fee.

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

Orkla ASA

Managing Cloud Securely with Innofactor Azure Governance

Orkla is a leading supplier of branded consumer goods to the grocery, out-of-home, specialized retail, pharmacy and bakery sectors. The Nordic and Baltic regions and selected countries in Central Europe are Orkla's main markets. The Orkla Group also holds strong positions in selected product categories in India. Orkla ASA is listed on the Oslo Stock Exchange, and its head office is located in Oslo, Norway. Orkla has over 18,000 employees, and the Group's turnover in 2017 totaled NOK 39.6 billion.

At Orkla ASA, IT is an essential contributor throughout the value chain. IT is involved in sales, marketing, production, logistics, and financial follow-up, as well as monitoring national and global suppliers. These projects are large and complex, and Orkla recognized that quick deliveries and following of internal guidelines for security and ethics at the same time needed an implementation of a complete Governance model. Orkla required a model that enables them to be more agile in utilizing Azure Services and facilitating correct user usage and behavior.

Innofactor Azure Governance enables Orkla to be in control of their cloud infrastructure. Orkla is now empowered to manage their costs, risks and resources in an optimal and traceable manner so that Azure is positioned as a sustainable core enabler for the business. Orkla has a hosted governance library that is customized to their needs, policies and processes. Continuous support ensures keeping their Governance up-to-date with their company policies, procedures, business environment and Azure evolution. Orkla can now be more agile and accelerate their implementation of services in Azure while remaining true to their internal processes and guidelines.

"Growth and new technology require stronger IT. Without a good Governance structure, we would not have been able to move business-critical applications and data to the cloud. This was made possible by Innofactor's consultants who have a great understanding of technical side but also how IT can leverage the business."

Finn Aksel Falkenberg
Director of Service Delivery
Orkla ASA

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

Organization's operations generate a huge amount of data fragmented into 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

Movere

Tens of Thousands of Euros Saved with Forklifts' Internet of Things (IoT) Monitoring System

Movere is a logistics company specializing in transport, material flow control and storage. With its head office in Lahti, Movere provides storage, export and import transport services to its customers and owners. Its other offices are located in Hyvinkää, Kotka, Turku, Uusikaupunki, Seinäjoki and Oulu. Movere has approximately 90 employees, and the company also employs indirectly more than 500 transport partners and their drivers. Net sales in 2018 amounted to about EUR 78 million, and the transported volume was about 3.8 million tons. The company operates throughout Finland.

The potential for IoT solution was discovered very quickly, when Movere needed a good monitoring solution for its 25,000 square meter warehouse in Lahti. There were almost thirty different forklift types, which are now monitored with modern sensor technology. The IoT monitoring system can collect more volume and utilization rate data of the forklifts, and as a result selecting the right kind of forklift has become easier. The small sensors ensure that the forklift capacity is correct, and the right kind of forklift is used. When the utilization rate is right and forklifts are not lying around doing nothing, tens of thousands of euros per year can be saved.

Introduction of technology was an easy process. Innofactor delivered Movere monitoring sensors that were installed in the forklifts. A sensor network was installed in the warehouse to detect the movement of the sensors, or effectively the forklifts. Data collected by the sensors is transferred into a program with which the supervisors can monitor forklift movement and utilization rate. The sensors can also be moved from one forklift to another, making it easy to make more efficient use of forklifts needed during a particular season or when extra capacity is required.

"We are engaged in a new kind of co-operation with Innofactor with the IoT solution for a warehouse environment. We had a development idea for forklift monitoring, and Innofactor was able to provide the right kind of sensors and reporting tools. We quickly realized that we had over-resourced our equipment, and now we can save tens of thousands of euros every year. We plan to continue to work with Innofactor and are already looking for similar solutions in the IoT sector."

Antti-Jussi Lummelampi
Logistics Manager
Movere



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 approximately 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 countries. 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 2018, we invested 4.5% 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.

Examples of Innofactor's Software Product and Service Portfolio

Innofactor Dynasty is a continuously developed leading case management solution for public sector, with more than 250 municipal and state authority customers in Finland. Innofactor won, in spring 2018, a competition for tenders by the Finnish Legal Register Centre with its Dynasty 10 solution and began Dynasty 10 update projects to existing customers in late 2018.

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

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

Innofactor Skilli is an award-winning cloud-based learning analytics solution that supports the new Finnish curriculum leveraging Microsoft Office 365 and Azure.

Legal Register Centre

Dynasty 10 Digitalizes Administrative Courts'
Resource Planning and Case Management

The Legal Register Centre is an expert agency operating under the Ministry of Justice that is in charge of register maintenance and data management, enforcement of fines, and the development and maintenance of judicial administration. It also acts as a bookkeeping and IT procurement unit. The Legal Register Centre has approximately 150 employees, of which about 80 work in IT services, performing various information system development and maintenance duties.

An objective with government administration project (HAIPA) currently ongoing at the Ministry of Justice is to renew the work practices and methods of administrative courts (Supreme Administrative Court, administrative courts, the Administrative Court of Åland, Insurance Court, Market Court and Labour Court) and to enable digital co-operation with other authorities, companies under private law and citizens. An electronic service provides a new way to communicate alongside traditional methods, and the objective is that electronic services will become the primary channel for communication with administrative and special courts. Data transfer between the authorities and courts will also improve, as will citizen's legal protection.

The Legal Register Centre selected Innofactor in March 2018 for HAIPA's resource planning and case management project to enable data to be processed electronically throughout the entire administrative court process. A modern case management system, Innofactor® Dynasty™ 10, was selected because it is designed to work seamlessly as part of the public administration's working methods and systems. Dynasty 10 is SÄHKE2-certified, fulfilling the requirements for case management in public administration, and it has received a Key Flag Symbol as a sign of being a Finnish product.

"The courts' software was technically outdated, no longer meeting the modern needs, so there was a great need to develop the work methods and to improve productivity. The information system package of the HAIPA project makes the processing of material in legal processes easy to use, reliable and stable digitally. A common case and document management system means that all functions can be digitalized, and the staff's work can be developed systematically. Innofactor was chosen as the provider for HAIPA's IT systems through a public procurement competition."

Tuula Kivari
Project Director
Ministry of Justice

Kari Tavisalo
Project Manager
Legal Register Centre

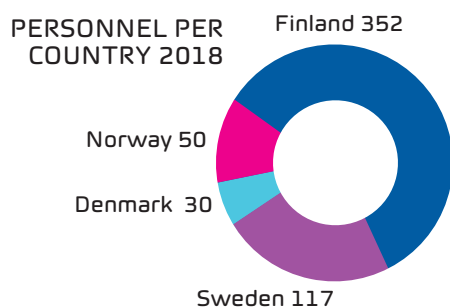
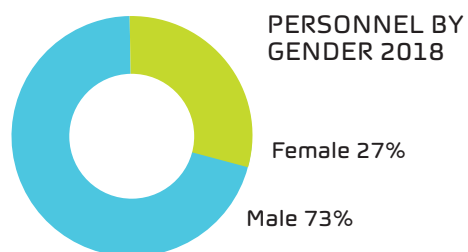
Towards a Modern Digital Organization in the Nordics

Highly competent employees, good leading practices and Nordic processes support Innofactor’s long-term goals. In 2018, Finland went over to self-organized teams, reduced organization levels and improved information flow. Also, the focal points of key duties were moved closer to the customer interface.

Number of Personnel and Key Figures

In 2018, Innofactor had a total of 591 employees on average (2017: 610), down 3% from the previous year. These figures exclude employees who are on leave for a period exceeding three months.

At the end of 2018, the number of personnel was 550 (2017: 601). The number of personnel decreased by 9%. The average age of the company’s personnel was 40.8 years (2017: 38.9). Women accounted for 27% of the personnel and men for 73% (2017: 28% and 72%).



Self-Organized Teams and Lighter Organization in Finland

Innofactor renewed its organization in Finland in late 2018. The number of offices and key duties were reassessed, and their focus was changed to serve the current business better. Innofactor decided to adopt self-organized teams in Finland and made a major organizational change to support this. The purpose of the reform is to reduce organizational levels, speed up decision-making and thereby improve employee satisfaction. With the organizational change, we want to strengthen the position of the teams and give superiors a better focus on their management duties.

Towards Common Nordic Operating Models

Innofactor's target is to build a company with Nordic integration that can help its customers to build a modern digital organization. Innofactor continued development projects in 2018 to create a basis for Nordic operating models. Common systems, processes and culture will support Innofactor's strategic targets and co-operation between the countries.

Of the personnel processes, we carried out a performance management process and an employee satisfaction survey in a uniform way in all Nordic countries in 2018. Personnel and superiors were trained in Nordic performance management courses, and development discussions were held using

uniform timetables and models. The idea with Nordic superior and personnel training is to ensure systematic communication and a uniform leadership culture throughout the organization. Through performance management, Innofactor will ensure that each employee has clear targets, feedback is received regularly, and personal development is supported systematically. Employee satisfaction was measured with quarterly surveys, selecting areas to develop both in each country and at group level.



The Leadership Culture Supports Integration

The leadership training program for team leads, designed to improve leadership culture, was concluded in 2018. The target was to unify leadership culture and improve leadership skills throughout the organization. Approximately 30 team leads from all Nordic countries took part in the programme. The programme focused on networking and superiors' competences in managing experts. According to the feedback, superiors had obtained excellent tools for day-to-day management, coaching, giving feedback and development of their own leadership skills. The target with superior and line managers' training is to ensure good immediate management work quality and leadership coaching throughout the organization.

In addition to leadership training, Innofactor Academy continued to train the rest of the personnel. The focus areas included training based on Microsoft technology, basic induction and tools related to project management (such as ITIL and SCRUM). Through Innofactor Academy personnel were trained both locally and at Nordic level.

Operating Models to Support Modern Work Better

In 2018, the Microsoft Dynamics 365 Enterprise Resource Planning system (ERP) was expanded to cover all Nordic countries. With the common personnel system, Innofactor renewed its operating model and reporting. Common system increases the level of automation at Innofactor and enables common reporting practices throughout the group.

Integration and modern work methods were supported at Innofactor by renewing both external and internal communication. Communication was developed by describing, together with the personnel, the principles of communication in the form of an Innofactor Collaboration Playbook. The Playbook defines what tools and communication channels are used for various purposes, and under what principles information is communicated within the company. In addition, Innofactor renewed its intranet pages with the latest SharePoint technology, which supports news mobile use better in the future. In terms of team work, Innofactorilla started actively using Teams in 2018. This enables more fluent and efficient team working and sharing of information regardless of time and place between countries.



In 2018, many of our employees renewed their Microsoft Most Valuable Partner (MVP) awards, and we also received new MVPs. Microsoft MVPs are technology experts who actively share their expertise in communities and want to be among the first to learn about new technologies. MVPs have a deep understanding of Microsoft products and services and an ability to combine a variety of platforms and products to solve problems in the real world.

Sustainability

Innofactor is convinced that the company's long-term success is based on sustainable operations. Our digital solutions are in a key position in curbing climate change and promoting sustainable development. Our operation is steered by our Code of Conduct and environmental policy, in addition to which we comply with the leading international sustainability 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 principles of the ICC Business Charter for Sustainable Development.

Innofactor's internal operations are managed through predefined core processes and standards. The key processes related to sustainability include the company's processes relating to legal affairs, risk management and human resources, which govern many of the main 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.

In 2018, Innofactor conducted a survey to learn about the employees' views of the most material sustainability themes in the organization. The most relevant sustainability themes for the personnel in Finland were providing solutions which enable sustainable growth for our customer organizations, increasing energy efficiency in our operations, improving recycling in our offices and highlighting sustainability issues in our communications.

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

The IT sector can act as a significant player in scaling social welfare and healthcare services by enabling access to services from any device, regardless of time and place. Innofactor is 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 a leading role in the implementation of the unique Health Village concept. Health Village enables remote service of patients via mobile devices and transforms secondary care into "local services" 24/7.

Innofactor takes care of its personnel's wellbeing by providing health services and offering regular occupational physiotherapy services to improve ergonomics.



Gender Equality

Our personnel's diversity is in key position at Innofactor, and we see diversity as an important factor in creating innovation and supporting the organization's operating and renewal capacity. One of the things we want to take an active part in terms of diversity is the employment of women in the ICT sector. We continued our membership in the Women in Tech organization network in 2018. 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 in supporting this goal.



Customer Story about Sustainability: Metropolitan Area Scouts

The Metropolitan Area Scouts had their district camping event Kliffa at Evo on July 23–31, 2018. In total, over 5,500 people participated. Using the IoT system developed together with Innofactor, the consumption of water and electricity in the camping area could be monitored, for example. Based on the collected data, more sustainable camping activities can be developed for the future.

“Gauging the consumption of water, electricity, and Internet bandwidth in the camping area has always been a bit of a challenge for us. Innofactor has really helped us in this with their IoT system. They help us collect data using various gauges in the area,” says the camp’s Head of Infrastructure Services **Lauri Hållfast** a few days into the event.

“Scouts have what it takes to save the world. To that end, it is highly important for us to know what our carbon footprint is at the campsite. This is part of our education. Our Cub Scouts and Adventurers will get to experience what this event is like in terms of consumption and the environment,” Hållfast sums up.



Environmental Responsibility

As an organization operating in the IT sector, Innofactor has a unique opportunity to be part of the solution in reducing environmental impacts. The digital solutions we deliver to our customer organizations play an important role in mitigating and adapting to climate change. Digitalization of manual processes and digital healthcare are examples of solutions through which Innofactor can improve its customers' and thereby the entire society's sustainable development.

Our environmental policy guides us in improving our environmental impacts. The policy will be re-evaluated in 2019. Our environmental policy defines the principles we always follow in our own operations and in the deliveries to our customers. The environmental policy concerns the entire Innofactor Group.

At the end of 2019, we will carry out an energy survey for major companies as required by the Energy Efficiency Act. At that time, we will use this opportunity to seek additional new ways of saving energy.

Based on the results of our sustainability survey, we developed the recycling possibilities at our headquarters, Espoo Campus. Other electronic waste is being recycled by Kuusakoski Recycling. In 2018, we explored donation possibilities and delivered a batch of laptops to a charity organization Hope ry and to the City of Espoo's work and learning center in Leppävaara. We also decided to support the protection of the Baltic Sea through the John Nurminen Foundation, instead of Christmas gifts.

Remote work is an essential part of the operations of a modern digital organization. We offer our employees good opportunities, depending on their job description, to location-independent work, which can be seen in the increased number of Microsoft Teams

meetings. We held nearly 10,000 Teams meetings in 2018, even though the tool was not fully implemented until after the summer of 2018. Use of Teams as a meeting tool brings added value to the operations of both Innofactor and its customers.

Social Responsibility

Innofactor carried out major changes in 2018, when its Finnish companies implemented the concept of self-organized teams. The purpose of the reform was to reduce organizational levels, speed up decision-making and thereby improve employee satisfaction. With the organizational change, we wanted to strengthen the teams' position and give the managers a chance to focus on high quality management.

In 2018, we focused on training Innofactor managers in all the countries in which we operate. The versatile three-part training focused on different parts of supervising, such as self-management to team leading and coaching.

As part of emphasizing and explaining the importance of sustainability, we held a sustainability training for our personnel on our Espoo Campus, implemented by an external trainer. In the training, our employees learned more about sustainable development and how we at Innofactor can further advance more sustainable operations, for example, through our solutions. Due to increased interest, we created a Microsoft Teams -based discussion group, Innofactor Game Changers, for our employees. The group's purpose is to inspire all employees to participate in the discussion about sustainability and share their own ideas about the subject.

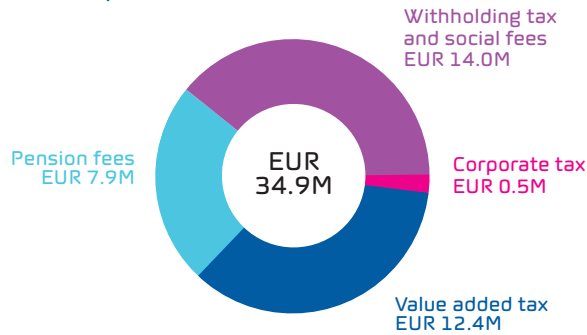
During 2018, we organized several sustainability campaigns for our personnel. One of our campaigns was related to the European Mobility Week, which aims at raising awareness for sustainable mobility alternatives. We challenged our employees to come to work for a week using low-carbon means of transport, and to consider more sustainable commuting alternatives.

It is important to inspire young people to the IT sector and we want to do our part in encouraging young people to choose IT as a career because there is a clear demand for experts in the sector. During Innofactor's Family Day, we organized a workshop for electronics building and coding, inviting the employees' children to join in and learn more about coding. The workshop was very popular, and we may be organizing more of them in 2019.

We have continued recruiting young people through our Young Talent program, employing 21 young talents through the program in 2018. The young people were placed in various types of positions at Innofactor.

IT sector is in a continuous state of change, and an innovative operating environment plays a key role regarding organizations' success. We at Innofactor focus more and more on our employees' potential and on making the most of their strategic competences, giving them freedom to apply their expertise in their work. As part of the culture of innovation, we organized a day-long hackathon called Innothon, in which the teams were given the task of coming up with a new service or solving a genuine customer challenge. Innothon received plenty of positive feedback and fostered an already lively innovative culture in our organization.

Innofactor Group's Tax Footprint 2018



Information Security and Data Protection

Innofactor's customers require appropriate information security in their services and that the services enable operation in accordance with the EU General Data Protection Regulation (GDPR). Innofactor's management has identified several critical cyber risk scenarios against which a company needs to protect itself. The company is committed to protecting its customers' and partners' information and systems and naturally, Innofactor as a company itself. In order to ensure the level of information security corresponding to the risks, Innofactor maintains a certified information security management system in accordance with the ISO 27001 standard.

In its operations, Innofactor is committed to maintaining a good level of data protection and respects the privacy and rights of its personnel, customers and users. In 2018, Innofactor signed several agreements regarding the processing of personal data with its customers and subcontractors in order to

ensure that the processing of personal data complies with laws and regulations.

Through regular internal audits, we aim to continuously develop data protection and information security in our operations and processes. Information security and data protection are mandatory parts of the employee induction training and in 2018, the Data Protection Officer arranged a separate training on the principles of the GDPR and rights of an individual. Processes and instructions concerning information security and data protection are the responsibility of Innofactor's Chief Information Security Officer, who also acts as the company's Data Protection Officer. The Data Protection Officer reports directly to the CEO. Additionally, the company's main personal data registers have been assigned to the persons responsible for them.

Respecting Human Rights, Anti-Corruption and Anti-Bribery

Innofactor's Code of Conduct defines the general principles and guidelines that the company's employees and partners adhere to. We arrange trainings concerning the instructions in all of our offices at regular intervals.

Transparent business operation in accordance with the highest ethical standards is the basis for our company operations. We use our anonymous whistleblowing channel for reporting suspected infringements that are against our Code of Conduct. The channel is open for our personnel and other Innofactor stakeholder groups, and all reports are always handled confidentially.



The Board of Directors of Innofactor Plc



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. Ownership with related parties 7,716,173 shares.

Anna Lindén

M. Pol.Sc. Member of the Board of Directors since 2018. Born in 1973. Ownership with related parties 21,200 shares.

Risto Linturi

M.Sc. (Tech.) Member of the Board of Directors since 2018. Born in 1957. Ownership with related parties 1,256,411 shares.

Pekka Eloholma, Chairman

M.Sc. (Tech.) Chairman and member of the Board since 2018. Born in 1960. Ownership 31,109 shares.

Executive Board of the Innofactor Group



Sami Ensio, CEO

M.Sc. (Tech.) Innofactor Plc's CEO, Country Manager for Finland, and member of the Board of Directors. Innofactor Ltd.'s founder and CEO since 2000. Born in 1971. Ownership with related parties 7,716,173 shares.



Per Bendix Olsen

MBA. Managing Director, Country Manager for Denmark. Employed by Innofactor since 2017. Born in 1958. Ownership 57,499 shares.



Jørn Ellefsen

MBA. Managing Director, Country Manager for Norway. Employed by Innofactor as of March 1, 2019. Born in 1971. Ownership 0 shares.



Janne Heikkinen

M.Sc. (Tech.) Executive Vice President, Products and Services. Employed by Innofactor since 2015. Born in 1974. Ownership 83,044 shares.



Marko Lehtonen

M.Sc. (Econ.) CFO. Employed by Innofactor since 2018. Born in 1972. Ownership 200 shares.



Viktor Lundqvist

M. Sc. (Computer Engineering). Managing Director, Country Manager for Sweden. Employed by Innofactor since 2016. Born in 1982. Ownership 30,000 shares.



Vesa Syrjäkari

M.Sc. (Econ.) Executive Vice President, Business Development and Operational Excellence. Employed by Innofactor since 2017. Born in 1960. Ownership 60,000 shares.

The share ownership information is as of December 31, 2018.

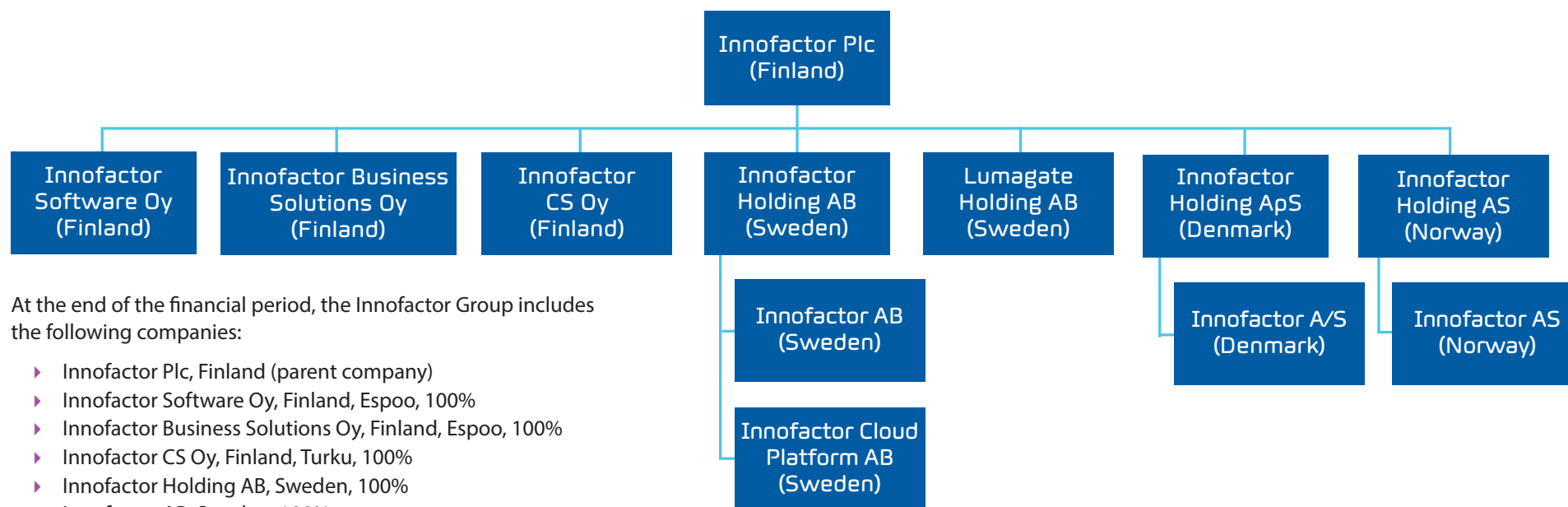
Annual Report of the Board of Directors for 2018

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 approximately 600 motivated and skilled employees in 14 locations in Finland, Sweden, Denmark and Norway. The structure of the Innofactor Group at the end of the financial period 2018 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%
- ▶ Innofactor Cloud Platform AB (former Lumagate AB), Sweden, 100%
- ▶ Lumagate Holding AB, Sweden, 100%
- ▶ Innofactor Holding ApS, Denmark, 100%
- ▶ Innofactor A/S, Denmark, 100%
- ▶ Innofactor Holding AS, Norway, 100%
- ▶ Innofactor AS (former Lumagate AS), Norway, 100%

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

Financial Performance and Position	2018	2017	2016	2015	2014
Net sales, EUR thousand	63,144	65,666	59,616	44,452	43,834
Operating profit before depreciation and amortization (EBITDA), EUR thousand	-1,029	1,308	4,831	3,705	3,794
percentage of net sales	-1.6%	2.0%	8.1%	8.3%	8.7%
Operating profit (EBIT), EUR thousand	-3,872	-1,461	2,332	2,542	2,407
percentage of net sales	-6.1%	-2.2%	3.9%	5.7%	5.5%
Earnings before taxes, EUR thousand	-3,811	-1,579	1,920	1,935	1,946
percentage of net sales	-6.0%	-2.4%	3.2%	4.4%	4.4%
Earnings, EUR thousand	-3,462	-2,007	1,536	1,548	1,556
percentage of net sales	-5.5%	-3.1%	2.6%	3.5%	3.5%
Shareholders' equity, EUR thousand	21,303	24,764	22,501	24,534	22,462
Interest bearing liabilities, EUR thousand	15,418	14,228	16,701	9,219	10,638
Cash and cash equivalents, EUR thousand	258	910	902	843	997
Deferred tax assets, EUR thousand	5,602	5,668	5,760	6,704	7,238
Return on equity	-13.8%	-5.3%	6.5%	6.6%	7.4%
Return on investment	-7.7%	-2.4%	6.4%	7.6%	9.1%
Net gearing	71.2%	53.8%	70.2%	34.1%	42.9%
Equity ratio	41.2%	43.4%	35.8%	56.9%	48.7%
Balance sheet total, EUR thousand	51,875	58,272	63,587	43,983	47,413
Research and development, EUR thousand	2,860	3,298	3,394	2,495	1,981
percentage of net sales	4.5%	5.0%	5.7%	5.6%	4.5%
Personnel on average during the year	591	610	532	409	421*
Personnel at the end of the year	550	601	591	415	411*
Number of shares at the end of the year	36,188,225	36,188,225	32,901,377	33,453,737	32,153,737
Earnings per share (EUR)	-0.0880	-0.0262	0.0467	0.0475	0.0485
Shareholders' equity per share (EUR))	0.589	0.684	0.684	0.733	0.699

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

Net Sales

Innofactor's net sales in 2018 were EUR 63,144 thousand (2017: 65,666), which shows a decrease of 3.8 percent.

Financial Performance

Innofactor's operating margin (EBITDA) in 2018 was EUR -1,029 thousand (2017: 1,308), which shows a decrease of 178.7 percent. EBITDA accounted for -1.6 percent of the net sales (2017: 2.0%). Innofactor's operating loss in 2018 was EUR 3,872 thousand (2017: operating loss 1,461), which shows a decrease of 165 percent. The operating profit accounted for -6.1 percent of the net sales (2017: -2.2%).

Financial Position, Liquidity and Investments

Innofactor's balance sheet total at the end of 2018 was EUR 51,875 thousand (2017: 58,272). The Group's liquid assets totaled EUR 258 thousand (2017: 910), consisting totally of cash funds.

The operating cash flow in 2018 was EUR -581 thousand (2017: 4,169). The investment cash flow was EUR -1,239 thousand (2017: -1,488). The weakening of the operating cash flow resulted from the weakened operating margin, but it was still better than the operating margin.

The equity ratio at the end of 2018 was 41.2 percent (2017: 43.4%) and net gearing was 71.2 percent (2017: 53.8%).

At the end of 2018, the company had EUR 10,000 thousand in current interest bearing liabilities (2017: 6,948) and EUR 5,418 thousand in non-current interest bearing liabilities (2017: 7,280). The total amount of interest bearing liabilities was EUR 15,418 thousand (2017: 14,228).

The return on investment in 2018 decreased from the previous year and was -7.7 percent (2017: -2.4%).

The return on equity in 2018 decreased from the previous year and was -13.8 percent (2017: -5.3%).

The non-current assets in Innofactor's balance sheet at the end of 2018 were EUR 38,558 thousand in total and consisted of the following items:

- ▶ Tangible assets EUR 484 thousand
- ▶ Goodwill value EUR 26,126 thousand*
- ▶ Other intangible assets EUR 6,114 thousand*
- ▶ Shares and holdings EUR 78 thousand
- ▶ Receivables EUR 155 thousand
- ▶ Deferred tax assets EUR 5,602 thousand

Innofactor's gross investments in tangible and intangible assets in 2018 were EUR 1,133 thousand (2017: 1,688), consisting mainly of development costs for the ERP system and normal additional and replacement investments required by growth.

The write-offs on intangible assets were EUR 2,527 thousand (2017: 2,222). In 2018, the company has activated development costs of its ERP system for a total of EUR 786 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 2018, 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 100 percent owned Danish group company Lumagate A/S was merged into another 100 percent owned group company Innofactor A/S on June 1, 2018.

Additionally, the name of Lumagate AS was changed into Innofactor AS in Norway on May 26, 2018, and the name of Lumagate AB was changed into Innofactor Cloud Platform AB in Sweden on May 30, 2018.

No other acquisitions or other changes in the Group structure were carried out in 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 2018 was 591 persons (2017: 610), which shows a decrease of 3.1 percent. In 2018, net sales per active person was approximately EUR 106.8 thousand (2017: 107.6), which shows an approximate decrease of EUR 0.8 thousand per person.

At the end of 2018, the number of active personnel was 550 (2017: 601), which shows a decrease of 8.5 percent. At the end of 2018, the average age among personnel was 40.8 years (2017: 38.9). Women accounted for 27 percent (2017: 28%) of the personnel. Men accounted for 73 percent (2017: 72%) of the personnel.

The significant decrease in the number of personnel is partly explained by the co-operation negotiations in the last quarter of 2018, conducted on production-related and financial grounds in Innofactor's Finnish companies. Through the negotiations, Innofactor reduced the number of personnel by a total of 13, which will result in annual savings of approximately EUR 1.4 million starting from 2019. In the Finnish delivery organization, self-organized teams were introduced while removing three organization levels by replacing the current 50 superiors, most of who were acting as superiors in addition to their actual tasks, with 16 full-time superiors and line managers, which means that a significant part of current superiors will have much

more time for sales and customer work, and also by an arrangement in which the Innofactor Group's CEO Sami Ensio took to himself also the tasks of the Finnish Country Manager. Also other changes in Innofactor organization have been carried out in order to make the operation more streamlined and effective. This has also had the effect of decreasing the number of personnel.

Strategy and its Realization in 2018

Innofactor is the leading provider of modern digital organization for companies, public administration and third sector for its over 1,500 customers in the Nordic countries. Innofactor has the widest solution offering and leading know-how in the Microsoft ecosystem in the Nordic countries. Innofactor has approximately 600 enthusiastic and motivated top specialists in Finland, Sweden, Denmark and Norway. The focus of our strategy in the Nordic level is even more strongly in our five application areas (Journeys) and selected industries for which Innofactor strives to create a uniform operating model and offering in the Nordic countries. Unifying the offering may take place through organic growth and selected acquisitions.

Innofactor's Mission:

Driving the #ModernDigitalOrganization

Innofactor's Vision:

The leading provider of organizations' digital transformation in each of the Nordic countries (Finland, Sweden, Denmark and Norway)

Innofactor's Strategy for Achieving This Vision Includes:

- ▶ The best Nordic professionals in the Microsoft ecosystem

- ▶ Highly productized cloud offering and managed services
- ▶ A proactive, value-adding and flexible delivery model
- ▶ Innovation creation with leading customers in selected industries

Innofactor's 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 about 20 percent EBITDA in relation to the net sales
- ▶ By keeping the cash flow positive and securing solid financial standing in all situations

The Main Actions for Reaching the Approximately 20 Percent Growth and 20 Percent Operating Margin:

- ▶ Focus on selected industries and solution areas (Journeys) that provide the highest growth opportunities and allow us to best scale existing offering in the Nordics
- ▶ Focus on current customers and cross sales to get a bigger share of wallet of customers' digital transformation budgets
- ▶ Improving modern digital marketing and sales skills to achieve better and more cost-effective sales results
- ▶ Focus on competence planning, recruiting and resource optimization across Nordics
- ▶ Shifting revenues from projects and professional services toward products, IP-based and continuously managed services that support selected solution areas and industries

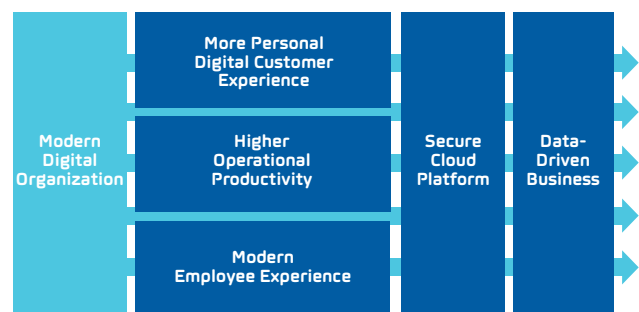
- ▶ Strengthening continuously our specialists' professional skills and improving our leading offering in order for our customers to pay hour price above market average
- ▶ Aiming to move to self-organized teams and to reduce organizational layers achieving better communication and faster decision making
- ▶ Continuously improving our flexible value-adding delivery model minimizing number of non-invoiced hours and maximizing customer satisfaction

In 2018, Innofactor's net sales decreased by 3.8 percent. The company did not reach the goal it had set for organic growth. Innofactor's operating margin (EBITDA) in relation to net sales was -1.6 percent in 2018. This is a record low and very far from the set target level of 20 percent. Innofactor's operating cash flow in 2018 was EUR -0.6 million negative (2017: EUR 4.2 million). Net gearing at the end of 2018 was 71.2% (2017: 53.8 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 co-operation with Microsoft and leading operators in its ecosystem ensure the best possible support for our customers.

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

In 2018, Innofactor's business operations were focused on Finland, Sweden, Denmark and Norway. Approximately 58 percent of the net sales came from Finland, approximately 26 percent from Sweden, approximately 10 percent from Norway, and approximately 6 percent from Denmark.

Of the net sales in 2018, approximately 47% came from commercial clients, approximately 30% from public sector clients and approximately 23% from third sector clients.

Innofactor's net sales in 2018 came from the following sources:

- ▶ approximately 55 percent from IT system delivery projects and consulting
- ▶ approximately 19 percent from specialist work based on recurring service contracts, such as smaller customer-specific changes and further development of IT systems
- ▶ approximately 20 percent from services based on recurring 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 3,8 percent of the net sales

Innofactor's 10 largest clients accounted for about 24 percent of the net sales in 2018.

Major Events in 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.
- ▶ On January 24, 2018, Innofactor announced in a stock exchange release that Folkuniversitetet, a Swedish adult educational association, had selected Innofactor as the partner for implementing a Course and Event Management System with the value of the deal being approximately EUR 0.5 million.
- ▶ On January 24, 2018, Innofactor published a flagging announcement pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act, stating that Tuomo Tilmán's ownership of the Innofactor Plc votes and shares had decreased below five percent (5%).
- ▶ 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 estimated 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.
- ▶ 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 the situational information system for the Metro's total security. The framework arrangement of the procurement was intended to remain in effect for a maximum of 15 years. For this total time, Innofactor had stated that the total price according to the tender would be approximately EUR 7 million.
- ▶ On March 16, 2018, Innofactor announced in a stock exchange release that the Legal Register Centre selected Innofactor as the provider of the HAIPA system. The value of the deal is approximately EUR 2 million during 2018 and 2019.
- ▶ On June 29, 2018, Innofactor announced in a stock exchange release that the Swedish trade union Kommunal has renewed and expanded its continuous services and support agreement with Innofactor as partner for maintenance and further development of their membership system and related services. The value of the of the agreement is approximately EUR 2.8 million at the minimum and approximately EUR 5.2 million at the maximum in the years 2018–2021.

- ▶ On September 3, 2018, Innofactor published a flagging announcement pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act, stating that Svalroma Invest AB's (former Svalroma Consulting AB) ownership of the Innofactor Plc votes and shares had decreased below five percent (5%).
- ▶ On September 12, 2018, Innofactor announced in a stock exchange release that the Funding Centre for Social Welfare and Health Organisations (STEA) has selected Innofactor in a public procurement competition as the provider of ICT services. The value of the procurement is about EUR 2.1 million over four years.
- ▶ On September 19, 2018, Innofactor announced in a stock exchange release that a private Finnish healthcare company and Innofactor have signed an agreement concerning the delivery of a solution based on Microsoft Dynamics 365 Finance and Operations for the company's financial management. The value of the deal is approximately EUR 0,5 million during 2018 and 2019.
- ▶ On September 19, 2018, Innofactor announced in a stock exchange release that Kuntien Tiera Oy has selected Innofactor in a public procurement competition as the primary provider of Microsoft SharePoint and Microsoft Dynamics 365 services. The duration of the framework agreement is four years, and the total value of the services is approximately EUR 2 million.
- ▶ On October 8, 2018, Innofactor announced in a stock exchange release that it had updated its strategy.
- ▶ On October 8, 2018, Innofactor announced in a stock exchange release that it is starting co-operation negotiations based on its updated strategy and related to the development of its organization.
- ▶ On October 8, 2018, Innofactor announced in a stock

exchange release that it estimates that its result prospects for 2018 will be weaker than previously stated, due to reorganization.

- ▶ On October 30, 2018, Innofactor announced in a stock exchange release that the co-operation negotiations had been completed.
 - ▶ On December 4, 2018, Innofactor announced in a stock exchange release that 13 municipalities of the North Karelia region have decided to implement the next generation Dynasty 10 case management system, and the value of the procurement is about EUR 0.5 million over four years, starting from the beginning of 2019.
 - ▶ On December 21, 2018, Innofactor announced in a stock exchange release that Hansel has selected Innofactor in a public procurement competition as the provider for the renewal of the procurement announcement service Hilma, and the value of the procurement is approximately EUR 4.0 million, of which the value of the first phase during year 2019 is approximately EUR 1 million.
- ### Major Events After the Financial Period
- ▶ On January 25, 2019, Innofactor lowered its estimate on the net sales and operating margin (EBITDA) for 2018.
 - ▶ On February 14, 2019, Innofactor announced in a stock exchange release that a Swedish organization selected Innofactor to implement their membership management project, the value of the procurement being approximately EUR 1.3 million, which is estimated to be registered for 2019.
 - ▶ On February 15, 2019, Innofactor announced in a stock exchange release that Traficom selected Innofactor as the development and maintenance provider for their

technical platform for digital services (VISA), the value of the procurement being approximately EUR 5.0 million within 5–7 years, starting from spring 2019.

- ▶ On March 8, 2018, Innofactor announced in a stock exchange release that the City of Espoo has selected Innofactor as the provider of a decision-making system, and the value of the procurement is approximately EUR 1.5 million, of which approximately EUR 950,000 thousand will be registered for the first four years.

There are no other significant events in Innofactor after 2018.

Future Outlook

Innofactor's net sales and operating margin (EBITDA) in 2019 is estimated to increase from 2018, during which the net sales were EUR 63.1 million and operating margin was EUR -1.0 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 2018, about 69% 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 2018, approximately 4.5% of the net sales was used for it. Each research and product development project carries the risk that the end results are not as successful financially as planned and that the investment in the project does not pay itself back. In organizing its operations, Innofactor aims at minimizing the risks inherent in research and product development.

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 General Data Protection Regulation ("GDPR", regulation (EU) 2016/679) affects 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, penalties imposed by a supervisory authority. Innofactor has invested in solutions related to GDPR and hired a Chief Information Security Officer, who has been appointed Data Protection Officer.

Information security: Innofactor operates as a system integrator and consequently Innofactor system administrators and developers have access to certain customer environments. Each access to a customer environment introduces information security risk of unlawful attempts at gaining information. Innofactor has implemented a formal information security management process based on standards, and its implementation is led by the company's Chief Information Security 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. 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 backlog 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 operation at home. Innofactor strives to make sure that the investments in becoming a global player will not be so great that it would jeopardize the Group's ability to make

profit and to grow. Additionally, the company strives to create a management model, common processes and information systems supporting these that will decrease the risks in global operations.

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 or loss of net sales. 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 15.4 million in interest bearing debts, which have been taken out to finance earlier acquisitions and working capital. Of the debts, approximately EUR 10 million is current liabilities consisting of loan installments of EUR 2.2 million in 2019 and a credit limit of approximately EUR 7.8 million. Innofactor has committed itself to the following covenants: Equity ratio calculated every 6 months is at least of 40%, and interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 2.5, and certain other normal conditions for loans. The Innofactor Group's interest bearing liabilities divided by the 12-month operating margin (EBITDA) on December 31, 2018, exceeded the covenant limit of 2.5 agreed on with the financial institution. However, the financial institution issued a Waiver on December 31, 2018, accepting this deviation. In addition to corrective actions related to business operations, Innofactor has renegotiated some loan conditions to enable more flexible financing. These together are believed to ensure Innofactor's financial standing also in the future.

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 is 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 as Innofactor has significant 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 has checking account limits with an overdraft facility 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, 2018, the General Meeting decided that the number of Board members is four. Of the previous members, Sami Ensio was re-elected, and Pekka Eloholma, Anna Lindén and Risto Linturi were elected as new members. In their organizing meeting held

immediately after the General Meeting, the Board of Directors elected Pekka Eloholma 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 2018.

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:

Innofactor strategy, renewed at the end of 2018, the role of product and service development gained more importance and significant investments into product development were continued.

In the product development in 2018, focus was on renewing existing products and services and continuous further development in order to support the growth of product-based business. In the third quarter of the year, product development investments were focused on a smaller number of products, which are believed to succeed well financially in the markets, for example, on the Innofactor Dynasty product. Investments on products deemed less successful financially, for example, Innofactor Skilli, were decreased.

Innofactor's research and development costs recognized in profit or loss for 2018 were approximately EUR 2,860 thousand (2017: 3,298), which accounts for 4.5 percent of the net sales (2017: 5.0%).

Reporting Non-Financial Information

This statement describes Innofactor's corporate responsibility in accordance with the Chapter 3a, Sections 1–6 of the Finnish Accounting Act.

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. In accordance with its strategy, Innofactor is increasingly focusing on implementing cloud solutions and digitalization. Innofactor is a system integrator and software development company. Thus, the core of the business model and enabler of company growth and development is the competent personnel with the ability to advance. The digital solutions delivered by Innofactor help the customers to reach their sustainability related goals and reduce their environmental impacts. Innofactor can impact the environmental effects of its own operations by developing even more environmentally friendly work environment.

Principles Guiding Sustainability

Our operation is steered by our Code of Conduct and environmental policy, in addition to which we comply with the leading international sustainability standards, such as the ILO Declaration on Fundamental Principles and Rights at Work, UN Universal Declaration of Human Rights, UN Sustainable Development Goals and the principles of the ICC Business Charter for Sustainable Development.

Innofactor's internal operations are managed through predefined core processes and 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

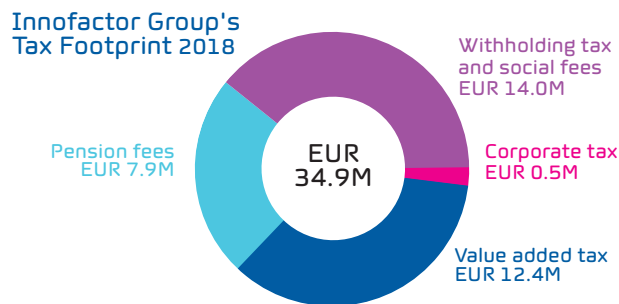
Performance Indicators that are monitored within the company and set annually for the process owner. The framework for Innofactor's operations is provided by the ISO 9001, ISO 27001, ISO 13485 and AQAP-2110 standards, which the company's various processes adhere to. In the external audits performed in 2018, 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 2018.

At the end of 2018, the total number of customers was 1,500 and the number of active personnel was 550. The relative share of women from the entire personnel was 27 percent. Accidents at work leading to absence were 0 days in 2018.

Innofactor also monitors its tax footprint, which can be illustrated as follows for 2018:



Environmental Responsibility

As an organization operating in the IT sector, Innofactor has a unique opportunity to be part of the solution in reducing environmental impacts. The digital solutions we deliver to our customer organizations play an important role in mitigating and adapting to climate change. Digitalization of manual processes and digital healthcare are examples of solutions through which Innofactor can improve its customers' and thereby the entire society's sustainable development.

Our environmental policy guides us in improving our environmental impacts. The policy will be re-evaluated

in 2019. Our environmental policy defines the principles we always follow in our own operations and in the deliveries to our customers. The environmental policy concerns the entire Innofactor Group.

As the premises of the Innofactor Group are located in rental properties, we can only partly affect those offices' electricity consumption. At the end of 2019, we will carry out an energy survey for major companies as required by the Energy Efficiency Act. At that time, we will use this opportunity to seek additional new ways of saving energy.

Based on the results of our sustainability survey, we developed the recycling possibilities at our headquarters, Espoo Campus. Other electronic waste is being recycled by Kuusakoski Recycling. In 2018, we explored donation possibilities and delivered a batch of laptops to a charity organization Hope ry and to the City of Espoo's work and learning center in Leppävaara. We also decided to support the protection of the Baltic Sea through the John Nurminen Foundation instead of Christmas gifts.

Remote work is an essential part of the operations of a modern digital organization. We offer our employees good opportunities, depending on their job description, to location-independent work, which can be seen in the increased number of Microsoft Teams meetings. We held nearly 10,000 Teams meetings in 2018, even though the tool was not fully implemented until after the summer of 2018. Use of Teams as a meeting tool brings added value to the operations of both Innofactor and its customers.

Social Responsibility

Innofactor carried out major changes in 2018, when its Finnish companies implemented the concept of self-organized teams. The purpose of the reform was to decrease the number of organization levels, speed up decision-making and thereby improve employee satisfaction. With the organizational change, we wanted to strengthen the teams' position and give the superiors a chance to focus on high quality management.

In 2018, we focused on training Innofactor managers in all the countries in which we operate. The versatile three-part training focused on different parts of supervising, such as self-management to team leading and coaching.

As a part of emphasizing and explaining the importance of sustainability, we held a sustainability training for our personnel on our Espoo Campus, implemented by an external trainer. In the training, our employees learned more about sustainable development and how we at Innofactor can further advance more sustainable operations, for example, through our solutions. Due to the increased interest, we created a Microsoft Teams -based discussion group, Innofactor Game Changers, for our employees. The group's purpose is to inspire all employees to participate in the discussion about sustainability and share their own ideas about the subject.

We have continued recruiting young people through our Young Talent program, employing 21 young talents through the program in 2018. The young people were placed in various types of positions at Innofactor.

Information Security and Data Protection

Innofactor's customers require appropriate information security in their services and that the services enable operation in accordance with the EU General Data Protection Regulation (GDPR). Innofactor's management has identified several critical cyber risk scenarios against which a company needs to protect itself. The company is committed to protecting its customers' and partners' information and systems, and naturally, Innofactor as a company itself. In order to ensure the level of information security corresponding to the risks, Innofactor maintains a certified information security management system in accordance with the ISO 27001 standard.

In its operations, Innofactor is committed to maintaining a good level of data protection and respects the privacy and rights of its personnel, customers and users. In 2018, Innofactor signed several agreements regarding the processing of personal data with its

customers and subcontractors in order to ensure that the processing of personal data complies with laws and regulations.

Through regular internal audits, we aim to continuously develop data protection and information security in our operations and processes. Information security and data protection are mandatory parts of the employee induction training and in 2018, the Data Protection Officer arranged a separate training on the principles of the GDPR and the rights of an individual. Processes and instructions concerning information security and data protection are the responsibility of Innofactor's Chief Information Security Officer, who also acts as the company's Data Protection Officer. The Data Protection Officer reports directly to the CEO. Additionally, the company's main personal data registers have been assigned to the persons responsible for them.

Respecting Human Rights, Anti-Corruption and Anti-Bribery

Innofactor's Code of Conduct defines the general principles and guidelines that the company's employees and partners adhere to. We arrange trainings concerning the instructions in all of our offices at regular intervals.

Transparent business operation in accordance with the highest ethical standards is the basis of our company's operations. We use our anonymous whistleblowing channel for reporting suspected infringements that are against our Code of Conduct. The channel is open for our personnel and other Innofactor stakeholder groups, and all reports are always handled confidentially.

Risks Related to Corporate Responsibility

Innofactor's main risks related to corporate responsibility can be divided into five categories: personnel turnover, data protection, information 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, information 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 2018, all subcontracting took place within the ETA or USA. This operating environment and in Finland, for example, the strict compliance to the Act on Contractor's Obligations and Liability, training the employees, continuous dialog within the company's management and monitoring subcontractors are important factors related to preventing the risk.

Threat of terrorism: The European security environment has changed significantly in recent years and the weakened security environment has 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 decrease the practical effects of a possible threat, Innofactor has drawn up a crisis communications plan, based on practical operating models, in 2017.

Share and Shareowners

At the end of 2018, 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.

In 2018, the highest price of the company share was EUR 1.13 (2017: EUR 1.80), the lowest price was EUR 0.35 (2017: EUR 0.91), and the average price* was EUR 0.69 (2017*: EUR 1.31). The closing price for 2018 on December 31, 2018, was EUR 0.36 (2017: EUR 0.94).

* 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 2018, a total of 11,142,838 shares were traded (2017: 23,796,019 shares), which corresponds to 30.8 percent (2017: 67.3%) of the average number of shares on the said period. In 2018, there were 36,188,225 shares on the average (2017: 35,341,751*). The share trading decreased by 53.2 percent compared to the corresponding period in 2017.

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

The market value of the share capital at the closing price of 2018, EUR 0.36, on December 31, 2018, was EUR 13,100 thousand (2017: 33,836), which shows a decrease of 61.3 percent.

On December 31, 2018, the company had a total of 11,396 shareowners (2017: 12,371), including administrative registers.

In 2018, the Board of Directors had the following authorizations:

- ▶ until June 30, 2019, to decide on a share issue and granting of special rights entitling to shares, concerning a maximum of 7,200,000 new shares (decided by the General Meeting of April 4, 2018); the authorization has not been used.
- ▶ until June 30, 2019, to decide on a transfer of a maximum of 1,000,000 treasury shares (decided by the General Meeting of April 4, 2018); the authorization has not been used.

Own Shares

The General Meeting of April 4, 2018, authorized the Board of Directors to decide on acquiring of a maximum of 5,000,000 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, 2019. This authorization replaces the Board's earlier authorizations concerning share repurchase. The authorization has not been used.

At the end of 2018, the company had no treasury shares.

Share Owning by the Management

Share Owning by the Board of Directors:

- ▶ Pekka Eloholma, 31,109 shares, 0.09%
- ▶ Sami Ensio, 7,716,173 shares, 21.32%
- ▶ *Sami Ensio, 5,542,413 shares, 15.32%*
- ▶ *minor under guardianship, 724,588 shares, 2.00%*
- ▶ *minor under guardianship, 724,586 shares, 2.00%*
- ▶ *minor under guardianship, 724,586 shares, 2.00%*
- ▶ Anna Lindén, 18,700 shares, 0.05%
- ▶ Risto Linturi and companies he has control over, 826,411 shares, 2.16%

Share Owning by the CEO:

- ▶ Sami Ensio, 7,716,173 shares, 21.32%
- ▶ *Sami Ensio, 5,542,413 shares, 15.32%*
- ▶ *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:

- ▶ Per Bendix Olsen, 57,499 shares, 0.15%
- ▶ Janne Heikkinen, 83,044 shares, 0.22%
- ▶ Marko Lehtonen, 200 shares, 0.001%
- ▶ Sanna Lindner, 0 shares, 0%
- ▶ Viktor Lundqvist, 30,000 shares, 0.08%
- ▶ Vesa Syrjäkari, 60,000 shares, 0.13%

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, 2018, was as follows.

Name	Number of shares	% of share capital
1. Ensio Sami	7,716,173	21.32%
<i>Ensio Sami</i>	<i>5,542,413</i>	<i>15.32%</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. Ilmarinen Mutual Pension Insurance Company	1,800,000	4.97%
3. Tilman Tuomo Tapani	1,465,437	4.05%
4. Svalroma Invest AB	1,435,196	3.97%
5. Linturi Kaija and Risto R. Linturi Oyj	1,256,411	3.47%
<i>Linturi Kaija Anneli</i>	<i>489,107</i>	<i>1.35%</i>
<i>Linturi Risto Erkki Olavi</i>	<i>430,000</i>	<i>1.19%</i>
<i>Linturi Risto Erkki Olavi</i>	<i>337,304</i>	<i>0.93%</i>
6. Laiho Rami Tapani	1,255,159	3.47%
7. Ärje Matias Juhanpoika	882,065	2.44%
8. Mäki Antti-Jussi	877,192	2.42%
9. Muukkonen Teemu Heikki	522,230	1.44%
10. Ingman Finance Oy Ab	500,000	1.38%
11. Järvenpää Janne-Olli	315,211	0.87%
12. Kukkonen Heikki-Harri	276,931	0.77%
13. Rausanne Oy	272,545	0.75%
14. Anttila Mikko Matias	254,150	0.70%
15. Hellen Stefan Andreas	250,000	0.69%
16. Laiho Jari Olavi	235,000	0.65%
17. Audit-Lex Oy	170,000	0.47%
18. Mäkinen Antti Vilho Juhani	160,000	0.44%
19. Heikki Tervonen Oy	153,000	0.42%
20. Jajopa Oy	130,290	0.36%

Board of Directors and the Company's Management

Board of Directors

In 2018, the members of the Innofactor Plc's Board of Directors were:

- ▶ Ari Rahkonen, Chairman of the Board of Directors (until April 4, 2018)
- ▶ Jukka Mäkinen (in the Board until April 4, 2018)
- ▶ Ilari Nurmi (in the Board until April 4, 2018)
- ▶ Pekka Puolakka (in the Board until April 4, 2018)
- ▶ Anni Vepsäläinen (in the Board until April 4, 2018)
- ▶ Sami Ensio
- ▶ Pekka Eloholma (Chairman since April 4, 2018)
- ▶ Anna Lindén (in the Board since April 4, 2018)
- ▶ Risto Linturi (in the Board since April 4, 2018)

The Chairman of the Board of Directors for Innofactor's Finnish group companies is Sami Ensio, and the member of the Board of Directors is Executive Vice President, Business Development and Operational Excellence Vesa Syrjäkari with General Counsel Anna-Maria Palmroos as the deputy member.

The Board members of Innofactor Plc'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 with General Counsel Anna-Maria Palmroos as the deputy member in the Swedish and Danish companies.

The Board members of Innofactor Plc's Swedish, Danish and Norwegian operative country companies are the Group CEO Sami Ensio (Chairman) and Executive Vice President, Business Development and Operational Excellence Vesa Syrjäkari and the local Managing Directors of the country companies. In the Norwegian

operative company (Innofactor AS), General Counsel Anna-Maria Palmroos has been a member of the Board since August 14, 2018, while a new Managing Director, who started on March 1, 2019, was being recruited.

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. However, the Norwegian operative company (Innofactor AS) had no Managing Director from August 14, 2018, to February 28, 2019, and the Group's Executive Vice President, Business Development and Operational Excellence Vesa Syrjäkari was the acting Country Manager.

Executive Board

In 2018, the Innofactor Group's Executive Board consisted of

- ▶ Sami Ensio, CEO, Chairman of the Executive Board and, since November 22, 2018, Country Manager in Finland
- ▶ Jari Hahl, Country Manager in Finland until November 22, 2018
- ▶ Janne Heikkinen, Executive Vice President, Products and Services
- ▶ Marko Lehtonen, CFO (since March 12, 2018)
- ▶ Sanna Lindner, Executive Vice President, Human Resources (employment in the company ended on January 31, 2019)
- ▶ Viktor Lundqvist, Country Manager, Sweden (since January 15, 2018; before this the Country Manager was Robert Erlandsson)

- ▶ Stig Nerland, Country Manager, Norway (until August 14, 2018)
- ▶ Per Bendix Olsen, Country Manager, Denmark
- ▶ Vesa Syrjäkari, Executive Vice President, Business Development and Operational Excellence (additionally, the acting Country Manager in Norway since August 14, 2018; the new Country Manager, Jørn Ellefsen, started on March 1, 2019)

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 2018, the operating margin (EBITDA) was -1.6% 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 2018, the distributable assets of the Group's parent company were EUR 27,236,831.73

The Board of Directors proposes that no dividend be distributed for the financial period of 2018.



Comprehensive Consolidated Profit and Loss Statement, IFRS

EUR thousand	Note	2018	2017
Net sales	3	63,144	65,666
Other operating income		205	88
Materials and services		-6,812	-6,241
Employee benefits/expenses	6	-46,432	-46,690
Depreciation	5	-2,842	-2,769
Other operating expenses	4	-11,134	-11,515
Operating profit		-3,872	-1,461
Financial income	8	952	526
Financial expenses	9	-892	-644
Profit before taxes		-3,811	-1,579
Income taxes	10	625	316
Profit/loss for the period		-3,186	-1,263
Other comprehensive income			
Items that may be later recognized in profit or loss:			
Exchange differences		-275	-744
Total comprehensive income		-3,462	-2,007
Distribution of the profit and comprehensive income			
To shareholders of the parent company		-3,462	-2,007
Earnings per share calculated from the profit attributable to equity holders of the parent:			
basic earnings per share (EUR)	11	-0.0880	-0.0357
diluted earnings per share (EUR)	11	-0.0880	-0.0357

Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2018	Dec 31, 2017
ASSETS			
Non-current assets			
Other tangible assets	12	484	640
Goodwill	13	26,126	26,398
Other intangible assets	13	6,114	7,797
Shares and holdings		78	62
Receivables		155	342
Deferred tax assets	14	5,602	5,668
		38,558	40,907
Current assets			
Trade and other receivables	15, 19	13,059	16,455
Cash and cash equivalents	18	258	910
		13,317	17,365
TOTAL ASSETS		51,875	58,272

Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2018	Dec 31, 2017
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to the shareholders of the parent company			
Share capital	17	2,100	2,100
Share premium reserve	17	72	72
Reserve fund	17	59	59
Fund for invested unrestricted equity	17	20,321	20,321
Retained earnings		-1,250	2,212
Total shareholders' equity		21,303	24,764
Non-current liabilities			
Loans from financial institutions	18, 23	5,418	7,280
Deferred tax liabilities	14	1,190	1,826
		6,608	9,106
Current liabilities			
Current financial liabilities	18, 23	10,000	6,948
Trade and other payables	19	13,964	17,454
		23,965	24,402
Total liabilities		30,573	33,508
Total shareholders' equity and liabilities		51,875	58,272

Consolidated Cash Flow Statement, IFRS

EUR thousand	Note	2018	2017
Cash flow from operating activities			
Operating profit		-3,872	-1,461
Adjustments:			
Depreciation	5	2,842	2,769
Non-cash transactions		0	485
Changes in working capital:			
Change in trade or other receivables		3,474	2,346
Change in trade and other payables		-2,209	633
Interests paid		-870	-643
Interests received		52	40
Net cash flow from operating activities		-581	4,169
Investment cash flow			
Acquisition of subsidiaries		-200	-59
Investments in intangible and tangible assets		-1,133	-1,688
Loan receivables paid back		109	259
Investments on non-current asset investments		-16	0
Net cash flow from investments		-1,239	-1,488
Cash flow from financing			
Loans withdrawn		3,237	10,087
Loans paid		-2,069	-12,560
Purchase of own shares		0	-199
Net cash flow from financing		1,168	-2,672
Change in cash and cash equivalents		-652	8
Cash and cash equivalents, opening balance		910	902
Cash and cash equivalents, closing balance		258	910

Consolidated Statement of Change in Shareholders' Equity, IFRS

Equity attributable to the shareholders of the parent company									
EUR thousand	Note 17	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange difference	Total shareholders' equity
Shareholders' equity Jan 1, 2018		2,100	72	59	20,321	0	2,974	-762	24,764
Comprehensive income									
Result for the financial period							-3,186		-3,186
Other comprehensive income:									
Exchange differences								-275	-275
Total comprehensive income							-3,186	-275	-3,186
Shareholders' equity Dec 31, 2018		2,100	72	59	20,321	0	-212	-1,037	21,303

Equity attributable to the shareholders of the parent company									
EUR thousand	Note 17	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange difference	Total shareholders' equity
Shareholders' equity Jan 1, 2017		2,100	72	59	16,153	-161	4,296	-18	22,501
Comprehensive income									
Result for the financial period							-926		-926
Change in calculation principles, IFRS 15							-337		-337
Other comprehensive income:									
Exchange differences								-744	-744
Total comprehensive income							-1,263	-744	-2,007
Transactions with shareholders									
Share issue					4,109				4,109
Other change *					59		-59		0
Purchase of own shares						-199			-199
Transfer of own shares						360			360
Transactions with shareholders in total					4,168	161	-59		4,270
Shareholders' equity Dec 31, 2017		2,100	72	59	20,321	0	2,974	-762	24,764

*) change in the value of own shares

Notes to 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 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 4, 2019. 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, 2018. 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, 2018, the Group has applied the following new and amended standards and interpretations:

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 applies it retroactively as of January 1, 2017. The IFRS 15 standard defines a five-step model for recognizing revenue based on contracts with customers and replaces the previous standards IAS 18 and IAS 11 as well as the related interpretations. The standard includes 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.

The IFRS 15 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. The effect of the IFRS 15 standard on the adjusted net sales and operating margin for 2017 was EUR -422 thousand (Q1/2017: -265, Q2/2017: -303, Q3/2017: +196, and Q4/2017: -50).

Adjusted 2017 Consolidated Profit and Loss Statement by Quarter, IFRS

EUR thousand	Adjusted Jan 1–Mar 31 2017	Adjusted Apr 1–Jun 31 2017	Adjusted Jul 1–Sep 31 2017	Adjusted Oct 1–Dec 31 2017	Change Jan 1–Dec 31 2017	Published Jan 1–Dec 31 2017
Net sales	17,252	17,149	14,126	17,139	-422	66,088
Other operating income	103	19	16	-50		88
Materials (–)	-1,144	-2,005	-1,775	-1,317		-6,241
Employee benefits/expenses (–)	-12,270	-11,818	-10,276	-12,326		-46,690
Depreciation (–)	-676	-670	-667	-756		-2,769
Other operating expenses (–)	-3,043	-2,778	-2,772	-2,922		-11,515
Operating profit/loss	222	-103	-1,348	-232	-422	-1,039
Financial income	5	3	0	518		526
Financial expenses (–)	-146	-131	-73	-294		-644
Profit/loss before taxes	81	-231	-1,421	-8	-422	-1,157
Income taxes	-16	46	284	2	85	231
Profit/loss for the financial period	65	-185	-1,137	-6	-337	-926
Other comprehensive income						
Items that may be later recognized in profit or loss:						
Exchange differences	-199	-116	-52	-377		-744
Total comprehensive income	-134	-301	-1,189	-383	-337	-1,670

Earnings per share calculated from the profit attributable to equity holders of the parent:

basic earnings per share (EUR)	0.0020	-0.0051	-0.0314	-0.0002		-0.0262
diluted earnings per share (EUR)	0.0020	-0.0051	-0.0314	-0.0002		-0.0262

Adjusted 2017 Consolidated Balance Sheet, IFRS

ASSETS

EUR thousand	Adjusted Mar 31, 2017	Adjusted Jun 30, 2017	Adjusted Sep 30, 2017	Adjusted Dec 31, 2017	Change Jan 1–Dec 31, 2017	Published Dec 31, 2017
Non-current assets						
Tangible assets	664	742	686	640		640
Goodwill	27,673	27,542	27,615	26,398		26,398
Other intangible assets	8,875	8,679	8,295	7,797		7,797
Shares and holdings	62	62	62	62		62
Receivables	628	392	375	342		342
Deferred tax assets	5,765	5,655	5,653	5,668	85	5,583
Non-current assets	43,667	43,072	42,686	40,907	85	40,822
Current assets						
Trade and other receivables	19,047	19,606	16,843	16,455	-422	16,877
Cash and cash equivalents	1,370	377	545	910		910
Current assets	20,417	19,983	17,388	17,365	-422	17,787
TOTAL ASSETS	64,084	63,055	60,074	58,272	-337	58,609

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR thousand	Adjusted Mar 31, 2017	Adjusted Jun 30, 2017	Adjusted Sep 30, 2017	Adjusted Dec 31, 2017	Change Jan 1–Dec 31, 2017	Published Dec 31, 2017
Equity attributable to the shareholders of the parent company						
Share capital	2,100	2,100	2,100	2,100		2,100
Share premium reserve	72	72	72	72		72
Other reserves (+/-)	59	59	59	59		59
Fund for invested unrestricted equity	20,262	20,262	20,262	20,321		20,321
Retained earnings *	4,144	4,055	3,108	2,212	-337	2,549
Total shareholders' equity	26,637	26,548	25,601	24,764	-337	25,101
Non-current liabilities						
Loans from financial institutions	7,983	6,830	6,436	7,280		7,280
Deferred tax liabilities	2,214	2,112	2,009	1,826		1,826
Long term liabilities total	10,197	8,942	8,445	9,106		9,106
Current liabilities						
Loans from financial institutions	7,584	6,654	8,377	6,948		6,948
Trade and other payables	19,666	20,911	17,651	17,454		17,454
Current liabilities total	27,250	17,565	26,028	24,402		24,402
Total liabilities	37,447	36,507	34,473	33,508		33,508
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	64,084	63,055	60,074	58,272	-337	58,609

* The adjustments made were caused by licenses related to project deliveries as they were recognized in accordance with project completion in 2018.

IFRS 9 Financial Instruments:

Innofactor has implemented the IFRS 9 Financial Instruments standard as of January 1, 2018. The primary effect of the IFRS 9 standard is related to the time of registering anticipated credit losses. The Group is not implementing the standard retroactively. The IFRS 9 Financial Instruments standard has not had substantial effect on the Innofactor financial report.

In estimating the losses for write-offs of sales receivables, a customer classification is used in which the reservation for credit loss is calculated based on experience, that is, based on expected credit losses from different customer groups. The Group's realized credit losses have historically been very small due to the large share of net sales coming from public administration, third sector and large companies.

Changes That Will Take Effect During the Financial Period of 2019 or Later

IFRS 16 Leases:

Innofactor will implement the IFRS 16 standard as of January 1, 2019. The implementation of the standard will affect the company's balance sheet by increasing the committed capital and interest-bearing debt. The standard is not expected to have a significant effect on the company's earnings per share, but it will improve the company's operating margin (EBITDA), because a lease cost will be divided into depreciations and financial expenses. The standard will also improve the company's operating cash flow and deteriorate the financing cash flow, because the lease payments will mainly be presented in the financing cash flow.

Due to the implementation of the standard, the interest-bearing liabilities are expected to rise by approximately EUR 5.4 million. The operating cash flow is expected to improve by approximately EUR 1 million, and the financing cash flow to decrease

correspondingly. The operating margin is expected to improve by approximately EUR 1 million as leasing costs will be divided into depreciations and interests.

In the implementation of the standard, Innofactor will use the simple procedure in which the comparison figures will not be adjusted. In its reporting, the company will also take into account the two exceptions that make it easier to implement the standard and which are related to leases of low value and short term.

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 2017 and 2018, 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 2018, Innofactor activated costs related to the acquisition of the ERP system for EUR 786 thousand (EUR 1,089 thousand in 2017). 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 a Lessee

Leases concerning tangible assets where the Group retains a significant part of the risks and rewards of ownership are treated as financial leasing agreements. An asset acquired by means of a financial leasing agreement 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 leasing agreement 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 2017 and 2018.

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.

Services Sold

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 projects include planning, implementation, project management and commissioning services related to software and solutions to be implemented for the customer. 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 project is recognized in profit or loss immediately when it is identified.

Maintenance Fees

Maintenance fees are recognized over the contract period.

Licenses

Licenses are recognized at the time of delivery as the ownership of the license is transferred to the customer or based on the project's completion percentage when the licenses are sold as part of a project delivery.

Cash and Cash Equivalents

Cash and cash equivalents comprise bank deposits.

Impairment of Financial Assets

In estimating the losses for write-offs of sales receivables, a customer classification is used in which the reservation for credit loss is calculated based on experience, that is, based on expected credit losses from different customer groups. The Group's realized credit losses have historically been very small due to the large share of net sales coming from public

administration, third sector and large companies. Sales receivables and assets based on contracts are written off the profit or loss as final credit losses, when it is not reasonable to expect a payment to be received for them. 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 rated as current liabilities when they are planned to be settled within 12 months from the reporting time.

The lending 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 lending 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. Initially, derivative agreements are recognized at fair value on the date when the Group becomes a party of the agreement, and later they will be valued at fair value at the time of reporting. Changes in fair value are recognized in financial income or expenses in the profit and loss statement.

Shareholders' Equity

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

Operating Profit

The IAS 1 Presentation of Financial Statements standard does not define the concept of operating profit. The Group has defined the concept as follows: Operating profit is the net total which is formed when other operating income is added to the net sales and the following items are deducted: materials and services, cost of employee benefits, depreciation and possible impairment losses, and other operating expenses. All other items of the profit and loss statement are presented below the operating profit. Currency translation differences are included in the operating profit, if they arise from business related items; otherwise they are recognized in financial items.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of financial statements requires estimates and assumptions concerning the future. The end results may deviate from these estimates and assumptions. The application of the accounting policies also requires judgment.

The estimates made in the preparation of the financial statements are based on the best view of the management at the closing date of the reporting period. The estimates are based on the previous experiences and on assumptions concerning the future that are considered the most probable at the closing date. They may be related to the expected development of the Group's financial operating environment in terms of sales and cost level. The Group regularly monitors the realization of the estimates and assumptions and the factors behind them by using several both internal and external sources of information. Possible changes in the estimates and assumptions are recognized in the financial period during which the estimate or assumption is adjusted and in the subsequent financial periods.

The key assumptions concerning the future and those key sources of estimation uncertainty at the closing date of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are presented later in this report. The Group management considers these sections of the financial statements the most essential, because the accounting policies concerning them are the most complicated and their application requires the use of the most significant estimates and assumptions concerning, for example, the measurement of financial assets. In addition, the impact of possible changes in the assumptions and estimates used in these sections of the financial statements is estimated as the most significant.

Determination of the Fair Value of Assets Acquired in Business Combinations

The estimation of the fair value of intangible assets is based on an estimate of the cash flows related to the assets as there is no information available in the market concerning the purchase of similar assets. Additional information on the measurement of intangible assets acquired in business combinations is presented in Note 3 Business acquisitions.

The Group management believes that the used estimates and assumptions are sufficiently exact for determining fair value. Additionally, the Group examines at every closing date of a reporting period or, if necessary, more frequently, if there are any indications of impairment in tangible and intangible assets.

Impairment Testing

The Group carries out annual impairment testing on goodwill, unfinished intangible assets and intangible assets with an infinite useful life, and estimates the indications of impairment in accordance with the accounting policies described above. The recoverable amounts of the cash-generating units have been determined on the basis of the value in use. These calculations require the use of estimates.

Revenue Recognition

As described under the revenue recognition principles, revenue and expenses from long-term projects are recognized as revenue or expenses, using the percentage of completion method, when the outcome of a long-term project can be estimated reliably. The percentage of completion method is based on estimates of the expected project revenue and expenses from the project, as well as on reliable measurement of the progress of the project. If the estimate of the outcome of a project changes, the recognized project revenue and profit are correspondingly changed in the period in which the change is discovered and can be estimated reliably. An expected loss on a project is recognized as an expense immediately.

3. Net Sales

EUR thousand	2018	2017
Revenue from services	35,579	34,001
Revenue recognized from long-term projects	27,564	31,665
Total	63,144	65,666

From long-term projects in progress at the balance sheet date, a total of EUR 26.4 million (EUR 27.6 million in 2017) of realized revenues had been recognized.

For advance payments for long-term projects in progress, the balance sheet included EUR 747 thousand on December 31, 2018, (EUR 371 thousand on December 31, 2017).

On January 1–December 31, 2018, approximately 58 percent of the net sales came from Finland, approximately 26 percent from Sweden, approximately 6% from Denmark, and approximately 10% from Norway.

Distribution of Revenue From Services and Long-Term Projects

EUR thousand	Jan1–Dec 31 2018	Jan1–Dec 31 2017	Change
Revenue from services	35,579	34,001	4.6%
Revenue recognized from long-term projects	27,564	31,665	-13.0%
Total	63,144	65,666	-3.8%

Unfulfilled Long-Term Customer Contracts

EUR thousand	2018	2017
Total of the transaction price for partially or entirely unfulfilled long-term customer contracts	29,830	19,204

Estimated time of recognition

Estimated recognition within the next year	27,719	18,504
Estimated recognition later	2,111	700
Total	29,830	19,204

For continuing service contracts, the value of long-term customer contracts is calculated as the value of the net sales in one year. On December 31, 2018, this was EUR 13,081 thousand and on December 31, 2017, it was EUR 12,132 thousand.

The transaction price used is the net sales received from the customers.

Net Sales by Customer Location

EUR thousand	2018	2017
Finland	36,073	36,029
Rest of Europe	27,070	29,441
Rest of the world	0	196
Total net sales	63,144	65,666

4. Other Operating Expenses

EUR thousand	2018	2017
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The following table shows three of the most significant items included in other operating expenses:

Expenses for business premises	2,464	2,553
Voluntary indirect employee costs	1,982	1,563
Marketing expenses	716	809
Total	5,162	4,925
Other unspecified operating expenses	5,972	6,590
Other operating expenses, total	11,134	11,515

Remuneration of the Auditors

EUR thousand	2018	2017
Auditing	107	133
Other services	3	0
Total	109	133

5. Depreciation, Amortization and Impairment

EUR thousand	2018	2017
Depreciation by asset group		
Intangible assets	2,527	2,222
Total	2,527	2,222

Tangible assets		
Machinery and equipment	316	547
Total	316	547
Total depreciation	2,842	2,769

6. Employee Benefits/Expenses

EUR thousand	2018	2017
Wages and salaries	36,998	37,373
Pension expenses		
– defined contribution plans	5,413	5,490
Other indirect employee costs	4,021	3,827
Total	46,432	46,690

Group's personnel	2018	2017
Average in the financial period	591	610
At the end of the financial period	550	601

Information on management benefits is presented in Note 24 Related party transactions.

7. Research and Development Costs

In 2018, the research and development costs recognized as expenses totaled EUR 2,860 thousand (EUR 3,298 thousand in 2017).

8. Financial Income

EUR thousand	2018	2017
Interest income	52	42
Other financial income *	900	484
Total	952	526

* Other financial income for 2018 includes financial income of EUR 900 thousand related to the adjustment of the additional purchase price related to the acquisition (EUR 484 thousand in 2017)

9. Financial Expenses

Items Recognized in Profit or Loss

EUR thousand	2018	2017
Interest expenses	-881	-640
Change in fair value registered from interest rate derivatives	-11	-4
Total financial expenses	-892	-644

10. Income Taxes

EUR thousand	2018	2017
Tax based on the taxable income of the financial period	47	-80
Deferred tax related to the creation or cancellation of temporary differences	578	396
Total	625	316

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	2018	2017
Earnings before taxes	-3,811	-1,579
Taxes calculated at the domestic tax rate	625	316
Taxes in the profit and loss statement	625	316

11. 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.

	2018	2017
Profit for the year attributable to shareholders of the parent company (EUR)	-3,186,271	-1,262,983
Weighted average number of shares during the financial period	36,188,225	35,341,751
Basic earnings per share (EUR/share)	-0.0880	-0.0357

12. Tangible Assets

EUR thousand	Machinery and equipment	Total
Acquisition cost, Jan 1, 2018	3,985	3,985
Additions in 2018	158	158
Acquisition costs, Dec 31, 2018	4,143	4,143
Accumulated depreciation, amortization and impairment, Jan 1, 2018	-3,345	-3,345
Depreciation in 2018	-314	-314
Carrying amount, Jan 1, 2018	640	640
Carrying amount, Dec 31, 2018	484	484
Acquisition cost, Jan 1, 2017	3,426	3,426
Additions in 2017	559	559
Acquisition costs, Dec 31, 2017	3,985	3,985
Accumulated depreciation, amortization and impairment, Jan 1, 2017	-2,798	-2,798
Depreciation in 2017	-547	-547
Carrying amount, Jan 1, 2017	628	628
Carrying amount, Dec 31, 2017	640	640

13. Intangible Assets

EUR thousand	Goodwill	Other intangible assets	Total
Acquisition cost, Jan 1, 2018	27,614	14,646	42,260
Additions in 2018	0	881	881
Change in value from exchange rate changes	-277	-26	-303
Acquisition cost, Dec 31, 2018	27,337	15,501	42,838
Accumulated depreciation, amortization and impairment, Jan 1, 2018	-1,216	-6,862	-8,078
Depreciation in 2018	0	-2,527	-2,527
Accumulated depreciation, amortization and impairment, Dec 31, 2017	-1,216	-9,389	-10,605
Carrying amount, Jan 1, 2018	26,398	7,797	34,195
Carrying amount, Dec 31, 2018	26,126	6,114	32,240
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
Acquisition cost, Dec 31, 2017	27,614	14,646	42,260
Accumulated depreciation, amortization and impairment, Jan 1, 2017	-188	-4,640	-4,828
Depreciation in 2017	0	0	0
Change in the contingent additional consideration in 2017	-1,028	-2,222	-3,250
Accumulated depreciation, amortization and impairment, Dec 31, 2017	-1,216	-6,862	-8,078
Carrying amount, Jan 1, 2017	27,690	9,141	36,831
Carrying amount, Dec 31, 2017	26,398	7,797	34,195

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 budget approved by the Board of Directors 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 operating margin.
2. Change in working capital – The value of the variable is based on the average working capital in relation to the net sales 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 6.8% (7.9% in 2017).
4. Growth rate in the forecast period – The company considers the used net sales to be conservative, considering the realized long-term growth of the field and of Innofactor's business.

According to the impairment testing, the recoverable amounts exceed the corresponding balance sheet values by approximately EUR 7 million. No impairment losses were recognized in 2018 and 2017.

According to the sensitivity analysis that the Group carried out on goodwill, a decrease of 20% in the net sales compared to the estimated net sales of 2019 or a decrease of 12% in profitability compared with the estimated net sales of 2019 would indicate a need for impairment. On the basis of the sensitivity analysis, an increase in the discount rate to 10.3% would cause a need for impairment.

Recognition of Goodwill

EUR thousand	2018	2017
IT service business	26,126	26,398
Goodwill	26,126	26,398

14. Deferred Tax Assets and Liabilities

Changes in deferred taxes in 2018:

EUR thousand	Dec 31, 2017	Recognized in profit or loss	Dec 31, 2018
Deferred tax assets			
From Group combinations *	5,668	-66	5,602
Total	5,668	-66	5,602
Deferred tax liabilities			
Measurement of intangible assets and tangible assets at market value in business combinations	-1,826	636	-1,190
Total	-1,826	636	-1,190

* Of the deferred tax assets, approximately EUR 2,862 thousand consist of historical, confirmed losses.

15. Trade and Other Receivables

EUR thousand	2018	2017
Trade and other receivables		
Trade receivables	9,853	11,231
Receivables from customers for long-term projects	1,459	3,487
Loan receivables	123	45
Accrued income	1,624	1,692
Total	13,059	16,455

EUR thousand	2018	2017
Breakdown of trade receivables by age		
Not past due	4,877	8,613
Past due		
Past due 1-90 days	4,819	2,015
Past due over 90 days	157	603
Total	9,853	11,231

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 19.

Assets Based on Customer Contracts

EUR thousand	2018	2017
Receivables based on project contracts	1,459	3,507
Total	1,459	3,507

EUR thousand	2018	2017
Liabilities based on project contracts	973	1,266
Total	973	1,266

Liabilities and receivables based on project contracts are stated in the accrued income and liabilities in the balance sheet. Liabilities and receivables based on project contracts have decreased since 2017 due to a slight decrease in net sales and changes in completion percentage of customer projects. Innofactor does not expect to enter into contracts in which the time between the handover of projects or services to the customer and the payment made by the customer would be longer than one year. For this reason, the transaction prices are not adjusted to take the time value of money into account.

16. Cash and Cash Equivalents

EUR thousand	2018	2017
Bank accounts	258	910
Total	258	910

17. Notes Concerning Shareholders' Equity

Number of shares in 2018	2018	2017
Outstanding shares, Jan 1	36,188,225	32,901,377
Share issue	0	3,286,848
Outstanding shares, Dec 31	36,188,225	36,188,225

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 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 2018. The Board of Directors has proposed that no dividends be distributed for the financial period of January 1–December 31, 2018.

Own Shares

The General Meeting of April 4, 2018, authorized the Board of Directors to decide on acquiring of a maximum of 5,000,000 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, 2019. This authorization replaces the Board's earlier authorizations concerning share repurchase.

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

18. 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 15.4 million (EUR 14.2 million on December 31, 2017). 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 (3.5% in 2017).

The company has interest rate swap agreements, which are used for changing a fluctuating reference interest rate into a fixed reference interest rate. On December 31, 2018, the company had interest rate swap agreements, which had the nominal value of EUR 7.2 million and the due date of December 27, 2022, and which have been measured at fair value, which is based on the market information available 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 +/-143 thousand (2017: EUR +/-135 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. 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

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.

The aging analysis of the trade receivables is presented in Note 15 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 identified 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, 2018

Maturity distribution of financial liabilities

Loans from financial institutions

15,418	5,483	4,517	1,788	3,630
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Trade and other payables

13,964	11,922	2,042	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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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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Trade and other payables

17,454	14,090	3,364	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 shareholders' equity in the consolidated balance sheet is managed as capital assets. No external capital requirements are applied to the Group.

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

	2018	2017
Interest-bearing liabilities	15,418	14,228
Cash and cash equivalents	- 258	-910
Total shareholders' equity	21,303	24,764
Net gearing	71.2%	53.8%

Financial Risk Management

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 15.4 million in interest bearing debts, which have been taken out to finance earlier acquisitions and working capital. Of the debts, approximately EUR 10 million is current liabilities consisting of loan installments of EUR

2.2 million in 2019 and a credit limit of approximately EUR 7.8 million. Innofactor has committed itself to the following covenants: Equity ratio calculated every 6 months is at least of 40%, and interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 2.5, and certain other normal conditions for loans. The Innofactor Group's interest bearing liabilities divided by the 12-month operating margin (EBITDA) on December 31, 2018, exceeded the covenant limit of 2.5 agreed on with the financial institution. However, the financial institution issued a Waiver on December 31, 2018, accepting this deviation. In addition to corrective actions related to business operations,

Innofactor has renegotiated some loan conditions to enable more flexible financing. These together are believed to ensure Innofactor's financial standing also in the future.

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.

19. 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, 2018		Dec 31, 2017	
	Note	Carrying amount	Carrying amount	
Trade and other receivables	15	13,059	16,455	
Cash and cash equivalents	16	258	910	
Total		13,317	17,365	
Loans from financial institutions		15,418	14,228	
Trade and other payables:				
Trade payables		2,982	3,364	
Other payables		3,730	3,321	
Accrued expenses		7,191	10,720	
Interest rate swap agreements, not in hedge accounting *)		60	49	
Total		13,964	17,454	

*) 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.

20. Other Leases

Group as a Lessee

The Group leases all the premises it uses. The average lease period is 2–5 years, normally with an option to renew the lease after the original date of expiry.

Minimum lease payments paid on non-cancellable other leases:

EUR thousand	2018	2017
Within one year	2,007	2,007
Within more than one but less than five years*	4,639	1,482
Total	6,646	3,489

In 2018, the amount of lease payments based on other leases recognized in profit or loss was EUR 2,075 thousand (EUR 2,298 thousand in 2017).

* The significant rise in lease liabilities is due to the renewal of the lease agreement for Innofactor headquarters for five years, which decreased the monthly lease costs slightly.

21. Financial Leasing Liabilities

EUR thousand	2018	2017
Non-current financial liabilities measured at amortized cost		
Financial leasing liabilities	172	173
Total	172	173
Current financial liabilities measured at amortized cost		
Financial leasing liabilities	94	327
Total	94	327

Due Dates of Financial Leasing Liabilities

EUR thousand	2018	2017
Within one year	94	327
Within more than one but less than five years	172	173
Total	266	500

22. Contingent Liabilities and Assets and Acquisition Commitments

Collateral

EUR thousand	2018	2017
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Collateral given for own commitments

Collateral for rent	183	188
Mortgages on company assets *	16,972	17,002

Mortgages on company assets have been given as collateral for the credit limit and a loan.

Bank guarantees	303	303
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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, 2018.

Other Leases

The liabilities from the Group's other leases are presented in Note 20 Other leases.

23. Statement of Changes in Interest Bearing Debts

EUR thousand	Non-current Interest bearing liabilities	Current Interest bearing liabilities	Total Interest bearing liabilities
Liabilities Dec 31, 2017	7,280	6,948	14,228
Loans withdrawn	0	3,237	3,237
Loans paid	-1,884	-185	-2,069
Changes with no related cash flow:			
Effective interest	22	0	22
Liabilities Dec 31, 2018	5,418	10,000	15,418

EUR thousand	Non-current Interest bearing liabilities	Current Interest bearing liabilities	Total Interest bearing liabilities
Liabilities Dec 31, 2016	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
Liabilities Dec 31, 2017	7,280	6,948	14,228

24. 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	2018	2017
Salaries and fees paid to the CEO and Group management during the financial period including benefits in kind as follows:		
Salaries and other short-term employee benefits	1,560	1,802
Total	1,560	1,802

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

EUR thousand	2018	2017
Salaries and fees paid to the CEO and Board Members		
CEO and Board Member Sami Ensio	296	424

Board members and deputy members

Rahkonen Ari	Chairman of the Board of Directors	12	48
Mäkinen Jukka	Board Member	3	24
Nurmi Ilari	Board Member	3	24
Puolakka Pekka	Board Member	3	24
Vepsäläinen Anni	Board Member	3	21
Eloholma Pekka	Chairman of the Board of Directors	42	0
Lindén Anna	Board Member	21	0
Linturi Risto	Board Member	18	0
Total		401	565

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.

25. 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%
- ▶ Innofactor Cloud Platform AB, Sweden, 100%
- ▶ Lumagate Holding AB, Sweden, 100%
- ▶ Innofactor Holding ApS, Denmark, 100%
- ▶ Innofactor A/S, Denmark, 100%
- ▶ Innofactor Holding AS, Norway, 100%
- ▶ Innofactor AS, Norway, 100%

26. Events After the Closing Date

Events After the Review Period

- ▶ On January 25, 2019, Innofactor lowered its estimate on the net sales and operating margin (EBITDA) for 2018.
- ▶ On February 14, 2019, Innofactor announced in a stock exchange release that a Swedish organization selected Innofactor to implement their membership management project, the value of the procurement being approximately EUR 1.3 million, which is estimated to be registered for 2019.
- ▶ On February 15, 2019, Innofactor announced in a stock exchange release that Traficom selected Innofactor as the development and maintenance provider for their technical platform for digital services (VISA), the value of the procurement being approximately EUR 5.0 million within 5–7 years, starting from spring 2019.
- ▶ On March 8, 2019, Innofactor announced in a stock exchange release that the City of Espoo has selected Innofactor as the provider of a decision-making system, and the value of the procurement is approximately EUR 1.5 million, of which approximately EUR 950,000 thousand will be registered for the first four years.

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

Parent Company Financial Statement, FAS

EUR

PARENT COMPANY FINANCIAL STATEMENT	Note	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
		12 months	12 months
NET SALES	1	5,348,028	5,680,897
Other operating income	2	133,170	30,478
Personnel expenses	3	-2,326,863	-1,875,629
Depreciation			
Planned depreciation	4	-393,109	-200,350
Other operating expenses	5	-3,462,650	-3,678,403
OPERATING RESULT		-701,425	-43,007
Financial income and expenses	6		
Dividend yield		191,505	4,046,528
Interest and financial income		743,539	733,315
Interest and other financial expenses		-374,614	-388,662
Depreciation on non-current asset investments		0	-22,320,360
Total financial income and expenses		560,430	-17,929,179
EARNINGS BEFORE TAXES		-140,995	-17,972,187
RESULT FOR THE FINANCIAL PERIOD		-140,995	-17,972,187

Balance Sheet, FAS

EUR

ASSETS	Note	Dec 31, 2018	Dec 31, 2017
NON-CURRENT ASSETS			
Intangible assets			
Intangible rights	7	728,141	432,223
Goodwill	7	362,304	483,072
Tangible assets			
Machinery and equipment	7	46,967	54,537
Investments			
Shares in Group companies	8	28,696,532	23,696,532
Other shares and holdings		77,625	62,100
TOTAL NON-CURRENT ASSETS		29,911,569	24,728,464
CURRENT ASSETS			
Receivables			
Non-current			
Loan receivables		281,075	475,954
Other receivables	9	25,463,504	25,462,469
Current			
Trade receivables	9	9,644,257	12,834,640
Accrued income		397,628	65,136
Cash and bank receivables		328	60,090
TOTAL CURRENT ASSETS		35,786,792	38,898,289
ASSETS		65,698,361	63,626,753

EUR

LIABILITIES	Note	Dec 31, 2018	Dec 31, 2017
SHAREHOLDERS' EQUITY			
	11		
Share capital		2,100,000	2,100,000
Revaluation fund		2,000,000	2,000,000
Fund for invested unrestricted equity		28,415,281	28,415,281
Profit from previous financial periods		-1,037,455	16,934,732
Profit/loss for the financial period		-140,995	-17,972,187
Total shareholders' equity		31,336,832	31,477,827
LIABILITIES			
	12		
Non-current			
Loans from financial institutions		4,994,635	6,140,750
Non-current total		4,994,635	6,140,750
Current			
Loans from financial institutions		5,725,816	3,011,411
Trade payables		1,061,348	2,395,570
Other payables		21,890,463	20,319,791
Accrued expenses		689,268	281,403
Current total		29,366,895	26,008,175
Total liabilities		34,361,530	32,148,925
LIABILITIES		65,698,361	63,626,753

Parent Company Cash Flow Statement

EUR	Jan 1–Dec 31, 2018	Jan 1–Dec 31, 2017
Operating activities cash flow		
Operating profit/loss	-701,425	-43,007
Adjustments:		
Depreciation	393,109	200,350
Change in working capital		
Change in trade or other receivables	-1,398,570	-9,932,409
Change in trade and other payables	818,449	12,621,005
Dividend yield	191,505	0
Paid interests and other financial expenses	-348,750	-368,635
Total operating activities cash flow	-1,045,682	2,477,304
Investment cash flow		
Investments in subsidiary shares	-200,000	-59,194
Investments in other shares	-15,525	0
Investments in fixed assets	-560,689	-418,569
Loan receivables paid back	194,879	173,230
Loans paid	0	223,839
Loans granted	-1,035	-1,142,336
Total investment cash flow	-582,371	-1,223,030
Cash flow before financing	-1,628,053	1,254,273
Financing cash flow		
Loans withdrawn	2,714,406	8,010,007
Loans paid	-1,146,115	-9,082,962
Purchase of own shares	0	-199,377
Total financing cash flow	1,568,290	-1,272,332
Change in cash and cash equivalents as per cash flow statement	-59,762	-18,058
Change in cash and cash equivalents	-59,762	-18,058
Cash and cash equivalents, opening balance	60,090	78,149
Cash and cash equivalents, closing balance	328	60,090

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 2018 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

Acquisition costs for non-current asset items, which have a probable economic life of under three years, and small purchases (under EUR 850) have been recognized as cost in their entirety in the financial period in which they were purchased.

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

Fair value of derivative agreements has been defined based on available market information. The interest rate swap agreement will be valid until December 27, 2022. In accordance with the interest rate swap agreement, the reference interest rate of the non-current loan, 6 months' Euribor, has been changed into a fixed reference interest rate. The interest rate swap agreement may be dissolved during its exercise period. At the time of dissolving, the market value of the agreement will be defined and the party for whom the market value is negative will compensate it to the other party.

Notes to the Financial Statements (EUR)

1. Net sales (EUR) by market area	2018	2017
Finland	4,493,268	4,944,135
Rest of Europe	854,760	736,762
Total net sales	5,348,028	5,680,897

2. Other operating income	2018	2017
Rental revenue	31,914	28,750
Other operating income	101,256	1,728
Total other operating income	133,170	30,478

3. Personnel expenses	2018	2017
Salaries and fees	1,963,871	1,494,897
Pension expenses	329,461	343,166
Other indirect employee costs	33,531	37,567
Total personnel expenses	2,326,863	1,875,629

Management salaries and fees, EUR thousand

CEO and Board Member Sami Ensio	296	424
Board members and deputy members	129	141
Total	425	565

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	25	28
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4. Planned depreciation	2018	2017
For intangible rights	250,063	59,373
For goodwill	120,768	120,768
For machinery and equipment	22,278	20,209
Total	393,109	200,350

5. Other operating expenses	2018	2017
Rents and other expenses for premises	870,621	838,145
IT hardware, licenses and communications	216,152	110,257
Travel expenses	156,460	122,029
Training expenses	67,048	113,061
Entertainment expenses	59,440	57,877
Other operating expenses	470,219	737,035
	1,839,940	1,978,403

Group's internal expenses	1,622,710	1,699,981
Other operating expenses, total	3,462,650	3,678,384

Remuneration of the Auditors

Auditing	75	90
Other services	0	0
Total	75	90

Fees in total	75	90
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6. Financial income and expenses	2018	2017
Interests and other financial income		
Dividend yield from companies of the Group	191,505	4,046,528
From companies of the Group	745,794	722,534
From others	0	10,780
Total interests and other financial income	937,299	4,779,842
Interest and other financial expenses		
To companies of the Group	0	-20,027
Interest expenses to others	-376,869	-368,635
Depreciation on non-current asset investments	0	-22,320,360
Total interests and other financial expenses	-376,869	-22,709,021
Total financial income and expenses	560,430	-17,929,179

Balance Sheet Notes (EUR)

7. Intangible and tangible assets

	Intangible	Goodwill	Tangible	Total
Acquisition cost, Jan 1, 2018	501,130	603,840	117,340	1,222,309
Additions	545,981	0	14,708	560,689
Acquisition cost, Dec 31, 2018	1,047,111	603,840	132,048	560,689
Accumulated depreciation, amortization and impairment, Jan 1, 2018	68,907	120,768	62,803	252,478
Depreciation for the financial year	250,063	120,768	22,278	393,109
Accumulated depreciation, Dec 31, 2018	318,970	241,536	85,081	645,587
Carrying amount, Dec 31, 2018	728,141	362,304	46,967	1,137,412

	Intangible	Goodwill	Tangible	Total
Acquisition cost, Jan 1, 2017	126,912	603,840	72,988	803,740
Additions 2017	374,217		44,352	418,569
Acquisition cost, Dec 31, 2017	501,130	603,840	117,340	1,222,309
Accumulated depreciation, amortization and impairment, Jan 1, 2017	9,534		42,594	52,128
Depreciation 2017	59,373	120,768	20,209	200,350
Accumulated depreciation, amortization and impairment, Dec 31, 2017	68,907	120,768	62,803	252,478
Carrying amount, Dec 31, 2017	432,223	483,072	54,537	969,832

The increases for intangible assets include the activation of the development costs for Innofactor's ERP system, EUR 542,981 (EUR 495,277 in 2017).

8. Investments	
Acquisition cost, Jan 1, 2018	23,696,532
Additions	5,000,000
Deductions	0
Acquisition cost, Dec 31, 2018	28,696,532
Carrying amount, Dec 31, 2018	28,696,532
Acquisition cost, Jan 1, 2017	41,016,892
Additions	5,000,000
Deductions	-22,320,360
Acquisition cost, Dec 31, 2017	23,696,532
Carrying amount, Dec 31, 2017	23,696,532

Shares and holdings owned by the parent company

Subsidiary shares:	Domicile	Country	Share of ownership
Innofactor Software Oy	Espoo	Finland	100%
Innofactor Holding ApS	Copenhagen	Denmark	100%
Innofactor Business Solutions Oy	Espoo	Finland	100%
Innofactor Holding AB	Stockholm	Sweden	100%
Lumagate Holding AB	Stockholm	Sweden	100%
Innofactor Holding AS	Oslo	Norway	100%
Innofactor CS Oy	Turku	Finland	100%

The carrying amount of the subsidiary shares is EUR 28,696,532 in total.

The companies have been consolidated into the consolidated financial statements of the parent company. Ownership of other companies: Arc Technology Oy, 18.19%.

9. Receivables	2018	2017
Non-current receivables		
Loan receivables	281,075	475,954
Other receivables from Group companies	25,463,504	25,462,469
Current receivables		
Trade receivables	23,849	43,290
Trade receivables from Group companies	9,620,408	12,791,349
Total trade receivables	9,644,257	12,834,639
Receivables from Group companies in total	35,083,912	38,253,818

10. Accrued income	2018	2017
Pre-paid licenses	251,660	19,408
Periodical personnel expenses	42,633	26,266
Other	103,335	19,462
Accrued income in total	397,628	65,136

11. Shareholders' equity	2018	2017
Shareholders' equity, opening balance	2,100,000	2,100,000
Shareholders' equity, closing balance	2,100,000	2,100,000
Revaluation fund, opening balance	2,000,000	2,000,000
Revaluation fund, closing balance	2,000,000	2,000,000
Unrestricted shareholders' equity		
Fund for invested unrestricted equity, opening balance	28,415,281	24,246,591
Directed issue for the owners of Cinteros AB	0	4,109,533
Other change *	0	59,157
Fund for invested unrestricted equity, closing balance	28,415,281	28,415,281

Profit from previous financial periods, opening balance	-1,037,455	16,774,020
Transfer of treasury shares	0	360,090
Purchase of treasury shares	0	-199,377
Profit from previous financial periods, closing balance	-1,037,455	16,934,733
Result for the financial period	-140,995	-17,972,187
Total unrestricted shareholders' equity	27,236,832	27,377,826
Total shareholders' equity	31,336,832	31,477,826

* Change in the value of treasury shares

Calculation of distributable funds	2018	2017
Result from previous financial periods	-1,037,455	16,934,733
Result for the financial period	-140,995	-17,972,187
Fund for invested unrestricted equity	28,415,281	28,415,281
Total	27,236,832	27,377,826

12. Liabilities	2018	2017
Non-current liabilities		
Loans from financial institutions	4,994,635	6,140,750
Total non-current liabilities	4,994,635	6,140,750
Current liabilities		
Loans from financial institutions	5,725,816	3,011,411
Trade payables	499,340	276,042
Trade payables to Group companies	562,008	2,119,527
Trade payables in total	1,061,348	2,395,569
Other payables	1,054,387	1,124,699
Other payables to Group companies	20,836,075	19,195,092
Other payables in total	21,890,462	20,319,791
Accrued expenses	689,268	281,403
Liabilities to Group companies	21,398,083	21,288,601
Total current liabilities	29,366,895	26,008,175
Total liabilities	34,361,530	32,148,925

13. Accrued expenses	2018	2017
Periodical personnel expenses	385,334	216,431
Leases	192,174	0
Other	111,760	64,972
Accrued expenses in total	689,268	281,403

14. Commitments and contingent liabilities	2018	2017
Bank guarantees		
Bank guarantee has been given as collateral for lease agreements	252,960	252,960
Leasing liabilities		
To be paid in the next financial period	45,934	59,162
To be paid later	6,072	22,044
Total	52,006	81,206
Lease liabilities		
	2018	2017
To be paid in the next financial period	995,779	1,037,565
To be paid later	4,232,061	518,782
Total	5,227,840	1,556,347
Mortgages on company assets as collateral for loan		
Mortgages on company assets as collateral for loan	4,000,000	4,000,000

Board of Directors' Proposal on the Distribution of Profits

At the end of the financial period of 2018, the distributable assets of Innofactor Plc are EUR 27,236,831.73. The Board of Directors proposes that no dividend be distributed for the financial period of 2018.

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.

Storing the Accounting Material

Innofactor Plc, Keilaranta 9, 02150 Espoo

INNOFACTOR PLC

SIGNATURES FOR THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Espoo, March 12, 2019

Sami Ensio
CEO

Pekka Eloholma
Chairman of the Board of Directors

Anna Lindén
Board Member

Risto Linturi
Board Member

AUDITOR'S NOTE

The report on the audit has been issued today.

Helsinki, March 12, 2019

PricewaterhouseCoopers Oy
Auditing firm

Samuli Perälä
APA

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Innofactor Plc

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 Board of Directors.

What We Have Audited

We have audited the financial statements of Innofactor Plc (business identity code 0686163-7) for the financial period of January 1–December 31, 2018.

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, cash flow statement 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 4 to the Financial Statements.

Our Audit Approach

Overview

Materiality

- ▶ Overall group materiality: EUR 630 thousand.

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

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 judgments; 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 judgment, 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

EUR 630 thousand (EUR 600 thousand in the previous year)

How We Determined It

Net sales in 2018

Rationale for the Materiality Benchmark Applied

We chose net sales as described above as the benchmark because, in our view, it reflects the volume 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, Denmark and Norway.

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 3.

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.

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

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 judgment.

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 realization 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 calculation techniques of the accounting project module that was used to define the percentage of completion of the projects and reviewed the revenue recognized 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 unfinished 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 in note 13

Group goodwill and other intangible assets totaled EUR 32.2 million at the closing date. The company is obliged to test goodwill for impairment at least once a year. Impairment testing is based on current values of estimated 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.

Other 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 judgment 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 2019 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 discussed with the management and Board of Directors about the forecasts included in the impairment calculations and accepted by the Board of Directors in relation to the realization.
- ▶ 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 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.

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

We have not identified any 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 March 29, 2016. Our appointment represents a total period of uninterrupted engagement of 3 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. We have received the report of the Board of Directors before the date of issuing this audit report, and we expect to receive the Annual Report after the said date.

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 said 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 on the other information we have received before the date of issuing this audit report, 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, March 12, 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Samuli Perälä
Authorised Public Accountant (KHT)

Additional Information

Key Figures per Share

	2018	2017
Earnings per share (EUR)	-0.0880	-0.0357
Equity/share attributable to the shareholders of the parent company (EUR)	0.589	0.684
Highest price of the share (EUR)	1.13	1.80
Lowest price of the share (EUR)	0.35	0.91
Market value of the shares (EUR thousand)	13,100	33,836
Turnover of shares	11,142,838	23,796,019
Turnover of shares (%)	30.8	67.3
Weighted average of the number of shares during the financial period	36,188,225	35,341,751
Number of shares at the end of the financial period	36,188,225	36,188,225

Shareholding

On December 31, 2018, Innofactor Plc had 11,363 shareholders including the administrative registers (10). The share of administratively registered shares was 4,63% of the total number of shares.

Distribution of shareholding at December 31, 2018

Shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-100	6,614	58.21	187,419	0.52
101-1 000	2,975	26.18	1,310,629	3.62
1 001-10 000	1,472	12.95	4,735,415	13.09
10 001-100 000	264	2.32	7,090,876	19.59
over 100 000	38	0.33	22,863,886	63.18
Total	11,363	100.00	36,188,225	100.00

Shareholders by shareholder group December 31, 2018 (% of shares)	
Other foreign	5.08
Administratively registered	4.63
Financial and insurance institutions	2.27
Enterprises	7.49
Public entities	4.97
Non-profit organizations	0.05
Private households	75.50
Total	100.00

Calculation of Key Figures

Percentage of Return on Equity:

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

Percentage of Return on Investment:

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

Net Gearing:

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

Equity Ratio, %:

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

Result / Share:

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

Shareholders' Equity / Share:

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

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