

Innofactor Plc Half-Yearly Report July 20, 2023, at 9:00 Finnish time

Innofactor Plc's Half-Yearly Report for January 1–June 30, 2023 (IFRS)

In spite of the challenging market situation, Innofactor achieved 18.6% net sales growth and a 28.1% improvement in the operating margin in the second quarter of 2023

April–June 2023 in brief:

- Net sales were approximately EUR 20.1 million (2022: 16.9), representing an increase of 18.6%
 - Organic growth, excluding the Invenco business acquired in June 2022, was 11.1%
- The operating margin was approximately EUR 1.8 million (2022: 1.4), which shows an increase of 28.1%
- Operating profit was EUR 1.0 million (2022: 0.7), which shows an increase of 47.4%
- The order backlog at the end of the review period was EUR 77.3 million (2022: 77.2), representing an increase of 0.1%

January–June 2023 in brief:

- Net sales were approximately EUR 40.3 million (2022: 33.9), representing an increase of 18.9%
 - Organic growth, excluding the Invenco business acquired in June 2022, was 11.0%
- The operating margin was approximately EUR 4.3 million (2022: 3.4), which shows an increase of 24.4%
- Operating profit was EUR 2.7 million (2022: 2.0), which shows an increase of 35.7%

Key figures of the group, IFRS

	Apr 1– Jun 30, 2023	Apr 1– Jun 30, 2022	Change	Jan 1–Jun 30, 2023	Jan 1– Jun 30, 2022	Change
Net sales, EUR thousand	20,095	16,946	18.6%	40,317	33,911	18.9%
Growth of net sales	18.6%	-2.0%		18.9%	-3.4%	
Operating result before depreciation and amortization (EBITDA), EUR thousand	1,765	1,377	28.1%	4,252	3,419	24.4%
percentage of net sales	8.8%	8.1%		10.5%	10.1%	
Operating profit/loss (EBIT), EUR thousand	984	668	47.4%	2,695	1,987	35.7%
percentage of net sales	4.9%	3.9%		6.7%	5.9%	
Earnings before taxes, EUR thousand	813	639	27.3%	2,124	1,741	22.0%
percentage of net sales	4.0%	3.8%		5.3%	5.1%	
Earnings, EUR thousand	459	547	-16.1%	1,496	1,393	7.3%
percentage of net sales	2.3%	3.2%		3.7%	4.1%	
Order backlog	77,250	77,193	0.1%	77,250	77,193	0.1%
Net gearing	46.6%	53.3%		46.6%	53.3%	
Net gearing without IFRS 16	30.5%	35.6%		30.5%	35.6%	
Equity ratio	46.6%	41.1%		46.6%	41.1%	13.3%
Equity ratio without IFRS 16	50.4%	44.4%		50.4%	44.4%	
Active personnel on average during the review period*	584	527	10.8%	576	513	12.3%
Active personnel at the end of the review period*	588	557	5.6%	588	557	5.6%
Earnings per share (EUR)	0.0126	0.0150	-16.1%	0.0409	0.0381	7.3%

*) Innofactor Group monitors the number of active personnel. The number of active personnel does not include employees who are on leave for more than three months.

Innofactor's future outlook for 2023

Innofactor's net sales and operating margin (EBITDA) in 2023 are estimated to increase from 2022, during which net sales were EUR 71.1 million and operating margin was EUR 7.8 million.

CEO Sami Ensio's review: We aim to take advantage of the business opportunities presented by generative artificial intelligence and expect the market situation to normalize during the fall

Net sales in the second quarter of 2023 amounted to EUR 20.1 million, representing year-on-year growth of 18.6 percent. Net sales denominated in the local currency increased in Finland, Sweden and Norway, but declined in Denmark. The exchange rates of the Swedish krona and the Norwegian krone relative to the euro were at historically low levels during the review period. The operating margin (EBITDA) increased by 28.1 percent year-on-year to EUR 1.8 million (8.8 percent of net sales), and was positive in Finland.

Net sales in the first half of 2023 amounted to EUR 40.3 million, representing year-on-year growth of 18.9 percent. In the first half of the year, net sales denominated in the local currency increased in Finland, Sweden and Norway, but declined in Denmark. The operating margin (EBITDA) increased by 24.4 percent year-on-year to EUR 4.3 million (10.5 percent of net sales), and was positive in Finland and Denmark. The order backlog at the end of the review period was EUR 77.3 million, representing year-on-year growth of 0.1 percent.

The second quarter of 2023 was a challenging period for the consulting business, as it included Easter and a number of other weekday holidays, around which employees frequently took days of flexi leave, for example. A significant number of new employees joined Innofactor during the quarter. Most of them were recently graduated junior professionals, or "DigiStars", and the time spent on their induction, training and onboarding in the early stages of the employment relationship meant less time spent on work with customers. Recruiting young and cost-effective DigiStars is very important for our ability to achieve our long-term growth and profitability targets. Due to the aforementioned reasons, our invoicing rates in April–May were below the target level. In June, however, we achieved the highest single-month invoicing rate we have had since going public, corresponding roughly to our target of a five percentage point improvement to the invoicing rate. Our employees deserve a great deal of credit for this. Our aim is to maintain this level after the summer.

During the second quarter, price competition in the market was exceptionally intense. The weighted average prices of new contracts declined, particularly in the case of public sector customers and large tenders, by as much as over 20 percent according to our analysis. Carrying out loss-making business activities is not part of Innofactor's strategy, and we have refrained from offering our services at prices below our costs. Consequently, we unfortunately did not win any large tenders at the significantly reduced price levels in the second quarter. Nevertheless, our strong existing order backlog, framework agreements, other purchases by existing customers, and smaller new contracts enable Innofactor to operate profitably in the short term.

Generative artificial intelligence (ChatGPT, Microsoft Azure Open AI and Microsoft Copilot) has received significant attention in the market, and this has happened exceptionally quickly. Generative AI presents our customers – and Innofactor – with significant opportunities for improving operational efficiency. Above all, it opens up significant new business opportunities,

and we have quickly developed new offerings in response to these opportunities. We have shifted our sales focus more to the private sector, where more commercially sustainable price levels can be found. During the second half of the year, we will focus on improving efficiency in all of our operating countries, and we have drawn up a separate action plan for this.

We expect the average prices of new contracts in the public sector and large tenders to return to a commercially sensible level in the fourth quarter of 2023 at the latest, and for Innofactor to again become a competitive provider in these projects in the fall.

Due to the market situation, many of Innofactor's competitors have scaled down their recruitment and, in some cases, even reduced the number of personnel. This resulted in a significant improvement in the availability of personnel in the second quarter of 2023, particularly with regard to more experienced professionals, and employee turnover declined. Innofactor expects this situation to continue at least until the end of 2023. Generative AI will also increase the efficiency of Innofactor's operations in areas such as product development and sales, which reduces the need for additional recruitment to some extent. We aim to increase our market share and take advantage of the improved recruitment situation by engaging in moderate recruitment of chargeable personnel during the second half of the year.

Innofactor's aim is to be the leading provider of organizations' digital transformation in each of the Nordic countries. We believe in our chosen Nordic strategy and in reaching our long-term goals. This requires perseverance and determination from the company's management and employees as well as investors. Innofactor is still actively looking for new strategic partnerships in the Nordic countries. The Group's goal is to grow both organically and through acquisitions.

Strategy and its realization in the review period

Innofactor's strategy comprises our purpose, mission, vision, strategic choices, values, working principle, employer promise, and long-term financial goals.

Our purpose: Innovating to make the world work better

Our mission: Driving the modern digital organization

Our vision: Leading Nordic digital transformation partner in the Microsoft ecosystem

Our strategic choices:

- The most competent Nordic teams
- Productized and specialized offering
- Proactive and agile way of working
- Innovation with top customers

Our values:

- Accountability
- Empowerment
- Innovation
- Customer

Our working principle: Our principle is to put people first in everything we do. We want to provide solutions that make our customers' everyday work and life run smoothly and bring a smile to their faces.

Employer promise: Be the real you

Our long-term financial goals:

- To achieve annual growth of about 20 percent, the majority of which is intended to be achieved by organic growth
- To achieve about 20 percent EBITDA in relation to the net sales
- To keep the cash flow positive and secure good financial standing in all situations.

Innofactor's net sales in the first half of the year amounted to EUR 40.3 million (2022: 33.9), representing year-on-year growth of 18.9 percent. The rate of organic growth was 11.0%. The net sales growth target is supported by Innofactor's large order backlog of EUR 77.3 million (2022: 77.2). In June, we achieved the highest single-month invoicing rate we have had since going public, corresponding approximately to our target of a five percentage point improvement to the invoicing rate. Our aim is to keep the invoicing rate at roughly the level we have now achieved, which will increase net sales growth in the coming quarters. The improved recruitment market also enables the moderate growth of chargeable personnel within the limits set by the customer market situation.

The operating margin (EBITDA) was 10.5 percent of net sales (2022: 10.1%). EBITDA for the review period increased by 24.4 percent year-on-year. While profitability has improved, continued attention and efforts by the management are still needed in the coming years to reach the long-term target of approximately 20 percent.

Innofactor's operating cash flow for the review period January 1–June 30, 2023, amounted to EUR 3.9 million (2022: EUR 3.6 million) and the equity ratio at the end of the review period was 46.6 percent (2022: 41.1 percent). Innofactor's strong operating cash flow supports the company's strategic goal of profitable growth and securing a solid financial standing in all situations.

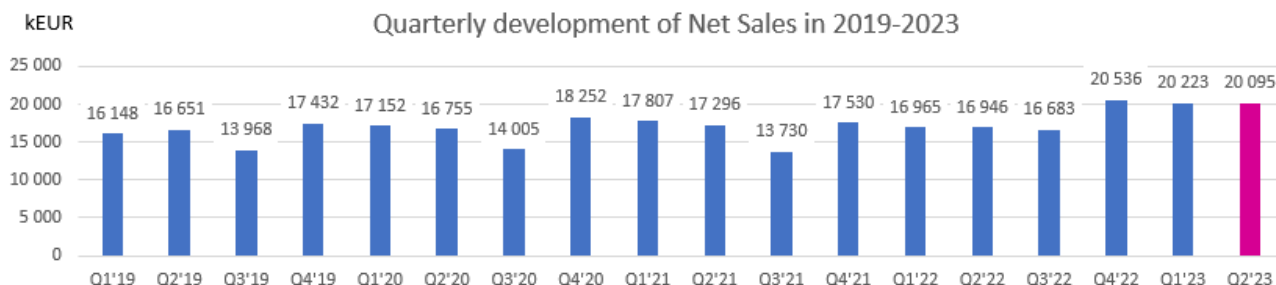
The key actions to be taken to achieve growth of approximately 20 percent and EBITDA of approximately 20 percent:

1. We will improve the efficiency of our operations and increase our invoicing rate by five percentage points. This will be achieved by, for example, improving the management of

project and service contracts, enhancing the cross-resourcing of personnel between countries and units, reducing employee turnover and developing our self-directed team models.

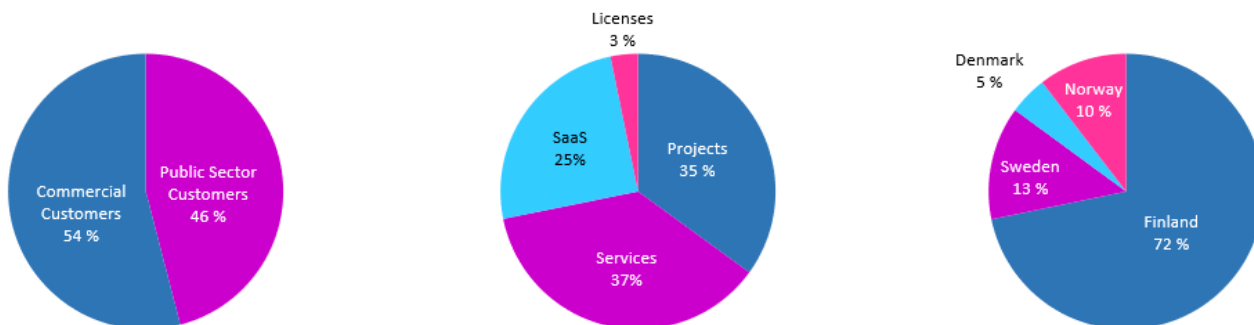
2. We will increase the share of licenses and SaaS services to over 33 percent of net sales from the current level of approximately 27 percent. This will be achieved by, for example, developing our offering, such as the new MDRaaS service (CSOC) and by focusing our sales efforts on customers and solution areas with the highest growth potential and that present the best opportunities for scaling our existing offering in each of the Nordic countries.
3. We will increase the number of employees engaged in invoiced services. This will be achieved by, for example, doubling our recruitment of new university graduates to over 60 employees in 2023, concentrating the recruitment of senior professionals to our Nordic recruitment team, increasing the competence of our employees through certifications, reducing employee turnover, improving the efficiency of subcontracting and investing in the development of our employer image.
4. We will become an even more proactive player in the Nordic M&A field. This will be achieved by, for example, through the internal reorganization of operations, emphasizing the role of country directors in actively seeking new potential acquisition targets in their respective countries.

Innofactor’s net sales was mainly organic, and net sales per active employee increased



Innofactor’s net sales for the period April 1–June 30, 2023, amounted to EUR 20,095 thousand (2022: 16,946), representing growth of 18.6 percent. Net sales per active employee amounted to approximately EUR 34.4 thousand (2022: 32.2), representing an increase of 7.0 percent.

Innofactor’s net sales for the period January 1–June 30, 2023, amounted to EUR 40,317 thousand (2022: 33,911), representing growth of 18.9 percent. Net sales per active employee amounted to approximately EUR 70.0 thousand (2022: 66.1), representing an increase of 5.9 percent. We focus on continuing to increase our net sales per active employee, which is supported particularly by the growth of the invoicing rate.



Innofactor’s business operations were focused on Finland, Sweden, Denmark and Norway. During the period January 1–June 30, 2023, approximately 72 percent of the net sales came from Finland, approximately 13 percent from Sweden, approximately 10 percent from Norway, and approximately 5 percent from Denmark. In the first half of the year, net sales denominated in the local currency increased in Finland, Sweden and Norway, but declined in Denmark. The exchange rates of the Swedish krona and the Norwegian krone relative to the euro were at historically low levels during the review period.

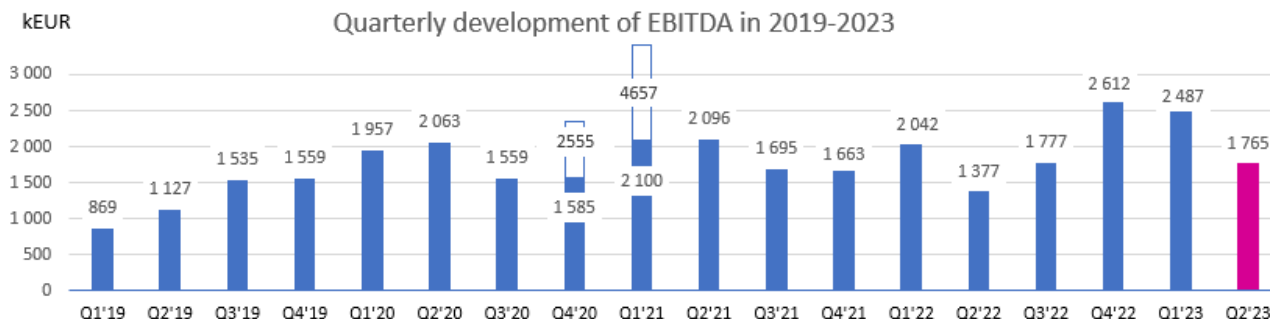
During the period January 1–June 30, 2023, approximately 54 percent of the net sales came from commercial customers (including third-sector customers) and approximately 46 percent came from public sector customers.

Innofactor’s net sales for the review period of January 1–June 30, 2023, were derived from the following sources:

- Licenses: 3 percent, including all non-recurring fees received for software
- SaaS: 25 percent, including recurring income from SaaS, cloud and hosting services and from software maintenance
- Services: 37 percent, including specialist work based on recurring service contracts, such as smaller customer-specific changes and the further development of IT systems
- Projects: 35 percent from IT system delivery projects and consulting

Innofactor’s 10 largest clients accounted for approximately 28 percent of the net sales for the review period January 1–June 30, 2023.

Innofactor’s operating margin improved year-on-year, mainly due to the improved invoicing rate



Innofactor’s operating margin (EBITDA) for the period April 1–June 30, 2023, was EUR 1,765 thousand (2022: 1,377), representing growth of 28.1 percent. EBITDA was 8.8 percent of net sales (2022: 8.1%). Innofactor’s operating margin was positive in Finland and negative in Sweden, Norway and Denmark.

Innofactor’s operating margin (EBITDA) for the period January 1–June 30, 2023, was EUR 4,252 thousand (2022: 3,419), representing growth of 24.4 percent. EBITDA was 10.5 percent of net sales (2022: 10.1%). Innofactor’s operating margin was positive in Finland and Denmark, and negative in Sweden and Norway.

Innofactor’s operating profit for the period April 1–June 30, 2023, was EUR 984 thousand (2022: 668), representing an increase of 47.4 percent. Operating profit was 4.9 percent of net sales (2022: 3.9%)

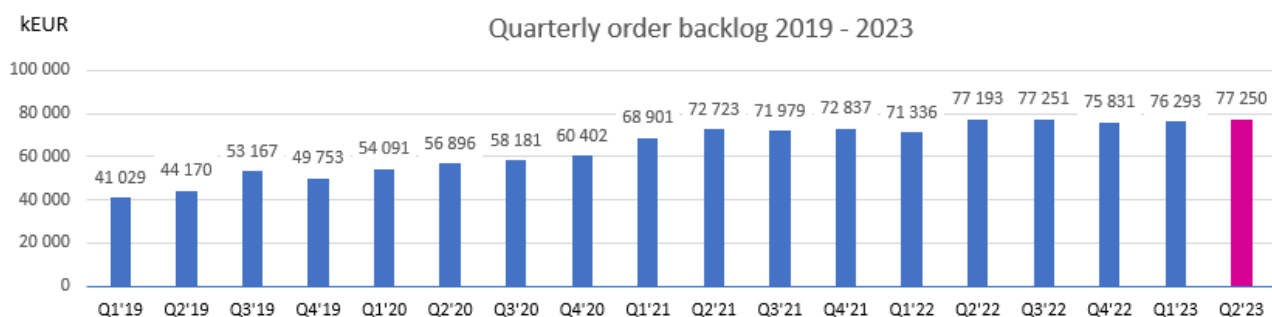
Innofactor’s operating profit for the period January 1–June 30, 2023, amounted to EUR 2,695 thousand (2022: 1,987), representing growth of 35.7 percent. Operating profit was 6.7 percent of net sales (2022: 5.9%).

Acquisitions have been a central part of Innofactor’s strategy. Depreciations of intangible rights resulting from acquisitions vary greatly depending on how valuable the customer contracts and technology of the acquired company are estimated to be and also in what kind of schedule the resulting intangible rights will be depreciated. For this reason, the company’s view is that, instead of operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciation.

Innofactor’s order backlog remained at a strong level

Innofactor’s order backlog at the end of the review period was EUR 77,250 thousand (2022: 77,193), representing growth of 0.1 percent. Innofactor did not receive new large orders that

would warrant a stock exchange release during the second quarter due to the changed market situation.



Innofactor’s operating cash flow remained strong during the review period

Innofactor’s balance sheet total at the end of the review period was EUR 54,164 thousand (2022: 59,960). The Group’s liquid assets totaled EUR 226 thousand (2022: 1,616), consisting entirely of cash funds.

Operating cash flow for the review period January 1–June 30, 2023, came to EUR 3,925 thousand (2022: 3,630). Cash flow from investing activities was EUR -394 thousand (2022: -2,800, which includes the Invenco Oy acquisition).

The equity ratio at the end of the review period was 46.6 percent (2022: 41.1%) and net gearing was 46.6 percent (2022: 53.3%).

At the end of the review period, the company had EUR 4,761 thousand in current interest-bearing liabilities to financial institutions (2022: 4,562) and EUR 2,747 thousand in non-current interest bearing liabilities to financial institutions (2022: 5,413). The total amount of interest-bearing liabilities to financial institutions was EUR 7,508 thousand (2022: 9,975). The company had IFRS 16 lease liabilities amounting to EUR 3,845 thousand (2022: 4,158) of which EUR 2,073 thousand in current leases (2022: 1,810) and EUR 1,772 thousand in non-current leases (2022: 2,348). The total amount of interest-bearing liabilities was EUR 11,353 thousand (2022: 14,133).

The return on investment for the period January 1–June 30, 2023, increased year-on-year and was 8.4 percent (2022: 6.0%). The return on equity for the period January 1–June 30, 2023, increased year-on-year and was 6.3 percent (2022: 5.7%).

The non-current assets on Innofactor’s balance sheet at the end of the review period totaled EUR 37,203 thousand.

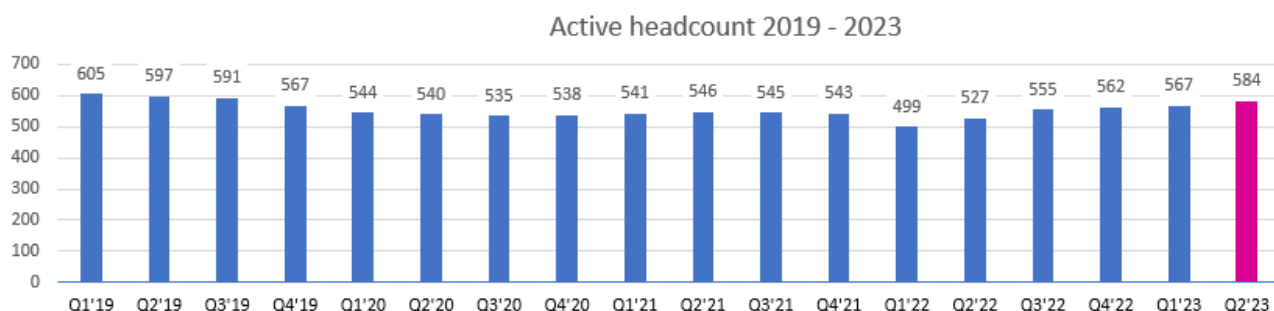
Innofactor’s gross investments in tangible and intangible assets during the review period January 1–June 30, 2023, came to EUR 273 thousand (2022: 378), consisting of normal additional and replacement investments required by growth.

Innofactor’s research and product development investments increased from last year

During the review period, the focus of product development was on the renewal of existing products and services as well as continuous further development in order to support the growth of product-based business.

Innofactor’s research and development costs recognized in profit or loss for January 1–June 30, 2023, amounted to approximately EUR 2,453 thousand (2022: 2,089), representing 6.1 percent of net sales (2022: 6.2%).

Innofactor’s number of personnel continued to grow



Innofactor primarily monitors the number of active personnel. The number of active personnel does not include employees who are on leave for more than three months.

The average number of active personnel during the period January 1–June 30, 2023, was 584 (2022: 527), representing an increase of 10.8 percent. Compared to the previous quarter (Q1/2023: 563), the increase was 3.7 percent.

At the end of the review period, the number of active personnel was 588 (2022: 557), representing an increase of 5.6 percent. Compared to the previous quarter (Q1/2023: 572), the increase was 2.8 percent.

At the end of the review period, the average age of the personnel was 42.2 years (2022: 42.7). Women accounted for 27 percent (2022: 25%) of the personnel. Men accounted for 73 percent (2022: 75%) of the personnel.

Other events in the review period

On May 10, 2023, Innofactor issued a stock exchange release announcing that the Board of Directors of Innofactor Plc had decided to cancel a total of 1,044,534 Innofactor shares owned by the company. The treasury shares to be cancelled were acquired within the company's acquisition of own shares announced by the company on October 5, 2021, and September 28, 2022. Prior to the cancellation of the own shares, the total number of registered Innofactor shares was 37,388,225. After the cancellation was registered in the trade register, the total number of Innofactor shares would be 36,343,691 and the total number of votes carried by the shares would be 36,343,691. The cancellation of the shares would have no effect on the share capital of Innofactor Plc.

On June 8, 2023, Innofactor issued a stock exchange release announcing that Innofactor Plc's CFO Markku Puolanne has decided to assume responsibilities with another employer and has resigned from his position on June 7, 2023. His notice period is four months, and his last working day with Innofactor will be October 7, 2023.

On June 12, 2023, Innofactor issued a stock exchange release confirming that the cancellation of shares announced on May 10, 2023, has been registered in the trade register maintained by the Finnish Patent and Registration Office on June 12, 2023. After the register entry, Innofactor Plc has a total of 36,343,691 shares and the total number of votes carried by the shares is 36,343,691. After the cancellation, Innofactor Plc does not hold any shares in the company.

Share and shareholders

At the end of the review period, Innofactor Plc's share capital was EUR 2,100,000.00 and the total number of shares was 36,343,691. Innofactor Plc has one series of shares. Each share confers one vote.

During the period April 1–June 30, 2023, the highest price of the company's share was EUR 1.29 (2022: EUR 1.34), the lowest price was EUR 1.13 (2022: 1.11) and the average price was EUR 1.22 (2022: EUR 1.21).

The closing price for the review period on June 30, 2023, was EUR 1.20 (2022: EUR 1.17).

In public trading during the period April 1–June 30, 2023, a total of 1,531,497 shares were traded (2022: 1,996,835), which corresponds to 4.2 percent (2022: 5.5%) of the average number of shares in the said period. During the period April 1–June 30, 2023, the average number of shares was 36,782,233 (2022: 37,388,225). The share trading volume decreased by 23.3 percent compared to the corresponding period in 2022.

In public trading during the period January 1–June 30, 2023, a total of 3,832,968 shares were traded (2022: 8,510,515), which corresponds to 10.3 percent (2022: 23.3%) of the average number

of shares in the said period. During the period January 1–June 30, 2023, the average number of shares was 37,083,555 (2022: 37,388,225). The share trading volume decreased by 55.0 percent compared to the corresponding period in 2022.

The market value of the share capital at the closing price of EUR 1.20 on June 30, 2023, was EUR 43,431 thousand (2022: 43,744), representing a decrease of 0.7 percent.

On June 30, 2023, the company had a total of 11,807 shareholders (2022: 12,148), including nominee-registered shares.

The company held no treasury shares on June 30, 2023.

Decisions of the Annual General Meeting

On March 31, 2023, the Annual General Meeting decided, in accordance with the proposal of the Board of Directors, that a repayment of capital of EUR 0.06 per share be paid for the financial year 2022. The repayment of capital was paid to shareholders who, on the record date of the capital repayment on April 5, 2023, were recorded in the company's shareholders' register held by Euroclear Finland Oy. The repayment of capital was paid on April 14, 2023.

The Annual General Meeting of March 31, 2023, decided that the Board of Directors shall have four members. Mr. Sami Ensio, Ms. Anna Lindén, Mr. Risto Linturi, and Mr. Heikki Nikku were re-elected as members to the Board of Directors. At the organizing meeting held after the General Meeting, the Board of Directors elected Anna Lindén as the Chairman of the Board.

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

The Board of Directors has been given the following authorizations:

- Until June 30, 2024, to decide on a share issue and granting of special rights entitling to shares, concerning a maximum of 3,600,000 new shares (decided by the Annual General Meeting of March 31, 2023); the authorization has not been used.
- Until June 30, 2024, to decide on an acquisition of a maximum of 3,600,000 treasury shares (decided by the Annual General Meeting of March 31, 2023); the authorization has not been used.
- Until the next Annual General Meeting, to distribute assets to shareholders as repayment of capital totaling a maximum of EUR 2,459,293, which allows the distribution of assets up to a maximum of EUR 0.06 per share; the authorization has not been used.

Management of the company

Innofactor Plc complies with the recommendations of the Corporate Governance Code 2022 for Finnish listed companies, published by the Securities Market Association.

Innofactor has drawn up a separate Corporate Governance Statement for the financial period of 2022.

Innofactor Plc's entire Corporate Governance and statements are available on the company's web site at: www.innofactor.com/invest-in-us/corporate-governance/

Related party transactions

The company's managers considered to be related parties have EUR 52 thousand in liabilities from the company's personnel issues to the company. The loan period is five years, and the loan is repaid in fixed monthly installments. There are also two-year loans that are repaid in four equal instalments every six months. The interest rate for the loan is 12-month Euribor 360. However, the interest rate is always a minimum of 0%. The accrued interest is paid to the company monthly.

Market outlook and business environment

The market outlook and business environment are published in their entirety in the financial statement and in the Annual Report.

During the second quarter, price competition in the market was exceptionally intense. The weighted average prices of new contracts declined, particularly in the case of public sector customers, by as much as over 20 percent according to our analysis. We expect the average prices of new contracts in the public sector and large tenders to return to a commercially sensible level in the fourth quarter of 2023 at the latest.

Generative artificial intelligence (ChatGPT, Microsoft Azure Open AI and Microsoft Copilot) has received significant attention in the market, and this has happened exceptionally quickly. Generative AI presents our customers – and Innofactor – with significant opportunities for improving operational efficiency. Above all, it opens up significant new business opportunities, and we have quickly developed new offerings in response to these opportunities. We have also shifted our sales focus more to the private sector, where more commercially sustainable price levels can be found.

We estimate that market growth in the Nordic countries will be weaker in 2023 than in the previous year.

There have been no other significant changes in market outlook and business environment during the review period, nor are other significant changes foreseen.

Short term risks and uncertainty factors

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.

Changes in technology and the 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 and agree on customer deliveries in new areas.

Generative AI (ChatGPT, Microsoft Azure Open AI and Microsoft Copilot) has received significant attention in the market, and this has happened exceptionally quickly, resulting in changes in the market starting from the second quarter of 2023. Generative AI presents our customers with significant opportunities for improving operational efficiency. At the same time, it presents significant business opportunities for Innofactor. The risk is that we could be unable to react sufficiently quickly to the technology transformation brought about by generative AI. We have established a separate AI Task Force to address this issue. We have quickly developed our own generative AI offering for our customers. We have also launched projects aimed at improving the efficiency of our operations. This is expected to have positive impacts particularly on the profitability of our own products and productized services.

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 startup companies increase competition in certain deliveries. The price competition in the field is expected to remain intense. 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.

During the second quarter, price competition in the market was exceptionally intense. The weighted average prices of new contracts declined, particularly in the case of public sector

customers and large tenders, by as much as over 20 percent according to our analysis. Carrying out loss-making business activities is not part of Innofactor's strategy, and we have refrained from offering our services at prices below our costs. Consequently, we were unable to win any large tenders in the second quarter. The risk is that, if the situation were to be prolonged, it could jeopardize Innofactor's growth targets. We have shifted our sales focus more to the private sector and generative AI solutions, where more commercially sustainable price levels can be found. During the second half of the year, we will focus on improving efficiency in all of our operating countries, and we have drawn up a separate action plan for this. We expect the average prices of new contracts in the public sector and large tenders to return to a commercially sensible level in the fourth quarter of 2023 at the latest.

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, which may lead to short employment relationships and high personnel turnover. 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 personnel and their success in their work. Innofactor invests in the continuous development of its personnel and in high personnel satisfaction, a good employer image, efficient recruitment and, if necessary, the use of subcontracting.

Many of Innofactor's competitors have scaled down their recruitment and, in some cases, even reduced the number of personnel. This resulted in a significant improvement in the availability of personnel in the second quarter of 2023, particularly with regard to more experienced professionals, and employee turnover declined, reducing the risk related to the availability of skilled personnel. Innofactor expects this situation to continue at least until the end of 2023. However, in the long term, we expect a return to the previous situation, as we believe the market will recover, and the industry still does not have adequate numbers of qualified personnel in the Nordic countries.

There have been no other significant changes in Innofactor's short-term risks and uncertainty factors during the review period nor can any other significant changes be seen.

Acquisitions and changes in the Group structure

During the review period, Innofactor simplified its group structure by dissolving Innofactor HRM Oy (the entire business operations of Innofactor HRM Oy have previously been transferred to Innofactor Software Oy by means of a business transfer, and there was no longer any need for the company) and merging Innofactor Invenco Software Ltd with Innofactor Invenco Ltd.

During the review period, Innofactor increased its holding in LATO Leadership Automation Tools Ltd. At the end of the review period, Innofactor held 38.4% of the company's shares. The company's net sales amount to approximately EUR 0.6 million, and it provides strategic planning, implementation and monitoring software for organizations on a SaaS basis.

There were no other changes in the group structure during the review period.

Events after the review period

Innofactor had no significant events after the review period.

Espoo, July 20, 2023

INNOFACTOR PLC

Board of Directors

Additional information:

CEO Sami Ensio, Innofactor Plc

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Briefings concerning the Half-Yearly Report for January 1–June 30, 2023

Innofactor will publish the Half-Yearly Report for January–June 2023 on Thursday, July 20, 2023, at approximately 9:00 am Finnish time.

A video conference call for media, investors and analysts will be held in English on the same day beginning at 12:00 Finnish time. The report will be presented by CFO Markku Puolanne.

To participate in the conference, kindly register in advance by sending an e-mail to ir@innofactor.com. The participation link will be sent via e-mail to the registered participants the day before the conference.

The presentation materials will be available on Innofactor's website after the briefing.

Distribution:

NASDAQ Helsinki

Main media

www.innofactor.fi

Financial statement summary and notes January 1–June 30, 2023 (IFRS)

Accounting policies

Innofactor operates on a single segment, offering software, systems and related services.

This interim report has been drafted in accordance with the IAS 34 Interim financial reporting standard.

The interim report adheres to the same accounting policies and calculation methods as the last annual financial statement 2022. However, as of January 1, 2023, the Group has introduced the new or renewed IFRS standards and IFRIC interpretations published by IASB and mentioned in the accounting policies section of the financial report 2022. The principles for calculating the key figures and the calculation formulas have not been changed, and they have been presented in an appendix to this report.

In addition to the IFRS key figures, Innofactor publishes certain alternative key figures in order to present the financial development of the actual business operations and to improve comparisons between different periods, such as equity ratio, net gearing, return on investment, return on equity, and net sales per person. The formulas for calculating the other alternative key figures are presented at the end of this report.

Drafting a financial statement in accordance with the IFRS standards requires the management of Innofactor to use estimates and presuppositions, which affect the amounts of assets and debts at the time of drafting the balance sheet and the amounts of earnings and costs for the review period. The application of the accounting policies also requires judgment. As estimates and presuppositions are based on the views held at the time of drafting the statement, they contain risks and uncertainty factors. The actual figures may deviate from the estimates and presuppositions. The figures of the profit and loss statement and the balance sheet are figures for the Group. The figures of the statement have been rounded, so the sum of individual figures may differ from the sum presented.

Translation differences

In the consolidated financial statements, exchange rate differences arising from the equity of foreign subsidiaries and loans comparable with foreign net investments are recognized in translation differences through the Group's other comprehensive income items. In the second quarter of the financial year 2022, the Group's management classified certain intra-group loans as loans comparable with net investments and the exchange rate differences arising from these loans are recognized in translation differences.

The figures in this interim report have not been audited.

**Comprehensive consolidated profit
and loss statement, IFRS**

EUR thousand	Apr 1–Jun 30, 2023	Apr 1–Jun 30, 2022	Jan 1–Jun 30, 2023	Jan 1–Jun 30, 2022
Net sales	20,095	16,946	40,317	33,911
Other operating income	28	12	48	34
Materials and services (–)	-3,256	-2,564	-6,530	-4,737
Employee benefit expenses (–)	-13,140	-11,125	-25,916	-22,351
Depreciation (–)	-781	-710	-1,556	-1,432
Other operating expenses (–)	-1,962	-1,891	-3,667	-3,438
Operating profit/loss	984	668	2,695	1,987
Financial income	16	-12	26	18
Financial expenses (–)	-187	-17	-597	-263
Profit/loss before taxes	813	639	2,124	1,741
Income taxes	-354	-92	-628	-348
Profit/loss for the financial period	459	547	1,496	1,393
Distribution of the result				
To shareholders of the parent company	459	547	1,496	1,393
To non-controlling interests	0	0	0	0
Other comprehensive income				
Items that may be later recognized				
in profit or loss:				
Translation differences	-581	-374	-361	-347
Total comprehensive income	-122	173	1,135	1,047
Distribution of the comprehensive income				
To shareholders of the parent company	-122	173	1,135	1,047
To non-controlling interests	0	0	0	0

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

basic earnings per share (EUR)	0.0126	0.0150	0.0409	0.0381
diluted earnings per share (EUR)	0.0126	0.0150	0.0409	0.0381

Consolidated balance sheet, IFRS
ASSETS

EUR thousand	Jun 30, 2023	Jun 30, 2022	Dec 31, 2022
Non-current assets			
Tangible assets	1,182	862	1,076
Right-of-use assets	3,730	4,061	4,843
Goodwill	26,474	30,240	26,831
Other intangible assets	2,206	2,607	2,398
Shares and holdings	98	5	5
Receivables	108	143	77
Deferred tax assets	3,405	4,608	4,090
Non-current assets	37,203	42,526	39,319
Current assets			
Trade and other receivables	16,735	15,818	14,540
Cash and cash equivalents	226	1,616	1,956
Current assets	16,961	17,434	16,495
TOTAL ASSETS	54,164	59,960	55,815

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR thousand	Jun 30, 2023	Jun 30, 2022	Dec 31, 2022
Share capital	2,100	2,100	2,100
Share premium reserve	72	72	72
Other reserves (+/-)	59	59	59
Fund for invested unrestricted equity	15,069	17,247	17,247
Retained earnings	8,712	6,889	7,669
Own shares	111	-1,204	-447
Translation differences	-2,262	-1,698	-1,902
Equity attributable to the shareholders of the parent company	23,861	23,466	24,799
Non-controlling interest	0	0	0
Total shareholders' equity	23,861	23,466	24,799
 Non-current liabilities			
Loans from financial institutions	2,747	5,413	4,517
Lease liabilities	1,772	2,348	2,832
Deferred tax liabilities	1,828	1,881	1,851
Other non-current liabilities	0	3,185	0
Total non-current liabilities	6,346	12,827	9,200
 Current liabilities			
Loans from financial institutions	4,761	4,562	4,886
Lease liabilities	2,073	1,810	2,115
Trade and other payables	17,122	17,296	14,815
Current liabilities total	23,957	23,667	21,816
 Total liabilities	30,302	36,494	31,016
 TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	54,164	59,960	55,815

Statement of change in shareholders' equity, IFRS

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange differences	Total shareholders' equity
Shareholders' equity Jan 1, 2023	2,100	72	59	17,247	-1,592	8,815	-1,902	24,799
Comprehensive income								
Result for the financial period						1,496		1,496
Other changes						-6		-6
Other comprehensive income:								
Translation differences							-361	-361
Total comprehensive income						1,489	-361	1,128
Repayment of capital				-2,177				-2,177
Purchase of own shares					111			111
Shareholders' equity Jun 30, 2023	2,100	72	59	15,069	-1,481	10,304	-2,262	23,861

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange differences	Total shareholders' equity
Shareholders' equity Jan 1, 2022	2,100	72	59	20,174	-1,146	5,495	-1,351	25,404
Comprehensive income								
Result for the financial period						1,393		1,393
Translation differences							-347	-347
Total comprehensive income						1,393	-347	1,047
Dividend distribution								
Repayment of capital				-2,927				-2,927
Purchase of own shares					-58			-58
Shareholders' equity Jun 30, 2022	2,100	72	59	17,247	-1,204	6,889	-1,698	23,466

Consolidated cash flow statement, IFRS

EUR thousand	Jan 1–Jun 30, 2023	Jan 1–Jun 30, 2022
Cash flow from operating activities		
Profit before taxes	2,124	1,987
Adjustments:		
Depreciation	1,556	1,432
Other transactions with no related cash flow:	209	22
Operating profit before change in working capital	3,889	3,441
Change in trade and other receivables (+/–)	-2,198	-1,234
Change in trade and other payables (+/–)	2,307	1,589
Change in working capital	108	355
Cash flow from operating activities before financing and income taxes paid	3,997	3,796
Interest received	26	3
Interest paid (–)	-98	-170
Taxes paid	0	0
Net cash flow from operating activities	3,925	3,630
Investment cash flow		
Acquisition of subsidiaries	0	-2,385
Purchase of shares in associated companies	-93	0
Investments in intangible and tangible assets (–)	-273	-378
Receivables from sales	0	0
Loan receivables repaid	-28	-37
Net cash flow from investments	-394	-2,800
Cash flow from financing		
Loans withdrawn	0	3,746
Loans paid	-1,895	-937
Lease liability payments	-1,136	-1,002
Dividend distribution/repayment of capital	-2,177	-2,927
Payment of equity loans	0	0
Purchase of own shares	-389	-58
Transfer of own shares	336	0
Net cash flow from financing	-5,261	-1,177
Change in cash and cash equivalents (+/–)	-1,730	-347
Cash and cash equivalents, opening balance	1,956	1,963
Cash and cash equivalents, closing balance	226	1,616

Consolidated profit and loss statement by quarter, IFRS

EUR thousand	Jan 1– Mar 31, 2023	Apr 1– Jun 30, 2023	Jul 1–Sep 30, 2023	Oct 1–Dec 31, 2023	Jan 1– Mar 31, 2022	Apr 1– Jun 30, 2022	Jul 1–Sep 30, 2022	Oct 1–Dec 31, 2022
Net sales	20,223	20,095			16,965	16,946	16,683	20,536
Other operating income	19	28			22	12	9	247
Materials (–)	-3,275	-3,256			-2,172	-2,564	-2,900	-3,126
Employee benefit expenses (–)	-12,776	-13,140			-11,225	-11,125	-10,265	-13,028
Depreciation (–)	-775	-781			-723	-710	-817	-808
Other operating expenses (–)	-1,704	-1,962			-1,547	-1,891	-1,751	-2,016
Operating profit/loss	1,712	984			1,319	668	959	1,805
Financial income	10	16			30	-12	14	14
Financial expenses (–)	-411	-187			-247	-17	-214	-141
Profit/loss before taxes	1,311	813			1,102	639	759	1,678
Income taxes	-274	-354			-256	-92	-160	-350
Profit/loss for the financial period	1,036	459			846	547	599	1,328
EBITDA	2,487	1,765			2,042	1,377	1,777	2,612

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	Jun 30, 2023	Jun 30, 2022	Dec 31, 2022
	-	-	-
Trade and other receivables	16,735	15,818	14,540
Cash and cash equivalents	226	1,616	1,956
Total	16,961	17,434	16,495
Loans from financial institutions	7,508	9,975	9,402
Lease liabilities	3,845	4,158	4,947
Trade and other payables:			
Received advances	2,977	2,905	504
Trade payables	1,437	2,063	1,715
Other liabilities	3,155	6,407	4,951
Accrued expenses	9,554	9,104	7,646
Interest rate swap agreements, not in hedge accounting *			
Total	28,475	34,614	29,164

The Group's commitments and contingent liabilities

EUR thousand	Jun 30, 2023	Jun 30, 2022
Collateral given for own commitments		
Lease collateral	125	156
Mortgages on company assets	17,250	16,950
Bank guarantees	326	309
Other own liabilities		
Lease and rent liabilities		
Liabilities maturing in less than one year	45	128
Liabilities maturing in 1–5 years	73	112
Total	118	240
Other own liabilities total	118	240

Other commitments include leasing and other leases as well as liabilities arising from license agreements, to which the IFRS 16 standard has not been applied. Commitments due to long-term service contracts have not been included.

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 review period on June 30, 2022, was as follows.

Name	Number of shares	% of share capital
1. Ensio Sami	7,925,397	21.80%
<i>Sami Ensio</i>	5,751,637	15.83%
<i>Minor under guardianship</i>	724,588	1.99%
<i>Iiris Ensio</i>	724,586	1.99%
<i>Minor under guardianship</i>	724,586	1.99%
Ilmarinen Mutual Pension Insurance Company	1,800,000	4.95%
2. Linturi Kaija and Risto	1,256,411	3.46%
<i>R. Linturi Oyj</i>	489,107	1.35%
<i>Linturi Kaija Anneli</i>	430,000	1.18%
<i>Linturi Risto Erkki Olavi</i>	337,304	0.93%
4. Laiho Rami Tapani	674,783	1.86%
5. Mäki Antti-Jussi	613,725	1.69%
6. Hellen Stefan Andreas	486,000	1.34%
7. Tilman Tuomo Tapani	451,538	1.24%
8. Ingman Finance Oy Ab	450,000	1.24%
9. Muukkonen Teemu Heikki	410,357	1.13%
10. Mandatum Life Insurance Company Limited	249,129	0.69%
11. Ärje Matias Juhannoika	230,800	0.64%
12. Kannisto Jaakko Mikael	222,233	0.61%
13. Kukkonen Heikki-Harri	213,606	0.59%
14. Järvenpää Janne-Olli	213,079	0.59%
15. Laiho Jari Olavi	193,000	0.53%
16. Varsio Jussi Ilari	190,000	0.52%
17. Mäkinen Antti Vilho Juhani	168,000	0.46%
18. Saarnio Mikko Markus	138,000	0.38%
19. Heikkinen Janne Mikael	136,543	0.38%
20. Muurinen Hannu Olavi	125,750	0.35%
Total	16,148,351	44.45%

Formulas for calculating the key figures

Operating margin (EBITDA):

Operating profit/loss - Depreciations

Order backlog:

Received license and project orders - realized net sales related to the order + net sales from recurring agreements for the next 12 months (does not include expected purchase activity not based on agreement, so called Run Rate)

Net sales/employee:

Net sales

Active personnel on average during the review period

Percentage of return on equity:

Profit/loss for the financial period

Shareholders' equity

Percentage of return on investment:

Profit or loss before taxes + Interest and other financial expenses

Shareholders' equity + Interest bearing financial liabilities

Net gearing:

Interest bearing liabilities - Cash funds

Shareholders' equity

Equity ratio, (%):

Shareholders' equity

Balance sheet total - Received advances

Result/share:

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

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