

Innofactor Plc Stock Exchange Release November 1, 2011, at 8:30 Finnish time

## **Innofactor Plc's interim report for January 1–September 30, 2011 (IFRS)**

### **Summary**

Innofactor group's key figures for July 1–September 30, 2011:

- Net sales EUR 3,766 thousand (2010: 2,192), increase of 71.8%
- Operating profit before depreciation and amortization (EBITDA) EUR 412 thousand (2010: 93), increase of 343.0%
- EBITDA percentage 10.9% (2010: 4.2%)
- Operating profit (EBIT) EUR 280 thousand (2010: 23)
- EBIT percentage 7.4% (2010: 1.0%)

Innofactor group's key figures for January 1–September 30, 2011:

- Net sales EUR 12,069 thousand (2010: 6,550), increase of 84.3%
- Operating profit before depreciation and amortization (EBITDA) EUR 837\* thousand (2010: 519), increase of 61.3%
- EBITDA percentage 6.9%\* (2010: 7.9%)
- Operating profit (EBIT) EUR 441\* thousand (2010: 310)
- EBIT percentage 3.7%\* (2010: 4.7%)

\* The figures include one-off costs related to the relisting and the consolidation of shares to the amount of about EUR 200 thousand during January 1–March 31, 2011, and to the amount of about EUR 100 thousand during April 1–June 30, 2011.

The future outlook for Innofactor remains the same. The group's net sales in 2011 are estimated to be about EUR 17 million, which will be an increase of 70% compared to 2010. Additionally, operating profit before depreciation and amortization (EBITDA) are expected to be higher both in euros and in percentage than in 2010 (2010: EUR 979 thousand and 9.9 percent).

**Key figures of the group**

The figures in this interim report have not been audited.

	mo. 7–9 /2011	mo. 7– 9 /2010	Change	mo. 1–9 /2011	mo. 1– 9 /2010	Change	mo. 1– 12 /2010
Net sales, EUR thousand	3,766	2,192	+71.8%	12,069	6,550	+84.3%	9,862
Operating profit before depreciation and amortization (EBITDA), EUR thousand*	412	93	+343.0%	837	519	+61.3%	979
percentage of net sales*	10.9%	4.2%		6.9%	7.9%		9.9%
Operating profit (EBIT), EUR thousand*	280	23	+1,091.9 %	441	310	+42.3%	702
percentage of net sales*	7.4%	1.0%		3.7%	4.7%		7.1%
Profit before taxes, EUR thousand*	274	24	+1,055.6 %	429	308	+39.3%	696
percentage of net sales*	7.3%	1.1%		3.6%	4.7%		7.1%
Profit for the period, EUR thousand*	205	17	+1,090.9 %	326	224	+45.5%	505
percentage of net sales*	5.4%	0.8%		2.7%	3.4%		5.1%
Equity, EUR thousand	12,604	2,288	+450.9%	12,604	2,288	+450.9%	12,278
Return on equity**	6.6%	3.1%		3.5%	12.2%		6.8%
Return on investment**	8.9%	4.3%		4.7%	17.0%		9.7%
Net gearing	-0.9%	-11.2%		-0.9%	-11.2%		-14.0%
Equity ratio	76.5%	48.5%		76.5%	48.5%		68.6%
Balance sheet total, EUR thousand	17,539	5,052	+247.2%	17,539	5,052	+247.2%	19,517
Research and development, EUR thousand***	468			1,716			1,173
percentage of net sales***	12.4%			14.2%			11.9%
Personnel on average during the review period	178	104	+71.2%	175	98	+78.6%	108
Personnel at the end of the review period	184	128	+43.8%	184	128	+43.8%	171
Number of shares at the end of the review period****	29,261,8 00	19,314, 925	+51.5%	29,261,8 00	19,314, 925	+51.5%	29,261,8 49
Earnings per share (EUR)****	0.0070	0.0010	+594.5%	0.0111	0.0126	-11.2%	0.0274
Shareholders' equity per share (EUR)****	0.431	0.118	+263.6%	0.431	0.118	+263.6%	0.420

\* The figures include one-off costs related to the relisting and the consolidation of shares to the amount of about EUR 200 thousand during January 1–March 31, 2011, and to the amount of about EUR 100 thousand during April 1–June 30, 2011.

\*\* The percentages for the return on equity and return on investment have been adjusted to correspond with the figures for a 12-month period.

\*\*\* There are no comparison data for the corresponding review period in 2010 as Innofactor did not draft comparable interim reports in 2010 due to the reverse acquisition in accordance with IFRS 3.

\*\*\*\* The number of shares before December 27, 2010, presented in the table has been calculated from the number of Innofactor Oy shares due to the reverse acquisition in accordance with IFRS 3. In accordance with the decision of the Innofactor Plc's Annual General Meeting on April 28, 2011, twenty old shares were consolidated into one new share (registered in the Trade Register on May 7, 2011), which reduced the total number of shares to 1/20 of the previous number. The key figures presented in the table have been adjusted to correspond with the current number of shares.

## Reporting

Innofactor Plc operates on a single segment and mainly in Finland, offering software, systems and related services. No distribution of net sales or earnings by segment or geographical area is therefore presented.

### CEO Sami Ensio's review:

During July 1–September 30, 2011, Innofactor's net sales grew by 71.8 percent from the corresponding period last year. Organic growth during July 1–September 30, 2011, was about 32.6 percent and inorganic growth about 39.2 percent due to the acquisition of Westend ICT. Growth for the whole year is expected to be about 70%.

Research and development continued to focus on new versions of old products and on Innofactor's first cloud solutions. Research and development costs recognized in the profit and loss statement were EUR 468 thousand during July 1–September 30, 2011 (there is no comparison figure available for the same period in 2010; total research and development costs in 2010 were EUR 1,173 thousand).

Operating profit before depreciation and amortization (EBITDA) during July 1–September 30, 2011, were EUR 412 thousand (10.9%) and operating profit (EBIT) were EUR 280 thousand (7.4%).

In May 2011, the company launched a cost-effectiveness program, which places special emphasis on unifying and improving practices related to project management and resource allocation and cutting other business costs. Other operating expenses on the period of July 1–September 30, 2011, were EUR 675 thousand, which is EUR 346 thousand less than in the previous quarter of April 1–June 30, 2011. The share of other operating

expenses of the net sales during July 1–September 30, 2011, decreased to about 17.9 percent, whereas in the previous year, during July 1–September 30, 2010, it was about 20.4 percent. Profitability for the rest of the year is expected to improve due to our strong order book and the planned decrease in research and development from the first half of the year.

Innofactor continues to seek potential strategic partnerships in Finland and neighboring countries. The group will seek growth, which can be organic or based on mergers or acquisitions.

### **Market outlook and business environment**

In June 2011, Innofactor was awarded the Microsoft Country Partner of the Year, which reinforced the company's position as one of Microsoft's key partners in Finland. This has also given the company positive publicity outside of Finland.

On July 10, 2011, at the Microsoft Worldwide Partner Conference in Los Angeles, USA, Innofactor launched its new cloud services. These services drew a fair amount of attention, and Innofactor believes there is a significant international market for them.

Regardless of the uncertain financial situation, Innofactor's short-term market outlook is fairly positive. The current market situation is uncertain and, thus, Innofactor will not comment on the long-term outlook.

### **Net sales**

Innofactor's net sales during July 1–September 30, 2011, were EUR 3,766 thousand (2010: 2,192), up 71.8 percent; during January 1–September 30, 2011, net sales were EUR 12,069 thousand (2010: 6,550), up 84.3 percent.

Organic growth during July 1–September 30, 2011, was about 32.6 percent and inorganic growth about 39.2 percent due to the acquisition of Westend ICT.

### **Result development**

Innofactor's operating profit before depreciation and amortization (EBITDA) during July 1–September 30, 2011, were EUR 412 thousand (2010: 93), an increase of 343.0 percent. EBITDA accounted for 10.9 percent of the net sales (2010: 4.2%).

Innofactor's operating profit (EBIT) during July 1–September 30, 2011, was EUR 280 thousand (2010: 23), an increase of 1,117.4 percent. Operating profit (EBIT) accounted for 7.4 percent of the net sales (2010: 1.0%).

Innofactor's operating profit before depreciation and amortization (EBITDA) during January 1–September 30, 2011, were EUR 837\* thousand (2010: 519), an increase of 61.3 percent. EBITDA accounted for 6.9 percent of the net sales (2010: 7.9%).

Innofactor's operating profit (EBIT) during January 1–September 30, 2011, was EUR 441\* thousand (2010: 310), an increase of 42.3 percent. Operating profit (EBIT) accounted for 3.7 percent of the net sales (2010: 4.7%).

\* The figures include one-off costs of related to the relisting and the consolidation of shares for about EUR 300 thousand.

During July 1–September 30, 2011, research and development costs recognized in the profit and loss statement were EUR 468 thousand; during January 1–September 30, 2011, they were EUR 1,716 thousand.

## Financing and investments

Innofactor's balance sheet total at the end of the review period was EUR 17,539 thousand (2010: 5,052). The group's liquid assets totaled EUR 255 thousand (2010: 256) and consisted entirely of cash funds.

The operating cash flow in the review period of January 1–September 30, 2011, was EUR -1,420 thousand (2010: -820). The investment cash flow was EUR -176 thousand (2010: -174).

The equity ratio at the end of the review period was 76.5 percent (2010: 48.5%) and net gearing was -0.9 percent (2010: -11.2%). At the end of the review period, the company had EUR 137 thousand in short-term interest-bearing debts (2010: EUR 0). The return on investment in the review period of July 1–September 30, 2011, was 8.9 percent (2010: 4.3%) and during January 1–September 30, 2011, it was 4.7 percent (2010: 17.0%). The return on equity during July 1–September 30, 2011, was 6.6 percent (2010: 3.1%) and during January 1–September 30, 2011, it was 3.5 percent (2010: 12.2%).

The significant change from 2010 in the key figures presented above is mainly due to the fact that the balance sheet was very much improved by the merger between Westend ICT Plc and Innofactor Oy at the end of 2010. Although former Westend ICT Plc was the judicial buyer in the acquisition and the former Innofactor Oy the legal target of the acquisition, the acquisition was a reverse one under IFRS 3, with the former Westend ICT Plc as the accounting target and the former Innofactor Oy the accounting acquirer. In accordance with the acquisition cost calculation, the value of the former Westend ICT group's customer relationships and software products was set to EUR 1,222 thousand. These intangible assets were included in the other intangible assets in the balance sheet. In the adjusted acquisition cost calculation, EUR 7,925 thousand was allocated to the deferred tax assets and the goodwill value was set to EUR 827 thousand.

The long-term assets in Innofactor's balance sheet at the end of the review period were EUR 11,326 thousand in total and consisted of the following items:

- Tangible assets EUR 484 thousand
- Goodwill value EUR 1,212 thousand
- Other intangible assets EUR 1,610 thousand
- Deferred tax assets EUR 8,020 thousand

Innofactor's gross investments in tangible assets in the review period were EUR 176 thousand (2010: 361), consisting of normal additional and replacement investments required by growth.

According to the impairment tests performed, there are no impairments in assets. The depreciation for intangible assets was EUR 244 thousand (2010: 90).

## **Research and product development**

Innofactor's research and development costs recognized in the profit and loss statement were EUR 468 thousand during July 1–September 30, 2011 (there is no comparison figure available for the same period in 2010; total research and development costs in 2010 were EUR 1,173 thousand), which is 12.4% of the net sales (in 2010, 11.9% in total).

Innofactor's research and development costs recognized in the profit and loss statement were EUR 1,716 thousand during January 1–September 30, 2011 (there is no comparison figure available for the same period in 2010; total research and development costs in 2010 were EUR 1,173 thousand), which is 14.2% of the net sales (in 2010, 11.9% in total).

The research and product development costs for the last quarter are expected to be significantly lower than the research and product development costs for the first three quarters in average.

## **Personnel**

The number of personnel at Innofactor during July 1–September 30, 2011, was 178 (2010: 104), an increase of 71.6%; during January 1–September 30, 2011, the average number was 175 (2010: 98), an increase of 82.1%.

At the end of the review period, the number of personnel was 184 (2010: 128), an increase of 43.8 percent.

At the end of the review period, the average age among personnel was 36.3 years. Of the personnel, 37.3 percent have a higher academic degree, 38.4 percent have a lower

academic degree or are studying for a higher academic degree, and 24.3 percent have some other degree. Women accounted for 22.8% of the personnel and men for 77.2%.

## **Business operations**

Innofactor's business operations focused on Finland, with about 98% of the net sales during January 1–September 30, 2011, generated in Finland. The rest or about 2% of the net sales, came from the emissions trading solutions for the European Union member countries, from Swedish parish customers, and from foreign operations of certain Finnish companies.

Innofactor's net sales on the review period of January 1–September 30, 2011, came from the following sources:

- about 62% from system integration (SI) services (including system delivery projects and smaller changes and further development);
- about 3% from licenses, of which 3rd party licenses accounted for about 1%;
- about 35% from continuous service agreements (including maintenance agreements and SaaS, cloud and operating services).

The share of Innofactor's 10 largest customers from the net sales during January 1–September 30, 2011, was about 20%.

## **Other events in the review period**

The change of the company name to Innofactor Plc came into effect on January 5, 2011, as the new trade name was registered in the Trade Register. The decision on changing the name had been made by the Extraordinary General Meeting on December 27, 2010.

Innofactor Plc published its new strategy on January 10, 2011, according to which the company strives to continue its growth as Finland's largest software provider focused on Microsoft solutions. In addition, Innofactor will seek growth in neighboring countries and through global cloud applications.

On March 11, 2011, Innofactor Plc submitted to the stock exchange a report on fulfilling the listing criteria and an application for admitting the new shares to public trading, and on March 16, 2011, the new prospectus to the Financial Supervisory Authority. The new shares subscribed for on December 27, 2010, in the directed issue of Innofactor Plc in connection with the merger of Westend ICT Plc and Innofactor Oy—a total of 409,665,891 shares—were admitted to public trading in Nasdaq OMX Helsinki Oy as of March 22, 2011, together with the total of 175,571,096 old shares. As of March 22, 2011, a total of 585,236,987 shares have been subject to public trading.

On April 4, 2011, Innofactor Plc acquired 987 of its own shares at the stock exchange at a total price of EUR 78.96. These purchased shares were canceled and the cancellation was registered in the Trade Register on April 15, 2011. The cancellation resulted in a divisible number for the consolidation of shares decided by the Annual General Meeting on April 28, 2011.

On April 21, 2011, the companies in the Innofactor group agreed on an arrangement where all business operations of Innofactor Software Oy, Innofactor Visual Management Oy and Innofactor Customer Solutions Oy would be transferred to Innofactor Documenta Oy on May 1, 2011. At the same time, it was agreed that the name of Innofactor Documenta Oy would be changed to Innofactor Software Oy. After this arrangement, the group's actual business operations have been taken on by Innofactor Software Oy. The purpose of this arrangement was to make the group structure more consistent with Innofactor's current strategy and operations and to achieve savings in general costs and costs related to financial administration. Innofactor is aiming at a group structure where the parent company will have a single company engaged in business operations in one country. Under the arrangement, the personnel were transferred to Innofactor Documenta Oy as old employees, and the arrangement has no negative effect on either the workforce or customers.

The Annual General Meeting of Innofactor Plc on April 28, 2011, elected a new Board of Directors. Sami Ensio, M.Sc. (Tech.), CEO of Innofactor Plc, and Pekka Puolakka, LL.M, were re-elected; Juha Koponen, D.Sc. (Tech.), and Pyry Lautsuo, M.Sc. (Tech.) were elected as new members. At their organizing meeting held immediately after the annual general meeting, the Board of Directors elected Pyry Lautsuo as Chairman of the Board. Ernst & Young Oy, an auditing firm authorized by the Central Chamber of Commerce, continue as the auditor for the company, with Juha Hilmola, CA, as the main responsible auditor.

Innofactor Plc's Annual General Meeting on April 28, 2011, approved the Board of Directors' proposal to decrease the company's number of shares without lowering the share capital by consolidating twenty (20) old shares into one (1) new share on May 6, 2011, for purposes provided by Chapter 15, Section 9 of the Limited Liability Companies Act and in accordance with the procedure provided by the same Act. The purpose of the share consolidation was to improve the reliability of share price formation. At the same time, it was decided that the Board of Directors' authorization to decide on a share issue and granting of special rights entitling to shares and to repurchase the company's shares would be reduced in the same proportion.

Innofactor Plc's shares were consolidated in accordance with the decision on May 6, 2011, and the cancellation of shares related to the consolidation was registered in the Trade Register on May 7, 2011. Public trading with the 29,261,800 new shares began on May 9, 2011.

On May 18, 2011, Innofactor Documenta Oy was selected in a public procurement procedure to deliver a comprehensive document and case management system for the Kuopio city group.



The delivery includes the implementation of a document and case management system and the services related to the implementation, support and maintenance. The value of the contract is EUR 808,100.

At its meeting on August 8, 2011, the Board of Directors of Innofactor Plc decided to increase the equity of Innofactor Software Ltd, a subsidiary of the group, by EUR 5,000,000. The equity was increased by having Innofactor Software Ltd offer new shares to Innofactor Plc for subscription at a total subscription price of EUR 5,000,000, of which EUR 4,997,600 was recorded in Innofactor Software Ltd's fund for invested unrestricted equity and EUR 2,400 in the share capital. The subscription price was fully paid through an offset of EUR 5,000,000 of Innofactor Plc's receivables from Innofactor Software Ltd. This equity increase was related to the arrangement reported earlier where the Innofactor group's business operations were taken on by Innofactor Software Ltd. The amount of Innofactor Software Ltd's equity will be significant particularly for certain public-sector procurement contracts, where it may be considered as one of the grounds for awarding a contract.

On August 25, 2011, Innofactor Plc's Board of Directors decided to update the Group's strategy and draw up a dividend distribution policy for Innofactor. Innofactor's updated strategy includes the production of value-added services for mobile devices as the partnership between Microsoft and Nokia opens up new opportunities for this. Innofactor's updated vision is to become Microsoft's most important partner in value-added cloud and mobile services in a global level and Microsoft's most important integrator in selected markets.

In addition to introducing these changes in strategy, Innofactor's Board of Directors decided to adopt a dividend distribution policy. Innofactor's aim is "to provide an opportunity for the shareholders to distribute, from the part of the operating profit exceeding 10% before depreciation and write-downs (EBITDA), the maximum dividend allowed by the state of the business." Innofactor has no previous dividend distribution policy.

## 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 29,261,800.

During July 1–September 30, 2011, the highest share price was EUR 1.10 (2010: EUR 1.20\*) and the lowest was EUR 0.58 (2010: EUR 0.80\*); the average share price was EUR 0.76 (2010: EUR 0.96\*).

During January 1–September 30, 2011, the highest share price was EUR 3.20\* (2010: EUR 1.20\*) and the lowest was EUR 0.58\* (2010: EUR 0.80\*); the average share price was EUR 1.46\* (2010: EUR 1.03\*).

The closing price for the review period on September 30, 2011, was EUR 0.60\* (2010: EUR 0.80\*).

\* In accordance with the decision of the Innofactor Plc's Annual General Meeting on April 28, 2011, twenty old shares were consolidated into one new share (registered in the Trade Register on May 7, 2011), which reduced the total number of shares to 1/20 of the previous number. The share prices before share consolidation have been adjusted by multiplying them by 20.

\*\* 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 (previously the price was calculated on the basis of the weighted average of the daily closing prices).

The percentage of share trading increased during July 1–September 30, 2011, compared to the same period in the previous year. During July 1–September 30, 2011, the number of shares traded in the public trading was 670,455 (2010: 43,523 shares\*), which is 2.3 percent (2010: 0.5%) of the average number of shares. During July 1–September 30, 2011, there were 29,261,800 shares on the average (8,778,554\* shares in 2010).

The percentage of share trading increased during January 1–September 30, 2011, compared to the same period in the previous year. During January 1–September 30, 2011, the number of shares traded in the public trading was 1,811,516 (2010: 264,130 shares), which is 6.2 percent (2010: 3.5%) of the average number of shares. On January 1–September 30, 2011, there were 29,261,819\* shares on the average (7,624,266\* shares in 2010).

\* In accordance with the decision of the Innofactor Plc's Annual General Meeting on April 28, 2011, twenty old shares were consolidated into one new share (registered in the Trade Register on May 7, 2011), which reduced the total number of shares to 1/20 of the previous number. The numbers of shares presented in the table have been adjusted to the current number of shares historically as well by dividing the number of shares by 20.

The market value of the share capital at the closing rate of the review period, EUR 0.60, on September 30, 2011, was EUR 17,557 thousand (2010: 7,023), an increase of 150.0%.

On September 30, 2011, the company had 12,399 shareholders (2010: 12,856), including administrative registers.

The Board of Directors of Innofactor Plc has the authorization, given by the General Meeting on December 27, 2010, to purchase 50,000,000 shares of the company. On April 4, 2011, Innofactor Plc acquired 987 company shares in public trading for the total price of EUR 78.96. These purchased shares were canceled and the cancellation was registered in the Trade

Register on April 15, 2011. The cancellation resulted in a divisible number for the consolidation of shares decided by the Annual General Meeting on April 28, 2011. Innofactor Plc or the companies belonging to the same group held no other Innofactor Plc shares during the review period. By the decision of the General Meeting on April 28, 2011, which combined 20 shares into 1, the number of shares related to the authorization issued to the Board of Directors on December 27, 2010, for the repurchase of company's own shares was changed to a maximum of 2,500,000 shares.

The General Meeting of Innofactor Plc on June 18, 2009, authorized the Board of Directors to decide, by December 31, 2012, on a share issue and granting of special rights entitling to shares. A maximum of 60,000,000 new shares may be issued on the basis of the authorization. By the decision of the General Meeting on April 28, 2011, which combined 20 shares into 1, the number of shares related to the authorization issued to the Board of Directors on June 18, 2009, for a share issue and the granting of special rights entitling to shares was changed to a maximum of 3,000,000 shares. This authorization has not been used.

Innofactor Plc issued no flagging announcements during the review period.

According to the share register maintained by Euroclear Finland Oy, the persons belonging to the public insider register on September 30, 2011, held company shares as follows:

**Board of Directors:**

- Pyry Lautsuo, 13,760 shares, 0.05%
- Sami Ensio, 7,370,000 shares, 25.20%
  - Sami Ensio, 5,196,240 shares, 17.76%
  - minor under guardianship, 724,588 shares, 2.48%
  - minor under guardianship, 724,586 shares, 2.48%
  - minor under guardianship, 724,586 shares, 2.48%
- Juha Koponen, 9,173 shares, 0.03%
- Pekka Puolakka, 49,043 shares, 0.17%
  - Hillside Ou, 39,870 shares, 0.14%
  - Pekka Puolakka, 9,173 shares, 0.03%

**CEO:**

- Sami Ensio, 7,370,000 shares, 25.20%
  - Sami Ensio, 5,196,240 shares, 17.76%
  - minor under guardianship, 724,588 shares, 2.48%
  - minor under guardianship, 724,586 shares, 2.48%

- minor under guardianship, 724,586 shares, 2.48%

Management Team:

- Aino-Maija Gerdt, 0 shares, 0.00%
- Henrikki Hervonen, 133,880 shares, 0.46%
- Mikko Lampi 995,543 shares, 3.40%
- Janne Martola, 0 shares, 0.00%
- Mika Nurmi, 139,553 shares, 0.48%
- Tuomas Riski 995,543 shares, 3.40%
- Anneli Saarikoski, 116 shares, 0.0004%
- Vesa Tiirikainen, 125,750 shares, 0.43%

Auditors:

- Juha Hilmola, 0 shares, 0.0%

**Management of the company**

Innofactor Plc complies with the recommendations of the Corporate Governance Code 2010 for Finnish listed companies, published by the Securities Market Association. The entire Corporate Governance of Innofactor Plc is available on the company's web site at: [http://www.innofactor.com/investors/corporate\\_governance](http://www.innofactor.com/investors/corporate_governance)

At the General Meeting on April 28, 2011, the number of the members of the Board of Directors was confirmed to be four. The General Meeting decided to approve the proposal to appoint Sami Ensio, Juha Koponen, Pyry Lautsuo and Pekka Puolakka as the members of the Board of Directors. The Board of Directors elected Pyry Lautsuo as their Chairman.

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, CA, as the main responsible auditor.

**Short term risks and uncertainty factors**

The operation, finances and shares of Innofactor include risks that may be essential for the company and its share value. These risks are assessed by the Board of Directors four times a year as part of the strategy and business planning process.

### **Operational risks**

The global economic situation has recently become more uncertain and the risk of a new recession has grown significantly. A new recession, whether global or limited to Finland, could have an adverse effect to Innofactor's organic growth or business profit. On the other hand, a recession could also facilitate mergers and acquisitions and subsequently create inorganic growth in net sales.

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

### **Financial risks**

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

### **Risks related to shares**

The risk related to the reliability of price formation, which was due to the low price of Innofactor Plc's share, was reduced when, by the decision of the General Meeting on April 28, 2011, twenty Innofactor shares were consolidated into one and the change was registered in the Trade Register on May 7, 2011. The price per share at the closing rate of May 6, 2011, was EUR 0.07 and at the closing rate of May 9, 2011, EUR 1.40. On May 9, 2011, the stock exchange removed the Innofactor Plc share from the observation segment.

Trading of the Innofactor Plc share during the review period continued to be fairly low. Low volume in trading typically results in a liquidity risk for the share and its price formation. Innofactor Plc strives to improve the liquidity of the share and decrease the related liquidity risk by its strategy concentrating on increasing the value for the shareholders and by its active investor communications. Share trading in proportion to the average number of shares has grown on both review periods (July 1–September 30, 2011, and January 1–September 30, 2011) compared to the same periods in the previous year, which has played a part in decreasing the liquidity risk related to the share.

In other aspects, there have been no significant changes in Innofactor's short-term risks and uncertainty factors related to the shares during the financial period nor can any significant changes be seen.

### **Acquisitions and changes in the group structure**

On April 21, 2011, the companies in the Innofactor group agreed on an arrangement where all business operations of Innofactor Software Oy, Innofactor Visual Management Oy and Innofactor Customer Solutions Oy would be transferred to Innofactor Documenta Oy on May

1, 2011. At the same time, it was agreed that the name of Innofactor Documenta Oy would be changed to Innofactor Software Oy. After this arrangement, the group's actual business operations have been taken on by Innofactor Software Oy. The purpose of this arrangement was to make the group structure more consistent with Innofactor's current strategy and operations and to achieve savings in general costs and costs related to financial administration. Innofactor is aiming at a group structure where the parent company will have a single company engaged in business operations in one country. Under the arrangement, the personnel were transferred to Innofactor Documenta Oy as old employees, and the arrangement has no negative effect on either the workforce or customers.

No other acquisitions or other changes in the group structure were carried out during the review period.

## **Responsibility for the environment and to the society**

Innofactor's operations are guided by the company's strategy, values, quality system, environmental policy, and legislation. The group is committed to operating profitably and increasing its net sales while taking into account the environmental effects.

Innofactor takes care of the well-being of its personnel by maintaining a stable, safe and communicative atmosphere and by building a reliable development path into the future.

In its operations, Innofactor adheres to the principles of sustainable development and the environmental guidelines of the Federation of Finnish Technology Industries. Through the solutions it has developed, the group has helped its customers to reach their environmental goals and contributed to the sustainable development of the society. The electronic case and document management solutions and client transaction solutions are examples of solutions created by the group that reduce effects on the environment. Emissions trading systems for several European countries help in the work against the climate change.

Innofactor strives to establish long-term cooperation with its clients and partners to bring know-how on different fields together to produce new kinds of solutions. According to its mission, the group aims at offering its employees and partners an innovative and supportive environment in which they can continue their development.

## **Strategy**

Innofactor published its renewed strategy and dividend distribution policy on August 26, 2011, in a separate stock exchange release. The key points of Innofactor's updated strategy are as follows:

Innofactor offers its customers software and systems and services related to them. Innofactor focuses on delivering solutions for the Microsoft environment. Innofactor's customers consist of enterprises and public administration. Innofactor operates mainly in Finland offering solutions also for the global market. Innofactor strives to expand its operations to neighboring countries, which may take place through mergers or acquisitions. Innofactor is offering its value-added cloud solutions to the global market, striving to utilize several distribution channels.

Innofactor's mission is

- to help customers to offer their customers even better services and to improve their own operations
  - o by providing globally significant value-added services for the Microsoft cloud and mobile environments, and
  - o by creating packaged solutions for customers in Finland and the neighboring countries; and
- to offer both its staff and its partners an innovative and supportive environment in which they can continue to develop their work and operations.

Innofactor's vision is

- to become Microsoft's most important partner in value-added cloud and mobile services in a global level and Microsoft's most important integrator in selected markets.

Innofactor's strategy focuses on differentiating the company by being a leading Microsoft solution provider, and the most important strategic choices in this respect are:

- continuing to produce the best innovative solutions in the market;
- carrying out highly customer-oriented operations;
- offering customers a one-stop service for leading Microsoft solutions;
- operating in a cost-effective manner, where software created by Innofactor, Microsoft and third parties and other available resources are utilized in an optimized way.

Implementation of the strategy will focus on ensuring that Innofactor's offering and operations will remain clear and simple to manage, irrespective of any mergers or acquisitions that may take place.

Innofactor's goal is to grow profitably:

- to achieve an average annual growth of 30%–40% in 2011-2015 through both organic growth and acquisitions;
- to achieve an annual operating profit of 10-15% before depreciation and write-downs (EBITDA) in relation to the net sales in 2011-2015;
- to keep the cash flow positive and secure good financial standing in all situations.

### **Events after the review period**

After the end of the review period, the business operations have continued as expected and there have been no significant one-off events.

### **Future outlook**

The future outlook for Innofactor remains the same. The group's net sales in 2011 are expected to be about EUR 17 million, which will be an increase of 70% on 2010. The operating profit before depreciation and amortization (EBITDA) both in euros and in percentage are expected to be better than in 2010 (2010: EUR 979 thousand and 9.9 percent).



**Financial statement summary and appendixes**

Innofactor Plc's financial statement summary and appendixes are presented in their entirety in a separate appendix to this release.

Espoo, November 1, 2011

INNOFACTOR PLC

Board of Directors

Additional information:

CEO Sami Ensio, Innofactor Plc

Tel. +358 50 584 2029

sami.ensio@innofactor.com

Distribution:

NASDAQ OMX Helsinki

Main media

[www.innofactor.com](http://www.innofactor.com)

**Financial releases in 2012**

The schedule for financial releases in 2012 will be published near the end of 2011.

## **Financial statement summary and appendixes January 1–September 30, 2011 (IFRS)**

### Drafting principles

This interim report has been drafted in accordance with the IAS 34 Interim financial reporting standard. The interim report adheres to the same drafting principles and calculation methods as the last annual financial statement. The principles for calculating the key figures and the calculation formulas have not been changed and they have been presented in the financial report 2010.

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. Additionally, deliberation is needed in applying the drafting principles for a financial statement. As estimates and presuppositions are based on the views held at the time of drafting the interim report, 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. The figures in the interim report have not been audited.

**Consolidated profit and loss statement**

EUR thousand	Jul 1–Sep 30, 2011	Jul 1– Sep 30, 2010	Jan 1–Sep 30, 2011	Jan 1–Sep 30, 2011	Jan 1–Sep 30, 2011
Net sales	3,766	2,192	12,069	6,550	9,862
Other operating income	39	0	60	3	4
Materials (–)	-325	-112	-945	-371	-557
Employee benefits expenses (–)	-2,393	-1,540	-7,783	-4,203	-6,230
Depreciations (–)	-132	-70	-396	-209	-278
Other operating expenses (–)	-675	-447	-2,564	-1,460	-2,099
<b>Operating profit</b>	<b>280</b>	<b>23</b>	<b>441</b>	<b>310</b>	<b>702</b>
Financial income	0	1	2	1	17
Financial expenses (–)	-6	-1	-14	-3	-22
<b>Profit before taxes</b>	<b>274</b>	<b>24</b>	<b>429</b>	<b>308</b>	<b>696</b>
Income taxes	-69	-6	-103	-84	-191
<b>Profit for the period</b>	<b>205</b>	<b>17</b>	<b>326</b>	<b>224</b>	<b>505</b>
<b>Total comprehensive income</b>	<b>205</b>	<b>17</b>	<b>326</b>	<b>224</b>	<b>505</b>

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

Earnings per share (undiluted) (EUR)	0.0070	0.0010	0.0111	0.0126	0.00274
Earnings per share (diluted) (EUR)	*)	*)	*)	*)	*)

\*) Diluted earnings per share have not been calculated, because it has been agreed that the old stock option programs related to Innofactor Oy will be compensated in connection with the Westend ICT acquisition.

**Consolidated balance sheet**
**ASSETS**

EUR thousand	Sep 30, 2011	Sep 30, 2010	Dec 31, 2010
<b>Non-current assets</b>			
Tangible assets	484	391	472
Goodwill	1,212	512	1,322
Other capitalized expenditure	1,610	171	1,840
Deferred tax assets	8,020	0	8,132
<b>Non-current assets</b>	<b>11,326</b>	<b>1,074</b>	<b>11,766</b>
<b>Current assets</b>			
Trade and other receivables	5,958	3,722	6,037
Cash and cash equivalent	255	256	1,714
<b>Current assets</b>	<b>6,213</b>	<b>3,978</b>	<b>7,751</b>
<b>TOTAL ASSETS</b>	<b>17,539</b>	<b>5,052</b>	<b>19,517</b>

**SHAREHOLDERS' EQUITY AND LIABILITIES**

EUR thousand	Sep 30, 2011	Sep 30, 2010	Dec 31, 2010
<b>Equity attributable to equity holders of the parent</b>			
Share capital	2,100	12	2,100
Share premium reserve	72	72	72
Other reserves (+/-)	59	59	59
Fund for invested unrestricted equity	8,344	293	8,344
Retained earnings	2,029	1,852	1,703
<b>Total shareholders' equity</b>	<b>12,604</b>	<b>2,288</b>	<b>12,278</b>
<b>Long-term liabilities</b>			
Deferred tax liabilities	449	0	459
<b>Long term liabilities total</b>	<b>449</b>	<b>0</b>	<b>459</b>
<b>Current liabilities</b>			
Loans from financial institutions	137	0	0
Trade and other payables	4,349	2,764	6,781
<b>Current liabilities total</b>	<b>4,486</b>	<b>2,764</b>	<b>6,781</b>
<b>Liabilities total</b>	<b>4,935</b>	<b>2,764</b>	<b>7,240</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>17,539</b>	<b>5,052</b>	<b>19,517</b>

**Statement of change in shareholders' equity**

EUR thousand	Share capital	Share premium	Other reserve	Fund for invested unrestricted equity	Own shares	Retained earnings	Total shareholders' equity
<b>Shareholders' equity Jan 1, 2011</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>8,344</b>	<b>-20</b>	<b>1,723</b>	<b>12,278</b>
Comprehensive income							
Profit for the period						326	326
Comprehensive income total	0	0	0	0	0	326	326
<b>Shareholders' equity Sep 30, 2011</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>8,344</b>	<b>-20</b>	<b>2,049</b>	<b>12,604</b>
Comprehensive income							
Profit for the period						224	224
Comprehensive income total	0	0	0	0	0	224	224
Distributed dividend						-551	-551
Exercised share options				18			
<b>Shareholders' equity Sep 30, 2010</b>	<b>12</b>	<b>72</b>	<b>59</b>	<b>293</b>	<b>0</b>	<b>1,852</b>	<b>2,288</b>

**Consolidated cash flow statement**

EUR thousand	Jan 1– Sep 30, 2011	Jan 1–Sep 30, 2010	Jan 1– Dec 31, 2010
<b>Cash flow from operating activities</b>			
Operating profit	441	310	702
Amendments:			
Depreciations	396	209	278
Change in working capital:			
Change in trade and other receivables (+/-)	117	-917	-1,242
Change in trade and other payables (+/-)	-2,286	-336	626
Interests paid (-)	-15	-3	-22
Interests received	2	1	17
Taxes paid (-)	-75	-84	-191
<b>Cash flow from operating activities total</b>	<b>-1,420</b>	<b>-820</b>	<b>167</b>
<b>Cash flow/investments</b>			
Investment in daughter companies	0	187	558
Investments in intangible and tangible assets (-)	-176	-361	-458
<b>Cash flow/investments total</b>	<b>-176</b>	<b>-174</b>	<b>100</b>
<b>Cash flow/financing</b>			
Payments received from share issue	0	0	441
Loans withdrawn	137	0	0
Purchase of own shares (-)	0	0	-20
Paid dividends (-)	0	-400	-623
<b>Cash flow/financing total</b>	<b>137</b>	<b>-400</b>	<b>-202</b>
<b>Change in liquid funds (+/-)</b>	<b>-1,459</b>	<b>-1,394</b>	<b>65</b>
Liquid funds opening balance	1,714	1,650	1,650
Liquid funds closing balance	255	256	1,714

**Profit and loss statement by quarter**

EUR thousand	Jan 1– Mar 31, 2011	Apr 1– Jun 30, 2011	Jul 1– Sep 30, 2011	Jan 1– Mar 31, 2010	Apr 1– Jun 30, 2010	Jul 1– Sep 30, 2010	Oct 1– Dec 31, 2010
Net sales	3,943	4,360	3,766	2,210	2,148	2,192	3,312
Other operating income	10	11	39	0	3	0	0
Materials (–)	-231	-389	-325	-122	-137	-112	-187
Employee benefits expenses (–)	-2,704	-2,686	-2,393	-1,289	-1,374	-1,540	-2,027
Depreciations (–)	-131	-133	-132	-69	-70	-70	-69
Other operating expenses (–)	-868	-1,021	-675	-451	-562	-447	-638
<b>Operating profit</b>	<b>19</b>	<b>142</b>	<b>280</b>	<b>279</b>	<b>8</b>	<b>23</b>	<b>391</b>
Financial income	1	1	0	0	0	1	16
Financial expenses (–)	-4	-4	-6	-1	-1	-1	-20
<b>Profit before taxes</b>	<b>16</b>	<b>139</b>	<b>274</b>	<b>278</b>	<b>7</b>	<b>24</b>	<b>387</b>
<b>Income taxes</b>	<b>-3</b>	<b>-31</b>	<b>-69</b>	<b>-76</b>	<b>-2</b>	<b>-6</b>	<b>-106</b>
<b>Profit for the period</b>	<b>13</b>	<b>108</b>	<b>205</b>	<b>202</b>	<b>5</b>	<b>17</b>	<b>281</b>



**Commitments and contingent liabilities**

EUR thousand	Sep 30, 2011	Sep 30, 2010	Dec 31, 2010
<b>Own guarantees</b>			
Rental guarantees	151	60	123
Business mortgages of own debts	300	0	300
Bank guarantees	18	18	18
<b>Other own guarantees</b>			
Lease liabilities			
Current lease liabilities	90	24	108
Lease liabilities maturing in 1-5 years	104	60	184
<b>Total</b>	<b>194</b>	<b>84</b>	<b>292</b>
<b>Rental liabilities</b>			
Current rental liabilities	595	290	551
Rental liabilities maturing in 1-5 years	813	463	649
<b>Total</b>	<b>1,408</b>	<b>753</b>	<b>1,200</b>
<b>Other own guarantees total</b>	<b>1,602</b>	<b>837</b>	<b>1,492</b>

**Key figures**

The figures in this interim report have not been audited.

	mo. 7–9 /2011	mo. 7– 9 /2010	Change	mo. 1–9 /2011	mo. 1– 9 /2010	Change	mo. 1– 12 /2010
Net sales, EUR thousand	3,766	2,192	+71.8%	12,069	6,550	+84.3%	9,862
Operating profit before depreciation and amortization (EBITDA), EUR thousand*	412	93	+343.0%	837	519	+61.3%	979
percentage of net sales*	10.9%	4.2%		6.9%	7.9%		9.9%
Operating profit (EBIT), EUR thousand*	280	23	+1,091.9 %	441	310	+42.3%	702
percentage of net sales*	7.4%	1.0%		3.7%	4.7%		7.1%
Profit before taxes, EUR thousand*	274	24	+1,055.6 %	429	308	+39.3%	696
percentage of net sales*	7.3%	1.1%		3.6%	4.7%		7.1%
Profit for the period, EUR thousand*	205	17	+1,090.9 %	326	224	+45.5%	505
percentage of net sales*	5.4%	0.8%		2.7%	3.4%		5.1%
Equity, EUR thousand	12,604	2,288	+450.9%	12,604	2,288	+450.9%	12,278
Return on equity**	6.6%	3.1%		3.5%	12.2%		6.8%
Return on investment**	8.9%	4.3%		4.7%	17.0%		9.7%
Net gearing	-0.9%	-11.2%		-0.9%	-11.2%		-14.0%
Equity ratio	76.5%	48.5%		76.5%	48.5%		68.6%
Balance sheet total, EUR thousand	17,539	5,052	+247.2%	117,539	5,052	+247.2%	19,517
Research and development, EUR thousand***	468			1,716			1,173
percentage of net sales***	12.4%			14.2%			11.9%
Personnel on average during the review period	178	104	+71.2%	175	98	+78.6%	108
Personnel at the end of the review period	184	128	+43.8%	184	128	+43.8%	171
Number of shares at the end of the review period****	29,261,8 00	19,314, 925	+51.5%	29,261,8 00	19,314, 925	+51.5%	29,261,8 49
Earnings per share (EUR)****	0.0070	0.0010	+594.5%	0.0111	0.0126	-11.2%	0.0274
Shareholders' equity per share	0.431	0.118	+263.6%	0.431	0.118	+263.6%	0.420

(EUR)\*\*\*\*

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\* The figures include one-off costs related to the relisting and the consolidation of shares to the amount of about EUR 200 thousand during January 1–March 31, 2011, and to the amount of about EUR 100 thousand during April 1–June 30, 2011.

\*\* The percentages for the return on equity and return on investment have been adjusted to correspond with the figures for a 12-month period.

\*\*\* There are no comparison data for the corresponding review period in 2010 as Innofactor did not draft comparable interim reports in 2010 due to the reverse acquisition in accordance with IFRS 3.

\*\*\*\* The number of shares before December 27, 2010, presented in the table has been calculated from the number of Innofactor Oy shares due to the reverse acquisition in accordance with IFRS 3. In accordance with the decision of the Innofactor Plc's Annual General Meeting on April 28, 2011, twenty old shares were consolidated into one new share (registered in the Trade Register on May 7, 2011), which reduced the total number of shares to 1/20 of the previous number. The key figures presented in the table have been adjusted to correspond with the current number of shares.

## Largest shareholders

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

1. Ensio Sami 7,370,000 shares, 25.20 %
  - Ensio Sami 5,196,240 shares, 17.76%
  - minor under guardianship 724,588 shares, 2.48%
  - minor under guardianship 724,586 shares, 2.48%
  - minor under guardianship 724,586 shares, 2.48%
2. Tilman Tuomo Tapani 2,886,777 shares, 9.87%
  - Tilman Tuomo Tapani 2,747,492 shares, 9.39 %
  - Mpire Capital Oy 139,285 shares, 0.48%
3. Salminen Jyrki Kalle Tapio 2,747,492 shares, 9.39%
4. Laiho Rami Tapani 1,474,713 shares, 5.04%
5. Linturi Risto 1,397,156 shares, 4.77%
  - R. Linturi Oyj 1,369,852 shares, 4.68%
  - Linturi Risto 27,304 shares, 0.09%
6. Mäki Antti-Jussi 1,310,201 shares, 4.48%
7. Lampi Mikko Olavi 995,543 shares, 3.40%
8. Riski Tuomas Mikael 995,543 shares, 3.40%
9. Luostarinen Juha Markku T 929,438 shares, 3.18%
10. Ärje Matias Juhanpoika 896,378 shares, 3.06%
11. Jokinen Klaus Antero 667,156 shares, 2.28%
12. Muukkonen Teemu Heikki 507,468 shares, 1.73%
13. Järvenpää Janne-Olli 372,804 shares, 1.27%
14. Kukkonen Heikki-Harri 362,281 shares, 1.24%
15. Ementor Norge As 269,299 shares, 0.92%
16. Laiho Jari Olavi 266,851 shares, 0.91%
17. Salminen Petri Juhani 166,795 shares, 0.57%
18. Nurmi Mika 139,553 shares, 0.48%
19. Santala Ilpo Pellervo 139,553 shares, 0.48%
20. Kallioniemi Timo Juhani 137,768 shares, 0.47%