

Innofactor Plc Financial Statement March 6, 2018, at 9:00 Finnish time

Innofactor Plc Financial Statement 2017 (IFRS)

Quarter 10–12/2017

- The net sales were approximately EUR 17.2 million (2016: 18.0), which shows a decrease of 4.5%.
- The operating margin was approximately EUR 0.6 million (2016: 2.0), which shows a decrease of 71.2%. The weaker than expected profitability was contributed to by the lower than expected net sales of which a significant part consisted of net sales from licensing.
- The operating loss was EUR 182 thousand (2016: operating profit 1,326) and decreased by 113.7 %.
- On October 13, 2017, Innofactor announced in a stock exchange release that Innofactor would change the result forecast for 2017 to state that the operating margin of 2017 will be lower than the operating margin of 2016.
- Innofactor got several significant orders on the last quarter, for example, the Finnish Communications Regulatory Authority, approximately EUR 0.9 million; Finnish Safety and Chemicals Agency (Tukes), approximately EUR 0.6 million; and a financial organization, approximately EUR 0.6 million.

Year 1–12/2017:

- The net sales were approximately EUR 66.1 million (2016: 59.6), which shows an increase of 10.9%.
- The operating margin was approximately EUR 1.7 million (2016: 4.8), which shows a decrease of 64.2%.
- The operating loss was approximately EUR 1,0 million (2016: operating profit 2.3), decreasing by 144.6% due to increased write-offs related to acquisitions, in accordance with IFRS 3, resulting in a decrease of EUR 2,030 thousand (2016: 1,884).

	Oct 1– Dec 31, 2017	Oct 1– Dec 31, 2016*	Change	Jan 1–Dec 31, 2017	Jan 1– Dec 31, 2016*	Change
Net sales, EUR thousand	17,189	17,992	-4.5%	66,088	59,616	10.9%
Operating margin (EBITDA), EUR thousand	574	1,990	-71.2%	1,730	4,831	-64.2%
percentage of net sales	3.3%	11.1%		2.6%	8.1%	
Operating profit/loss (EBIT), EUR thousand*	-182	1,326	-113.7%	-1,039	2,332	-144.6%
percentage of net sales*	-1.1%	7.4%		-1.6%	3.9%	
Earnings before taxes, EUR thousand*	42	1,196	-96.5%	-1,157	1,920	-160.3%
percentage of net sales*	0.2%	6.6%		-1.8%	3.2%	
Earnings, EUR thousand*	33	125	-73.6%	-926	1,536	-160.3%
percentage of net sales*	0.2%	0.7%		-1.4%	2.6%	
Net gearing	53.1%	70.2%		53.1%	70.2%	
Equity ratio	43.8%	35.8%		43.8%	41.6%	
Active personnel on average during the review period**	613	589	4.1%	610	532	14.7%
Earnings per share (EUR)	0.0009	0.0038	-76.0%	-0.0262	0.0176	-248.9%

*) In accordance with IFRS 3, the operating result for October 1–December 31, 2017, includes EUR 507 thousand (2016: 518) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor's operative business profit for the review period of October 1–December 31, 2017, would have been EUR 325 thousand (2016: operating profit 1,884), the operative business result before taxes EUR 549 thousand (2016: 1,714), the operative business result EUR 439 thousand (2016: 1,371), and the operative business result per share EUR -0.0121 (2016: 0.0149). In accordance with IFRS 3, the operating result for January 1–December 31, 2017, includes EUR 2,030 thousand (2016: 1,884) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor's operative business profit for the review period of January 1–December 31, 2017, would have been EUR

991 thousand (2016: 4,216), the operative business result before taxes EUR 873 thousand (2016: 3,804), the operative business result EUR 698 thousand (2016: 3,043), and the operative business result per share EUR 0.0198 (2016: 0.0926).

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

Innofactor's future outlook for 2018

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

CEO Sami Ensio's review: The last quarter continued to be challenging – completing the ERP project and unification of the Nordic operating models is central in ensuring future profitability and Nordic growth strategy

The net sales decreased by 4.5 percent in the last quarter (net sales EUR 17.2 million). Especially the net sales from licensing was significantly lower than we expected. In the last quarter of 2017, the operating margin (EBITDA) was EUR 0.6 million (3.3 percent of the net sales) and decreased by 71.2 percent from the previous year. The weaker than expected profitability was primarily contributed to by the lower than expected net sales.

The net sales for the entire year grew by 10.9 percent (net sales EUR 66.1 million) and the main part of this was based on inorganic growth resulting from the Lumagate acquisition. The operating margin (EBITDA) for the entire year was EUR 1.7 million (2.6 percent of the net sales) and decreased by 64.2 percent from the previous year. The weak profitability was especially due to the lower than expected net sales on the second half of the year, especially in licensing net sales, and the resulting decrease in the operating margin.

Realizing common Nordic operating models and systems has been slower than expected. The transition stage manifested itself on the second half of the year in greater than expected effects on the management of the company's operations and the resulting unexpected negative operating margin.

Innofactor's vision is to be the leading implementer of cloud solutions and digitalization in each of the Nordic Countries. Despite the challenges of 2017, 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.

In its first stage, reaching organic growth of approximately 20 percent and operating margin of approximately 20 percent in long term requires especially completing the common Nordic operating models and central information system projects, the most important one being the Nordic ERP (enterprise resource planning) system. The ERP system has been introduced in Denmark in 2016, in Finland in 2017, and in Norway at the beginning of 2018. In Sweden, the goal is to introduce it as soon as possible. The entire ERP project is planned to be finished by the end of 2018 (including group level consolidation, budgeting for 2019, and internal accounting). This means that this one system will eventually replace 20 separate systems. The new ERP system has already clearly improved the control of our operations in several areas, but the most important benefits from it are expected to be gained starting from the second half of 2018.

The realization of the strategy and means for reaching the long terms goals are described in more detail below, in the section "Strategy and its realization in the review period."

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 is the one of the leading implementers of cloud solutions and digitalization in the Nordic Countries. Innofactor has the widest solution offering and leading know-how in the Microsoft ecosystem in the Nordic Countries. Innofactor has over 600 enthusiastic and motivated top specialists in Finland, Sweden, Denmark and Norway. Innofactor's customers include over 1,500 companies and public administration and third sector organizations. During the years 2018–2020, Innofactor will primarily strive to unify its operating model and offering in the Nordic Countries in its selected areas. Unifying the offering may take place either through organic growth or selected acquisitions.

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

Innofactor's vision: We are the leading implementer of cloud solutions and digitalization in each of the Nordic Countries (Finland, Sweden, Denmark and Norway).

Innofactor's strategy for achieving this vision includes:

- The best Nordic professionals in the Microsoft ecosystem
- The leading offering in cloud solutions and digitalization
- A proactive, value-adding and flexible delivery model
- Spearhead customers in selected fields in the Nordic Countries

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

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

Innofactor's net sales in the review period of January 1–December 31, 2017, grew by 10.9 percent and the main part of this was based on inorganic growth resulting from the Lumagate acquisition. The company did not reach the goal it had set for organic growth.

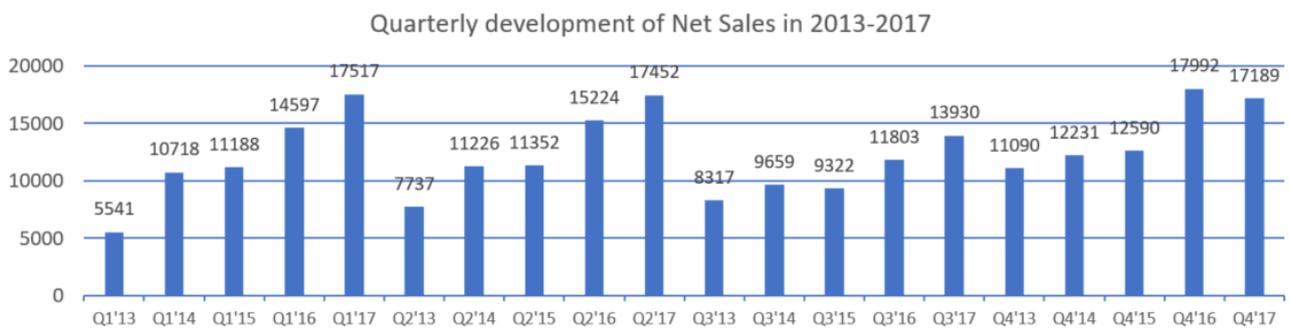
Innofactor's operating margin (EBITDA) in relation to net sales was 2.6 percent in the review period. This is a record low and very far away from the set target level of 20 percent.

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

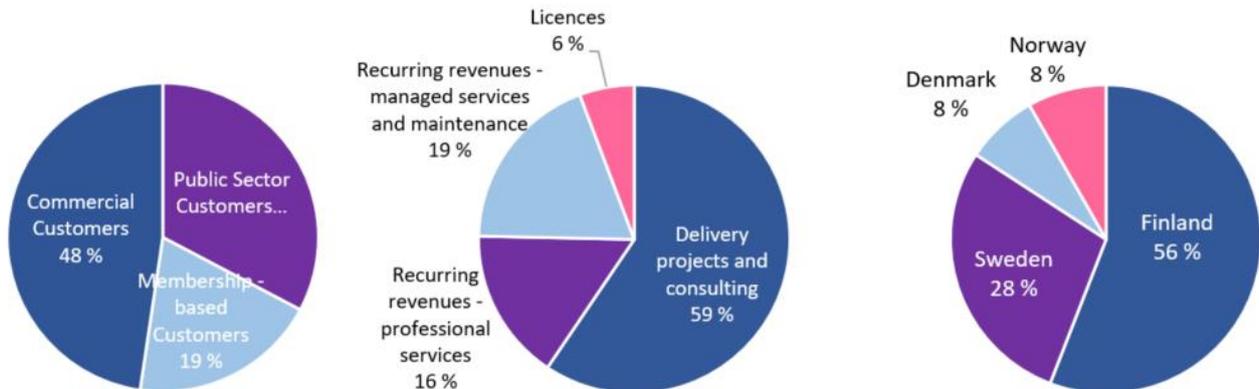
- In the Nordic Countries, we will focus on those fields and customer segments, which have great growth potential, such as social services and health services.
- We will improve sales of our products and services to existing customers in order to get a greater share of the budget the customers are using for digitalization.
- We will invest in using modern digital marketing methods to improve our sales.
- We will concentrate on management of know-how, recruiting, and resource optimization in the Nordic level.
- In the future, we will increasingly shift the focus of our offering to products and productized services.
- We will continuously strengthen the professional competence of our experts to ensure that our customers are prepared to pay their services and our leading offering prices that are above the industry average.
- We will develop our flexible and quick delivery model, which facilitates the creation of added value, in such a way as to further minimizing unnecessary work, improving invoicing ratio and increasing customer satisfaction.
- We drive operational excellence to improve Financial Quarterly Accountability (FQA), internal information systems and predictability.

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

Innofactor's net sales is still growing in the annual level, but decreased in the last quarter



Innofactor’s net sales in October 1–December 31, 2017, were EUR 17,189 thousand (2016: 17,992), which shows a decrease of 4.5 percent, and on January 1–December 31, 2017, the net sales were EUR 66,088 thousand (2016: 59,616), which shows an increase of 10.9 percent.



Innofactor's business operations were focused on Finland, Sweden, Denmark and Norway. Of the net sales in January 1–December 31, 2017, approximately 56 percent came from Finland, approximately 28 percent from Sweden, approximately 8 percent from Denmark and approximately 8 percent from Norway.

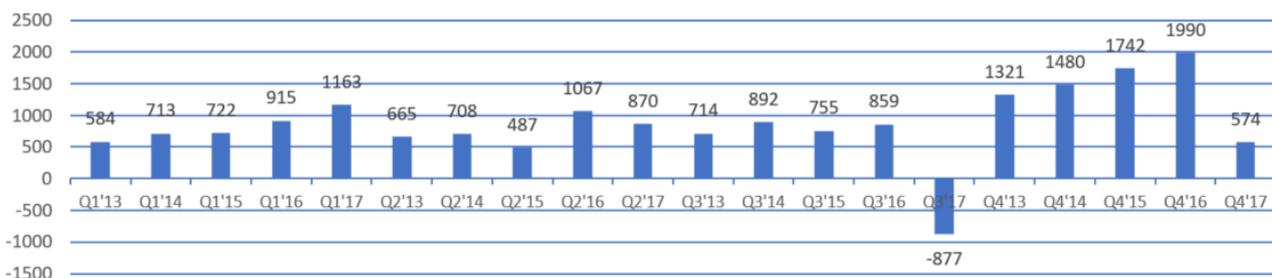
Of the net sales in January 1–December 31, 2017, approximately 48 percent came from commercial clients, approximately 33 percent from public sector clients and approximately 19 percent from third sector clients.

Innofactor's net sales in the review period of January 1–December 31, 2017, came from the following sources:

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

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

Quarterly development of EBITDA in 2013-2017



Innofactor's operating margin (EBITDA) in October 1–December 31, 2017, was EUR 574 thousand (2016: 1,990), which shows a decrease of 71.2 percent. EBITDA accounted for 3.3 percent of the net sales (2016: 11.1%). Innofactor's operating loss in October 1–December 31, 2017, was EUR 182 thousand (2016: operating profit 1,326), which shows a decrease of 113.7 percent. The operating profit accounted for -1.1 percent of the net sales (2016: 7.4%).

Innofactor's operating margin (EBITDA) in January 1–December 31, 2017, was EUR 1,730 thousand (2016: 4,831), which shows a decrease of 64.2 percent. EBITDA accounted for 2.6 percent of the net sales (2016: 8.1%). Innofactor's operating loss in January 1–December 31, 2017, was EUR 1,039 thousand (2016: operating profit EUR 2,332), which shows a decrease of 144.6 percent. The operating profit accounted for -1.6 percent of the net sales (2016: 3.9%).

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 the operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciations.

Innofactor's net sales growth and operating margin during the review period were affected by the acquisition of the Nordic Lumagate companies, whose figures have been incorporated into Innofactor's figures as of October 1, 2016.

In accordance with IFRS 3, the operating result for October 1–December 31, 2017, includes EUR 507 thousand (2016: 518) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor's operative business profit for the review period of October 1–December 31, 2017, would have been EUR 325 thousand (2016: operating profit 1,884), which shows a decrease of 82.4 percent.

The operating result for the review period of January 1–December 31, 2017, includes EUR 2.0 million (2016: 1.9) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor's operative business profit for the review period of January 1–December 31, 2017, would have been EUR 991 thousand (2016: 4,216), which shows a decrease of 76.5 percent.

Innofactor's operating cash flow in the review period remained strong

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

The operating cash flow remained strong, and in January 1–December 31, 2017, it was EUR 4,169 thousand (2016: 3,442). The investment cash flow was EUR -1,488 thousand (2016: -7,318).

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

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

The return on investment in January 1–December 31, 2017, decreased from the previous year and was -1.3 percent (2016: 6.4%).

The return on equity in January 1–December 31, 2017, decreased from the previous year and was -3.9 percent (2016: 6.5%).

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

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

Innofactor's gross investments in tangible and intangible assets in the review period of January 1–December 31, 2017, were EUR 1,688 thousand (2016: 843), consisting of normal additional and replacement investments required by growth.

The write-offs on intangible assets were EUR 2,222 thousand (2016: 1,978). In the review period of January 1–December 31, 2017, the company has activated development costs of its ERP system for a total of EUR 1,089 thousand.

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

Innofactor's research and product development investments remain almost the same

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

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

Regardless of the challenges of 2017, Innofactor managed to keep the research and development costs almost on the same level as in the previous year. Innofactor's research and development costs recognized in profit or loss for January 1–December 31, 2017, were approximately EUR 3,298 thousand (2016: 3,394), which accounts for 5.0 percent of the net sales (2016: 5.7%).

Innofactor's personnel

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

The average number of active personnel in October 1–December 31, 2017, was 613 persons (2016: 589), which shows an increase of 4.1 percent.

The average number of active personnel in January 1–December 31, 2017, was 610 persons (2016: 532), which shows an increase of 14.7 percent.

In the review period of January 1–December 31, 2017, net sales per active person were approximately EUR 108.3 thousand (2016: 112.1), which shows an approximate decrease of EUR 3.7 thousand per person. In the future, we will focus on increasing the net sales per active person.

At the end of the review period, the number of active personnel was 601 (2016: 591), which shows an increase of 1.7 percent.

At the end of the review period, the average age among personnel was 38.9 years (2016: 39.4).

Women accounted for 28 percent (2016: 28%) of the personnel. Men accounted for 72 percent (2016: 72%) of the personnel.

Other events in the review period

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On August 30, 2017, Innofactor announced in a stock exchange release that Innofactor will implement a "Vapaaehtoisten tietojärjestelmä" solution for the Finnish Red Cross.

On September 1, 2017, Innofactor announced in a stock exchange release that CEO Sami Ensio takes temporarily over the role of CFO.

On October 13, 2017, Innofactor announced in a stock exchange release that Innofactor is revising the guidance for 2017.

On October 31, 2017, Innofactor announced in a stock exchange release that Innofactor is revising its long term financial goals. These have been described in more detail in the section "Strategy and its realization in the review period."

On November 30, 2017, Innofactor announced in a stock exchange release that the Finnish Communications Regulatory Authority had selected Innofactor as the partner for maintenance and further development of the domain name system. The value of the deal is approximately EUR 0.9 million, which is estimated to be registered for 2018.

On December 5, 2017, Innofactor announced in a stock exchange release that the Finnish Safety and Chemicals Agency (Tukes) had selected Innofactor as the provider for the chemical data digital management (KemiDigi) system. The value of the deal is approximately EUR 0.6 million, which is estimated to be registered for 2018.

On December 21, 2017, Innofactor announced in a stock exchange release that it will deliver the renewal of the damage and compensation system for a financial sector organization. The value of the deal is approximately EUR 0.6 million, which is estimated to be registered for 2018.

Share and shareowners

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

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

On October 1–December 31, 2017, the highest price of the company share was EUR 1.40 (2016: EUR 1.22), the lowest price was EUR 0.91 (2016: EUR 0.97), and the average* price was EUR 1.03 (2016*: EUR 0.99).

On January 1–December 31, 2017, the highest price of the company share was EUR 1.80 (2016: EUR 1.22), the lowest price was EUR 0.91 (2016: EUR 0.75), and the average* price was EUR 1.31 (2016*: EUR 0.99).

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

* The average share price was calculated by taking the total value of share trading in the stock exchange on the said period and dividing this by the number of shares traded in the stock exchange on the said period.

In public trading on October 1–December 31, 2017, a total of 7,483,316 shares were traded (2016: 4,408,692 shares), which corresponds to 20.7 percent (2016: 13.5%) of the average number of shares on the said period. In October 1–December 30, 2017, there were 36,188,225 shares on the average (2016: 33,186,668*). The share trading increased by 69.7 percent compared to the corresponding period in 2016.

In public trading on January 1–December 31, 2017, a total of 23,796,019 shares were traded (2016: 12,617,494 shares), which corresponds to 67.3 percent (2016: 38.4%) of the average number of shares on the said period. On January 1–December 31, 2017, there were 35,341,751 shares on the average (2016: 32,871,577*). The share trading increased by 88.6 percent compared to the corresponding period in 2016.

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

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

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

The Board of Directors has the following authorizations:

- Until June 30, 2018, to decide on a share issue and granting of special rights entitling to shares for a maximum of 15,000,000 new shares with the total number of shares not exceeding 45,000,000 (decided by the General Meeting of April 4, 2017); the authorization has not been used.
- Until June 30, 2018, to decide on a transfer of a maximum of 1,000,000 treasury shares (decided by the General Meeting of April 4, 2017); the authorization has not been used.

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

On January 24, 2017, Innofactor published a flagging announcement pursuant to Chapter 9, Section 5 of the Finnish Securities Markets Act, stating that Tuomo Tilman's ownership of the Innofactor Plc votes and shares had decreased below five percent (5%).

Treasury shares

The General Meeting of April 4, 2017, authorized the Board of Directors to decide on acquiring of a maximum of 8,000,000 of company's own shares in one or several parts with the company's unrestricted equity. The authorization entitles the Board to deviate from the shareholders' proportional shareholdings (directed acquisition). Own shares may be acquired at the purchase price formed for them in public trading at the day of purchase or at another market price. The number of treasury shares at a time may be, at the maximum, one tenth of the total number of shares in the company. Shares may be purchased to be used in company acquisitions or implementing other arrangements relating to the company's business operations, improving the company's capital or financing structure, as a part of the company's incentive system, or otherwise to be handed over or voided. In connection with the share repurchase, ordinary derivative, stock lending and other agreements may be made in the market in accordance with the laws and regulations. The authorization includes the right of the Board of Directors to decide on all other matters related to the acquisition of shares. The authorization will be valid until June 30, 2018. This authorization replaces the Board's earlier authorizations concerning share repurchase. The authorization has not been used.

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

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

Management of the company

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

On April 4, 2017, the General Meeting decided that the number of Board members is six. Previous Board members Sami Ensio, Jukka Mäkinen, Ilari Nurmi, Pekka Puolakka and Ari Rahkonen were re-elected. Anni Vepsäläinen was elected as a new member to the Board of Directors. In their organizing meeting held immediately after the General Meeting, the Board of Directors elected Ari Rahkonen as the Chairman of the Board.

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

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

Innofactor Plc's entire Corporate Governance and statements are available on the company's web site at: http://www.innofactor.fi/sijoittajat/hallinto_ja_johtaminen

Market outlook and business environment

Main forces affecting market changes and main trends of innovation are, for example, augmented and virtual reality, Internet of Things (IoT), artificial intelligence, and robotics. Factors enabling these include transfer of software into the cloud, data analytics, social media, and mobility. The purchase habits of customers have continued to change as these business changes are taking place. Our customers expect their IT provider to focus more on business benefits instead of technology benefits. Our customers want to get solutions that are ready for use without a need to make major customer-specific changes. Additionally, customers increasingly wish to purchase continuous services instead of large one-off projects.

We estimate that the IT service market in the Nordic Countries grew by approximately 3–5% in 2017. We estimate that the growth of the IT service market in the Nordic Countries in 2018 will remain on the same level of approximately 3–5%. Our estimate is based on research institutes' forecasts and our own outlook on markets.

As concerns Microsoft-based solutions, competition in the Nordic Countries is divided between different kinds of parties. The first group is formed by large companies that operate in all of the Nordic Countries. Typically, these companies offer a wide range of IT solutions for companies and organizations, using several competing technologies of which Microsoft technology is one option. The second group is formed by companies that focus on a narrower solution area in the Nordic level. These companies also offer IT solutions for companies and organizations using several competing technologies of which Microsoft technology is typically just one option. The third group

is formed by medium-sized companies operating in just one country and typically offering a wide range of IT solutions for companies and organizations, using several competing technologies. The fourth group is formed by small companies operating in one country and often focusing on one solution area, client and/or field.

Innofactor has made a strategic choice by focusing on solutions implemented with and utilizing the Microsoft platforms and by selecting as its solution areas the ones in which Microsoft's growth and offering, and thus its partners' and ecosystem's growth, has exceeded the general average growth of IT service and software markets many times over. Innofactor is primarily focused on Nordic large and medium-sized companies and government organizations, which have high standards in their IT solution acquisitions. Innofactor develops solutions, products and services suitable for this group by itself and in cooperation with its partners. Innofactor's strategy supports well the change in the markets. Innofactor believes it can gain market share from its competitors and utilize possible IT market growth in the future.

Microsoft's partner network in the Nordic Countries, and also elsewhere in Europe, is quite fragmented and mainly consists of a large number of small and medium-sized local providers. For Innofactor, this provides interesting potential for consolidation and globalization. Innofactor's good reputation concerning the Microsoft ecosystem, proofs of rapid and profitable growth and successful acquisitions together with business culture with entrepreneurial spirit make Innofactor an attractive partner when making reorganizations in the field in the Nordic Countries.

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.

Risks related to operations

The risks related to the operation of the Innofactor Group are primarily business risks related to the group companies that carry on its business operations.

Skilled personnel and its availability: The development of Innofactor's operations and deliveries depends greatly on the Group having skilled personnel and being able to replace persons, who are leaving, with properly skilled persons. In Innofactor's field of business, there is a lack of and competition for certain personnel resources. If Innofactor fails at motivating its personnel, keeping the personnel's skills on a high level and keeping the personnel in its service, that could cause problems for the Group's business operations. The success of the Group depends heavily on the

employed key personnel and their success in their work. Innofactor invests in continuous development of its personnel and in keeping the personnel satisfaction high.

Increase in personnel costs: The main part of Innofactor's costs consists of salaries and other personnel costs (in 2017, about 70% of the net sales, including depreciations). Currently, all of Innofactor's own employees work in the Nordic Countries, whereas some competitors rely heavily on workforce in countries with cheap labor. If the personnel costs continue rising in the Nordic Countries at the same rate as before, it will create a risk for Innofactor, if the prices paid for IT services will not rise correspondingly. Innofactor is monitoring the situation constantly and strives to affect the development of personnel costs via interest groups. It also aims at increasing the share of work done by subcontractors and abroad, when it makes sense from the point of view of business operations, for example, in large product development projects.

Profitability of projects: A large part of Innofactor's net sales comes from project business. Profitable implementation of Innofactor's delivery projects requires that project calculation and planning before submitting a tender are done successfully as regards the amount of work and the delivery schedule, and also that the deliveries can be made in a cost-effective manner. It is possible that Innofactor fails at correctly estimating the profitability of a project and, thus, the delivery could cause losses to the company. Correspondingly, it is possible that projects may have to be sold cheaper because of competition, which leads to lower profit margins. Innofactor pays special attention to the profitability of project business and has included it as a central part of the remuneration system.

Competition: Innofactor's main competitors are companies offering traditional information technology services and software in the Nordic Countries. Some competitors have larger financial resources, wider product selection, cheaper workforce and larger existing customer base than Innofactor does and also notable legal resources, and they can use these when competing with Innofactor for the same deliveries. Additionally, new, small startup companies increase competition in certain deliveries. The price competition in the field is expected to remain tough. If the competition becomes tougher, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor continuously strives to improve its competitiveness. Regarding this, the company has published its long term financial goals.

Research and product development: In Innofactor's operation, research and product development play a central role. In 2017, approximately 5.0% of the net sales was used for it. Each research and product development project carries the risk that the end results are not as successful financially as planned and that the investment in the project does not pay itself back. In organizing its operations, Innofactor aims at minimizing the risks inherent in research and product development.

Changes in the technology and field of business: Fast development is characteristic for Innofactor's field of business. There can be quick changes in the customers' requirements and choices concerning software technology. Important changes under way include, for example, the transfer of software into cloud technologies, digitalization, artificial intelligence, blockchain and Internet of

Things (IoT). If Innofactor cannot react to these changes, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor strives to actively invest in new technologies and central areas of know-how.

Data protection: The enforcement of the new EU data protection regulation ("GDPR", regulation (EU) 2016/679) will affect business operations of Innofactor and its customers. Neglecting the required actions or procedures may lead to losses in net sales or, in the worst case, penalty charges set by the supervising authority. In 2017, Innofactor started detailed study of the issue to decrease risks, invested in solutions related to GDPR and hired a data security manager, who the company calls the Data Protection Officer.

Data security: Innofactor operates as a system integrator through which the Innofactor system managers and developers have access to certain customer environments. Each access to a customer environment in itself includes a data security risks as concerns unlawful attempts at gaining information. Innofactor has implemented a data security management process based on standards, and its implementation is led by the company's Chief Information Security Officer.

Reaching the growth goals: Realizing the desired organic growth requires a growth rate that is clearly faster than the growth in the IT market in general. This has the risk that it cannot be realized in the future, although it has been done often in the past. It is possible that the IT market in Innofactor's market area will not grow or may even shrink in 2018. Ensuring growth has a central part in planning Innofactor's operations and setting its goals. Innofactor strives to lessen this operational risk by focusing on the growing Microsoft solution areas, which grow faster than the IT market in general, and by focusing on sales to keep the order book on a sufficient level as regards the business operations.

Globalization: In accordance with its strategy, Innofactor is seeking for more growth also in the global markets, especially in the Nordic Countries. Global operations typically always involve higher risks than operation at home. Innofactor strives to make sure that the investments in becoming a global player will not be so great that it would jeopardize the Group's ability to make profit and to grow. Additionally, the company strives to create a management model and common processes and information systems supporting these that will decrease the risks in global operations. A main part of this is finishing the implementation of the Nordic ERP system by the end of 2018.

Uncertainties related to acquisitions: The growth has partly been based on acquisitions. With acquisitions, there are uncertainties about finding suitable companies to acquire and in making the acquisitions at the desired price level and schedule. If acquisitions cannot be made as planned, the growth goal may be jeopardized. In acquisitions, Innofactor focuses on high-level know-how and good processes.

Risks related to acquisitions: Each acquisition, after it has been made, carries some risks, which include the success of the integration, formation of the business value, and possible related needs

for depreciations. Innofactor's strategy is primarily based on integrating the acquired companies in a fast schedule as part of the whole in the country in question. Innofactor invests in the integration process.

Success of the organizational changes: Rapid growth may occasionally require making significant changes in the organization. Starting a new organization typically includes challenges before the desired improvement in operation can be achieved. Typically, the operation can be at least restored to the previous level of efficiency within a few months from starting the new organization. If the improvement in operation for some parts does not take place within the planned schedule, there is a risk that it will not happen at all or that the delay may lead to extra costs. The reasons for this include, for example, incorrect planning in placing units and personnel. Innofactor strives to pay attention to controlling organization changes and to prepare for them also financially.

Financial risks

General financial uncertainty and changes in the customers' financial situations affect customers' investment decisions and purchasing policies. It is possible that changes in the general financial situation will be reflected in Innofactor's customers' software purchases by delaying the decision-making or timing of purchases.

Financing risks: In its normal business operations, the Innofactor Group is susceptible to normal financing risks. In total at the end of the year, Innofactor had approximately EUR 14.2 million in interest bearing debts, which have been taken out to finance earlier acquisitions. Innofactor has committed itself to the following covenants: equity ratio calculated every 6 months is at least of 40%. Additionally, interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 2.5. The interest bearing debts of Innofactor Group divided by the 12-month operating margin (EBITDA) exceeded on 31 December 2017 the agreed covenant of 2.5 with the financial institution, which deviation the was, however, accepted by the financial institution with a written waiver. The goal of managing the financing risks is to minimize the negative effects of the changes in the financial markets to the result of the Group. Risk management has been centralized to the CFO, who is responsible for the Group's financing and regularly reports to the company's Executive Board, CEO, and Board of Directors. It is possible that, in the future, the Group will not get the financing it needs and this will have a negative effect on the Group's business and its development, especially on making acquisitions.

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

Exchange rate risk: The Innofactor Group operates globally and is susceptible to risks related to the currencies of the countries in which it operates. Changes in exchange rates, especially the rates of Swedish krona and Norwegian krone, affect the Group's net sales and profitability. After

the Cinteros and Lumagate acquisitions, Innofactor has significant business operations based on Swedish krona and Norwegian krone. The exchange rate risk is mainly due to the assets and liabilities registered in the balance sheet and the net investments made in the subsidiaries abroad. Also, the business contracts made by subsidiaries pose an exchange rate risk, although these contracts are mainly made in the currency the unit uses in its operation. The management of exchange rate risks in the Group aims at minimizing the uncertainty that changes in exchange rates cause in the result through cash flows and assessment of receivables and liabilities.

Risks related to the cash position: The Innofactor Group handles management of liquid assets with the help of centralized payments and cash management. The Group strives for continuous monitoring and assessment of the needed business financing in order to ensure that the Group has enough liquid assets in its use. Additionally, the Group's subsidiaries have in their use checking accounts with an overdraft limit of about EUR 6.1 million in total in order to cover any seasonal variations in liquid assets. Excess cash balance is placed on savings accounts or funds with capital guarantee.

Risks related to receivables from projects: A large part of Innofactor's net sales comes from project business. A significant part of projects consists of long term projects in which scheduled payments and their terms are typically agreed on with the customer beforehand. When Innofactor performs work in customer projects, which is scheduled to be invoiced afterwards, project receivables are accrued. Especially in public administration projects, scheduled payments often take place nearer to the end of the project, which means increased project receivables and related risks. In customer negotiations, Innofactor pays special attention to scheduling the payments and the size of payments, and in customer projects, to project management and steering in accordance with the scheduled payments. Project receivables are monitored regularly.

Credit risk: Credit decisions related to sales receivables are monitored centrally by the Group's management. Large part of Innofactor's cash flow comes through established customer relationships as payments from the public sector and financially sound companies, which have not presented essential credit risks in the past, and the Group has not suffered any significant credit losses. Should credit risks realize, it would weaken the Group's financial standing and liquidity. Sales receivables are monitored regularly.

Risks related to deferred tax assets: Innofactor's balance sheet includes a significant amount of deferred tax assets that are based on previous financial periods. Should the company's profitability decrease significantly in the long run, it is possible that the Group would not be able to utilize in full the receivables currently activated in the balance sheet.

Acquisitions and changes in the group structure

In 2017 Innofactor made no acquisitions, but focused on integrating Cinteros AB, acquired in 2015, and the Lumagate companies, acquired in 2016, into the Innofactor Group. The company group

consisting of several companies after the acquisitions has been simplified during 2017 as follows: the Danish subsidiary Innofactor Business Solutions ApS was merged into Innofactor A/S on September 1, 2017, and the Swedish company Innofactor Business Solutions AB, which had no business operations, was sold on November 8, 2017, to Bolagspartner Avveckling i Sverige AB for liquidation. Also, in Denmark, internal arrangements have been started to transfer Lumagate A/S operations to Innofactor A/S. The arrangement is intended to be implemented during the spring 2018.

No other acquisitions or other changes in the Group structure were carried out in 2017.

Events after the review period

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

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

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

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

On March 5, 2018 Innofactor announced in a stock exchange release that the Supreme Administrative Court of Finland did not overrule HKL's decision to cancel the procurement decision of November 26, 2015 awarded to Innofactor in a bidding competition concerning situational information system for the Helsinki Metro's total security.

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

Board of Director's proposal on the dividend

Innofactor is a growing company and intends to use its operating profit on actions promoting growth, for example, on realizing mergers. Innofactor has defined a dividend distribution policy according to which the aim of the Board of Directors is to provide an opportunity for the

shareholders to distribute, from the part of the operating margin (EBITDA) that exceeds 10%, the maximum dividend allowed by the state of the business. For 2017, the operating margin (EBITDA) was 2.6% of the net sales. In making the proposal on the dividend, the Board of Directors takes into account the company's financial situation, profitability and near-term outlook.

At the end of the financial period of 2017, the distributable assets of the Group's parent company were EUR 27,377,826.67.

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

Espoo, March 6, 2018

INNOFACTOR PLC

Board of Directors

Additional information:

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Briefings concerning the financial statement of January 1–December 31, 2017

On March 6, 2018, at 10:00 Finnish time, Innofactor will hold a briefing concerning the financial statement in Finnish for the media, investors and analysts at the company's premises at Keilaranta 9, Espoo. The report will be presented by CEO Sami Ensio.

Innofactor will also hold a corresponding conference call in English on March 6, 2018, at 16:00 Finnish time.

We ask you to register for the briefings beforehand by sending email to ir@innofactor.com.

The presentations of the briefings will be available on Innofactor's web site after the briefings.

Financial releases in 2018

The annual report for 2017 will be published on the company's web site on Tuesday, March 13, 2018.

The Annual General Meeting will be held on Wednesday April 4, 2018, at 9:00 Finnish time.

The schedule for financial releases in 2018 is as follows:

- Interim Report January–March 2018 (Q1) on Tuesday May 8, 2018
- Half-Yearly Report January–June 2018 (Q2) on Tuesday, July 24, 2018
- Interim Report January–September 2018 (Q3) on Tuesday, October 30, 2018

Distribution:

NASDAQ Helsinki

Main media

www.innofactor.com

Financial statement summary and appendixes January 1–December 31, 2017 (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.

Starting from October 1, 2016, Innofactor has activated development costs of its own ERP system. The Nordic ERP system is very important for Innofactor in order to gain future synergies and the long term financial goals. We also believe that the experience we gain while developing and implementing the new Microsoft Dynamics 365-based cloud system will bring us significant competitive edge in customer deliveries.

The interim report adheres to the same accounting policies and calculation methods as the last annual financial statement 2016. However, as of January 1, 2017, 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 2016. 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. Acquisitions are 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 the operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciations. In addition to the operating margin, the company also publishes the operative business result adjusted for the above-mentioned depreciations, operative business result before taxes, operative business result, and operative business result per share. Depreciations related to acquisitions, adjusted from the above-mentioned key figures, in the period of January 1–December 31, 2017, were EUR 2,030 thousand (2016: 1,884).

Other alternative key figures used by Innofactor are 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.

The financial statement figures in this financial statement have not been audited.

IFRS 15 Revenue from Contracts with Customers

Innofactor has implemented the IFRS 15 Revenue from Contracts with Customers standard as of January 1, 2018, (mandatory implementation) and will apply it retroactively in full. The new standard defines a five-step model for recognizing revenue based on contracts with customers and replaces the current standards IAS 18 and IAS 11 as well as the related interpretations. The standard includes new guidance for license revenue, accounting for costs, and determining transaction price, among other things. It also expands requirements for notification related to revenue from customer contracts.

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

The new standard affects the timing of the net sales from software licenses sold by Innofactor in cases where the licenses are sold in connection with a project delivery. In these cases, a license will be recognized as net sales based on the project's completion percentage and not as one time net sales like before. If IFRS 15 had been implemented on January 1, 2017, in 2017, the effect on net sales and operating margin would have been EUR -422 thousand (Q1/2017: -265, Q2/2017: -303, Q3/2017: +196, and Q4/2017: -50), and it is estimated that it would have been transferred in whole to 2018. In 2018, the corresponding effect is estimated to be approximately EUR 0.5–1 million in total, which is correspondingly estimated to be transferred to 2019. The transfer to the IFRS 15 standard is not estimated to have any effect after the financial period 2018.

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

IFRS 9 Financial Instruments

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

Comprehensive consolidated profit and loss statement, IFRS

EUR thousand	Oct 1–Dec 31, 2017	Oct 1–Dec 31, 2016	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Net sales	17,189	17,992	66,088	59,616
Other operating income	-50	235	88	569
Materials (–)	-1,317	-1,613	-6,241	-5,482
Employee benefits/expenses (–)	-12,326	-11,510	-46,690	-40,697
Depreciation (–)	-756	-664	-2,769	-2,499
Other operating expenses (–)	-2,922	-3,114	-11,515	-9,175
Operating profit/loss	-182	1,326	-1,039	2,332
Financial income	518	4	526	5
Financial expenses (–)	-294	-134	-644	-417
Profit/loss before taxes	42	1,196	-1,157	1,920
Income taxes	-9	-239	231	-384
Profit/loss for the financial period	33	957	-926	1,536
Other comprehensive income Items that may be later recognized in profit or loss:				
Exchange differences	-9	17	-744	-20
Total comprehensive income	24	974	-1,670	1,516

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

basic earnings per share (EUR)	0.0009	0.0292	-0.0262	0.0467
diluted earnings per share (EUR)	0.0009	0.0292	-0.0262	0.0467

Consolidated Balance Sheet, IFRS

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

SHAREHOLDERS' EQUITY AND LIABILITIES

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

Statement of change in shareholders' equity, IFRS

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Treasury shares	Retained earnings	Hybrid bond	Total shareholders' equity
Shareholders' equity Jan 1, 2017	2,100	72	59	16,153	-161	4,278	0	22,501
Comprehensive income Result for the financial period						-926		-926
Correction Other comprehensive income: Exchange differences						-744		-744
Total comprehensive income	0	0	0	0	0	-1,670	0	-1,670
Share issue				4,109				4,109
Other change*				59		-59		0
Purchase of own shares					-199			-199
Transfer of own shares					360			360
Transactions with shareholders in total	0	0	0	4,168	161	-59	0	4,270
Shareholders' equity Dec 31, 2017	2,100	72	59	20,321	0	2,549	0	25,101

Statement of change in shareholders' equity, IFRS

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Treasury shares	Retained earnings	Hybrid bond	Total shareholders' equity
Shareholders' equity Jan 1, 2016	2,100	72	59	16,153	-345	3,295	3,200	24,534
Comprehensive income								
Result for the financial period						1,536		1,536
Other comprehensive income:								
Exchange differences						-20		-20
Total comprehensive income	0	0	0	0	0	1,516	0	1,516
Transactions with shareholders								
Purchase of own shares					-301			-301
Cancellation of treasury shares					485	-485		0
Transactions with shareholders in total	0	0	0	0	184	-485	0	-301
Redemption of the hybrid bond							-3,200	-3,200
Interest payments on the hybrid bond						-47		-47
Shareholders' equity Dec 31, 2016	2,100	72	59	16,153	-161	4,278	0	22,501

Consolidated Cash Flow Statement, IFRS

EUR thousand	Jan 1–Dec 31, 2017	Jan 1–Dec 31, 2016
Cash flow from operating activities		
Operating profit	-1,039	2,332
Adjustments:		
Depreciation	2,769	2,499
Non-cash transactions	485	0
Changes in working capital:		
Change in trade or other receivables (+/-)	1,924	-273
Change in trade and other payables (+/-)	633	-838
Interests paid (-)	-643	-370
Interests received	40	5
Total cash flow from operating activities	4,169	3,355
Investment cash flow		
Acquisition of subsidiaries	-59	-6,475
Investments in intangible and tangible assets (-)	-1,688	-843
Loan receivables paid back	259	87
Total cash flow from investments	-1,488	-7,231
Cash flow from financing		
Loans withdrawn	10,087	13,783
Loans paid	-12,560	-6,302
Redemption of the hybrid bond	0	-3,200
Interest payments on the hybrid bond	0	-47
Purchase of own shares	-199	-300
Total cash flow from financing	-2,672	3,934
Change in cash and cash equivalents (+/-)	8	58
Cash and cash equivalents, opening balance	902	843
Cash and cash equivalents, closing balance	910	902

Consolidated Profit and Loss Statement by Quarter, IFRS

EUR thousand	Jan 1– Mar 31, 2017	Apr 1– Jun 30, 2017	Jul 1–Sep 30, 2017	Oct 1– Dec 31, 2017	Jan 1– Mar 31, 2016	Apr 1– Jun 30, 2016	Jul 1– Sep 30, 2016	Oct 1– Dec 31, 2016
Net sales	17,517	17,452	13,930	17,189	14,597	15,224	11,803	17,992
Other operating income	103	19	16	-50	21	13	300	235
Materials (–)	-1,144	-2,005	-1,775	-1,317	-1,468	-1,451	-950	-1,613
Employee benefits/expenses (–)	-12,270	-11,818	-10,276	-12,326	-10,236	-10,669	-8,282	-11,510
Depreciation (–)	-676	-670	-667	-756	-609	-621	-605	-664
Other operating expenses (–)	-3,043	-2,778	-2,772	-2,922	-1,999	-2,050	-2,012	-3,114
Operating profit/loss	487	200	-1,544	-182	306	446	254	1,326
Financial income	5	3	0	518	0	1	0	4
Financial expenses (–)	-146	-131	-73	-294	-135	-51	-97	-134
Profit/loss before taxes	346	72	-1,617	42	171	396	157	1,196
Income taxes	-69	-15	324	-9	-34	-79	-32	-239
Profit/loss for the financial period	277	57	-1,293	33	137	317	125	957
EBITDA	1,163	870	-877	574	915	1,067	859	1,990

Commitments and contingent liabilities

EUR thousand	Dec 31, 2017	Dec 31, 2016
Collateral given for own commitments		
Collateral for rent	188	212
Mortgages on company assets*	17,002	17,453
Bank guarantees	303	303
Other own guarantees		
Lease liabilities		
Current lease liabilities	327	303
Lease liabilities maturing in 1-5 years	173	341
Total	500	644
Rental liabilities		
Current rental liabilities	2,007	1,976
Rental liabilities maturing in 1-5 years	1,482	2,034
Total	3,489	4,010
Other own guarantees total	3,989	4,654

* Of the mortgages on company assets, EUR 500 thousand was in the company's possession on December 31, 2017.

The final acquisition cost calculation for Lumagate

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

The rest of the Enterprise Value, which is a maximum of SEK 20 million (at the fixed exchange rate defined in the agreement, a maximum of approximately EUR 2.1 million), is intended to be paid mainly in Innofactor shares in 2019. The Enterprise Value (EV) is a maximum of SEK 65 million (at the fixed exchange rate defined in the agreement, a maximum of approximately EUR 6.8 million). The part of the purchase price to be paid in shares includes a transfer restriction, which will be gradually released during a period of 24 months and which concerns 90 percent of the shares.

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

The acquisition cost according to IFRS is the estimated purchase price of the shares, which in the preliminary acquisition cost calculation is EUR 5,656 thousand and has been presented in more detail in the following calculation.

Values registered for consolidation (EUR thousand)	
Tangible assets	32
Intangible assets	1,058
Deferred tax assets	27
Trade and other receivables	2,716
Cash and cash equivalents	367
Total assets	4,200
Other payables	3,013 (includes a deferred tax liability of 227)
Total liabilities	3,013
Net assets	1,187 (total assets - total debts)
Acquisition cost	5,655 (cash 4,627, conditional compensation 1,028)
Goodwill	4,468 (acquisition cost - net assets)
Purchase price paid in cash	4,627
Cash funds of the acquired subsidiary	367
Cash flow effect	-4,260

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

The acquisition created goodwill of EUR 4,468 thousand. The goodwill is based on the expected synergy benefits arising from the acquisition of Lumagate and on making use of the common sales and marketing network in the group and expanding customer relationships.

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

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 December 31, 2017, was as follows.

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

Formulas for calculating the key figures

Operating margin (EBITDA):

Operating profit/loss - Depreciations

Percentage of return on equity:

Profit or loss before taxes - Taxes
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

Shareholders' equity / share:

Equity attributable to the shareholders of the parent company
Undiluted number of shares on the date of the financial statement

Net sales / person:

Net sales
Active personnel on average during the review period