

Innofactor Plc Half-Yearly Report, August 1, 2017, at 9:00 Finnish time

Innofactor Plc's Half-Yearly Report, January 1–June 30, 2017 (IFRS)

The first half of the year was passable—we expect to have a strong second half of the year

January–June 2017 in brief:

- The net sales were approximately EUR 35.0 million (2016: 29.8), which shows an increase of 17.3%.
- The operating margin was approximately EUR 2.0 million (2016: 2.0), which shows an increase of 2.6%.
- The operating profit was approximately EUR 687 thousand (2016: 752), decreasing by 8.6% due to increased write-offs related to acquisitions, in accordance with IFRS 3, resulting in a decrease of EUR 1,014 thousand (2016: 910).
- Innofactor received several significant orders during the first half of the year. For example, the Unemployment Insurance Fund (TVR) for approximately EUR 1.0 million, the Hospital District of Helsinki and Uusimaa (HUS) for approximately EUR 1.8 million, IF Metall (in Sweden) for approximately EUR 0.6-4 million, and a Finnish service company for approximately EUR 0.5 million.
- The actions for improving effectiveness of operations, related to the Lumagate companies, have had the desired positive effect on the operating margin, especially in Norway.
- The business operations in Denmark have not improved in the desired manner and, thus, the Country Manager in Denmark for now will be Per Bendix Olsen, who will also continue as the director of Innofactor's Nordic public administration business.
- Innofactor's Executive Board has a new member, Vesa Syrjäkari, whose special goal is improving the Group's profitability.

April–June 2017 in brief:

- The net sales were approximately EUR 17.5 million (2016: 15.2), which shows an increase of 14.6%.
- The operating margin was approximately EUR 0.9 million (2016: 1.1), which shows a decrease of 18.5%; the weaker than expected profitability was contributed to by the lower than expected net sales and the fact that the results from the Danish business operations were significantly less than expected.
- The operating profit was EUR 200 thousand (2016: 446), decreasing by 55.2% due to increased write-offs related to acquisitions, in accordance with IFRS 3, resulting in a decrease of EUR 507 thousand (2016: 455).

	Apr 1– Jun 30, 2017	Apr 1– Jun 30, 2016	Change	Jan 1– Jun 30, 2017	Jan 1– Jun 30, 2016	Change	Jan 1–Dec 31, 2016
Net sales, EUR thousand	17,452	15,224	14.6%	34,969	29,821	17.3%	59,616
Operating margin (EBITDA), EUR thousand	870	1,067	-18.5%	2,033	1,982	2.6%	4,831
percentage of net sales	5.0%	7.0%		5.8%	6.6%		8.1%
Operating profit/loss (EBIT), EUR thousand**	200	446	-55.2%	687	752	-8.6%	2,332
percentage of net sales**	1.1%	2.9%		2.0%	2.5%		3.9%
Earnings before taxes, EUR thousand**	72	396	-81.8%	418	567	-26.3%	1,920
percentage of net sales**	0.4%	2.6%		1.2%	1.9%		3.2%
Earnings, EUR thousand**	-59	294	-120.1%	19	436	-95.6%	1,516
percentage of net sales**	-0.3%	1.9%		0.1%	1.5%		2.5%
Net gearing	48.9%	52.2%		48.9%	52.2%		70.2%
Equity ratio	43.5%	39.3%		43.5%	39.3%		35.9%
Active personnel on average during the review period***	609	500	21.8%	602	501	20.2%	427
Earnings per share (EUR)	0.0016	0.0096	-83.6%	0.0097	0.0137	-29.3%	0.0467

*) In accordance with IFRS 3, the operating profit for April 1–June 30, 2017, includes EUR 507 thousand (2016: 455) 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 April 1–June 30, 2017, would have been EUR 707 thousand (2016: 901), the operative business result before taxes EUR 579 thousand (2016: 851), the operative business result EUR 463 thousand (2016: 681), and the operative business result per share EUR 0.0141 (2016: 0.0211). In accordance with IFRS 3, the operating profit for January 1–June 30, 2017, includes EUR 1,014 thousand (2016: 910) 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–June 30, 2017, would have been EUR 1,701 thousand (2016: 1,662), the operative business result before taxes EUR 1,432 thousand (2016: 1,447), the operative business result EUR 1,146 thousand (2016: 1,182), and the operative business result per share EUR 0.0347 (2016: 0.0367).

**) 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 2017 remains the same

Innofactor's net sales and operating margin (EBITDA) in 2017 is estimated to increase from 2016, during which the net sales were EUR 59.6 million and operating margin was EUR 4.8 million.

CEO Sami Ensio's review: In the second half of the year, Innofactor will focus in clearly improving the profitability

The growth of the net sales in the second quarter was 14.6 percent (net sales EUR 17.5 million). Innofactor has estimated that the Nordic IT market will grow faster in 2017 than in the previous years, and this estimate remains the same. The market growth is believed to also increase Innofactor's growth possibilities.

In the second quarter of 2017, the operating margin (EBITDA) was EUR 0.9 million (5.0 percent of the net sales) and decreased 18.5 percent from the previous year. The weaker than expected profitability was contributed to by the lower than expected net sales and the fact that the results from the Danish business operations were significantly less than expected. The actions for improving effectiveness of operations (stated in the financial statement on March 7, 2017, and related to the Lumagate companies), including renewal of the organization structure and trimming down management, have continued to improve the net sales, especially in Norway.

In Innofactor's history, the end of the year has typically been better in terms of operating margin than the beginning of the year, but special attention still needs to be paid to improving the profitability and raising it to the goal level.

In its meeting yesterday, July 31, 2017, Innofactor's Board of Directors decided that the new director of Nordic public administration business, Per Bendix Olsen from Denmark, will also act as the Country Manager in Denmark as of August 1, 2017, until further notice. Per Bendix has an extensive experience on managerial positions in IT companies, especially in Microsoft, where his latest job was managing international public administration partnerships at the Microsoft's head office at Redmond.

Also another person coming from the Microsoft's head office, Vesa Syrjäkari, will start in the Innofactor's Executive Board on September 1, 2017. His title will be Executive Vice President, Business Development and Operational Excellence. Vesa has been one of the highest-ranking Finns ever in the Microsoft's international organization. His last job there was to be responsible globally for the effectiveness of Microsoft's sales to its major customers. Vesa's first job in Innofactor is to focus on improving profitability and to ensure that the already made plans for improving effectiveness in business units are implemented successfully.

Despite the challenging operating margin level, the cash flow from business activities in the first half of the year remained strong and was approximately EUR 3.9 million (2016: EUR 2.9 million).

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 2017-2020, Innofactor will primarily strive to unify its offering in the Nordic Countries in its selected areas. This may happen 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 organic growth of approximately 20 percent in 2020 at the latest
- To achieve approximately 20 percent operating margin (EBITDA) in relation to the net sales in 2020 at the latest
- To keep the cash flow positive and to secure solid financial standing in all situations

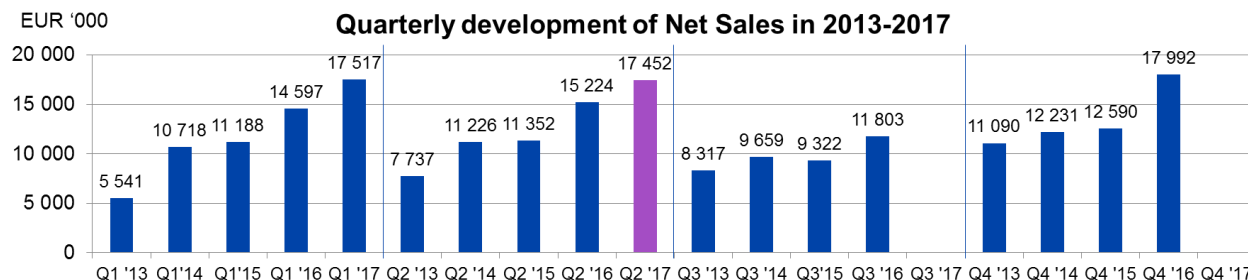
Innofactor's net sales in the review period of January 1–June 30, 2017, grew by 17.3% and the main part of this was based on inorganic growth resulting from the Lumagate acquisition.

Innofactor's operating margin (EBITDA) in relation to net sales was 5.8 percent in the review period. Typically, Innofactor's profitability has improved towards the end of the year.

Innofactor's operating cash flow in the review period of January 1–June 30, 2017, was EUR 3.9 million positive (2016: EUR 2.9 million). Innofactor's financial stability is good.

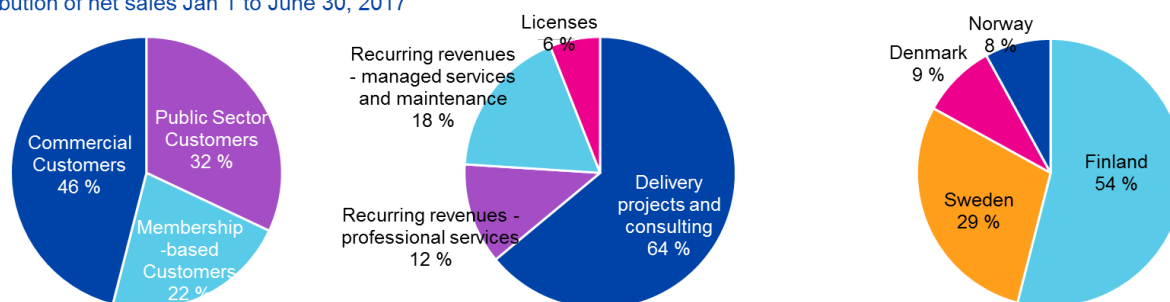
Net gearing at the end of the review period was 48.9 percent (2016: 52.2 percent).

Innofactor's net sales still in strong growth



Innofactor’s net sales on April 1–June 30, 2017, were EUR 17,452 thousand (2016: 15,224), which shows an increase of 14.6 percent, and on January 1–June 30, 2017, the net sales were EUR 34,969 thousand (2016: 29,821), which shows an increase of 17.3 percent.

Distribution of net sales Jan 1 to June 30, 2017



Innofactor's business operations were focused on Finland, Sweden, Denmark and Norway. In January 1–June 30, 2017, approximately 54 percent of the net sales came from Finland, approximately 29 percent from Sweden, approximately 9 percent from Denmark and approximately 8 percent from Norway.

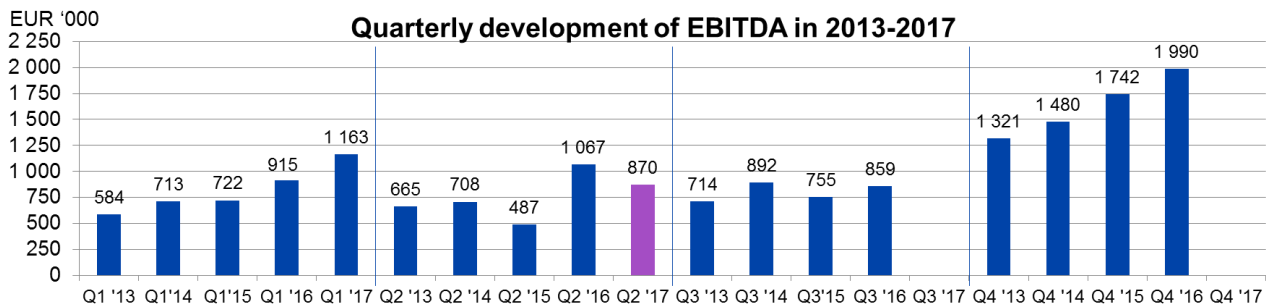
Of the net sales in January 1–June 30, 2017, approximately 46% came from commercial clients, approximately 32% from public sector clients and approximately 22% from third sector clients.

Innofactor's net sales in the review period of January 1–June 30, 2017, came from the following sources:

- approximately 64 percent from IT system delivery projects and consulting
- approximately 12 percent from specialist work based on recurring service contracts, such as smaller customer-specific changes and further development of IT systems
- approximately 18 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

Innofactor’s 10 largest clients accounted for approximately 25 percent of the net sales during the review period January 1–June 30, 2017.



Innofactor’s operating margin (EBITDA) in April 1–June 30, 2017, was EUR 870 thousand (2016: 1,067), which shows a decrease of 18.5 percent. EBITDA accounted for 5.0 percent of the net sales (2016: 7.0%). Innofactor’s operating profit in April 1–June 30, 2017, was EUR 200 thousand (2016: 446), which shows a decrease of 55.2 percent. Operating profit accounted for 1.1 percent of the net sales (2016: 2.9%).

Innofactor's operating margin (EBITDA) in January 1–June 30, 2017, was EUR 2,033 thousand (2016: 1,982), which shows an increase of 2.6 percent. EBITDA accounted for 5.8 percent of the net sales (2016: 6.6%). Innofactor’s operating profit in April 1–June 30, 2017, was EUR 687 thousand (2016: 752), which shows a decrease of 8.6 percent. Operating profit accounted for 2.0 percent of the net sales (2016: 2.5%).

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 profit for April 1–June 30, 2017, includes EUR 507 thousand (2016: 455) 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 April 1–June 30, 2017, would have been EUR 707 thousand (2016: 901), which shows a decrease of 21.5 percent.

The operating profit for the review period of January 1–June 30, 2017, includes EUR 1.0 million (2016: 0,9) 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 January 1–June 30, 2017, would have been EUR 1,701 thousand (2016: 1,662), which shows an increase of 2.3 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 63,297 thousand (2016: 56,667). The growth in the balance sheet total was mainly due to the acquisition of the Lumagate companies in October 2016. The Group's liquid assets totaled EUR 377 thousand (2016: 1,272), consisting totally of cash funds.

The operating cash flow remained strong, and in January 1–June 30, 2017, it was EUR 3,937 thousand (2016: 2,913). The investment cash flow was EUR -1,046 thousand (2016: -2,424).

The equity ratio at the end of the review period was 43.5 percent (2016: 39.3%) and net gearing was 48.9 percent (2016: 52.2%).

At the end of the review period, the company had EUR 6,654 thousand in current interest bearing liabilities (2016: 5,707) and EUR 6,830 thousand in non-current interest bearing liabilities (2016: 6,839). The total amount of interest bearing liabilities was EUR 13,484 thousand (2016: 12,546).

The return on investment in January 1–June 30, 2017, decreased from the previous year and was 3.7 percent (2016: 4.5%).

The return on equity in January 1–June 30, 2017, decreased from the previous year and was 3.2 percent (2016: 3.9%).

The non-current assets in Innofactor's balance sheet at the end of the review period were EUR 43,011 thousand in total and consisted of the following items:

- Tangible assets EUR 742 thousand
- Goodwill value EUR 27,542 thousand*
- Other intangible assets EUR 8,679 thousand*
- Shares and holdings EUR 62 thousand
- Receivables EUR 392 thousand
- Deferred tax assets EUR 5,594 thousand

Innofactor's gross investments in tangible and intangible assets in the review period of January 1–June 30, 2017, were EUR 1,046 thousand (2016: 209), consisting of normal additional and replacement investments required by growth.

The write-offs on intangible assets were EUR 1,062 thousand (2016: 964). In the review period of January 1–June 30, 2017, the company has activated development costs of its ERP system for a total of EUR 644 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 approximately the same as before

In the Innofactor strategy, renewed at the end of 2015, the role of product and service development gained more importance and investments for 2017 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.

Innofactor's research and development costs recognized in profit or loss for January 1–June 30, 2017, were approximately EUR 1,638 thousand (2016: 1,748), which accounts for 4.7 percent of the net sales (2016: 5.9%).

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 Lumagate acquisition, realized in October 2016, brought approximately 70 new employees to Innofactor in Sweden, Norway and Denmark.

The average number of active personnel in April 1–June 30, 2017, was 609 persons (2016: 500), which shows an increase of 21.8 percent.

The average number of active personnel in January 1–June 30, 2017, was 602 persons (2016: 501), which shows an increase of 20.2 percent.

In the review period of January 1–June 30, 2017, net sales per active person were approximately EUR 58.1 thousand (2016: 59.5), which shows an approximate decrease of EUR 1.4 thousand per person.

At the end of the review period, the number of active personnel was 617 (2016: 502), which shows an increase of 22.9 percent.

At the end of the review period, the average age among personnel dropped slightly and was 39.4 years (2015: 39.5).

Women accounted for 28 percent (2016: 29%) of the personnel. Men accounted for 72 percent (2016: 71%) 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 2016 adjustment payment of Cinteros AB deal 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 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 5, 2017, Innofactor announced in a stock exchange release that Innofactor's Board of Directors has decided to establish a Remuneration Committee.

On May 5, 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 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.

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.

3 286 848 new shares were issued in Innofactor Plc's share issue. The shares were registered with the Trade Register on 27 March 2017. Innofactor Plc published a stock exchange release on 27 March 2017 stating that part of the payment for the additional purchase price of Cinteros AB shall be paid with these new shares.

In April 1–June 30, 2017, the highest price of the company share was EUR 1.80 (2016: EUR 0.96), the lowest price was EUR 1.24 (2016: EUR 0.75), and the average* price was EUR 1.53 (2016*: EUR 0.84).

In January 1–June 30, 2017, the highest price of the company share was EUR 1.80 (2016: EUR 1.00), the lowest price was EUR 1.13 (2016: EUR 0.75), and the average* price was EUR 1.44 (2016*: EUR 0.85).

The closing price for the review period on June 30, 2017, was EUR 1.65 (2016: EUR 0.82).

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

In public trading in April 1–June 30, 2017, a total of 7,986,133 shares were traded (2016: 1,546,931 shares), which corresponds to 22.1 percent (2016: 4.7%) of the average number of shares on the said period. In April 1–June 30, 2017, there were 36,188,225 shares on the average (2016: 32,954,980*). The share trading increased by 416.3 percent compared to the corresponding period in 2016.

In public trading in January 1–June 30, 2017, a total of 12,387,051 shares were traded (2016: 3,955,144 shares), which corresponds to 35.9 percent (2016: 12.0%) of the average number of shares on the said period. In January 1–June 30, 2017, there were 34,481,247 shares on the average (2016: 33,024,053*). The share trading increased by 213.2 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 the review period, EUR 1.65, on June 30, 2017, was EUR 59,710 thousand (2016: 26,979), which shows an increase of 121.3 percent.

On June 30, 2017, the company had 12,080 shareowners (2016: 10,585), 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, 2017, 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.

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

Innofactor's market outlook and business environment in their entirety are described in the financial statement and annual report.

There have been no significant changes in Innofactor's market outlook and business environment during the review period nor can any be seen.

Short term risks and uncertainty factors

Innofactor's operations, finances and shares 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.

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

Acquisitions and changes in the group structure

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

Events after the review period

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

Espoo, August 1, 2017

INNOFACTOR PLC

Board of Directors

Additional information:

CEO Sami Ensio, Innofactor Plc

Tel. +358 50 584 2029

sami.ensio@innofactor.com

Briefings concerning the Half-Yearly Report January 1–June 30, 2017

On August 1, 2017, at 10:00 Finnish time, Innofactor will hold a briefing concerning the Half-Yearly Report 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 August 1, 2017, 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.

Distribution:
NASDAQ Helsinki
Main media
www.innofactor.com

Financial statement summary and appendixes January 1–June 30, 2017 (IFRS)

Accounting policies

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

This Half-Yearly 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 for 2020. 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 Half-Yearly 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 January 1–June 30, 2017, were EUR 507 thousand (2016: 455).

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 figures in this Half-Yearly Report have not been audited.

Consolidated Profit and Loss Statement, IFRS

EUR thousand	Apr 1–Jun 30, 2017	Apr 1–Jun 30, 2016	Jan 1–Jun 30, 2017	Jan 1–Jun 30, 2016	Jan 1–Dec 31, 2016
Net sales	17,452	15,224	34,969	29,821	59,616
Other operating income	19	13	122	34	569
Materials (–)	-2,005	-1,451	-3,149	-2,919	-5,482
Employee benefits/expenses (–)	-11,818	-10,669	-24,088	-20,905	-40,697
Depreciation (–)	-670	-621	-1,346	-1,230	-2,499
Other operating expenses (–)	-2,778	-2,050	-5,821	-4,049	-9,175
Operating profit/loss	200	446	687	752	2,332
Financial income	3	1	8	1	5
Financial expenses (–)	-131	-51	-277	-186	-417
Profit/loss before taxes	72	396	418	567	1,920
Income taxes	-15	-79	-84	-113	-384
Profit/loss for the financial period	57	317	334	454	1,536
Items that may be later recognized in profit or loss:					
Exchange differences	-116	-27	-315	-22	-20
Total comprehensive income	-59	290	19	432	1,516

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

basic earnings per share (EUR)	0.0016	0.0096	0.0097	0.0137	0.0467
diluted earnings per share (EUR)	0.0016	0.0096	0.0097	0.0137	0.0467

Consolidated Balance Sheet, IFRS

EUR thousand	Jun 30, 2017	Jun 30, 2016	Dec 31, 2016
Non-current assets			
Tangible assets	742	490	628
Goodwill	27,542	22,195	27,690
Other intangible assets	8,679	8,779	9,141
Shares and holdings	62	62	62
Receivables	392	663	595
Deferred tax assets	5,594	6,407	5,760
Non-current assets	43,011	38,596	43,876
Current assets			
Trade and other receivables	19,909	16,799	18,809
Cash and cash equivalents	377	1,272	902
Current assets	20,286	18,071	19,711
TOTAL ASSETS	63,297	56,667	63,587

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR thousand	Jun 30, 2017	Jun 30, 2016	Dec 31, 2016
Equity attributable to the shareholders of the parent company			
Share capital	2,100	2,100	2,100
Share premium reserve	72	72	72
Other reserves (+/-)	59	59	59
Fund for invested unrestricted equity	20,262	16,153	16,153
Treasury shares	0	0	-161
Retained earnings	4,297	3,195	4,278
Total shareholders' equity	26,790	21,579	22,501
Non-current liabilities			
Loans from financial institutions	6,830	6,839	9,038
Deferred tax liabilities	2,112	2,201	2,234
Long term liabilities total	8,942	9,040	11,272
Current liabilities			
Loans from financial institutions	6,654	5,707	7,663
Trade and other payables	20,911	20,341	22,151
Current liabilities total	27,565	26,048	29,814
Total liabilities	36,507	35,088	41,086
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	63,297	56,667	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	Total shareholders' equity
Shareholders' equity Jan 1, 2017	2,100	72	59	16,153	-161	4,278	22,501
Comprehensive income							
Profit for the financial period						334	334
Correction							0
Other comprehensive income:							
Exchange differences						-315	-315
Total comprehensive income	0	0	0	0	0	19	19
Share issue				4,109			4,109
Purchase of own shares					-199		-199
Transfer of own shares					360		360
Transactions with shareholders in total	0	0	0	4,109	161	0	4,270
Shareholders' equity Jun 30, 2017	2,100	72	59	20,262	0	4,297	26,790

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								
Profit for the financial period						454		454
Correction								0
Other comprehensive income:								
Exchange differences						-22		-22
Total comprehensive income	0	0	0	0	0	432	0	432
Share issue								0
Purchase of own shares					-140			-140
Share issue								0
Cancellation of treasury shares					485	-485		0
Transactions with shareholders in total	0	0	0	0	345	-485	0	-140
Redemption of the hybrid bond							-3,200	-3,200
Interest payments on the hybrid bond						-47		-47
Shareholders' equity Jun 30, 2016	2,100	72	59	16,153	0	3,195	0	21,579

Consolidated Cash Flow Statement, IFRS

EUR thousand	Jan 1–Jun 30, 2017	Jan 1–Jun 30, 2016	Jan 1–Dec 31, 2016
Cash flow from operating activities			
Operating profit	687	752	2,332
Adjustments:			
Depreciation	1,346	1,229	2,499
Changes in working capital:			
Change in trade or other receivables (+/-)	-898	-1,047	-186
Change in trade and other payables (+/-)	3,071	2,163	-838
Interests paid (-)	-277	-185	-370
Interests received	8	1	5
Total cash flow from operating activities	3,937	2,913	3,442
Investment cash flow			
Acquisition of subsidiaries	0	-2,215	-6,475
Investments in intangible and tangible assets (-)	-1,046	-209	-843
Total cash flow from investments	-1,046	-2,424	-7,318
Cash flow from financing			
Loans withdrawn	0	7,156	13,783
Loans paid	-3,217	-3,829	-6,302
Redemption of the hybrid bond	0	-3,200	-3,200
Interest payments on the hybrid bond	0	-47	-47
Purchase of own shares	-199	-140	-300
Total cash flow from financing	-3,416	-60	3,934
Change in cash and cash equivalents (+/-)	-525	429	58
Cash and cash equivalents, opening balance	902	843	843
Cash and cash equivalents, closing balance	377	1,272	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			14,597	15,224	11,803	17,992
Other operating income	103	19			21	13	300	235
Materials (–)	-1,144	-2,005			-1,468	-1,451	-950	-1,613
Employee benefits/expenses (–)	-12,270	-11,818			-10,236	-10,669	-8,282	-11,510
Depreciation (–)	-676	-670			-609	-621	-605	-664
Other operating expenses (–)	-3,043	-2,778			-1,999	-2,050	-2,012	-3,114
Operating profit/loss	487	200			306	446	254	1,326
Financial income	5	3			0	1	0	4
Financial expenses (–)	-146	-131			-135	-51	-97	-134
Profit/loss before taxes	346	72			171	396	157	1,196
Income taxes	-69	-15			-34	-79	-32	-239
Profit/loss for the financial period	277	57			137	317	125	957

Commitments and contingent liabilities

<u>EUR thousand</u>	<u>Jun 30, 2017</u>	<u>Jun 30, 2016</u>	<u>Dec 31, 2016</u>
Collateral given for own commitments			
Collateral for rent	212	181	212
Mortgages on company assets*	17,433	16,568	17,453
Bank guarantees	303	303	303
Other own guarantees			
Lease liabilities			
Current lease liabilities	289	76	303
Lease liabilities maturing in 1-5 years	339	157	341
Total	628	233	644
Rental liabilities			
Current rental liabilities	1,976	1,735	1,976
Rental liabilities maturing in 1-5 years	1,369	2,500	2,034
Total	3,345	4,235	4,010
Other own guarantees total	3,973	4,468	4,654

* Of the mortgages on company assets, EUR 500 thousand was in the company's possession on Jun 30, 2017.

The preliminary 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 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 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 6,684 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	6,684 (cash 4,627, conditional compensation 2,057)
Goodwill	5,496 (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 a preliminary goodwill of EUR 5,496 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. The acquisition cost calculation is preliminary and there have been no changes after the financial statement.

Largest shareholders

According to the share register maintained by Euroclear Finland Oy, the share ownership of the 20 largest Innofactor Plc shareowners at the end of the review period on June 30, 2017, was as follows.

Name	Number of shares	% of share capital
1. Ensio Sami	7,460,715	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	2,645,247	7.31%
3. Ilmarinen Mutual Pension Insurance Company	1,550,000	4.28%
4. Laiho Rami Tapani	1,331,582	3.68%
5. Linturi Kaija and Risto	1,261,411	3.49%
<i>R. Linturi Oyj</i>	494,107	1.37%
<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. Laiho Jari Olavi	270,000	0.75%
14. Hellen Stefan Andreas	250,000	0.69%
15. Karppinen Antti Sakari	200,000	0.55%
16. Mäkinen Antti Vilho Juhani	140,000	0.39%
17. Salmela Alpo Jalmari	128,400	0.35%
18. Muurinen Hannu Olavi	125,750	0.35%
19. Mandatum Life	122,710	0.34%
20. Tiirikainen Vesa Martti	110,750	0.31%

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