

Innofactor Plc Half-Yearly Report July 24, 2018, at 9:00 Finnish time

Innofactor Plc's Half-Yearly Report for January 1–July 30, 2018 (IFRS)

In the second quarter, the net sales have returned almost to the same level as in the comparison period; corrective actions to improve profitability have been made and are expected to have a positive effect in the third quarter

January–June 2018 in brief:

- The net sales were approximately EUR 33.5 million (2017: 34.4), which shows a decrease of 2.7%.
- The operating margin was approximately EUR 0.4 million (2017: 1.5), which shows a decrease of 74.3%.
- The operating loss was EUR 994 thousand (2017: operating profit 119), which shows a decrease of 935.3%.
- The weaker than expected profitability was contributed to by the lower than expected net sales.
- Innofactor got several significant orders in the first half of the year, for example, HAIPA for the Legal Register Centre, approximately EUR 2.0 million; Swedish adult educational association Folksuniversitet, approximately EUR 0.5 million; the Swedish Teachers' Union Lärarförbundet, approximately EUR 5.2 million; and the trade union Kommunal, EUR 2,8 million at the minimum and EUR 5.2 million at the maximum.

April–June 2018 in brief:

- The net sales were approximately EUR 17.0 million (2017: 17.1), which shows a decrease of 0.8%.
- The operating margin was approximately EUR 36 thousand (2017: 567), which shows a decrease of 93.7%.
- The weaker than expected profitability was contributed to by the lower than expected net sales.
- The operating loss was EUR 630 thousand (2017: -103), which shows a decrease of 511.7%.

	Apr 1– Jun 30, 2018	Apr 1– Jun 30, 2017	Change	Jan 1–Jun 30, 2018	Jan 1–Jun 30, 2017	Change	Jan 1–Dec 31, 2017
Net sales, EUR thousand	17,010	17,149	-0.8%	33,480	34,401	-2.7%	65,666
Growth of net sales	-0.8%	12.6%		-2.7%	15.4%		10.1%
Operating profit before depreciation and amortization (EBITDA), EUR thousand*	36	567	-93.7%	376	1,465	-74.3%	1,308
percentage of net sales*	0.2%	3.3%		1.1%	4.3%		2.0%
Operating profit/loss (EBIT), EUR thousand*	-630	-103	-511.7%	-994	119	-935.3%	-1,461
percentage of net sales*	-3.7%	-0.6%		-3.0%	0.3%		-2.2%
Earnings before taxes, EUR thousand*	-782	-231	-238.5%	-1,259	-150	-739.3%	-1,579
percentage of net sales*	-4.6%	-1.3%		-3.8%	-0.4%		-2.4%
Earnings, EUR thousand*	-768	-185	-315.1%	-1,467	-435	-237.2%	-2,007
percentage of net sales*	-4.5%	-1.1%		-4.4%	-1.3%		-3.1%
Net gearing	58.0%	49.4%		58.0%	49.4%		53.8%
Equity ratio	42.6%	43.3%		42.6%	43.3%		43.4%
Active personnel on average during the review period**	597	609	-2.0%	597	602	-0.8%	610
Earnings per share (EUR)	-0.0278	-0.0035	-699.6%	-0.0278	-0.0035	-699.6%	-0.0357

*) In accordance with IFRS 3, the operating result for April 1–June 30, 2018, includes EUR 507 thousand (2017: 507) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. In accordance with IFRS 3, the operating result for January 1–June 30, 2018, includes EUR 1,015 thousand (2017: 1,015) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets.

***) 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 65.7* million and operating margin was EUR 1.3* million. Innofactor monitors the result development actively.

*) The net sales and operating margin for 2017 have been adjusted in accordance with the IFRS 15 standard. A separate release on this was published on May 7, 2018.

CEO Sami Ensio's review: We estimate that a turn in the business took place during the second quarter, and this should manifest itself as improved profitability in the third quarter

The net sales in the first half of 2018 were EUR 33.5 million, which shows a decrease of 2.7 percent from the last year. The operating margin (EBITDA) was EUR 0.4 million (1.1 percent of the net sales), which shows a decrease of 74.3 percent from the last year. The result was significantly lower than the goals we had set.

Especially in the second quarter, we made plenty of corrective actions, and we estimate that they will significantly improve our profitability in the second half of the year. For example, at the end of the review period, Innofactor had 29 employees (4.7%) less than a year before, which is estimated to have a significant positive effect in the profitability of the third quarter. In Innofactor's history, the end of the year has typically been better in terms of operating margin than the beginning of the year also in other respects. However, raising the profitability to the target level still requires special attention.

We have made remarkable progress in implementing Nordic operating models and systems, and this has had a positive effect in controlling the company's operation. We implemented the common ERP system in Sweden at the beginning of July 2018. Now the system is in use in all countries. During second quarter remaining Lumagate companies in Sweden and Norway have been rebranded under Innofactor brand and all Group brands have been now unified.

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

Strategy and its realization in the review period

Innofactor 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 approximately 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

In the review period of January 1–June 30, 2018, Innofactor's net sales decreased by 2.7 percent. The company did not reach the goal it had set for organic growth.

Innofactor's operating margin (EBITDA) in relation to net sales was 1.1 percent in the review period of January 1–June 30, 2018. This is low and very far away from the set target level of 20 percent.

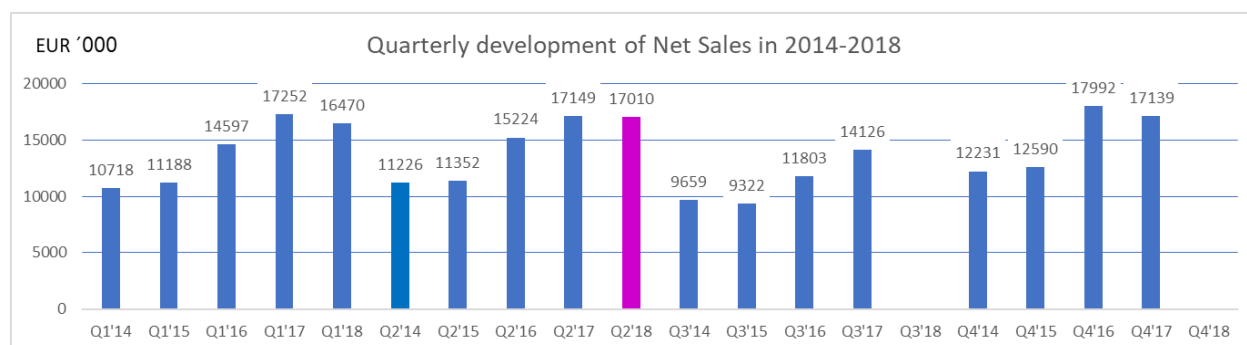
The main actions for reaching the approximately 20 percent growth and 20 percent operating margin:

- 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.

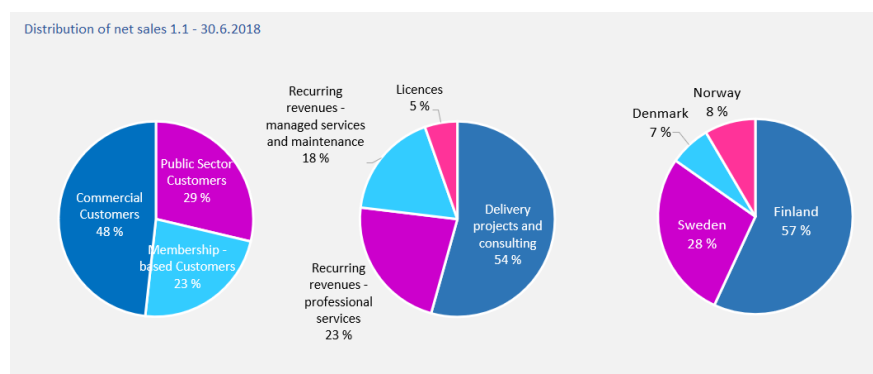
- We will concentrate on management of know-how, recruiting, and resource optimization in the Nordic level.
- We will move the focus in our offering and net sales more and more to products and productized services.
- We will continuously improve our specialists' skills, so customers will be willing to pay a higher than the average price on the field for them and our leading offering.
- We will develop our flexible delivery model, which enables fast added value, in such a way that the amount of unnecessary work is being minimized and our billing rate and customer satisfaction improve.
- We will invest in operative efficiency by developing the Financial Quarterly Accountability (FQA), internal information systems and predictability.

Innofactor's operating cash flow in the review period of January 1–June 30, 2018, was EUR 0.5 million positive (2017: EUR 3.9 million). Net gearing at the end of the review period was 58 percent (2017: 49.4%). Innofactor's financial stability estimated on the basis of net gearing is good.

Innofactor's net sales in the second quarter almost in the same level as last year



Innofactor's net sales in April 1–June 30, 2018, were EUR 17,010 thousand (2017: 17,149), which shows a decrease of 0.8 percent.



Innofactor's business operations were focused on Finland, Sweden, Denmark and Norway. In January 1–June 30, 2018, approximately 57 percent of the net sales came from Finland, approximately 28 percent from Sweden, approximately 8 percent from Norway and approximately 7 percent from Denmark.

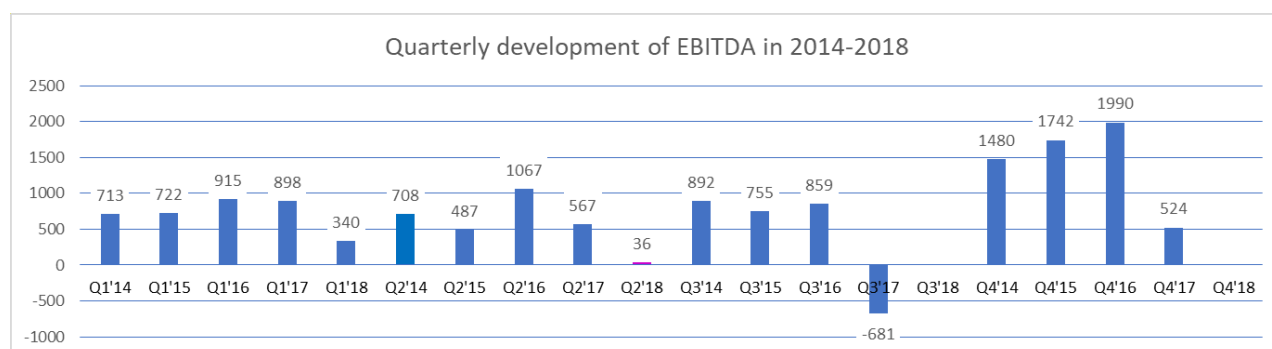
Of the net sales in January 1–June 30, 2018, approximately 48 percent came from commercial clients, approximately 29 percent from public sector clients and approximately 23 percent from third sector clients.

Innofactor's net sales in the review period of January 1–June 30, 2018, came from the following sources:

- approximately 54 percent from IT system delivery projects and consulting
- approximately 23 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 5 percent from licenses, of which the share of licensing income to third parties was approximately 2,8 percent of the net sales

As the ERP system was implemented, the categorization of the net sales was redefined as of January 1, 2018, so the abovementioned shares are not directly comparable to the corresponding figures for last year.

Innofactor's 10 largest clients accounted for approximately 27 percent of the net sales during the review period January 1–June 30, 2018.



Innofactor's operating margin (EBITDA) in April 1–June 30, 2018, was EUR 36 thousand (2017: 567), which shows a decrease of 93.7 percent. EBITDA accounted for 0.2 percent of the net sales (2017: 3.3%). Innofactor's operating loss in April 1–June 30, 2018, was EUR 630 thousand (2017: operating loss 103), which shows a decrease of 711.7 percent. The operating loss accounted for -3.7 percent of the net sales (2017: operating loss 0.6%).

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.

In accordance with IFRS 3, the operating result for April 1–June 30, 2018, includes EUR 507 thousand (2017: 507) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor's operative business loss for the review period of April 1–June 30, 2018, would have been EUR 122 thousand (2017: operating profit 404), which shows a decrease of 130.2 percent.

Innofactor's financial stability continues to be good

Innofactor's balance sheet total at the end of the review period was EUR 57,706 thousand (2017: 63,055). The Group's liquid assets totaled EUR 898 thousand (2017: 377), consisting totally of cash funds.

The operating cash flow in the review period of January 1–June 30, 2018, was EUR 452 thousand (2017: 3,937). The investment cash flow was EUR -835 thousand (2017: -1,046).

The equity ratio at the end of the review period was 42.6 percent (2017: 43.3%) and net gearing was 58 percent (2017: 49.4%).

At the end of the review period, the company had EUR 7,771 thousand in current interest bearing liabilities (2017: 6,654) and EUR 6,833 thousand in non-current interest bearing liabilities (2017: 6,830). The total amount of interest bearing liabilities was EUR 14,604 thousand (2017: 13,484).

The return on investment in January 1–June 30, 2018, decreased from the previous year and was -5.1 percent (2017: 0.6%).

The return on equity in January 1–March 31, 2018, decreased from the previous year and was -8.3 percent (2017: -1.0%).

The non-current assets in Innofactor's balance sheet at the end of the review period were EUR 39,459 thousand in total (2017: 43,072).

Innofactor's gross investments in tangible and intangible assets in the review period of January 1–June 30, 2018, were EUR 668 thousand (2017: 1,046), consisting of normal additional and replacement investments required by growth.

The payment of the remaining purchase price for the Cinteros acquisition, EUR 200 thousand, was carried out in the second quarter.

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 write-offs on intangible assets were EUR 1,178 thousand (2017: 1,062). In the review period of January 1–June 30, 2018, the company has activated development costs of its ERP system for a total of EUR 528 thousand.

Innofactor's research and product development investments remained 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.

In the product development during the review period, focus was on renewing existing products and services 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, 2018, were approximately EUR 1,613 thousand (2017: 1,638), which accounts for 4.8 percent of the net sales (2017: 4.8%).

The number of personnel in Innofactor is 29 less than a year before

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 April 1–June 30, 2018, was 597 persons (2017: 609), which shows a decrease of 2.0 percent.

The average number of active personnel in January 1–June 30, 2018, was 601 persons (2017: 602), which shows a decrease of 0 percent.

In the review period of January 1–June 30, 2018, the net sales per active person was approximately EUR 56.1 thousand (2017: 57.1), which shows an approximate decrease of EUR 1.0 thousand per person.

At the end of the review period, the number of active personnel was 588 (2017: 617), which shows a decrease of 4.9 percent.

At the end of the review period, the average age among personnel remained the same and was 39.4 years (2017: 39.4).

Women accounted for 31 percent (2017: 28%) of the personnel. Men accounted for 69 percent (2017: 72%) of the personnel.

Other events in 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.

On January 24, 2018, Innofactor announced in a stock exchange release that Folkuniversitetet, a Swedish adult educational association, had selected Innofactor as the partner for implementing a Course and Event Management System with the value of the deal being approximately EUR 0.5 million.

On January 24, 2018, Innofactor published a flagging announcement pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act, stating that Tuomo Tilman's ownership of the Innofactor Plc votes and shares had decreased below five percent (5%).

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

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

On March 5, 2018, Innofactor announced in a stock exchange release that the Supreme Administrative Court did not overrule HKL's decision to cancel the procurement decision of November 26, 2015, awarded to Innofactor in a bidding competition concerning the situational information system for the Metro's total security. The framework arrangement of the procurement was intended to remain in effect for a maximum of 15 years. For this total time, Innofactor had stated that the total price according to the tender would be approximately EUR 7 million.

On March 16, 2018, Innofactor announced in a stock exchange release that the Legal Register Centre selected Innofactor as the provider of the HAIPA system. The value of the deal is approximately EUR 2 million during 2018 and 2019.

On June 29, 2018, Innofactor announced in a stock exchange release that the Swedish trade union Kommunal has renewed and expanded its continuous services and support agreement with

Innofactor as partner for maintenance and further development of their membership system and related services. The value of the of the agreement is approximately EUR 2.8 million at the minimum and approximately EUR 5.2 million at the maximum in the years 2018–2021.

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.

On April 1–June 30, 2018, the highest price of the company share was EUR 0.88 (2017: EUR 1.80), the lowest price was EUR 0.75 (2017: EUR 1.24), and the average price* was EUR 0.82 (2017*: EUR 1.53).

On January 1–June 30, 2018, the highest price of the company share was EUR 1.13 (2017: EUR 1.80), the lowest price was EUR 0.75 (2017: EUR 1.13), and the average price was EUR 0.89 (2017*: EUR 1.44).

The closing price for the review period on June 29, 2018, was EUR 0.79 (2017: EUR 1.65).

In public trading in April 1–June 30, 2018, a total of 1,497,941 shares were traded (2017: 7,986,133 shares), which corresponds to 4.1 percent (2017: 22.1%) of the average number of shares on the said period. In April 1–June 30, 2018, there were 36,188,225 shares on the average (2017: 36,188,225*). The share trading decreased by 81.2 percent compared to the corresponding period in 2017.

In public trading in January 1–June 30, 2018, a total of 4,734,382 shares were traded (2017: 12,387,051 shares), which corresponds to 13.1 percent (2017: 35.9%) of the average number of shares on the said period. In January 1–June 30, 2018, there were 36,188,225 shares on the average (2017: 34,481,247*). The share trading decreased by 61.7 percent compared to the corresponding period in 2017.

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

The market value of the share capital at the closing price of EUR 0.79, on June 30, 2018, was EUR 28,733 thousand (2017: 59,711), which shows a decrease of 51.9 percent.

On June 30, 2018, the company had a total of 11,932 shareowners (2017: 12,080), including administrative registers.

The Board of Directors has the following authorizations:

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

Own shares

The General Meeting of April 4, 2018, authorized the Board of Directors to decide on acquiring of a maximum of 5,000,000 of company's own shares in one or several parts with the company's unrestricted equity. The authorization entitles the Board to deviate from the shareholders' proportional shareholdings (directed acquisition). Own shares may be acquired at the purchase price formed for them in public trading at the day of purchase or at another market price. The number of treasury shares at a time may be, at the maximum, one tenth of the total number of shares in the company. Shares may be purchased to be used in company acquisitions or implementing other arrangements relating to the company's business operations, improving the company's capital or financing structure, as a part of the company's incentive system, or otherwise to be handed over or voided. In connection with the share repurchase, ordinary derivative, stock lending and other agreements may be made in the market in accordance with the laws and regulations. The authorization includes the right of the Board of Directors to decide on all other matters related to the acquisition of shares. The authorization will be valid until June 30, 2019. This authorization replaces the Board's earlier authorizations concerning share repurchase.

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

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, 2018, the General Meeting decided that the number of Board members is four. Of the previous members, Sami Ensio was re-elected, and Pekka Eloholma, Anna Lindén and Risto Linturi were elected as new members. In their organizing meeting held immediately after the General Meeting, the Board of Directors elected Pekka Eloholma as the Chairman of the Board.

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

Innofactor has drawn up a separate Corporate Governance Statement for the financial period of 2017.

Innofactor Plc's entire Corporate Governance and statements are available on the company's web site at: <https://www.innofactor.com/fi/sijoittajille/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 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.

Financing risks: In its normal business operations, the Innofactor Group is susceptible to normal financing risks. In total at the end of the review period, Innofactor had approximately EUR 14.6 million in interest bearing debts, which have been taken out to finance earlier acquisitions and working capital. 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 Innofactor Group's interest-bearing liabilities divided by the 12-month operating margin (EBITDA) on June 30, 2018, exceeded the covenant limit of 2.5 agreed on with the financial institution. However, the financial institution issued a waiver accepting this deviation. 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.

There have been no significant changes in Innofactor's other 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 were carried out during the review period.

The subsidiary in Denmark, Lumagate A/S, has been merged into Innofactor A/S as of June 1, 2018.

Events after the review period

There are no events in Innofactor after the review period.

Espoo, July 24, 2018

INNOFACTOR PLC

Board of Directors

Additional information:

CEO Sami Ensio, Innofactor Plc

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Briefings concerning the Half-Yearly Report January 1–June 30, 2018

A briefing in Finnish concerning the half-yearly report will be held for media, investors and analysts on July 24, 2018, at 10:00 Finnish time, at the company's premises at Keilaranta 9, Espoo. The report will be presented by CEO Sami Ensio and CFO Marko Lehtonen. The corresponding conference call in English will be held at 12:00 Finnish time, and the presenter will be CFO Marko Lehtonen.

Please register for the briefings beforehand by sending email to ir@innofactor.com.

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

Distribution:

NASDAQ Helsinki

Main media

www.innofactor.com

Financial statement summary and appendixes January 1–June 30, 2018 (IFRS)

Accounting policies

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

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

The interim report adheres to the same accounting policies and calculation methods as the last annual financial statement 2017. However, as of January 1, 2018, 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 2017. 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–June 30, 2018, were EUR 1,015 thousand (2017: 1,015).

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 interim report 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 applies 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.

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. Innofactor has adjusted its estimate on the effect of the IFRS 15 standard in the net sales and result. In 2018, it is estimated to be approximately EUR 0.4–0.6 million in total, which is correspondingly estimated to be transferred to 2019.

<u>EUR thousand</u>	<u>Jan 1–Jun 30, 2018</u>	<u>Jan 1–Jun 30, 2017</u>	<u>Change</u>
Revenue from services	17,495	17,650	-0.8%
Revenue recognized from long-term projects	15,985	16,751	-4.6%
Total	33,480	34,401	-2.7%

Revenue from services is recognized when the service has been provided and the economic benefit from the service is probable. Man-hour work is recognized monthly as it progresses.

Long-term fixed-price projects are recognized using the percentage of completion method when the outcome of the project can be estimated reliably.

IFRS 9 Financial Instruments

Innofactor has implemented the IFRS 9 Financial Instruments standard as of January 1, 2018. The primary effect of the IFRS 9 standard is related to the time of registering anticipated credit losses. The Group is not implementing the standard retroactively. The IFRS 9 Financial Instruments standard has no substantial effect on the Innofactor financial report.

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

EUR thousand	Apr 1– Jun 30, 2018	Apr 1– Jun 30, 2017	Jan 1–Jun 30, 2018	Jan 1–Jun 30, 2017	Jan 1–Dec 31, 2017
Net sales	17,010	17,149	33,480	34,401	65,666
Other operating income	17	19	26	122	88
Materials (–)	-1,974	-2,005	-3,781	-3,149	-6,241
Employee benefits/expenses (–)	-12,552	-11,818	-24,677	-24,088	-46,690
Depreciation (–)	-666	-670	-1,370	-1,346	-2,769
Other operating expenses (–)	-2,464	-2,778	-4,672	-5,821	-11,515
Operating profit/loss	-630	-103	-994	119	-1,461
Financial income	10	3	14	8	526
Financial expenses (–)	-163	-131	-279	-277	-644
Profit/loss before taxes	-782	-231	-1,259	-150	-1,579
Income taxes	157	46	252	30	316
Profit/loss for the financial period	-625	-185	-1,007	-120	-1,263
Other comprehensive income Items that may be later recognized in profit or loss:					
Exchange differences	-143	-116	-460	-315	-744
Total comprehensive income	-768	-301	-1,467	-435	-2,007

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

basic earnings per share (EUR)	-0.0173	-0.0051	-0.0278	-0.0035	-0.0357
diluted earnings per share (EUR)	-0.0173	-0.0051	-0.0278	-0.0035	-0.0357

ASSETS

EUR thousand	Jun 30, 2018	Jun 30, 2017	Dec 31, 2017
Non-current assets			
Tangible assets	596	742	640
Goodwill	26,011	27,542	26,398
Other intangible assets	6,920	8,679	7,797
Shares and holdings	62	62	62
Receivables	257	392	342
Deferred tax assets	5,613	5,655	5,668
Non-current assets	39,459	43,072	40,907
Current assets			
Trade and other receivables	17,349	19,606	16,455
Cash and cash equivalents	898	377	910
Current assets	18,247	19,983	17,365
TOTAL ASSETS	57,706	63,055	58,272

**Statement of change in
shareholders' equity, IFRS**
SHAREHOLDERS' EQUITY AND LIABILITIES

EUR thousand	Jun 30, 2018	Jun 30, 2017	Dec 31, 2017
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	20,322	20,262	20,321

Retained earnings	1,081	4,055	2,212
Total shareholders' equity	23,634	26,548	24,764
Non-current liabilities			
Loans from financial institutions	6,833	6,830	7,280
Deferred tax liabilities	1,612	2,112	1,826
Long term liabilities total	8,445	8,942	9,106
Current liabilities			
Loans from financial institutions	7,771	6,654	6,948
Trade and other payables	17,856	20,911	17,454
Current liabilities total	25,627	27,565	24,402
Total liabilities	34,072	36,507	33,508
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	57,706	63,055	58,272

Statement of change in shareholders' equity, IFRS

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Total shareholders' equity
Shareholders' equity Dec 31, 2017	2,100	72	59	20,321		2,549	25,101
Change in calculation principles, IFRS 15						-337	-337
Shareholders' equity Jan 1, 2018	2,100	72	59	20,321	0	2,212	24,764
Effect of implementing IFRS 15, Jan 1, 2018						337	337
Comprehensive income							
Result for the financial period						-1,007	-1,007

Other comprehensive income:

Exchange differences						-460	-460
Total comprehensive income	0	0	0	0	0	-1,467	-1,467
Shareholders' equity Jun 30, 2018	2,100	72	59	20,321	0	1,082	23,634

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Total shareholders' equity
Shareholders' equity Dec 31, 2016	2,100	72	59	16,153	-161	4,278	22,501
Change in calculation principles, IFRS 15						-212	-212
Shareholders' equity Jan 1, 2017	2,100	72	59	16,153	-161	4,066	22,289
Effect of implementing IFRS 15, Jan 1, 2017						424	424
Comprehensive income							
Result for the financial period						-120	-120
Other comprehensive income:							
Exchange differences						-315	-315
Total comprehensive income	0	0	0	0	0	-435	-435
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, 2016	2,100	72	59	20,262	0	4,055	26,548

Consolidated Cash Flow Statement, IFRS

EUR thousand	Jan 1–Jun 30, 2018	Jan 1–Jun 30, 2017	Jan 1–Dec 31, 2017
Cash flow from operating activities			
Operating profit	-994	687	-1,039
Adjustments:			
Depreciation	1,370	1,346	2,769
Non-cash transactions	0	0	485
Changes in working capital:			
Change in trade or other receivables (+/-)	-419	-898	1,924
Change in trade and other payables (+/-)	756	3,071	633
Interests paid (-)	-275	-277	-643
Interests received	14	8	40

Total cash flow from operating activities	452	3,937	4,169
Investment cash flow			
Acquisition of subsidiaries	-200	0	-59
Investments in intangible and tangible assets (–)	-668	-1,046	-1,688
Loan receivables paid back	33	0	259
Total cash flow from investments	-835	-1,046	-1,488
Cash flow from financing			
Loans withdrawn	912	0	10,087
Loans paid	-541	-3,217	-12,560
Interest payments on the hybrid bond	0	0	-199
Purchase of own shares	0	-199	0
Total cash flow from financing	371	-3,416	-2,672
Change in cash and cash equivalents (+/–)	-12	-525	8
Cash and cash equivalents, opening balance	910	902	902
Cash and cash equivalents, closing balance	898	377	910

Consolidated Profit and Loss Statement by Quarter, IFRS

EUR thousand	Jan 1– Mar 31, 2018	Apr 1– Jun 30, 2018	Jan 1– Mar 31, 2017	Apr 1– Jun 30, 2017	Jul 1– Sep 30, 2017	Oct 1– Dec 31, 2017
Net sales	16,470	17,010	17,252	17,149	14,126	17,139
Other operating income	9	17	103	19	16	-50
Materials (–)	-1,807	-1,974	-1,144	-2,005	-1,775	-1,317
Employee benefits/expenses (–)	-12,125	-12,552	-12,270	-11,818	-10,276	-12,326
Depreciation (–)	-704	-666	-676	-670	-667	-756
Other operating expenses (–)	-2,207	-2,464	-3,043	-2,778	-2,772	-2,922
Operating profit/loss	-364	-629	222	-103	-1,348	-232

Financial income	4	10	5	3	0	518
Financial expenses (-)	-117	-163	-146	-131	-73	-294
Profit/loss before taxes	-477	-782	81	-231	-1,421	-8
Income taxes	95	157	-16	46	284	2
Profit/loss for the financial period	-382	-625	65	-185	-1,137	-6
EBITDA	340	36	898	567	-681	524

Commitments and contingent liabilities

EUR thousand	Jun 30, 2018	Jun 30, 2017	Dec 31, 2017
Collateral given for own commitments			
Collateral for rent	183	212	188
Mortgages on company assets*	16,958	17,433	17,002
Bank guarantees	303	303	303
Other own liabilities			
Lease liabilities			
Current lease liabilities	322	289	327
Lease liabilities maturing in 1-5 years	262	339	173
Total	584	628	500
Rental liabilities			
Current rental liabilities	1,970	1,976	2,007
Rental liabilities maturing in 1-5 years	551	1,369	1,482
Total	2,521	3,345	3,489
Other own liabilities total	3,105	3,973	3,989

* Of the mortgages on company assets, EUR 500 thousand was in the company's possession on June 30, 2018.

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, 2018, was as follows.

Name	Number of shares	% of share capital
1. Ensio Sami	7,716,173	21.32%
<i>Ensio Sami</i>	5,542,413	15.32%
<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. Ilmarinen Mutual Pension Insurance Company	1,800,000	4.97%
3. Tilman Tuomo Tapani	1,653,416	4.57%
4. Laiho Rami Tapani	1,268,159	3.50%
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 Juhanoika	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	286,931	0.79%
12. Rausanne Oy	273,040	0.75%
13. Hellen Stefan Andreas	250,000	0.69%
14. Laiho Jari Olavi	235,000	0.65%
15. Mäkinen Antti Vilho Juhani	153,000	0.42%
16. Heikki Tervonen Oy	153,000	0.42%
17. Salmela Alpo Jalmari	128,500	0.36%
18. Muurinen Hannu Olavi	125,750	0.35%
19. Mandatum Life	123,752	0.34%
20. Harju Petteri	120,000	0.33%

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