

Innofactor Plc Interim Report October 30, 2018, at 9:00 Finnish time

Innofactor Plc's Interim Report for January 1–September 30, 2018 (IFRS)

In the third quarter, losses were slightly smaller than in the comparison period, although the net sales did not reach the goal – as a result of the cooperation negotiations, we will strive for an annual positive effect of ca. EUR 2,4 million in the operating margin

July–September 2018 in brief:

- The net sales were approximately EUR 13.8 million (2017: 14.1), which shows a decrease of 2.5%.
- The operating loss was approximately EUR -503 thousand (2017: -681), which shows an improvement of 26.1%.
- The weaker than expected profitability was contributed to by the lower than expected net sales.
- The operating loss was EUR 1,186 thousand (2017: -1,348), which shows an improvement of 12.1%.
- In the third quarter, Innofactor got several major orders, for example: The Funding Centre for Social Welfare and Health Organizations (STEA), approximately EUR 2.1 million; Kuntien Tiera Oy, approximately EUR 2 million; and a private Finnish healthcare company, approximately EUR 0.5 million. However, these have not yet had time to improve the net sales much.

January–September 2018 in brief:

- The net sales were approximately EUR 47.3 million (2017: 48.5), which shows a decrease of 2.6%.
- The operating margin was EUR -124 thousand (2017: 784), which shows a decrease of 115.9%.
- The operating loss was EUR 2,177 thousand (2017: operating loss -1,229), which shows a decrease of 77.2%.
- The weaker than expected profitability was contributed to by the lower than expected net sales.

After the review period, Innofactor started cooperation negotiations based on its updated strategy and related to the development of its organization, and estimated that its result for 2018 would be

weaker due to reorganization. Cooperation negotiations have been concluded and actions based on them are estimated to have ca. 2,4 million euros positive impact on profit from 2019 onwards.

	Jul 1–Sep 30, 2018	Jul 1–Sep 30, 2017	Change	Jan 1– Sep 30, 2018	Jan 1–Sep 30, 2017	Change	Jan 1–Dec 31, 2017
Net sales, EUR thousand	13,773	14,126	-2.5%	47,253	48,527	-2.6%	65,666
Growth of net sales	-2.5%	19.7%		-2.6%	16.6%		10.1%
Operating profit before depreciation and amortization (EBITDA), EUR thousand	-503	-681	26.1%	-124	784	-115.9%	1,308
percentage of net sales*	-3.7%	-4.8%		-0.3%	1.6%		2.0%
Operating profit/loss (EBIT), EUR thousand*	-1,186	-1,348	12.1%	-2,177	-1,229	-77.2%	-1,461
percentage of net sales*	-8.6%	-9.5%		-4.6%	-2.5%		-2.2%
Earnings before taxes, EUR thousand*	-1,223	-1,421	14.0%	-2,480	-1,571	-57.9%	-1,579
percentage of net sales*	-8.9%	-10.1%		-5.2%	-3.2%		-2.4%
Earnings, EUR thousand*	-763	-1,137	32.9%	-2,227	-1,624	-37.1%	-2,007
percentage of net sales*	-5.5%	-8.0%		-4.7%	-3.3%		-3.1%
Net gearing	71.4%	55.7%		71.4%	55.7%		53.8%
Equity ratio	41.2%	43,8%		41.2%	43.8%		43.4%
Active personnel on average during the review period**	591	623	-5.1%	598	609	-1.8%	610
Earnings per share (EUR)	-0.0271	-0.0314	13.8%	-0.0548	-0.0359	-52.9%	-0.0357

*) In accordance with IFRS 3, the operating result for April 1–September 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–September 30, 2018, includes EUR 1,521 thousand (2017: 1,521) 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 reassessed its future outlook in a stock exchange release on October 8th, 2018. Net sales in 2018 is estimated to remain on approximately the same level as in 2017, when the net

sales were EUR 65.7 million, and the operating margin (EBITDA) to be positive, but weaker than in 2017, when the operating margin was EUR 1.3 million.

*) 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: The actions we took before the summer were not enough – as a result of the cooperation negotiations, we will make significant changes in our operating model in Finland in order to gain an annual positive effect of ca. EUR 2,4 million in the operating margin starting from 2019

The net sales in the third quarter of 2018 were EUR 13.8 million, which shows a decrease of 2.5 percent from the last year. The operating margin (EBITDA) was EUR -0.5 million (-3.7 percent of the net sales) and improved by 26.1 percent from the previous 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. However, these actions proved to be not enough, and we did not manage to get enough new orders in the third quarter, especially at the beginning of it, to be able to increase our net sales as planned and, thus, it remained 2.5 percent lower than in the previous year, and the cutting of costs did not affect the profitability enough.

On October 8, 2018, we published a release concerning the updating of our strategy, which stated that our new mission is to further modern digitalization in organizations – Driving the #ModernDigitalOrganization. In order to reach the goals defined in the strategy, Innofactor published a release on October 8, 2018, about cooperation negotiations on production-related and financial grounds in its Finnish companies. In accordance with the release published on October 30, 2018, Innofactor has completed the negotiations. Innofactor will lay off a total of 12 or 13 persons, which will result in annual savings of EUR 1.4 million starting from 2019. Additionally, tasks will be reorganized so that persons, who have previously worked either partially or totally in internal tasks, can be transferred to customer work. This is estimated to improve the operating margin approximately EUR 1.0 million annually. In total, starting from 2019, the current actions are estimated to result in a positive annual effect of EUR 2.4 million in the operating margin.

In the Finnish delivery organization, we managed to remove three levels of organization. This can be achieved by replacing the current 50 supervisors, most of who are acting as supervisors in addition to their actual tasks, with 16 full-time supervisors and line supervisors, which means that a significant part of current supervisors will have much more time for sales and customer work, and also by an arrangement in which the Innofactor Group's CEO Sami Ensio will handle also the

tasks of the Finnish Country Manager. In Finland, there will be only two supervisors between a consultant and the CEO.

I am very sorry for all the persons we had to lay off in this situation. Many good people will have to go, because their roles do not exist anymore in the new organization. I wish to take the opportunity here to thank them publicly for all the work they have done for Innofactor. At the same time, I am enthusiastic about our new organization and my role in it. In the reorganization, the teams in Finland will become self-organized. I believe this will improve customer orientation, work quality, efficiency and employee satisfaction. Decreasing organization levels will recreate the entrepreneurial spirit of the times when Innofactor was started, make it faster to implement decisions in practice, and help us reach our business goals. I enjoy very much working with customers, and my new, expanded role will give me better possibilities for it. I believe these changes will rejuvenate Innofactor's operation.

Innofactor's vision is to be the provider of organizations' digital transformation in each of the Nordic Countries (Finland, Sweden, Denmark and Norway). 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 leading provider of modern digital organization for companies, public administration and third sector for its over 1,500 customers 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. The focus of our strategy in the Nordic level is even more strongly in our five application areas (Journeys) and selected industries for which Innofactor strives to create a uniform operating model and offering in the Nordic Countries. Unifying the offering may take place either through organic growth or selected acquisitions.

Innofactor's mission: Driving the #ModernDigitalOrganization

Innofactor's vision: The leading provider of organizations' digital transformation 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
- Highly productized cloud offering and managed services
- A proactive, value-adding and flexible delivery model

- Innovation creation with leading customers in selected industries

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

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

In the review period of January 1–September 30, 2018, Innofactor's net sales decreased by 2.6 percent. The company did not reach the goal it had set for organic growth.

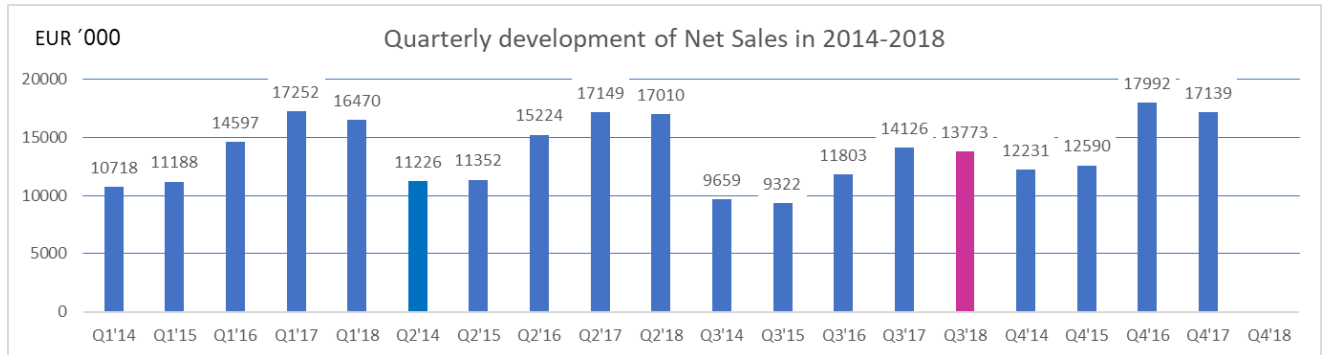
Innofactor's operating margin (EBITDA) in relation to net sales was -0.3 percent in the review period of January 1–September 30, 2018. This is low and very far away from the set target level of 20 percent.

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

- Focus on selected industries and solution areas (customer journeys) that provide the highest growth opportunities and allow us to best scale existing offering in the Nordics
- Focus on current customers and cross sales to get a bigger share of wallet of customers' digital transformation budgets
- Improving modern digital marketing and sales skills to achieve better and more cost-effective sales results
- Focus on competence planning, recruiting and resource optimization across Nordics
- Shifting revenues from projects and professional services toward products, IP-based and continuously managed services that support selected solution areas and industries
- Strengthening continuously our specialists' professional skills and improving our leading offering in order for our customers to pay hour price above market average
- Aiming to move to self-organized teams and to reduce organizational layers achieving better communication and faster decision making
- Continuously improving our flexible value-adding delivery model minimizing number of non-invoiced hours and maximizing customer satisfaction

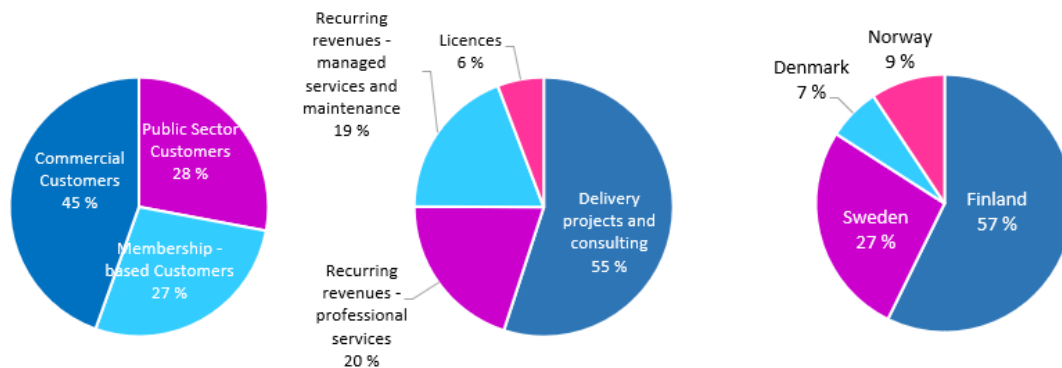
Innofactor's operating cash flow in the review period of January 1–September 30, 2018, was EUR 1.9 million negative (2017: EUR 3.1 million). Net gearing at the end of the review period was 71.4 percent (2017: 55.7%).

Innofactor's net sales in the third quarter was lower than the goal



Innofactor's net sales in July 1–September 30, 2018, were EUR 13,773 thousand (2017: 14,126), which shows a decrease of 2.5 percent.

Net sales distribution, January 1–September 30, 2018



Innofactor's business operations were focused on Finland, Sweden, Denmark and Norway. In January 1–September 30, 2018, approximately 57 percent of the net sales came from Finland, approximately 27 percent from Sweden, approximately 9 percent from Norway, and approximately 7 percent from Denmark.

Of the net sales in January 1–September 30, 2018, approximately 45 percent came from commercial clients, approximately 28 percent from public sector clients, and approximately 27 percent from third sector clients.

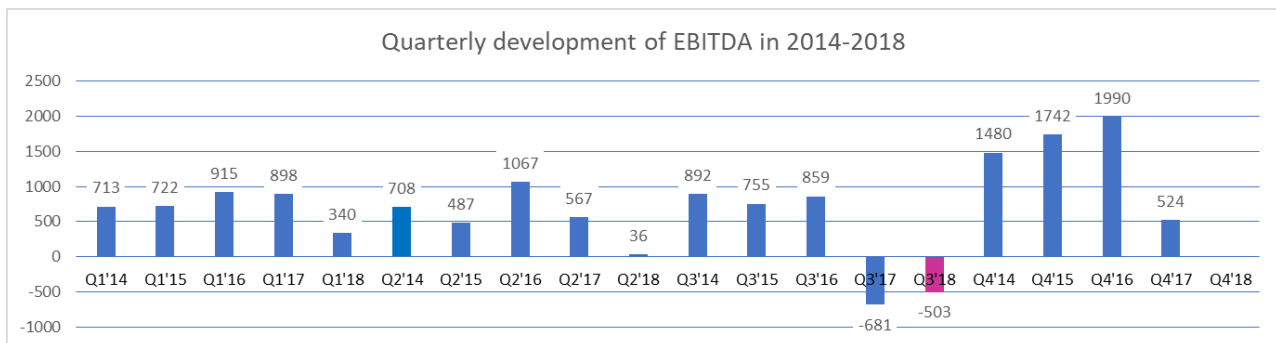
Innofactor's net sales in the review period of January 1–September 30, 2018, came from the following sources:

- approximately 55 percent from IT system delivery projects and consulting

- approximately 20 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 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 above mentioned shares are not directly comparable to the corresponding figures for last year.

Innofactor’s 10 largest clients accounted for approximately 25 percent of the net sales during the review period January 1–September 30, 2018.



The operating margin (EBITDA) on July 1–September 30, 2018, was EUR -503 thousand (2017: -681), which shows an improvement of 26.1 percent. EBITDA accounted for -3.7 percent of the net sales (2017: -4.8%). Innofactor’s operating loss in July 1–September 30, 2018, was EUR 1,186 thousand (2017: operating loss EUR 1,348), which shows an improvement of 12.1 percent. The operating loss accounted for -8.6 percent of the net sales (2017: operating loss -9.5%).

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 said depreciations.

In accordance with IFRS 3, the operating result for July 1–September 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 July 1–September 30, 2018, would have been EUR 679 thousand (2017: operating loss 841), which shows an improvement of 19.3 percent.

Due to the challenging operating margin, also the cash flow of the review period did not reach the goals

Innofactor's balance sheet total at the end of the review period was EUR 56,147 thousand (2017: 60,074). The Group's liquid assets totaled EUR 311 thousand (2017: 545), consisting totally of cash funds.

The operating cash flow in the review period of January 1–September 30, 2018, was EUR -1,888 thousand (2017: 3,053). The investment cash flow was EUR -1,119 thousand (2017: -1,322).

The equity ratio at the end of the review period was 41.2 percent (2017: 43,8%) and net gearing was 71.4 percent (2017: 55.7%).

At the end of the review period, the company had EUR 10,262 thousand in current interest bearing liabilities (2017: 8,377) and EUR 6,383 thousand in non-current interest bearing liabilities (2017: 6,436). The total amount of interest bearing liabilities was EUR 16,645 thousand (2017: 14,813).

The return on investment in January 1–September 30, 2018, improved from the previous year and was -11.9 percent (2017: -15.1%).

The return on equity in January 1–September 30, 2018, improved from the previous year and was -16.4 percent (2017: -18.9%).

The non-current assets in Innofactor's balance sheet at the end of the review period were EUR 39,292 thousand in total (2017: 42,686).

Innofactor's gross investments in tangible and intangible assets in the review period of January 1–September 30, 2018, were EUR 956 thousand (2017: 1,398), 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 in the review period January 1–September 30, 2018, were EUR 1,782 thousand (2017: 1,616). In the review period of January 1–September 30, 2018, the company has activated development costs of its ERP system for a total of EUR 643 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–September 30, 2018, were approximately EUR 2,173 thousand (2017: 2,232), which accounts for 4.6 percent of the net sales (2017: 4.6%).

At the end of the review period, the number of personnel in Innofactor was 32 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 July 1–September 30, 2018, was 591 persons (2017: 623), which shows a decrease of 5.19 percent.

The average number of active personnel in January 1–September 30, 2018, was 598 persons (2017: 609), which shows a decrease of 1.86 percent.

In the review period of January 1–September 30, 2018, the net sales per active person was approximately EUR 79 thousand (2017: 79.7), which shows an approximate decrease of EUR 0.7 thousand per person.

At the end of the review period, the number of active personnel was 588 (2017: 627), which shows a decrease of 6.2 percent.

At the end of the review period, the average age among personnel remained the same and was 40.7 years (2017: 39.7).

Women accounted for 29 percent (2017: 29%) of the personnel. Men accounted for 71 percent (2017: 71%) 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 (Lärarförbundet) 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.

On September 3, 2018, Innofactor published a flagging announcement pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act, stating that Svalroma Invest AB's (former

Svalroma Consulting AB) ownership of the Innofactor Plc votes and shares had decreased below five percent (5%).

On September 12, 2018, Innofactor announced in a stock exchange release that the Funding Centre for Social Welfare and Health Organisations (STEA) has selected Innofactor in a public procurement competition as the provider of ICT services. The value of the order is about EUR 2.1 million over four years.

On September 19, 2018, Innofactor announced in a stock exchange release that a private Finnish healthcare company and Innofactor have signed an agreement on September 19, 2018, concerning the delivery of a solution based on Microsoft Dynamics 365 Finance and Operations for the company's financial management. The value of the deal is approximately EUR 0,5 million during 2018 and 2019.

On September 19, 2018, Innofactor announced in a stock exchange release that Kuntien Tiera Oy has selected Innofactor in a public procurement competition as the primary provider of Microsoft SharePoint and Microsoft Dynamics 365 services. The duration of the framework agreement is four years, and the total value of the services is approximately EUR 2 million.

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 July 1–September 30, 2018, the highest price of the company share was EUR 0.79 (2017: EUR 1.70), the lowest price was EUR 0.66 (2017: EUR 1.34), and the average price* was EUR 0.72 (2017*: EUR 1.46).

On January 1–September 30, 2018, the highest price of the company share was EUR 1.13 (2017: EUR 1.80), the lowest price was EUR 0.66 (2017: EUR 1.13), and the average price was EUR 0.84 (2017*: EUR 1.44).

The closing price for the review period on September 30, 2018, was EUR 0.70 (2017: EUR 1.37).

In public trading in July 1–September 30, 2018, a total of 2,031,594 shares were traded (2017: 3,925,652 shares), which corresponds to 5.6 percent (2017: 10.8%) of the average number of shares on the said period. In July 1–September 30, 2018, there were 36,188,225 shares on the average (2017: 36,188,225*). The share trading decreased by 48.2 percent compared to the corresponding period in 2017.

In public trading in January 1–September 30, 2018, a total of 6,774,976 shares were traded (2017: 16,312,703 shares), which corresponds to 18.7 percent (2017: 46.5%) of the average

number of shares on the said period. In January 1–September 30, 2018, there were 36,188,225 shares on the average (2017: 35,056,492*). The share trading decreased by 58.5 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 0.70, on September 30, 2018, was EUR 49,578 thousand (2017: 59,711), which shows a decrease of 49.2 percent.

On September 30, 2018, the company had a total of 11,711 shareowners (2017: 12,500), 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/invest-in-us/corporate-governance/>

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 16.6 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 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.

Events after the review period

On October 8, 2018, Innofactor announced in a stock exchange release that it had updated its strategy. The updated strategy is presented in more detail in the section "Strategy and its realization in the review period."

On October 8, 2018, Innofactor announced in a stock exchange release that it is starting cooperation negotiations based on its updated strategy and related to the development of its organization.

On October 8, 2018, Innofactor announced in a stock exchange release that it estimates that its result prospects for 2018 will be weaker than previously stated, due to reorganization.

On October 30, 2018, Innofactor announced in a stock exchange release that it has concluded cooperation negotiations.

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

Espoo, October 30, 2018

INNOFACTOR PLC

Board of Directors

Additional information:

CEO Sami Ensio, Innofactor Plc

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Briefings concerning the third Interim Report January 1–September 30, 2018

A briefing in Finnish concerning the interim report will be held for media, investors and analysts on October 30, 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–September 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 following figures adjusted for the above-mentioned depreciations: the operative business result, 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–September 30, 2018, were EUR 1,522 thousand (2017: 1,522).

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.

EUR thousand	Jan 1–Sep 30, 2018	Jan 1–Sep 30, 2017	Change
Revenue from services	26,249	25,703	2.1%
Revenue recognized from long-term projects	21,004	22,824	-8.0%
Total	47,253	48,527	-2.6%

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.

Application of the new and amended IFRS norms

IFRS 16 Leases

Innofactor has started assessing the effects of the IFRS 16 standard that will take effect on January 1, 2019. The implementation of the standard will affect the company's balance sheet by increasing the committed capital and interest-bearing debt. At the end of the review period, the company's lease liabilities, which consist mainly of rents for business premises, were EUR 6.8 million. The standard is not expected to have a significant effect on the company's earnings per share, but it will improve the company's operating margin (EBITDA), because a lease cost will be divided into depreciations and financial expenses. The standard will also improve the company's operating cash flow and deteriorate the financing cash flow, because the lease payments will mainly be presented in the financing cash flow. Innofactor will make a more detailed assessment of the effects of the standard and the transfer method during the next three months.

Comprehensive consolidated profit and loss statement, IFRS

EUR thousand	Jul 1–Sep 30, 2018	Jul 1–Sep 30, 2017	Jan 1– Sep 30, 2018	Jan 1– Sep 30, 2017	Jan 1– Dec 31, 2017
Net sales	13,773	14,126	47,253	48,527	65,666
Other operating income	20	16	46	138	88
Materials (–)	-1,691	-1,775	-5,471	-4,924	-6,241
Employee benefits/expenses (–)	-9,818	-10,276	-34,495	-34,364	-46,690
Depreciation (–)	-683	-667	-2,053	-2,013	-2,769
Other operating expenses (–)	-2,787	-2,772	-7,458	-8,593	-11,515
Operating profit/loss	-1,186	-1,348	-2,177	-1,229	-1,461
Financial income	15	0	29	8	526
Financial expenses (–)	-52	-73	-332	-350	-644
Profit/loss before taxes	-1,223	-1,421	-2,480	-1,571	-1,579
Income taxes	243	284	496	314	316
Profit/loss for the financial period	-980	-1,137	-1,984	-1,257	-1,263
Other comprehensive income					
Items that may be later recognized in profit or loss:					
Exchange differences	217	-52	-243	-367	-744
Total comprehensive income	-763	-1,189	-2,227	-1,624	-2,007
Earnings per share calculated from the profit attributable to equity holders of the parent:					
basic earnings per share (EUR)	-0.0271	-0.0314	-0.0548	-0.0359	-0.0357
diluted earnings per share (EUR)	-0.0271	-0.0314	-0.0548	-0.0359	-0.0357

Consolidated Balance Sheet, IFRS
ASSETS

EUR thousand	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
Non-current assets			
Tangible assets	516	686	640
Goodwill	26,058	27,615	26,398
Other intangible assets	6,638	8,295	7,797
Shares and holdings	78	62	62
Receivables	248	375	342
Deferred tax assets	5,755	5,653	5,668
Non-current assets	39,292	42,686	40,907
Current assets			
Trade and other receivables	16,544	16,843	16,455
Cash and cash equivalents	311	545	910
Current assets	16,855	17,388	17,365
TOTAL ASSETS	56,147	60,074	58,272

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR thousand	Sep 30, 2018	Sep 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	20,321	20,262	20,321
Retained earnings	322	3,108	2,212
Total shareholders' equity	22,875	25,601	24,764
Non-current liabilities			
Loans from financial institutions	6,383	6,436	7,280
Deferred tax liabilities	1,510	2,009	1,826
Long term liabilities total	7,893	8,445	9,106
Current liabilities			
Loans from financial institutions	10,262	8,377	6,948

Trade and other payables	15,118	17,651	17,454
Current liabilities total	25,379	26,028	24,402
Total liabilities	33,272	34,473	33,508
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	56,147	60,074	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	25,101
Effect of implementing IFRS 15, Jan 1, 2018						337	337
Comprehensive income							
Result for the financial period						-1,984	-1,984
Other comprehensive income:							
Exchange differences						-243	-243
Total comprehensive income	0	0	0	0	0	-2,227	-2,227
Shareholders' equity Sep 30, 2018	2,100	72	59	20,321	0	322	22,875

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						666	666
Comprehensive income							
Result for the financial period						-1,257	-1,257
Other comprehensive income:							
Exchange differences						-367	-367
Total comprehensive income	0	0	0	0	0	-1,624	-1,624
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 Sep 30, 2017	2,100	72	59	20,262	0	3,108	25,601

Consolidated Cash Flow Statement, IFRS

EUR thousand	Jan 1–Sep 30, 2018	Jan 1–Sep 30, 2017	Jan 1–Dec 31, 2017
Cash flow from operating activities			
Operating profit	-2,177	-857	-1,039
Adjustments:			
Depreciation	2,053	2,013	2,769
Non-cash transactions	0	0	485
Changes in working capital:			
Change in trade or other receivables (+/-)	376	2,244	1,924
Change in trade and other payables (+/-)	-1,845	-5	633
Interests paid (-)	-324	-350	-643
Interests received	29	8	40
Total cash flow from operating activities	-1,888	3,053	4,169
Investment cash flow			
Acquisition of subsidiaries	-200	-59	-59
Investments in intangible and tangible assets (-)	-956	-1,398	-1,688
Loan receivables paid back	52	135	259
Shares and holdings	-16	0	0
Total cash flow from investments	-1,119	-1,322	-1,488
Cash flow from financing			
Loans withdrawn	3,256	60	10,087
Loans paid	-847	-1,949	-12,560
Interest payments on the hybrid bond	0	0	-199
Purchase of own shares	0	-199	0
Total cash flow from financing	2,409	-2,088	-2,672
Change in cash and cash equivalents (+/-)	-599	-357	8
Cash and cash equivalents, opening balance	910	902	902
Cash and cash equivalents, closing balance	311	545	910

**Consolidated Profit
and Loss Statement by
Quarter, IFRS**

EUR thousand	Jan 1– Mar 31, 2018	Apr 1– Jun 30, 2018	Jul 1– Sep 30, 2018	Oct 1– Dec 31, 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	13,773		17,252	17,149	14,126	17,139
Other operating income	9	17	20		103	19	16	-50
Materials (–)	-1,807	-1,974	-1,691		-1,144	-2,005	-1,775	-1,317
Employee benefits/expenses (–)	12,125	-12,552	-9,818		-12,270	-11,818	-10,276	-12,326
Depreciation (–)	-704	-666	-683		-676	-670	-667	-756
Other operating expenses (–)	-2,207	-2,464	-2,787		-3,043	-2,778	-2,772	-2,922
Operating profit/loss	-364	-629	-1,186		222	-103	-1,348	-232
Financial income	4	10	15		5	3	0	518
Financial expenses (–)	-117	-163	-52		-146	-131	-73	-294
Profit/loss before taxes	-477	-782	-1,223		81	-231	-1,421	-8
Income taxes	95	157	243		-16	46	284	2
Profit/loss for the financial period	-382	-625	-980		65	-185	-1,137	-6
EBITDA	340	36	-503		898	567	-681	524

Commitments and contingent liabilities

EUR thousand	Sep 30, 2018	Sep 30, 2017	Dec 31, 2017
Collateral given for own commitments			
Collateral for rent	184	210	188
Mortgages on company assets*	16,968	17,436	17,002
Bank guarantees	303	303	303
Other own liabilities			
Lease liabilities			
Current lease liabilities	313	278	327
Lease liabilities maturing in 1-5 years	189	326	173
Total	503	604	500
Rental liabilities			
Current rental liabilities	1,973	1,831	2,007
Rental liabilities maturing in 1-5 years	4,821	1,297	1,482
Total	6,794	3,128	3,489
Other own liabilities total	7,297	3,732	3,989

* Of the mortgages on company assets, EUR 500 thousand was in the company's possession on September 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 September 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	1,530,437	4.23%
4. Laiho Rami Tapani	1,255,159	3.47%
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	159,000	0.44%
16. Heikki Tervonen Oy	153,000	0.42%
17. Mandatum Life	130,359	0.36%
18. Salmela Alpo Jalmari	128,900	0.36%
19. Harju Petteri	126,252	0.35%
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