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INNOFACTOR

INNOFACTOR®

Annual Report 2019



Innofactor Plc Annual Report January 1 to December 31, 2019

Innofactor in Brief

Innofactor is driven by a mission to help our customers succeed by modernizing and digitalizing their organization. Our principle is to put people first in everything we do. We want to create solutions that make people's everyday work and life run smoothly and bring a smile to their faces.

We focus on the Microsoft ecosystem's Business-to-Business solutions whose markets are growing faster than the IT market on average. We offer our customers planning services for business-critical IT solutions, project deliveries, implementation support and maintenance services, and develop our own software and services.

Our solutions are already being used by more than 1,500 organizations in the private, public, and third sectors in the Nordic countries. We are a strong and valued partner. Our long-term customer relationships are evidence of the customers' trust in Innofactor. We utilize a proactive and flexible delivery model that creates added value and helps us establish a leading position in the market.

Innofactor employs over 500 enthusiastic and motivated top professionals in Finland, Sweden, Denmark, and Norway. We are united by our desire to work on the front line of innovation and new technology. We take pride in our highly competent professionals and significantly invest in competence development. Our employees maintain and improve their skills by acquiring technological qualifications, such as Microsoft Certified Professional, and by participating in training provided by our own Innofactor Academy. Their high level of expertise is evidenced by the more than 1,000 individual Microsoft certificates in our organization.

Our net sales in 2019 amounted to EUR 64.2 million, which shows an increase of 1.7 percent from the previous year. Our operating margin (EBITDA) was EUR 5.1 million, which was 7.9 percent of net sales. The five-year growth rate of our net sales in 2015–2019 was 10 percent annually on average (CAGR), and EBITDA averaged 5% of net sales in 2015–2019. The long-term goals specified in our strategy are to achieve annual growth of about 20 percent, primarily through organic growth, and an operating margin (EBITDA) of about 20 percent in relation to net sales as well as maintain positive cash flow and ensure a solid financial standing in all situations.

Innofactor Plc share is listed on the main list of Nasdaq Helsinki Ltd. Innofactor is one of the fastest-growing companies in the 2010s as measured by net sales on Nasdaq Helsinki. Innofactor has approximately 11,000 shareholders.

#ModernDigitalOrganization | #PeopleFirst | #CreatingSmiles

Note: The English version of Innofactor's Annual Report is a translation of the Finnish version and provided for reference only. In the event of any conflict or discrepancy between the Finnish and English versions, the Finnish version shall prevail and be treated as the correct version.

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Innofactor Achieved a Significant Positive Turnaround in 2019

In 2019, Innofactor focused particularly on improving its profitability. The integration of previously acquired companies in Sweden, Denmark and Norway had significantly reduced Innofactor’s profitability in 2017 and 2018. In the fall of 2018, Innofactor implemented measures to improve profitability, which had a positive impact in 2019. Innofactor’s net sales in 2019 were EUR 64.2 million (+1.7%) and operating profit before depreciation and amortization (EBITDA) was EUR 5.1 million (7.9% of net sales), which shows an increase of EUR 6.1 million. In 2019, Innofactor also increased its order backlog to a record-breaking level, approximately EUR 50 million.

The Innofactor Group’s net sales in 2019 were EUR 64,198 thousand (EUR 63,144 thousand in 2018), showing an increase of 1.7 percent. Operating profit before depreciation and amortization (EBITDA) was EUR 5,089 thousand (EUR -1,029 thousand in 2018), showing an increase of EUR 6,118 thousand. The share of EBITDA of net sales was 7.9 percent (-1.6 percent in 2018). The order backlog at the end of the review period was EUR 49,753 thousand (EUR 30,642 thousand in 2018), showing an increase of 62.4 percent.

Innofactor has faced long-term growth and profitability challenges, especially in its operating countries outside Finland. During 2019, we were able to address these challenges to a substantial extent. In the fourth quarter, net sales in all four countries — Finland, Sweden, Norway and Denmark — increased in local currency from the previous year. Group-wide growth was 9.7 percent, despite the challenges posed by the value of Swedish krona and Norwegian krone against the euro.

In all four countries, profitability per country was also substantially improved towards the end of the year.

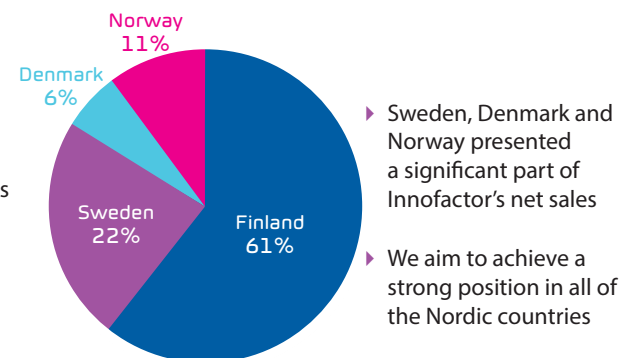
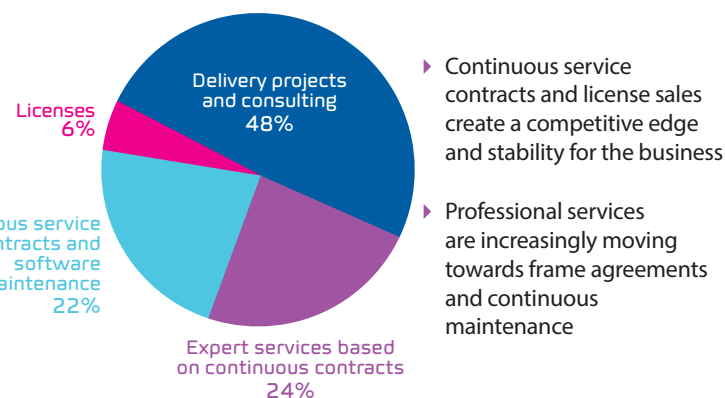
During 2019, we reinforced our Executive Board with two new people: Markku Puolanne started as Chief Financial Officer (CFO) in August 2019 and Jufo Peltomaa as Chief Technology Officer (CTO) in October 2019. In addition, Jørn Ellefsen, Country Manager, Norway, was also appointed as Country Manager, Denmark in January 2020 and Marcus Hasselblad was appointed as Country Manager, Sweden in February 2020.

In May–June 2019, Innofactor organized a personnel issue. In the personnel issue, 1.2 million new Innofactor shares were offered for subscription. The issue was subscribed in full. A total of 116 people gave an underwriting commitment and subscriptions were made in all countries where Innofactor operates. The subscription price was EUR 0.50 per share.

In 2019, Innofactor increased the recruitment and training of students nearing their graduation. To this

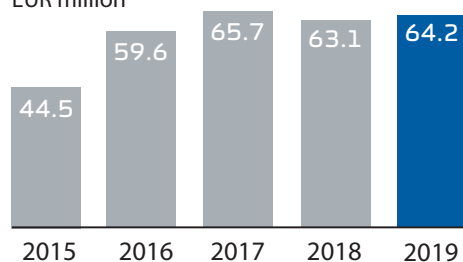
end, a new Innofactor DigiStar Trainee Program was launched in Finland. In 2019, Innofactor recruited and trained a total of 20 undergraduate students. For the first time in 2019, Innofactor also organized a Nordic Trainee training day in Helsinki, attended by about 20 trainees from the Nordic countries.

Innofactor® Virtual Data Center™ is a solution developed in 2019 by leading Azure and data security experts at Innofactor to implement the logic and principles of traditional physical data centers in the Microsoft Azure public cloud environment. The Virtual Data Center enables a high level of data security, regulatory compliance and manageability without compromising agility. The solution leverages advanced IaC (Infrastructure as Code) methods and a modern Azure management model. The solution has attracted a lot of interest from customers, and many agreements have already been made on its implementation in Norway in 2019. The solution is expected to be sold to other Nordic countries in 2020.

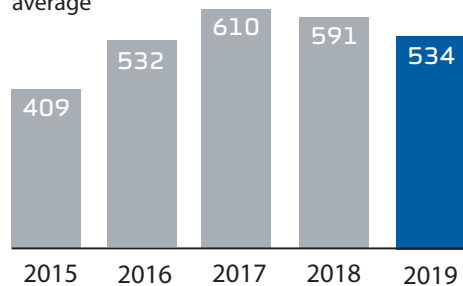


NET SALES

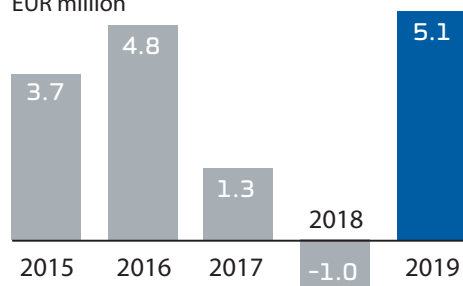
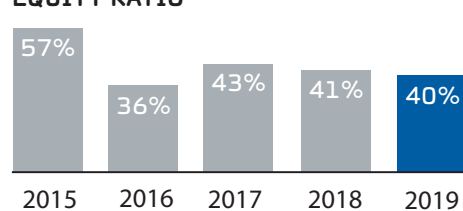
EUR million

**NUMBER OF PERSONNEL**

average

**EBITDA**

EUR million

**EQUITY RATIO**

	2019	2018	2017	2016	2015
Net sales, EUR thousand	64,198	63,144	65,666	59,616	44,452
Operating profit before depreciation and amortization (EBITDA), EUR thousand	5,089	-1,029	1,308	4,831	3,705
percentage of net sales	7.9%	-1.6%	2.0%	8.1%	8.3%
Operating profit (EBIT), EUR thousand	795	-3,872	-1,461	2,332	2,542
percentage of net sales	1.2%	-6.1%	-2.2%	3.9%	5.7%
Earnings before taxes, EUR thousand	12	-3,811	-1,579	1,920	1,935
percentage of net sales	0.0%	-6.0%	-2.4%	3.2%	4.4%
Earnings, EUR thousand	418	-3,462	-2,007	1,536	1,548
percentage of net sales	0.7%	-5.5%	-3.1%	2.6%	3.5%
Shareholders' equity, EUR thousand	22,145	21,303	24,764	22,501	24,534
Interest bearing liabilities, EUR thousand	16,853	15,418	14,228	16,701	9,219
Cash and cash equivalents, EUR thousand	963	258	910	902	843
Deferred tax assets, EUR thousand	5,602	5,602	5,668	5,760	6,704
Return on equity	1.9%	-13.8%	-5.3%	6.5%	6.6%
Return on investment	2.3%	-7.7%	-2.4%	6.4%	7.6%
Net gearing	71.8%	71.2%	53.8%	70.2%	34.1%
Equity ratio	40.2%	41.2%	43.4%	35.8%	56.9%
Balance sheet total, EUR thousand	55,720	51,875	58,272	63,587	43,983
Research and development, EUR thousand	2,795	2,860	3,298	3,394	2,495
percentage of net sales	4.4%	4.5%	5.0%	5.7%	5.6%
Personnel on average during the year	534	591	610	532	409
Personnel at the end of the year	538	550	601	591	415
Number of shares at the end of the year	37,388,225	36,188,225	36,188,225	32,901,377	33,453,737
Earnings per share (EUR)	0.0113	-0.0880	-0.0262	0.0467	0.0475
Shareholders' equity per share (EUR)	0.592	0.589	0.684	0.684	0.733

Year 2019 Allows a Flying Start for Innofactor's 20th Anniversary

The year 2019 marked a significant positive turnaround for our business. Personally, I am particularly delighted that we were able to keep the promise that we gave investors at the beginning of the year concerning a significant improvement in the profitability of Innofactor.

During the year, we were successful in sales and our order backlog grew remarkably. For example, we won the largest transaction in the history of Innofactor when the Finnish Tax Administration selected Innofactor as the primary provider of IT specialist services in the area of cloud specialists. The total value of the transaction is approximately EUR 10–20 million.

We would like to thank our customers, partners, employees, and investors for year 2019!



I founded Innofactor 20 years ago. The journey from a one-person business to a leading Microsoft solutions provider with over 500 employees in the Nordic countries has been full of twists and turns, but we have made systematic progress. I am very lucky to have had the opportunity to work with awesome people — customers, partners, colleagues and investors. The year 2020 is our jubilee year, during which I hope to celebrate our common achievements with as many of you as possible.

The year 2019 provided an excellent basis for launching our anniversary year. In 2019, we deepened our co-operation with customers further. We received numerous new major orders, such as a membership management project for a Swedish organization, the development and maintenance of an electronic platform for e-services for Traficom in Finland, a decision-making system for the City of Espoo, directory services for Epiroc Rock Drills AB in Sweden, cloud specialist services for the Finnish Tax Administration, as well as several other important projects in Finland, Sweden, Denmark and Norway. I would like to thank our customers and partners for the trust you have shown in Innofactor.

Our strategy focuses on the platforms provided by Microsoft. As the markets are changing, Microsoft and its ecosystem are growing faster than the IT markets on average. Our partnership with Microsoft is very strong. We are at the core of Microsoft's product development, helping them to create new versions of their cloud solutions. I would like to thank Microsoft and our other partners in the Microsoft ecosystem for their trust in Innofactor.

Innofactor's strength lies in our highly competent and motivated personnel. In 2019, we strengthened our team, trained our personnel, and developed our organization and management style. We want to use all means available to ensure success in the Nordic markets. I am very proud of our employees' enthusiasm toward driving the organization in the same direction and finding new ways to innovate solutions, improve customer satisfaction continuously, work more efficiently, and increase productivity. For that, I am grateful to all of you.

A successful and growing company needs committed owners. During 2019, the price of Innofactor's share improved substantially due to improved business results. I am also glad that so many of our employees subscribed to the Personnel Issue in the summer. I would like to thank all of our owners

and investors for their long-term trust in Innofactor's strategy and success.

Innofactor's vision is to be the leading provider of organization's digital transformation in each of the Nordic countries. We are confident in our chosen Nordic strategy and our ability to achieve our long-term goals. This will require perseverance and determination from the company's management, employees, and investors. In 2020, we will focus on increasing the company's net sales and maintaining profitability at a good level. We will have to roll our sleeves up and show great perseverance, but with a twist of fun and a smile on our faces.

At Innofactor, we consider sustainability as one of the cornerstones of our long-term success. Our digital solutions play an important role in curbing climate change and promoting sustainable development. We see sustainability not only as a prerequisite for business continuity but also as an opportunity for innovation and building a modern digital organization.

We work together with our customers, partners, employees, and investors to produce solutions that help our customers and society as a whole to succeed. We are moving forward with enthusiasm and confidence.

"In 2020, we will be celebrating Innofactor's 20-year anniversary. It has been a great journey from a one-person business to a leading Microsoft solutions provider with over 500 employees in the Nordic countries. We want to celebrate it in a spirit of growth together with our personnel, customers, partners, and investors."

Sami Ensio

Innofactor's founder, major owner, and CEO

**Microsoft
Partner**



- Gold Application Development
- Gold Application Integration
- Gold Cloud Customer Relationship Management
- Gold Cloud Platform
- Gold Cloud Productivity
- Gold Collaboration and Content
- Gold Customer Relationship Management
- Gold Data Analytics
- Gold Data Platform
- Gold Datacenter
- Gold Enterprise Mobility Management
- Gold Enterprise Resource Planning
- Gold Identity and Access
- Gold Project and Portfolio Management
- Gold Windows and Devices

Long-Term Goals of 20 Percent Annual Growth and 20 Percent Profitability

We estimate that the growth rate of the Nordic IT services market will be approximately 3–5 percent in 2020. Our growth target for the next few years is to surpass the market growth rate, and our long-term goal is annual growth of approximately 20 percent. Our task is to help our customers digitalize their business, manage their business operations, promote a collaborative way of working, transfer their services securely into the cloud, and to renew their operations with a data-driven approach. Going forward, we will continue to develop our in-depth customer understanding of commercial, public sector, and membership-based organizations in the Nordic countries. We invest in employing the best Microsoft professionals in the Nordic countries. We offer our customers a proactive and flexible delivery model that creates added value.

We Expect Market Growth in 2020

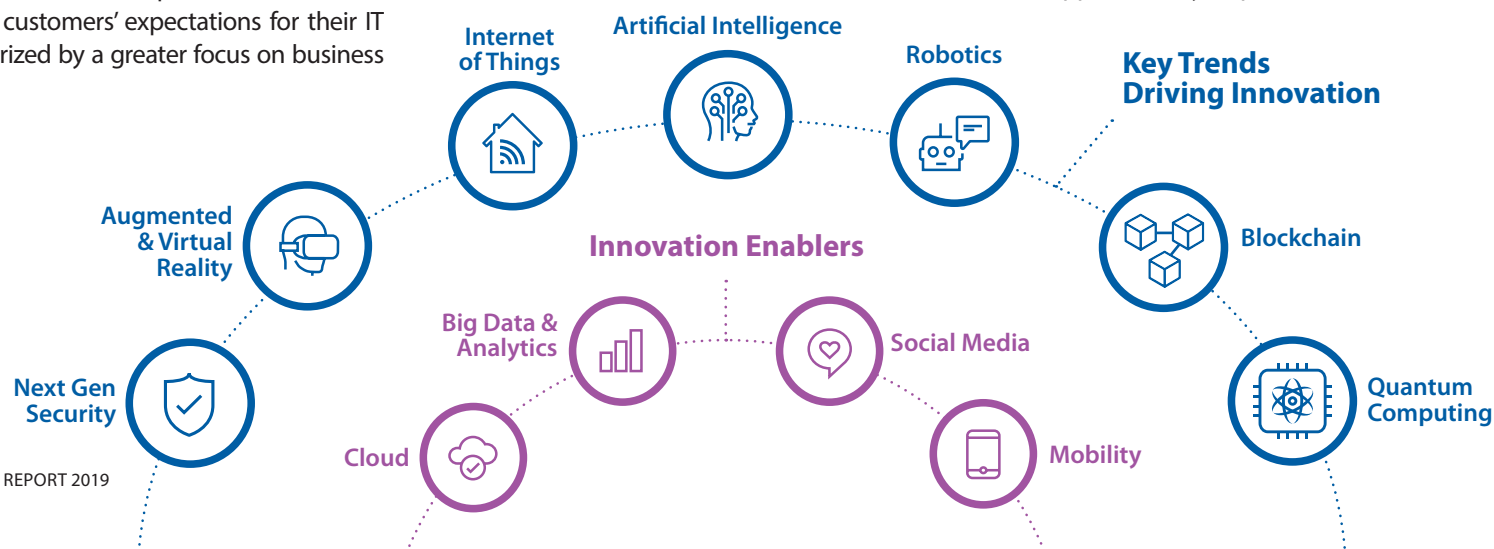
The key innovation trends and drivers of change in the market include augmented reality, virtual reality, Internet of Things (IoT), artificial intelligence, robotics, blockchains, and quantum computing, with facilitating roles being played by software moving to the cloud, data analytics, social media, and the use of mobile devices. Combating climate change is placing new demands on both societies and organizations, creating new business opportunities and accelerating innovation. The purchasing behavior of our customers has evolved as part of this business transformation. Our customers' expectations for their IT partner are characterized by a greater focus on business

benefits rather than technological benefits. Our customers are looking for more out-of-the-box solutions that do not require extensive customer-specific customization. In addition, customers are increasingly seeking continuous services instead of large one-time projects.

We estimate that the growth rate of the Nordic IT services market was approximately 3–5 percent in 2019. We further estimate that the growth rate of the Nordic IT services market will again be 3–5 percent in 2020. Our estimate is based on forecasts by research institutes and our own views regarding the development of the market.

Becoming the Leading Provider of Digital Transformation in Each of the Nordic Countries

We have made a strategic choice to focus on solutions implemented with or supported by Microsoft platforms, and we have achieved a leading position in the Nordic countries in this market. Going forward, our aim is to become the leading player in the digital transformation in each of the Nordic countries. Our long-term goal is annual growth of 20 percent, the majority of which will be achieved organically, along with profitability of approximately 20 percent.



Mission

Driving the #ModernDigitalOrganization

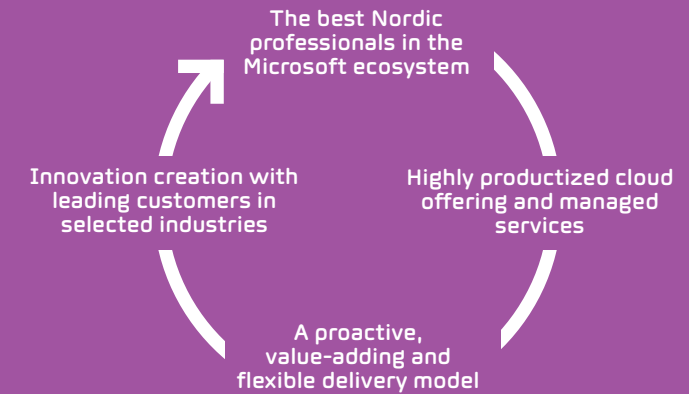
Vision

The leading provider of organizations' digital transformation in each of the Nordic countries (Finland, Sweden, Denmark and Norway)

Our Long-Term Financial Goal is to Grow Profitably:

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

Strategy



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

The competitive landscape for Microsoft-based solutions in the Nordic countries is fragmented. The first group of competitors consists of large enterprises that operate in all of the Nordic countries. These competitors provide a wide range of IT solutions that are needed by various organizations and use several competing technologies, one of which is the Microsoft ecosystem. The second group consists of medium-sized companies that focus on a niche solution area at the Nordic level, also using several different technologies. The third group consists of medium-sized companies operating mainly in a single country, typically providing a broad range of solutions based on several competing technologies. The fourth group consists of small companies that only operate in their domestic market focusing on certain clearly defined solution areas, technologies, and industries.

Microsoft's fragmented Nordic partner network, which consists of small and medium-sized IT companies, continues to offer interesting acquisition opportunities for us. In the future, our acquisition strategy will likely be focused on medium-sized companies that operate in a single country. This will help us expand our offering at the country-specific level as well as potentially acquire additional cloud-based product and service business. Good reputation, fast and profitable growth, successful acquisitions, and entrepreneurial spirit make us an attractive partner with whom to develop business.

We Help Our Customers to Design and Build a Modern Digital Organization

We help our customers to succeed by modernizing and digitalizing their organizations. We put people first in everything we do. We want to create solutions that make people's everyday work and life run smoothly and bring a smile to their faces.

Our mission to drive the modern digital organization is based on the expertise of Innofactor's leading business and cloud technology professionals, as well as our 20 years of experience working at the forefront of digitalization with our partners and more than 1,500 private, public and third-sector customers. We put people first in everything we do. We want to provide solutions that make our customers' lives

easier and bring a smile to their faces. We help our customers take advantage of cloud technology and new innovations. The approach is simple and effective, delivering quick, tangible results and paving the way for long-term customer relationships. We start with defining the big picture – helping our customers determine their current state, define their objectives and build a digitalization roadmap for their

organization. We then continue our joint journey to build a modern digital organization leveraging the five areas of our framework. Innofactor offers leading solutions, services and products in each area, as well as an agile delivery model that helps our customers to successfully design, deploy and continuously develop new solutions.



The Objective: Modern Digital Organization

Build a vision and roadmap to become a modern digital organization taking into account your current state and objectives.



1. Customer Journey

Engage your customers digitally in a way that's most convenient for them.



2. Operations Journey

Create business value, accelerate innovation and increase productivity by digitalizing your operations.



3. Employee Journey

Empower your employees through personal engagement and modern collaboration tools to make their daily work more meaningful and productive.



4. Cloud Journey

Build a secure, scalable cloud platform that makes your operations more agile and puts you in control of your IT.



5. Data Journey

Enable data-driven business and decision making in your organization by leveraging advanced analytics, AI and machine learning.

Our Solutions and Services for Building a Modern Digital Organization



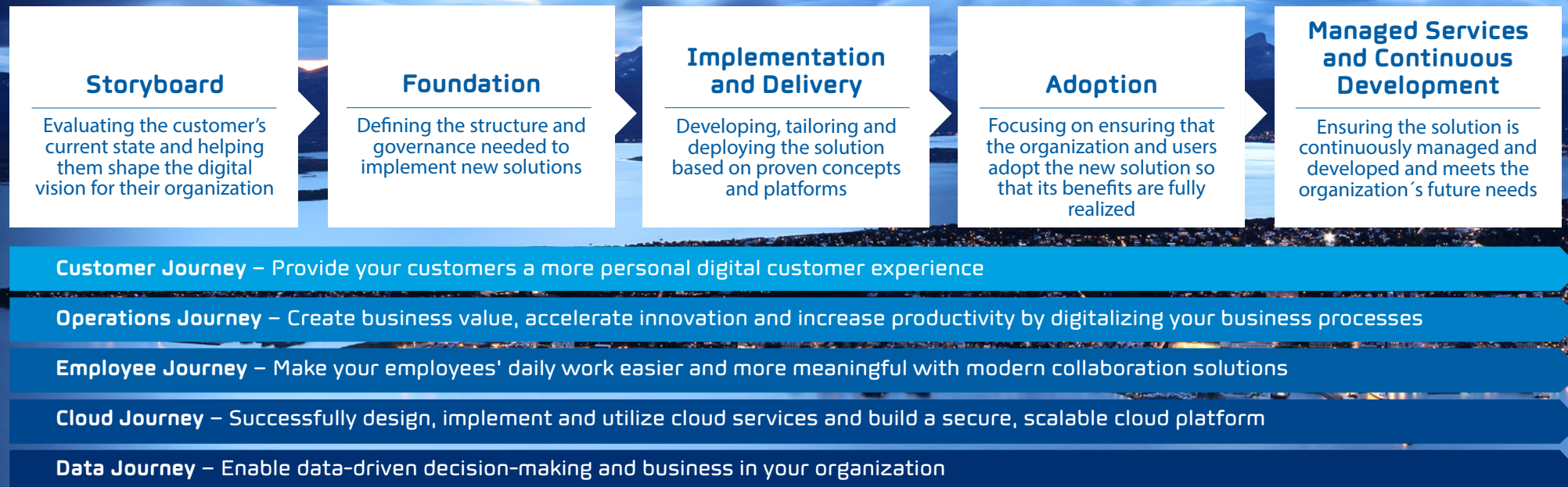
Our Modern Delivery Model Ensures Effective Deployment and Adoption to Maximize the Lifetime Value of New Solutions

Our delivery model is based on years of experience in the successful design, deployment and development of modern cloud services. It consists of five stages, each of which delivers our customers quick, tangible value in each of the five areas of digitalization we offer. The value of our deliveries is based on not only helping our customers to design and implement a specific solution, but also supporting them in adopting it within their organization and evaluating its impact to their business processes and IT architecture. In our delivery model, we focus on providing managed services and continuous development of our solutions throughout their lifecycle. By putting people first at every step, we

ensure that our solutions make people's everyday work and life run smoothly and bring a smile to their faces.

In the **Storyboard** phase, we assess our customer's current state, define the objectives for the new solution and, if necessary, build a roadmap for digitalizing processes and leveraging cloud services within the customer's organization. This phase may also include the implementation of a Proof of Concept (PoC) that helps the customer to quickly evaluate the potential benefits of the new solution. In the **Foundation** phase, we build the structure, processes and governance model required to successfully deploy the new solution. In the

Implementation and Delivery phase, the solution is deployed or, if necessary, developed and tailored to meet even the most detailed customer needs, leveraging our expertise and proven concepts and platforms and taking future needs into account. In the **Adoption** phase, we focus on our customer's organization and end users to help ensure that the new solution is successfully taken into use so that its benefits are realized from an end user, developer and IT perspective. Finally, in the **Managed Services and Continuous Development** phase we offer customers long-term support including managed services, continuous development and solution lifecycle management.



Customer Journey

We'll help you engage your customers digitally in a way that's most convenient for them.

The modern digital organization serves its customers personally, effectively and on their terms regardless of time, place or device. Innofactor helps organizations put their customer in the center and design engaging, personalized digital customer services in all channels where their customers are present. This ensures end users have a best-in-class customer experience, as well as quick and convenient access to relevant services and information.



Customer Journey Solutions

- ▶ **Service Design**
- ▶ **Mobile Apps & Webservices**
- ▶ **Digital Customer Services & DevOps**

Our promise is to help our customers provide their end users more modern and personal digital customer experiences that bring a smile to the user's face.

Key Benefits for Our Customers

- ▶ Provide your customers better, more personal and impactful service to increase their satisfaction and loyalty
- ▶ Get a deeper understanding of your end user and their digital customer journey based on measurable and actionable data
- ▶ Lower your customer acquisition cost, increase your marketing return-on-investment and improve your lead-to-revenue funnel volume and velocity through higher conversion rate from lead to sales
- ▶ Make sure your services, processes and architecture for managing customer personal information are compliant with data protection regulations throughout the customer lifecycle

Our Microsoft Competencies and Partners related to Customer Journey

- ▶ Microsoft Gold Application Development
- ▶ Microsoft Gold Application Integration
- ▶ Microsoft Gold Cloud Customer Relationship Management

In addition, we are an Episerver Silver Solution Partner.

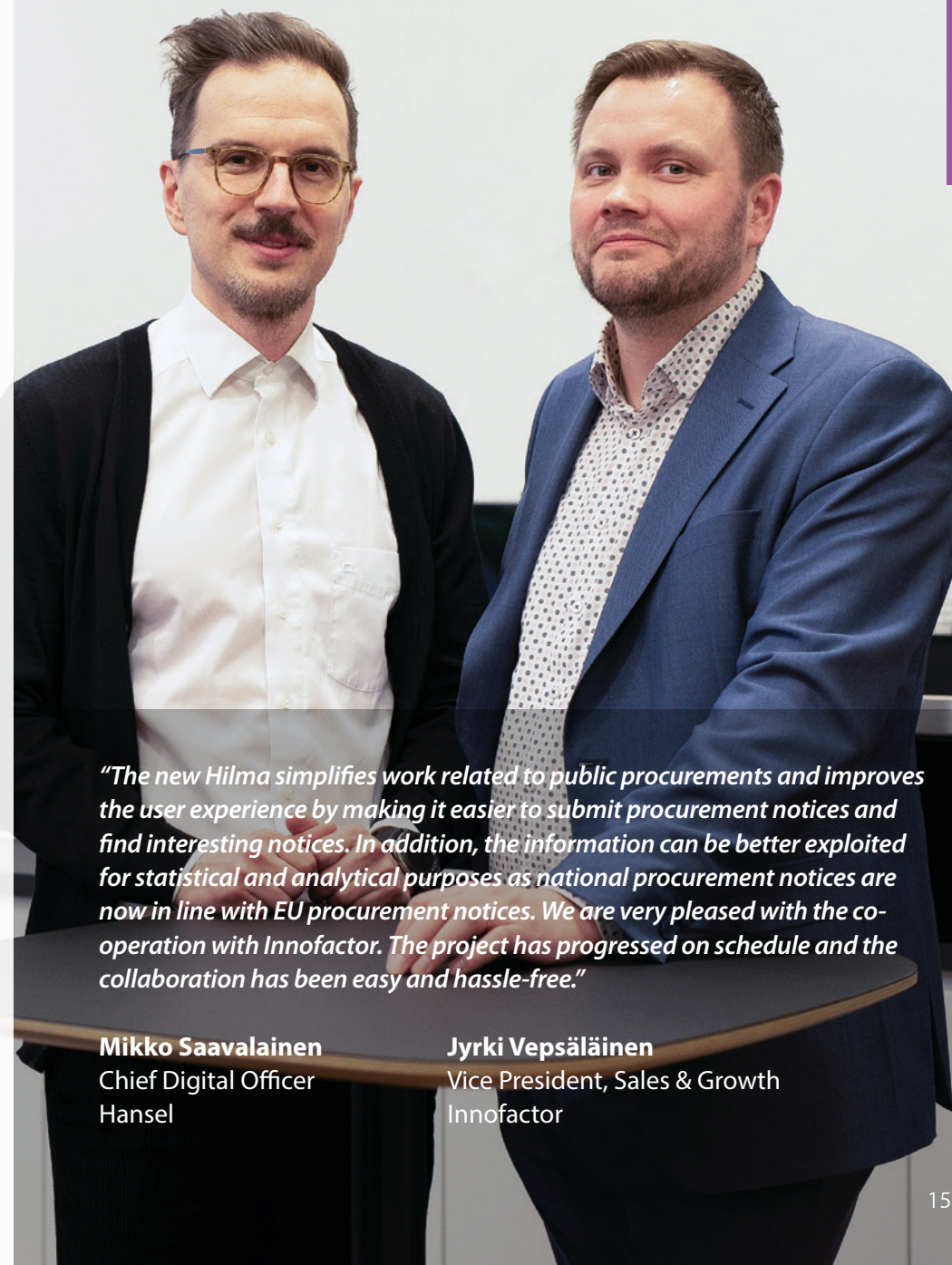
Hansel

Hilma, the Online Notices Channel for Public Procurement – a More User-Friendly Service for Both Procurers and Bidders

Hansel Oy is a joint public procurement unit responsible for tendering, making and maintaining comprehensive public procurement contracts in Finland. In addition, Hansel is responsible for marketing contracts to customers in co-operation with contracting suppliers. Hansel has a total of approximately 90 ongoing framework agreements and dynamic procurement systems, with approximately 500 contracting suppliers selected through competitive tendering. Since 2015, Hansel has been responsible for the government's e-tendering service. Hansel employs around 100 people.

Hilma (www.hankintailmoitukset.fi) is an online channel for notices on public procurement where procurement units publish notices on public tendering procedures. Companies get real-time information on ongoing tenders and advance information on upcoming tenders from Hilma. There was a need to overhaul the Hilma service, because the service, which has been in use since 2007, had become technically obsolete. In addition, the functions of the service needed to be modernized. Hansel has been commissioned by the Ministry of Finance to carry out the modernization of Hilma.

In December 2018, Hansel selected Innofactor as the supplier of the reform through a public procurement competition. Innofactor's agile solution is based entirely on modern Azure PaaS technologies and it was implemented using DevOps protocols. The new solution makes it easier than ever to publish new notices and find previously published ones. Help is available for choosing the right form, a previous notice can be selected as a template for a new notice and an already published notice can be edited. The bidder, on the other hand, can search for notices more conveniently and order notices matching their search criteria to be sent directly to their inbox. The service was launched in January 2020 and development is still ongoing.



“The new Hilma simplifies work related to public procurements and improves the user experience by making it easier to submit procurement notices and find interesting notices. In addition, the information can be better exploited for statistical and analytical purposes as national procurement notices are now in line with EU procurement notices. We are very pleased with the co-operation with Innofactor. The project has progressed on schedule and the collaboration has been easy and hassle-free.”

Mikko Saavalainen
Chief Digital Officer
Hansel

Jyrki Vepsäläinen
Vice President, Sales & Growth
Innofactor

Operations Journey

We'll help you with change and profitable growth by digitalizing and automating your business processes.

To stay ahead of the game in the modern digital environment, an organization must be able to transform its operations at a faster pace than ever before. Digitalizing business processes and leveraging new cloud-based business applications enables companies to do so by giving them better control over their operations. This is achieved by optimizing the usage of resources and leveraging the wealth of information spread across the organization to make better decisions and accelerating innovation by making business processes more agile.



Operations Journey Solutions

- ▶ **Customer Relationship Management (CRM)**
- ▶ **Enterprise Resource Planning (ERP)**
- ▶ **Project & Portfolio management (PPM)**
- ▶ **Information & Case Management**
- ▶ **HR & Talent Management**
- ▶ **Customized Solutions**

Our promise is to provide a modern business experience by digitalizing our customers' operations.

Key Benefits for Our Customers

- ▶ Save time and money for your organization with integrated and automated business processes
- ▶ React faster to new business opportunities and launch new operations in a more agile way
- ▶ Get real-time visibility of your operations, such as resource availability and utilization, invoicing ratio and warehouse inventory
- ▶ Leverage data in different systems across your organization to create intelligent services and make faster and better decisions
- ▶ Adapt and respond faster to disruptive business models and competition and leverage organizational learning and innovation effectively through agile business processes

Our Microsoft Competencies and Partners related to Operations Journey

- ▶ Microsoft Gold Application Development
- ▶ Microsoft Gold Application Integration
- ▶ Microsoft Gold Cloud Customer Relationship Management
- ▶ Microsoft Gold Cloud Platform
- ▶ Microsoft Gold Data Analytics
- ▶ Microsoft Gold Data Platform
- ▶ Microsoft Gold Datacenter
- ▶ Microsoft Gold Enterprise Resource Planning
- ▶ Microsoft Gold Project and Portfolio Management

IF Metall

Process and System Improvement Using Microsoft Dynamics 365 with Azure

IF Metall is a union striving for gender equality with over 300,000 members working together for the right to a good and secure job. IF Metall operates in large parts of the Swedish industry, including the plastics, pharmaceutical, construction-material, steel, chemical and engineering industries. Almost 30 000 of the members are also elected as representatives, trade unionists, in the workplace. IF Metall consists of 35 departments to which members belong. A department is limited geographically by one or more municipalities and are locally supporting union activities. IF Metall works for the interests of its members and for a democratic and equal society.

Innofactor was selected by IF Metall to implement an optimal system solution for their membership management. Innofactor implemented a modern solution based on Innofactor-MMS (Member Management System) which is fundamentally based on Microsoft Dynamics technology. The solution is called FOKUS and has considerably improved their processes and gained maturity across the organization since it was implemented.

IF Metall wanted to streamline the handling of the members health and dental care fond module since it was conducted manually, in unsupported application and delivered by several suppliers. The new application should be able to seamlessly integrate to FOKUS and handle fund membership, fund fees, membership notification, fund payments and financial follow up. A key goal was to meet the needs of the various departments by creating parameter setting for each fund. The solution called FRISKUS was developed and implemented by Innofactor using Microsoft Dynamics 365 with Azure Service Bus and Azure Logic App. After customer acceptance, Innofactor carried out training sessions for the project reference group before Go-Live which was very appreciated by IF Metall. The FRISKUS application has initially been implemented at two departments and will be implemented in other departments according to a roll-out plan.

The project is considered to have been carried out in a very efficient way, meeting customer expectations, delivering on time, within budget targets and using the latest Microsoft Dynamics 365 technology. The FRISKUS solution does not only provide a flexible and general solution that meets current and future needs, but also has a major impact on the phase-out of legacy systems, consequently reducing IT-costs.

"FRISKUS is an important solution for IF Metall. We have now moved the administration of health and dental care into our core operations. We have simplified the process considerably and are now taking a first step into a cloud-based service. The collaboration with Innofactor worked very well, they were always close at hand when we were stuck or had questions."

Ronny Olsson
Process Owner
IF Metall

Tony Engvall
Project Manager
Innofactor



Employee Journey

We'll help you empower your employees through personal engagement and modern collaboration tools to make their daily work more meaningful and productive.

Digitalization has essentially changed the way we collaborate and work. A modern organization empowers its employees to effectively interact and collaborate with co-workers, customers and other stakeholders and provides them the skills and tools needed to access and share relevant data effectively and securely – regardless of time and place. In a modern organization, employees can also make their own work easier by automating routine tasks with user-friendly code-free developer tools such as Power Platform. As a result, its employees are both more productive, as well as more motivated and able to react to changes in customer needs and the organization's business environment.



Employee Journey Solutions

- ▶ **Digital Office Tools**
- ▶ **Modern Work & Teams**
- ▶ **Mixed Reality & Telepresence**

Our promise is to provide a modern and engaging employee experience to our customers' employees, making their lives easier and bringing a smile to their faces.

Key Benefits for Our Customers

- ▶ Make communications, accessing and sharing data seamless and secure for all your employees
- ▶ Increase employee satisfaction, motivation and productivity by providing everyone modern tools for mobile work
- ▶ Ensure your environment fulfills the requirements of information security and data privacy legislation, such as GDPR
- ▶ Adopt modern collaboration and productivity solutions in your organization successfully to ensure you'll get tangible value for your investment

Our Microsoft Competencies and Partners related to Employee Journey

- ▶ Microsoft Gold Application Development
- ▶ Microsoft Gold Application Integration
- ▶ Microsoft Gold Cloud Platform
- ▶ Microsoft Gold Cloud Productivity
- ▶ Microsoft Gold Collaboration and Content
- ▶ Microsoft Gold Data Platform
- ▶ Microsoft Gold Datacenter
- ▶ Microsoft Gold Enterprise Mobility Management
- ▶ Microsoft Gold Windows and Devices

BDO

A New Intranet Enhances BDO's Internal Communication

BDO provides financial and administrative professional services such as auditing, tax and legal services, financial services and advice. BDO is the market leader in municipal auditing in Finland and the fifth largest provider of expert services to enterprises. Globally, BDO employs over 88,000 experts in 167 countries, and in Finland, BDO employs more than 200 people in 15 locations across the country. BDO Finland's net sales for the fiscal year ended August 31, 2019 were EUR 24.5 million.

BDO's operations have grown considerably in recent years, both internationally and in Finland. The number of employees increased by 16.7 percent in Finland during the last financial year. With growth and technological advances, BDO Finland decided to overhaul its intranet to become more interactive. As BDO experts work in regional offices and with clients throughout Finland, it is particularly important that personnel information reaches all employees at the same time, regardless of location, and that personnel can easily communicate with each other.

BDO selected Innofactor as its partner and the technical implementer of the reform because of Innofactor's expertise and know-how. BDO's primary objective was that the intranet should be a platform for interaction and not just an information channel. Other important criteria were ease of use, clarity and modernity of the platform. The new intranet has been well received by personnel and made internal communication easier. BDO personnel uses the intranet actively and likes its new functionalities and its interactive features. Employees now have a low-threshold tool for communicating with each other, and all experts in the organization have access to up-to-date information, regardless of location. The personnel has also given positive feedback on the intranet's modern look.

"We set out to build a new intranet, which we wanted to be a more modern and more interactive platform that would go hand in hand with our growing organization. It was our objective that the intranet should be a platform for interaction and not merely an information channel. We chose Innofactor to be our partner, because they had the expertise needed for the job. We are very pleased with our consultant from Innofactor. He has offered us knowledgeable and solution-oriented support at every stage of the intranet's technical implementation."

Emilia Hellgren
Communications Specialist
BDO

Antti-Janne Tukiainen
Technical Consultant
Innofactor

Cloud Journey

We'll help you build a secure, scalable cloud platform that makes your operations more agile and puts you in control of your IT.

Cloud computing has become the backbone of digitalization and a core requirement for sustainable innovation in a modern organization. It enables faster business transformation by allowing organizations to access and analyze data, as well as take new functionality and improved solutions into use quickly and effectively. Still, for millions of professionals worldwide, the overall understanding and knowledge around cloud technology is weak. To truly leverage the potential of cloud technology, one needs to re-evaluate everything one knows about IT. This is where we come in to help.



Cloud Journey Solutions

- ▶ **Cloud Infrastructure, Governance, Security & ePrivacy**
- ▶ **Identity & Access Management**
- ▶ **Integrations, Power Platform & PowerApps**
- ▶ **Managed Cloud Services**

Our promise is to help our customers to successfully design, deploy and use cloud solutions with a high level of emphasis on information security.

Key Benefits for Our Customers

- ▶ Assess your organization's cloud readiness and build a cloud solution roadmap that best supports your objectives
- ▶ Understand the resource and cost implications of using cloud solutions
- ▶ Learn the best ways to adopt new technology so your organization can make best use of it
- ▶ Get the best tools in place for your IT professionals and developers
- ▶ Focus on creating value for your organization and customers and ensure a high level of information security by managing your platform and developer tools together with a partner

Our Microsoft Competencies and Partners related to Cloud Journey

- ▶ Microsoft Gold Cloud Platform
- ▶ Microsoft Gold Cloud Productivity
- ▶ Microsoft Gold Collaboration and Content
- ▶ Microsoft Gold Datacenter
- ▶ Microsoft Gold Enterprise Mobility Management
- ▶ Microsoft Gold Identity and Access
- ▶ Microsoft Gold Windows and Devices



"We need a partner, who can design, implement and advise us throughout the entire process of moving to the cloud. Innofactor has helped them to be better prepared for the future IT requirements in the logistics business. The consultants at Innofactor are highly skilled, capable and easy to work with. In addition, they are very dynamic and flexible, if there are any last-minute changes from our side. Therefore, I would be pleased to serve as their reference."

Roopesh Das

SVP of Digital and IT
Wallenius Wilhelmsen ASA

Lars Løvf

Global Cloud Architect
Wallenius Wilhelmsen ASA

Wallenius Wilhelmsen ASA

Better Business Scalability with Microsoft Azure

Wallenius Wilhelmsen is a market leader in RoRo shipping and vehicle logistics, transporting cars, trucks, rolling equipment and breakbulk around the world. The company is up and running 24/7 and 365 days a year and it has 9500 employees in 29 countries. Wallenius Wilhelmsen ASA is listed on the Oslo Stock Exchange and it is headquartered in Lysaker, Norway.

As a global company, Wallenius Wilhelmsen needs to be able to scale their business geographically as well as volume-wise. The time to market is becoming critical as the time span is shifting from months and years to weeks and months. Wallenius Wilhelmsen wanted to modernize their application portfolio and its delivery platform to prepare for the future demands of the business. They see their Digital Transformation Program as a key lever of their business strategy in the up-coming years.

Wallenius Wilhelmsen chose Innofactor as their partner in the renewal process that has been worked on since 2015. Innofactor builds them a future proof digital platform, which works in Microsoft Azure. Six of Wallenius Wilhelmsen's physical data centers in UK, US and Singapore are transformed to Hyper Scale Cloud. Wallenius Wilhelmsen is currently undergoing a significant cloud transformation, but the benefits of it support the company's long-term goals. Cloud transformation enables faster market speed and better scalability in the future.

Data Journey

We'll help you enable data-driven decision making in your organization by leveraging advanced analytics, AI and machine learning.

Organization's operations generate a huge amount of data fragmented into multiple sources and databases. It ranges from various forms of operational data points to information about customers, projects, employees and partners. New capabilities such as advanced analytics and machine learning, as well as enabling technologies like IoT, have emerged to facilitate the consolidation and analysis of vast amounts of data from various internal and external sources. A modern organization leverages real-time data and artificial intelligence to streamline its operations, reach the right conclusions faster and deliver more personalized customer experiences.



Data Journey Solutions

- ▶ **Business Intelligence**
- ▶ **Advanced Analytics, Artificial Intelligence & Machine Learning**
- ▶ **Internet of Things (IoT) & Digital Twins**

Our promise is to empower our customers to make better decisions and enable data-driven business.

Key Benefits for Our Customers

- ▶ Enable decision makers in your organization to leverage real-time data from any source with advanced analytics solutions
- ▶ Utilize predictive analysis in your decision making by transforming your processes and operations into a real-time, location-based data source with IoT applications
- ▶ Gain competitive advantage by leveraging ready-made advanced analytics models and visualizations
- ▶ Increase customer satisfaction and loyalty by improving your understanding of your customers' needs
- ▶ Develop new business models by leveraging the data you collect

Our Microsoft Competencies and Partners related to Data Journey

- ▶ Microsoft Gold Application Development
- ▶ Microsoft Gold Application Integration
- ▶ Microsoft Gold Cloud Platform
- ▶ Microsoft Gold Data Analytics
- ▶ Microsoft Gold Data Platform

We are also a Prophix, Profisee and TimeXTender Partner.

MT Højgaard

The new Data Warehouse Increases the Stability and Predictability of Operations

MT Højgaard is a leading construction industry company in the Nordic countries. Its operations include housing construction and large-scale infrastructure projects as well as several other assignments related to construction. The company's history in Denmark spans over 100 years.

MT Højgaard's goal is to become one of the most profitable companies in the construction industry, which requires digitalizing their ways of working as efficiently as possible. For the past three years, the company have used their existing Data Warehouse solution. However, it was never properly rooted as part of the organization's operations and it was used by too few employees. MT Højgaard needed a solution that would help automate the group's Business Intelligence data warehouse, create new business ideas, and simplify the work related to many routine tasks. The aim was to utilize the opportunities provided by Business Intelligence in a more structured, flexible, and consistent manner.

The standardized Data Warehouse solution was executed in cooperation with Innofactor and TimeXtender. The solution minimizes manual processes, and its operations are stable and self-steering. The current Data Warehouse has boosted MT Højgaard's growth and increased the efficiency of their work. Thanks to the automation of many routine tasks, the BI department is no longer as dependent on individuals with exceptional expertise. At the same time, the utilization of resources and competency available in the organization is smarter than before. The BI department is also less dependent on individual external partners because it can work with the BI-technology in a way that is better standardized and structured.

“By building a Modern Data Warehouse based on a (DWA) Data Warehouse Automation solution such as TimeXtender, MT Højgaard obtained a standardized solution that is continuously updated and compatible with Microsoft. A large share of the very monotonous, time-consuming, and administratively demanding routine tasks are now executed automatically in the background. In addition, the maintenance and further development are no longer depending on individuals as everybody is following the standards and best practice provided by TimeXtender”.

Benny Lohse

Sales Director
Innofactor Denmark



Software Products and Services

Innovations, products and services as key drivers for future growth and profitability.

Innofactor Products & Services, our product and service development organization, operates as an independent Nordic profit center. It employs nearly 50 leading experts in cloud technology and architecture who specialize in software and service development. Innofactor's software products and services are sold throughout the Nordic countries. They have tens of thousands of daily users across hundreds of private, public, and membership-based organizations. Delivering continuous cloud services to our customers is a rapidly growing business areas of the Products & Services unit. We provide our customers with services for application deployment, monitoring and management, as well as joint continuous development under the turnkey principle.

Our Own IP Focus Areas

- **Digital customer service and business process digitalization solutions, particularly for the healthcare and welfare industry**
- **Public sector case management solutions**
- **End-to-end solutions for membership-based organizations**
- **Industry vertical resource and e-transaction management solutions**
- **Cloud solution delivery and managed services**

Continued Strong Investment in Own Software and Service Development

Our goal is to offer our customers modern productized cloud solutions based on our strong industry expertise as part of Innofactor's total offering. In 2019, we invested 4.4% of the Group's consolidated net sales in research and product development, which shows our continued focus in own product development. Our solutions are built from the bottom up for scalability which allows us to leverage our local Nordic sales expertise and presence effectively in new customer acquisition.

Examples of Innofactor's Software Product and Service Portfolio

Innofactor Dynasty is a modern and versatile case management solution for municipalities, cities, government organizations, etc. The new Dynasty 10 combines modern user-oriented design with Innofactor's experience and know-how from over 250 municipal and state-owned customers over the years. Its excellent usability, comprehensive functionality, flexible architecture and compatibility with third-party services make the new Dynasty the preferred solution for case management professionals.

Innofactor Membership Management System (MMS) is the leading Nordic solution for comprehensive customer relationship and operations management for trade unions and membership-based organizations.

Innofactor Virtual Data Center is a solution developed by leading Azure and data security experts at Innofactor to implement the logic and principles of traditional physical data centers in a completely cloud-based environment. It enables a high level of data security, regulatory compliance and manageability without compromising agility. The solution leverages advanced IaC (Infrastructure as Code) methods and a modern Azure management model.

Innofactor Innolog is an easy-to-deploy, cost-efficient solution for the monitoring of personal data files, log data management and ensuring GDPR compliance in public sector and healthcare and welfare organizations. The solution is in use in many public-sector organizations in Denmark and Finland.

Innofactor Prime is a modular and flexible solution for resource and e-transaction management in various industries.



City of Espoo

Dynasty 10 Automates Data Processing and Streamlines Decision Making

The Finnish city of Espoo, with more than 270,000 inhabitants, boasts head offices of large international corporations and numerous high-tech companies. Espoo combines top level know-how, versatile nature, and comfortable and safe residential areas. Espoo is a responsible city with a forerunner attitude, a good place for everyone to live, learn, work and run a business. The services in Espoo are used by approximately 14,000 employees and 30,000 pupils. As electronic services are being extended, a growing number of residents, customers and visitors will also be using them.

The City of Espoo realized it needed to overhaul its decision-making system, as the current processes have many manual and complicated phases and the system no longer meets the operational requirements. The goal is for the new system to serve the City of Espoo's decision making and related preparatory stages in all official decisions by automating work phases. Automatically processed information will be better accessible to Espoo employees as well as for local residents. In addition, it is important that the system complies with GDPR requirements and thus improves data protection practices.

In March 2019, the City of Espoo selected Innofactor as the provider of a decision-making system solution through a public procurement competition. A modern case management system, Innofactor Dynasty 10, was selected because it is designed to work seamlessly as part of the public administration's working methods and systems. Dynasty 10 is SÄHKE2-certified, fulfilling the requirements for case management in public administration, and it has received a Key Flag Symbol as a sign of being a Finnish product. The City of Espoo has been testing the new system since summer 2019 and its final deployment will take place in 2020.

"The old software no longer met the needs of the City of Espoo. Innofactor's Dynasty 10 automates preparatory workflows, including personal data deletion, and enables a smooth decision-making process through an online meeting system. Reducing manual work stages brings cost savings, facilitates the execution of tasks and makes working days more meaningful. Innofactor's consultants have listened carefully to our needs and the co-operation has been smooth."

Leila Neiglick
System Advisor
City of Espoo

Pia Rissanen
Project Manager
Innofactor

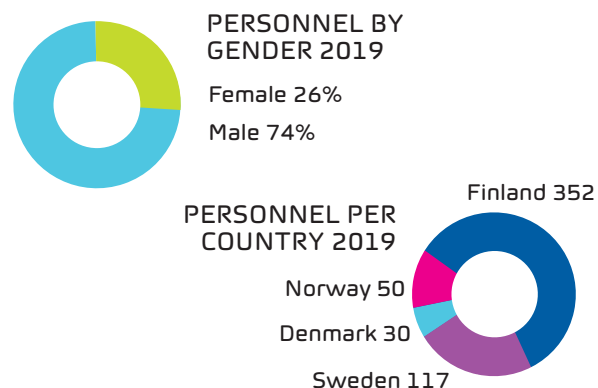
People First and a Smile on the Face Every Working Day

In line with our mission, we continue building Innofactor as a modern digital organization. We develop our operating models to support the daily work of our employees within a Nordic organization. Highly competent employees, good leading practices, self-organization and company-wide practices support Innofactor's long-term goals. Our principle is to put people first in everything we do. We want to create an inspiring and motivating work environment for our employees and also have fun while working.

Number of Personnel and Key Figures

In 2019, Innofactor had a total of 534 employees on average (2018: 591), which shows a decrease of 9.6% from the previous year. The decrease in the number of employees was brought about by the organizational reform carried out towards the end of 2018, which significantly reduced the organizational layers and the number of middle management. The average number of employees excludes employees who are on leave for a period exceeding three months.

At the end of 2019, the number of personnel was 538 (2018: 550). The number of personnel decreased by 2.2%. The average age of the personnel was 41.6 years (2018: 40.8). Women accounted for 26% of the personnel and men for 74% (2018: 29% and 71%).



Self-Organized Teams, Lighter Organization and Better Management

In 2019, work in Finland was mainly carried out under the new organizational model and in self-organized teams. The reduction of organizational layers has been reflected, among other things, in improved flow of information and agile teamwork at the customer interface. During 2019, Innofactor focused on supporting the organizational change and implementing new operating models for teamwork. With the new People Manager roles that are 100% focused on managerial duties, Innofactor has continued to invest in high-quality, people-centered leadership, with a focus on interactivity, timely communication and coaching. Self-organized teams are expected to be deployed in other countries in the future.

Good leadership is based on data-driven business and open communication. People need to know in real time what is going on in the organization. During 2019, we developed the Group's internal reporting using the company's Power BI capability. The development of reporting has been made possible by a common, Nordic Microsoft Dynamics 365 enterprise resource planning system.

Operating Models to Support Modern Work

Innofactor's target is to build a company with Nordic integration that can help its customers to build a modern digital organization. In 2019, Innofactor continued development projects which create a basis for common operating models in the Nordic countries. Common systems, processes and culture support Innofactor's strategic targets and co-operation between the countries.

We carried out a performance management process and employee satisfaction surveys in a uniform way in all Nordic countries in 2019. A new questionnaire was piloted to measure employee satisfaction, which better measured employee satisfaction in the current operating environment. Development discussions were held using uniform timetables and models.

The Nordic Leadership Day held in the spring created a framework for working with the values of Innofactor, and value-driven activities were made visible in everyday work at all levels of the organization during 2019. The strategy process was developed in such a way that the whole Innofactor's personnel were able to provide feedback and ideas for the Group Executive Board's strategy discussions.

Personnel Competence as a Foundation of Our Business

Innofactor Academy continued to actively train the personnel. The focus areas included training based on Microsoft technology, basic induction and tools related to project management, such as ITIL and SCRUM. Through Innofactor Academy personnel were trained both locally and at Nordic level.

In 2019, many of our employees renewed their Microsoft Most Valuable Partner (MVP) awards, and we also received new MVPs. Microsoft MVPs are technology experts who actively share their expertise in communities and want to be among the first to learn about new technologies. MVPs have a deep understanding of Microsoft products and services and an ability to combine a variety of platforms and products to solve problems in the real world.

Working Should Also Be Fun

Working at Innofactor should be meaningful but also fun. This is underpinned by good leadership and common working practices, but especially by top colleagues and a great team spirit. We organize recreational events for our personnel, both in teams and at the corporate level. The culmination of the year is the InSpirit event, where Nordic colleagues come together for new learning, good food, music and, above all, networking. We also have a Fun Club organized by the personnel, which offers joint recreational activities.

Remuneration and Engagement

The Board of Directors of Innofactor Plc decided in May 2019 on a share-based incentive plan for the Group's personnel in order to commit personnel to the company. A total of 1,200,000 new shares were offered to the Innofactor Group's personnel in the personnel issue. The personnel issue was fully subscribed. A total of 116 people gave an underwriting commitment and subscriptions were made in all countries where Innofactor operates: Finland, Sweden, Denmark and Norway.

[#ModernDigitalOrganization](#) | [#PeopleFirst](#) | [#CreatingSmiles](#)



Sustainability

Innofactor is convinced that the company's long-term success is based on sustainable operations. Our digital solutions are in key position in curbing climate change and promoting sustainable development. Sustainability is not only a prerequisite for business continuity but also an opportunity for innovation with our customers. Our operations are steered by our Code of Conduct and Environmental Policy, in addition to which we comply with the leading international sustainability standards, such as the ILO Declaration on Fundamental Principles and Rights at Work, the UN Universal Declaration of Human Rights, the UN Sustainable Development Goals and the principles of the ICC Business Charter for Sustainable Development.

Innofactor's internal operations are managed through predefined core processes and standards. The key processes related to sustainability include the company's processes relating to legal affairs, risk management and human resources, which govern many of the main aspects of corporate responsibility. The framework for Innofactor's operations is provided by the ISO 9001, ISO 27001, ISO 13485 and AQAP-2110 standards, which the company's various processes adhere to.

In 2018, Innofactor conducted a survey to learn about the employees' views of the most material sustainability themes in the organization. The most relevant themes for the personnel in Finland were providing solutions which enable sustainable growth for our customer organizations, increasing energy efficiency in our operations, improving recycling in our offices and highlighting sustainability issues in our communications.

Innofactor is committed to supporting the achievement of the UN Sustainable Development Goals (SDGs) by 2030. Accordingly, we have mapped the main objectives from the perspective of our business operations.



Good Health and Well-being

The IT sector can act as a significant player in scaling social welfare and healthcare services by enabling access to services from any device, regardless of time and place. Innofactor is part of the national Virtual Hospital project, coordinated by the Joint Authority for the Hospital District of Helsinki and Uusimaa (HUS), under which we have played a leading role in the implementation of the unique Health Village concept. Health Village enables remote service of patients via mobile devices and transforms secondary care into "local services" 24/7.

Innofactor takes care of its personnel's well-being by providing health services and offering regular occupational physiotherapy services to improve ergonomics.



Gender Equality

Our personnel's diversity is in key position at Innofactor, and we see diversity as an important factor in creating innovation and supporting the organization's operating and renewal capacity. One of the things we want to take an active part in terms of diversity is the employment of women in the ICT sector. In 2019, we participated in Microsoft's Surface the Women campaign to highlight women working in technology sector in addition to telling their career stories. The campaign was conducted in collaboration with the Women in Tech community and the Mimmit koodaa (Women code) program.



Decent Work and Economic Growth

We contribute to economic growth through innovation and new technologies. The measures we have taken to employ young people also help in supporting this goal.

IT as a Driver for Sustainable Development

– an Interview with Jufo Peltomaa, Chief Technology Officer at Innofactor

How can the IT industry help us move towards a more sustainable future?

The IT industry can contribute to a more responsible future in a variety of ways, but I would highlight three main factors.

First of all, I would like to emphasize the potential of IT organizations to influence the sustainable growth of their customers. Digital solutions can help customer organizations become more sustainable; better digital solutions, for example, can reduce unnecessary travel. The change starts from the grassroots level and requires cooperation within an organization.

Secondly, we can focus on what the IT organizations themselves are doing. The IT sector today employs more and more people, and we can expect this trend to continue also in the future. Organizations' working methods, procurement processes and utilization of new technologies play a major role in how the IT industry can improve its sustainability. In addition, the lunch options on offer, the ways of commuting and the possibility for remote work are of enormous importance. However, sustainability cuts across all functions of an organization and becomes part of the business only when employees understand how their daily work supports sustainability.

Thirdly, amid all these visible sustainability measures, we also need to consider data processing. Today, an incredible amount of data is being accumulated and circulated. When we think of the amount of data in the world today, it merely scratches the surface compared to the amount of data there will be in 5 or 10 years. Therefore, at this stage, a more environmentally friendly way of processing data is more relevant than many of the areas where the sustainability measures are currently largely concentrated.

How do you see the role of sustainability at Innofactor?

Above, I have mentioned three ways through which the IT sector can influence society's sustainability. Innofactor wants to make a real impact in all three ways, especially on a Nordic scale, and we are making progress one step at a time. One of Innofactor's cornerstones is its highly motivated personnel, which will help us achieve great things in the future.

Technology offers a variety of solutions in curbing climate change, but at the same time it increases the need for energy. What are your thoughts on this?

Data processing currently accounts for about 2% of global emissions. This figure will grow in the future and that is why companies' business practices play an important role. With regards to climate change mitigation, reducing carbon footprint, for example by improving the energy efficiency of data centers, is undoubtedly one of the best ways to achieve quick results. In addition, collaboration between IT organizations in sustainability matters can help us find new innovations.

Digital solutions alone are not enough to mitigate climate change, but they are extremely important and an integral part of the overall solution.

How do you see the modern digital organization of the future?

A modern digital organization of the future may not view technology as the be all and end all of business. Instead, organizations will focus on empowering people, both employees and customers, and place emphasis on empathy and the human factor. Technology will not be seen as a value per se; rather, the technological environment will be seen as an enabler and a path to more profitable business.



Environmental Responsibility

As an organization operating in the IT sector, Innofactor has a unique opportunity to be part of the solution in reducing environmental impacts. The digital solutions we deliver to our customer organizations play an important role in mitigating and adapting to climate change. Digitalization of manual processes and digital healthcare are examples of solutions through which Innofactor can improve its customers' and thereby the entire society's sustainable development.

Our environmental policy, which was revised in 2019, guides us in improving our environmental impacts. Our environmental policy defines the principles we always follow in our own operations and in the deliveries to our customers. The principles of Innofactor's environmental policy include continuous development, improvement of preventive actions and reacting to the changing operating environment. Innofactor complies to all applicable environmental laws and regulations and expects its partners and suppliers to comply with them as well. The environmental policy concerns the entire Innofactor Group and is available on the Innofactor website.

In late 2019, we carried out an energy survey for major companies as required by the Energy Efficiency Act. The energy survey was carried out at our Espoo Campus as it is the company's largest office. Based on the survey, the most significant sources of electricity consumption are lighting and the use of IT equipment. The office at the Espoo Campus is a rental property and therefore we are discussing possibilities for energy savings with the property owner.

In 2019, we introduced a policy for extending the lifecycle of computers. Factors considered in the computer renewals concentrate on user's needs and

the possibility of updating the old device.

We recycle all recyclable materials such as cardboard, organic waste, metal, plastic and glass. Our electronics waste is being recycled by Kuusakoski Recycling. As for charity, in 2019 we participated in the protection of the Baltic Sea through the Baltic Sea Action Group.

Remote work is an essential part of the operations of a modern digital organization. We offer our employees good opportunities, depending on the job description, to location-independent work, which can be seen in the increased number of Microsoft Teams meetings. We became fully operational with the Teams tool in the summer 2018, with 10,000 Teams meetings throughout the year. In 2019, the number of meetings increased to well over 30,000. Use of Teams as a meeting tool brings added value to the operations of both Innofactor and its customers.

Social Responsibility

The impact of the organizational change that took place at the end of 2018 has been positive in 2019. The purpose of the change was to reduce organizational levels and speed up decision-making. In particular, we wanted to strengthen the role of teams and enable the superiors to focus on high-quality managerial work. During 2019, Innofactor has focused on supporting and implementing the organizational change and the new operating models. In the new organization model, People Managers support team members while we have also focused on developing internal communications during 2019. Internal processes have been developed to enable new ways of working. Training for managers has focused on soft skills, for example through Interactive

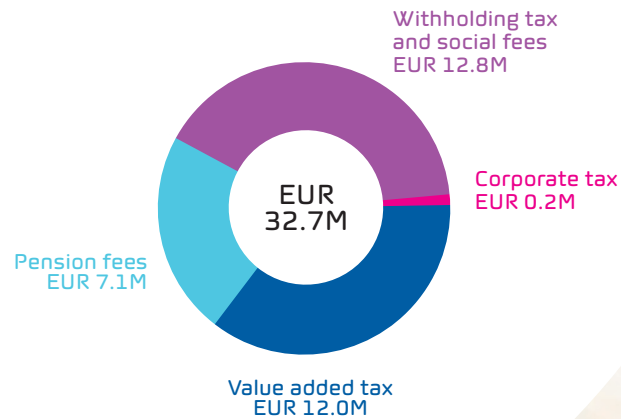
Coaching courses. In order to support the entire Nordic organization's operating models, Innofactor Academy has regularly organized, for example, Scrum trainings throughout 2019.

We encourage our employees towards sustainability by offering trainings on sustainable development and by providing information on ways in which each employee, through their own role, can affect Innofactor's environmental impact. Each employee can participate in the discussion about sustainability through a Microsoft Teams -based discussion forum, Innofactor Game Changers. In the forum, we initiate discussion and share ideas about sustainability. In addition to the online discussion forum, we have arranged quarterly sustainability lunches to activate discussion and explore new ideas for more sustainable practices.

In 2019, Innofactor increased the recruitment and training of students nearing their graduation. To this end, a new Innofactor DigiStar Trainee Program was launched in Finland. In 2019, Innofactor recruited and trained a total of 20 undergraduate students. For the first time in 2019, Innofactor also organized a Nordic Trainee training day in Helsinki, attended by about 20 trainees from the Nordic countries.

The IT industry is constantly evolving, and an innovative operating environment plays a key role in the success of organizations. At Innofactor, we are increasingly focused on harnessing the potential and strategic capabilities of our employees and giving them the freedom to apply their skills in the workplace. In 2019, we organized a one-day internal hackathon in Sweden at our Stockholm office. During the day, people working in our different business units were able to create new and innovative Microsoft-based solutions with their Nordic colleagues.

Innofactor Group's Tax Footprint 2019



Information Security and Data Protection

Innofactor's customers require appropriate information security in their services and that the services enable operation in accordance with the EU General Data Protection Regulation (GDPR). Innofactor's management has identified several critical cyber risk scenarios against which a company needs to protect itself. The company is committed to protecting its customers' and partners' information and systems, and naturally, Innofactor as a company itself. In order to ensure the level of information security corresponding to the risks, Innofactor maintains a certified information security management system in accordance with ISO 27001 standard.

In its operations, Innofactor is committed to maintaining a high level of data protection and respects the privacy and rights of its personnel, customers and users. Through regular internal audits, we aim to continuously develop data protection and information security in our operations and processes. Information security and data protection are mandatory parts of the employee induction training. Employees are also continuously trained on information security and data protection. Processes and instructions concerning information security and data protection are the responsibility of Innofactor's Chief Information Security Officer. The company also has a designated Data Protection Officer who reports directly to the CEO. Additionally, the company's main personal data registers have been assigned to the persons responsible for them.

Anti-Corruption and Anti-Bribery

Innofactor's Code of Conduct defines the general principles and guidelines that the company's employees and partners adhere to. We arrange trainings concerning the Code of Conduct in all of our offices at regular intervals.

Transparent business operation in accordance with the highest ethical standards is the basis for our company operations. We use our anonymous whistleblowing channel for reporting suspected infringements that are against our Code of Conduct. The channel is open to our personnel and other Innofactor stakeholder group. All reports are always handled confidentially.

The Board of Directors of Innofactor Plc



Sami Ensio

M.Sc. (Tech.). Innofactor Plc's CEO and member of the Board of Directors since 2010. Innofactor Ltd's founder and CEO since 2000. Born in 1971. Ownership 5,706,477 shares.

Anna Lindén

M.Pol.Sc. Member of the Board of Directors since 2018. Born in 1973. Ownership 39,000 shares.

Risto Linturi

M.Sc. (Tech.). Member of the Board of Directors since 2018. Born in 1957. Ownership 826,411 shares.

Pekka Eloholma, Chairman

M.Sc. (Tech.). Chairman and member of the Board since 2018. Born in 1960. Ownership 70,106 shares.

The share ownership information is as of December 31, 2019

Executive Board of the Innofactor Group

Sami Ensio, CEO

M.Sc. (Tech.). Innofactor Group's CEO, Country Manager for Finland, and member of the Board of Directors. Innofactor Ltd's founder and CEO since 2000. Born in 1971. Ownership 5,706,477 shares.

Vesa Syrjäkari

M.Sc. (Econ.). EVP, Business Development and Operational Excellence. Employed by Innofactor since 2017. Born in 1960. Ownership 60,000 shares.

Markku Puolanne

B.Sc. (Econ.). CFO. Employed by Innofactor as of August 12, 2019. Born in 1973. Ownership 10,000 shares.

Jørn Ellefsen

MBA. Managing Director, Country Manager for Norway and Denmark. Employed by Innofactor as of March 1, 2019. Born in 1971. Ownership 75,000 shares.

Jufo Peltomaa

Secondary school graduate. CTO. Employed by Innofactor as of October 28, 2019. Born in 1971. Ownership 0 shares.

Janne Heikkinen

M.Sc. (Tech.). EVP, Products and Services. Employed by Innofactor since 2015. Born in 1974. Ownership 123,044 shares.

The share ownership information is as of December 31, 2019.

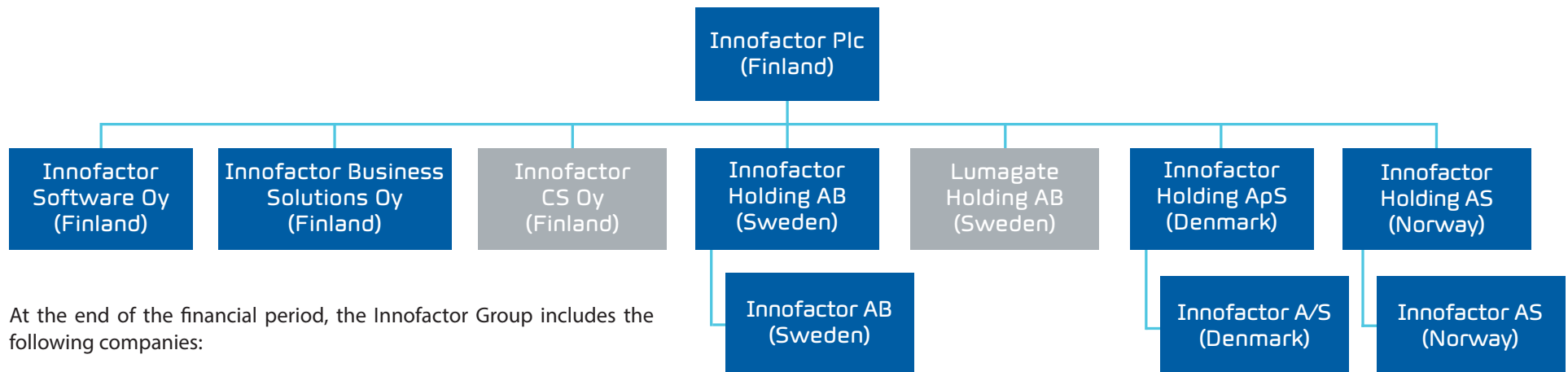
Annual Report of the Innofactor Plc's Board of Directors for 2019

Innofactor Group

Innofactor is one of the leading software providers focused on Microsoft solutions in the Nordic countries. Innofactor delivers to its customers IT projects as a system integrator and develops its own software products and services. The focus area in Innofactor's own product development is Microsoft's cloud solutions.

Approximately 1/3 of Innofactor's net sales comes from recurring contracts related to Innofactor's own products and from other recurring service contracts. Innofactor's customers include over 1,500 companies and public administration and third sector organizations. In its operation, Innofactor strives for long-term customer

relationships. Innofactor has over 500 motivated and skilled employees in approximately 15 locations in Finland, Sweden, Denmark and Norway. The structure of the Innofactor Group at the end of the financial period 2019 is presented below.



At the end of the financial period, the Innofactor Group includes the following companies:

- ▶ Innofactor Plc, Finland (parent company)
- ▶ Innofactor Software Oy, Finland, Espoo, 100%
- ▶ Innofactor Business Solutions Oy, Finland, Espoo, 100%
- ▶ Innofactor CS Oy, Finland, Turku, 100% – no business operations or holdings in 2020
- ▶ Innofactor Holding AB, Sweden, 100%
- ▶ Innofactor AB, Sweden, 100%
- ▶ Lumagate Holding AB, Sweden, 100% – no business operations or holdings in 2020
- ▶ Innofactor Holding ApS, Denmark, 100%
- ▶ Innofactor A/S, Denmark, 100%
- ▶ Innofactor Holding AS, Norway, 100%
- ▶ Innofactor AS, Norway, 100%

Reorganizations made in the Group during the financial period are described later in this document.

Financial Performance and Position	2019	2018	2017	2016	2015
Net sales, EUR thousand	64,198	63,144	65,666	59,616	44,452
Operating profit before depreciation and amortization (EBITDA), EUR thousand	5,089	-1,029	1,308	4,831	3,705
percentage of net sales	7.9%	-1.6%	2.0%	8.1%	8.3%
Operating profit (EBIT), EUR thousand	795	-3,872	-1,461	2,332	2,542
percentage of net sales	1.2%	-6.1%	-2.2%	3.9%	5.7%
Earnings before taxes, EUR thousand	12	-3,811	-1,579	1,920	1,935
percentage of net sales	0.0%	-6.0%	-2.4%	3.2%	4.4%
Earnings, EUR thousand	418	-3,462	-2,007	1,536	1,548
percentage of net sales	0.7%	-5.5%	-3.1%	2.6%	3.5%
Shareholders' equity, EUR thousand	22,145	21,303	24,764	22,501	24,534
Interest bearing liabilities, EUR thousand	16,853	15,418	14,228	16,701	9,219
Cash and cash equivalents, EUR thousand	963	258	910	902	843
Deferred tax assets, EUR thousand	5,602	5,602	5,668	5,760	6,704
Return on equity	1.9%	-13.8%	-5.3%	6.5%	6.6%
Return on investment	2.3%	-7.7%	-2.4%	6.4%	7.6%
Net gearing	71.8%	71.2%	53.8%	70.2%	34.1%
Equity ratio	40.2%	41.2%	43.4%	35.8%	56.9%
Balance sheet total, EUR thousand	55,720	51,875	58,272	63,587	43,983
Research and development, EUR thousand	2,795	2,860	3,298	3,394	2,495
percentage of net sales	4.4%	4.5%	5.0%	5.7%	5.6%
Personnel on average during the year	534	591	610	532	409
Personnel at the end of the year	538	550	601	591	415
Number of shares at the end of the year	37,388,225	36,188,225	36,188,225	32,901,377	33,453,737
Earnings per share (EUR)	0.0113	-0.0880	-0.0262	0.0467	0.0475
Shareholders' equity per share (EUR)	0.592	0.589	0.684	0.684	0.733

Net Sales

Innofactor's net sales in 2019 were EUR 64,198 thousand (2018: 63,144), which shows an increase of 1.7 percent.

Financial Performance

Innofactor's operating margin (EBITDA) in 2019 was EUR 5,089 thousand (2018: -1,029), which shows an increase of EUR 6,118 thousand. EBITDA accounted for 7.9 percent of the net sales (2018: -1.6%). Innofactor's operating profit (EBITDA) in 2019 was EUR 795 thousand (2018: operating loss -3,872), which shows an increase of EUR 4,667 thousand. Operating profit accounted for 1.2 percent of the net sales (2018: -6.1%).

Financial Position, Liquidity and Investments

Innofactor's balance sheet total at the end of 2019 was EUR 55,720 thousand (2018: 51,875). The Group's liquid assets totaled EUR 963 thousand (2018: 258), consisting totally of cash funds.

The operating cash flow in 2019 was EUR 6,209 thousand (2018: -581). Cash flow from investments was EUR -606 thousand (2018: -1,239).

The equity ratio at the end of 2019 was 40.2 percent (2018: 41.2%) and net gearing was 71.8 percent (2018: 71.2%).

At the end of the review period, the company had EUR 8,334 thousand in current interest-bearing liabilities to financial institutions (2018: 10,000) and EUR 3,684 thousand in non-current interest-bearing liabilities to financial institutions (2018: 5,418). The current liabilities consist of EUR 1,810 thousand for loan installments to be paid within the year following the review time and a credit limit of EUR 6,524 available at the time. The total amount of interest-bearing liabilities to financial institutions was EUR 12,018 thousand (2018: 15,418).

The company's lease liabilities were EUR 4,835 thousand, and of these, EUR 1,566 were current liabilities and EUR 3,269 non-current liabilities. The total amount of interest-bearing liabilities was EUR 16,853 thousand.

The return on investment improved from 2019 and was 2.3 percent (2018: -8.0%). The return on equity in 2019 improved from the previous year and was 3.8 percent (2018: -15.0%).

The non-current assets in Innofactor's balance sheet at the end of 2019 were EUR 41,347 thousand in total and consisted of the following items:

- ▶ Tangible assets EUR 5,290 thousand
- ▶ Goodwill value EUR 26,003 thousand*
- ▶ Other intangible assets EUR 3,745 thousand*
- ▶ Shares and holdings EUR 79 thousand
- ▶ Receivables EUR 629 thousand
- ▶ Deferred tax assets EUR 5,602 thousand

Innofactor's gross investments in tangible and intangible assets in 2019 were EUR 619 thousand (2018: 1,133), consisting mainly of normal additional and replacement investments required by growth.

The write-offs on intangible assets were EUR 2,489 thousand (2018: 2,527).

* 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.

Mergers, Acquisitions and Changes in the Group Structure

In 2019, Innofactor made no external acquisitions, but focused on integrating Cinteros AB, acquired in 2015, and the Lumagate companies, acquired in 2016, into the Innofactor Group.

Innofactor merged two operative companies 100% owned by the Group in Sweden, Innofactor AB and

Innofactor Cloud Platform AB, on December 31, 2019.

On December 31, 2019, the business operations of Innofactor CS Oy, which is a subsidiary 100% owned by Innofactor, were sold to another subsidiary, Innofactor Software Oy, which is also 100% owned by Innofactor.

No other acquisitions or other changes in the Group structure were carried out in 2019.

Personnel

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

The average number of active personnel in 2019 was 534 persons (2018: 591), which shows a decrease of 9.6 percent. At the end of the year, the number of active personnel was 538 (2018: 550), which shows a decrease of 2.2 percent. The decrease in the number of personnel was especially due to the reorganization implemented in Finland in the last quarter of 2018.

At the end of 2019, the average age among personnel was 41.6 years (2018: 40.8). Women accounted for 26 percent (2018: 27%) of the personnel. Men accounted for 74 percent (2018: 73%) of the personnel.

Strategy and its Realization in 2019

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 over 500 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 through organic growth and 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

The Main Actions for Reaching the Approximately 20 Percent Growth and 20 Percent Operating Margin:

- ▶ Focus on selected industries and solution areas (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

The operating margin (EBITDA) grew in 2019 from EUR -1,0 million in the same period in the previous year to EUR 5.1 million (7.9 percent of the net sales). As regards profitability, Innofactor was able to improve its performance substantially, but a significant management effort and work is still needed in the following years in order to reach the long-term goal of approximately 20 percent. However, the required

actions are clear and known, so we believe that reaching this goal is entirely possible.

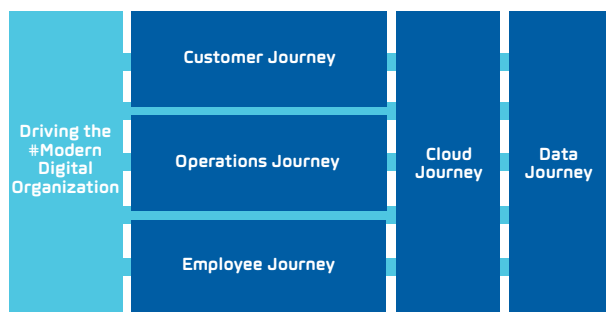
Innofactor's net sales in 2019 were EUR 64.2 million (2018: 63.1), which shows an increase of 1.7 percent compared to the previous year. The net sales grew 9.7% in the last quarter of 2019, and growth was seen in all countries. The strategic goal of getting the net sales to grow is also supported by the well developed order backlog of EUR 49.8 million (2018: 30.6). In 2020, Innofactor will pay special attention to management of growth and sales. As regards this, we have, for example, already renewed our sales model and sales management from the beginning of 2020.

Innofactor's operating cash flow in 2019 was EUR 6.2 million (2018: -0.6), and the equity ratio at the end of 2019 was 40.3 percent (2018: 41.2%). The handling of lease liabilities in a new way in accordance with IFRS 16 had a positive effect of approximately EUR 1.7 million in the operating cash flow and approximately 3.9 percentage point negative effect in the equity ratio. The strong operating cash flow supports Innofactor's strategic goal of profitable growth and securing solid financial standing in all situations.

Business Operations

In its strategy, Innofactor focuses on the Microsoft ecosystem. Innofactor both operates as a system integrator and develops its own software products and services, which offers Innofactor significant competitive edge and synergy benefits. System integrator operation increases Innofactor's understanding of the customers' product and service needs and also acts as a delivery channel for its own products and services. Focusing on the Microsoft ecosystem creates insurmountable know-how for Innofactor and also makes it the most desirable partner in the Nordic Countries for Microsoft, which helps Innofactor to get the best deals.

Innofactor's offering is divided into the following areas:



Our comprehensive solutions, which are integrated into each other, are based on real customer needs and on utilizing the latest technology. We achieve high-quality deliveries and provide our customers with fast benefits due to our experience and understanding of our customers combined with our knowledge of the latest cloud services. Over 15 years of cooperation with Microsoft and leading operators in its ecosystem ensure the best possible support for our customers.

Innofactor provides its solutions through the Microsoft Cloud or installed in the Innofactor Service Center or on the customer's own servers. Typically based on annual or monthly charges, service agreements, such as SaaS and cloud, play an important role in Innofactor's business activities. Recurring services essentially decrease cyclicity in the business operations.

In 2019, Innofactor's business operations were focused on Finland, Sweden, Denmark and Norway. Approximately 61 percent of the net sales came from Finland, approximately 22 percent from Sweden, approximately 11 percent from Norway, and approximately 6 percent from Denmark.

Of the net sales in 2019, approximately 50 percent came from commercial clients, approximately 34 percent from public sector clients and approximately 16 percent from third sector clients.

Innofactor's net sales in 2019 came from the following sources:

- ▶ approximately 6 percent from licenses, of which the share of licensing income to third parties was approximately 4 percent of the net sales
- ▶ approximately 22 percent from services based on recurring service contracts, such as SaaS, cloud and hosting services, and from software maintenance
- ▶ approximately 24 percent from specialist work based on recurring service contracts, such as smaller customer-specific changes and further development of IT systems
- ▶ approximately 48 percent from IT system delivery projects and consulting

Innofactor's 10 largest clients accounted for about 24 percent of the net sales in 2019.

Major Events in the Financial Period

- ▶ On January 25, 2019, Innofactor lowered its estimate on the net sales and operating margin (EBITDA) for 2018.
- ▶ On February 14, 2019, Innofactor announced in a stock exchange release that a Swedish organization selected Innofactor to implement their membership management project, the value of the procurement being approximately EUR 1.3 million, which is estimated to be registered for 2019.
- ▶ On February 15, 2019, Innofactor announced in a stock exchange release that Traficom selected Innofactor as the development and maintenance provider for their technical platform for digital services (VISA), the value of the procurement being approximately EUR 5.0 million within 5–7 years, starting from spring 2019.
- ▶ On March 8, 2019, Innofactor announced in a stock exchange release that the City of Espoo selected

Innofactor as the provider of a decision-making system, the value of the procurement being approximately EUR 1.5 million, which is estimated to be registered for 2019 and 2020.

- ▶ On March 14, 2019, Innofactor announced in a stock exchange release that Innofactor Plc's CFO Marko Lehtonen has decided to assume responsibilities with another employer and has resigned from his position on March 13, 2019.
- ▶ On May 14, 2019, Innofactor announced a directed personnel share issue of EUR 1.2 million shares for the personnel of the entire Group.
- ▶ On May 14, 2019, Innofactor announced in a stock exchange release that Innofactor Plc's General Counsel Anna-Maria Palmroos has decided to assume responsibilities with another employer and has resigned from her position.
- ▶ On May 29, 2019, Innofactor announced in a stock exchange release that Markku Puolanne was appointed Innofactor's Chief Financial Officer (CFO), starting from August 12, 2019.
- ▶ On June 4, 2019, Innofactor published a stock exchange release in which it adjusted its forecast for 2019 as regards the operating margin, estimating that it would grow to EUR 4–6 million.
- ▶ On June 25, 2019, Innofactor announced in a stock exchange release that the Innofactor personnel share issue was fully subscribed. As a result of the personnel issue, the number of Innofactor's shares increases by 1,200,000 shares to a total of 37,388,225 shares. The new shares correspond to 3.21 percent of Innofactor Plc's post-issue number of shares and votes. The subscription price was EUR 0.50 per share. The new shares will be registered in the Trade Register without delay. The trading of the new in the Helsinki Stock Exchange (NASDAQ Helsinki Oy) is estimated to start on June 28, 2019. The personnel shares are subject to a sale and transfer restriction for 12 months starting from the registration.

- ▶ On August 15, 2019, Innofactor announced in a stock exchange release that Epiroc Rock Drills AB has selected Innofactor as the provider of directory services. The services will be delivered in co-operation with Innofactor business units in Finland, Sweden and Norway. The integrations related to the delivery are planned to be implemented during 2019–2021. The estimated total value (excluding VAT) of the procurement is EUR 650,000.
- ▶ On August 26, 2019, Innofactor announced in a stock exchange release that the Tax administration has selected Innofactor in a public procurement competition as the primary provider of IT specialist services in the area of cloud specialists. On the basis of the volume stated by the customer in connection with the procurement, the total value in this area is approximately EUR 10–20 million. The duration of the framework agreement is 6 years, and assignments started during the framework agreement period may continue 48 months after the expiration of the framework agreement.

Major Events After the Financial Period

- ▶ On January 30, 2020, Innofactor announced in a stock exchange release that it will deliver a financial management system for a Finnish trading company. The value of the procurement is approximately EUR 0.65 million, which is estimated to be registered for 2020.
- ▶ On February 12, 2020, Innofactor announced in a stock exchange release that the Hospital District of Helsinki and Uusimaa (HUS) has selected Innofactor as the provider of architectural and system development, maintenance and other services related to the Health Village services for a maximum amount of EUR 2,000,000. The services are estimated to be provided during years 2020 and 2021.

- ▶ On February 13, 2020, Innofactor announced in a stock exchange release that the Legal Register Centre has selected Innofactor as the provider of the further development stage of the HAIPA project, which is the ERP and document management system for administrative courts and special courts. The procurement consists of the specialist work related to the project as well as the implementation in the different agencies in cooperation with the customer. The procurement may also include maintenance services related to the system. The contract period is estimated to start in March 2020 and it will last until the end of 2020. Additionally, the customer reserves the right to two options for 2021 and 2022, which will be agreed on separately. The estimated total value (excluding VAT) stated by the customer in the procurement decision is EUR 2,157,000.
- ▶ On February 13, 2020, Innofactor announced in a stock exchange release that Ullensaker municipality in Norway has selected Innofactor as the provider of ICT consultancy services related to comprehensive public cloud journey including infrastructure, identity and access, security and modern employee experience. The consultancy services include architectural and system development, maintenance and other services for an estimated total amount of NOK 10,000,000 (approximately EUR 1,000,000), which are estimated to be provided during years 2020 and 2021. The customer also reserves an option of extending the service for two more years.
- ▶ On March 4, 2020, Innofactor announced in a stock exchange release that The Social Insurance Institution of Finland (Kela) has selected Innofactor as the provider of an administrative case management solution as SaaS. The system delivery and the related integrations are planned to be implemented during 2020–2021. The contract will be valid for four years to begin with, and after that, it will be valid until further notice. The estimated total value of the procurement

during the contract period is approximately EUR 1,050,000.

There are no other significant events in Innofactor after 2019.

Future Outlook

Innofactor's net sales and operating margin (EBITDA) in 2020 are estimated to increase from 2019, during which the net sales were EUR 64.2 million and operating margin was EUR 5.1 million.

Major Risks and Uncertainties

Innofactor's operations and finances involve risks that may be significant for the company and its share value. These risks are assessed by Innofactor Plc's Board of Directors four times a year as part of the strategy and business planning process. The risks are published in their entirety in the financial statement and in the Annual Report of the Board of Directors. The interim reports only present the changes in short-term risks.

Risks Related to Operations

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

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

Increase in personnel costs: The main part of Innofactor's costs consists of salaries and other personnel costs (in 2019, about 69% of the all costs, including depreciations). Currently, all of Innofactor's own employees work in the Nordic countries, whereas some competitors rely heavily on workforce in countries with cheap labor. If the personnel costs continue rising in the Nordic countries at the same rate as before, it will create a risk for Innofactor, if the prices paid for IT services will not rise correspondingly. Innofactor is monitoring the situation constantly and strives to affect the development of personnel costs via interest groups. It also aims at increasing the share of work done by subcontractors and abroad, when it makes sense from the point of view of business operations, for example, in large product development projects.

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

Competition: Innofactor's main competitors are companies offering traditional information technology services and software in the Nordic countries. Some competitors have larger financial resources, wider product selection, cheaper workforce and larger existing customer base than Innofactor does and also notable legal resources, and they can use these

when competing with Innofactor for the same deliveries. Additionally, new, small startup companies increase competition in certain deliveries. The price competition in the field is expected to remain tough. If the competition becomes tougher, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor continuously strives to improve its competitiveness. Regarding this, the company has published its long-term financial goals.

Research and product development: In Innofactor's operation, research and product development play a central role. In 2019, approximately 4.4% of the net sales was used for it. Each research and product development project carries the risk that the end results are not as successful financially as planned and that the investment in the project does not pay itself back. In organizing its operation, Innofactor aims at minimizing the risks inherent in research and product development.

Changes in the technology and field of business: Fast development is characteristic for Innofactor's field of business. There can be quick changes in the customers' requirements and choices concerning software technology. Important changes under way include, for example, the transfer of software into cloud technologies, digitalization, artificial intelligence, blockchain and Internet of Things (IoT). If Innofactor cannot react to these changes, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor strives to actively invest in new technologies and central areas of know-how.

Data protection: The enforcement of the new EU General Data Protection Regulation ("GDPR", regulation (EU) 2016/679) has affected business operations of Innofactor and its customers. Neglecting the required actions or procedures may lead to losses in net sales or, in the worst case, penalties imposed by a supervisory

authority. Innofactor has invested in solutions related to GDPR and appointed a Data Protection Officer.

Information security: Innofactor operates as a system integrator and consequently Innofactor system administrators and developers have access to certain customer environments. Each access to a customer environment introduces information security risk of unlawful attempts at gaining information. Innofactor has implemented a formal information security management process based on standards, and its implementation is led by the person responsible for the company's information security.

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

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

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

Risks related to acquisitions: Each acquisition, after it has been made, carries some risks, which include the success of the integration, formation of the business value, and possible related needs for depreciations. Innofactor's strategy is primarily based on integrating the acquired companies in a fast schedule as part of the whole in the country in question. Innofactor invests in the integration process.

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

Risk of a pandemic: An epidemic spreading into a global pandemic could hinder Innofactor's business operations. If there were no significant epidemic in Innofactor's operating area in the Nordic countries, the detriment would be limited mostly to a decrease in availability of tools, especially computers, needed in Innofactor's business operations. Should there be a significant epidemic also in Innofactor's operating area in the Nordic countries, it

could mean introducing remote work, either partly or entirely, as well as delays in some customer deliveries. The risk of a pandemic has increased due to the threat of the coronavirus (COVID-19). Innofactor has prepared for the risk of a pandemic by giving the employees instructions concerning traveling and especially any symptoms after it, by preparing to purchase a larger than normal stock of computers, and by making a separate plan for getting all personnel to work remotely, if necessary. Innofactor estimates that well over 90 percent of work can be done remotely in all situations, if necessary, so the effect of a possible pandemic to Innofactor's business is estimated to be relatively small.

Financial Risks

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

Financing risks: In its normal business operations, the Innofactor Group is susceptible to normal financing risks. In total at the end of the year, Innofactor had approximately EUR 12.0 million in interest-bearing debts from financial institutions, which have been taken out to finance earlier acquisitions and working capital. Of the debts, approximately EUR 8.3 million is current liabilities consisting of loan installments of EUR 1.8 million in 2020 and a credit limit of approximately EUR 6.5 million. The company had lease liabilities in accordance with IFRS 16 (leases for the duration of fixed-term leases) for EUR 4.8 million, of which EUR 1.6 million was current and EUR 3.3 million non-current. The total of interest-bearing liabilities was EUR 16.9 million. Innofactor has committed itself to the following covenants: Equity ratio calculated every 6 months is at least of 40%, and interest-bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 2.5, and

certain other normal conditions for loans. The Innofactor Group's interest-bearing liabilities divided by the 12-month operating margin (EBITDA) on December 31, 2019, exceeded the covenant limit of 2.5 agreed on with the financial institution. However, the financial institution issued a waiver on December 31, 2019, accepting this deviation. In addition to the clearly improved cash flow from operating activities, Innofactor has previously renegotiated some loan conditions to enable more flexible financing. These together are believed to ensure Innofactor's financial standing also in the future. 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 would have a negative effect on the Group's business and its development, especially on making acquisitions.

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

Exchange rate risk: The Innofactor Group operates globally and is susceptible to risks related to the currencies of the countries in which it operates. Changes in exchange rates, especially the rates of Swedish krona and Norwegian krone, affect the Group's net sales and profitability as Innofactor has significant operations based on Swedish krona and Norwegian krone. The exchange rate risk is mainly due to the assets and liabilities registered in the balance sheet and the net investments made in the subsidiaries abroad. Also, the business contracts made by subsidiaries pose an exchange rate risk, although these contracts are mainly made in the currency the unit uses in its operation. The management of exchange rate risks in the Group aims at minimizing the uncertainty that

changes in exchange rates cause in the result through cash flows and assessment of receivables and liabilities.

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

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

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

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

Corporate Governance Report

Innofactor Plc complies with the recommendations of the Corporate Governance Code 2020 for Finnish listed companies, published by the Securities Market Association.

On April 2, 2019, the General Meeting decided that the number of Board members is four. The previous members, Sami Ensio, Pekka Eloholma, Anna Lindén and Risto Linturi, were re-elected as the members of the Board of Directors. 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 Ernst & Young Oy, an auditing firm authorized by the Central Chamber of Commerce, as the auditor for the company, with Juha Hilmola as the main responsible auditor.

Innofactor has drawn up a separate Corporate Governance Statement for the financial period of 2019.

Innofactor Plc's entire Corporate Governance and statements are available on the company's web site at:

www.innofactor.com/invest-in-us/corporate-governance/

Research and Product Development

In the product development in 2019, 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 2019 were approximately EUR 2,795 thousand (2018: 2,860), which accounts for 4.4 percent of the net sales (2018: 4.5%).

Reporting Non-financial Information

This statement describes Innofactor's corporate responsibility in accordance with the Chapter 3a, Sections 1–6 of the Finnish Accounting Act.

Business Model

Innofactor's business model is based on offering aimed at the IT service market and on Innofactor's strong partnership with Microsoft, with the focus on solutions developed on Microsoft platforms and solutions that use them. In accordance with its strategy, Innofactor is increasingly focusing on implementing cloud solutions and digitalization. Innofactor is a system integrator and software development company. Thus, the core of the business model and enabler of company growth and development is the competent personnel with the ability to advance. The digital solutions delivered by Innofactor help the customers to reach their sustainability related goals and reduce their environmental impacts. Innofactor can impact the environmental effects of its own operation by developing even more environmentally friendly work environment.

Principles Guiding Sustainability

Our operation is steered by our Code of Conduct and environmental policy, in addition to which we comply with the leading international sustainability standards, such as the ILO Declaration on Fundamental Principles and Rights at Work, UN Universal Declaration of Human Rights, UN Sustainable Development Goals, and the principles of the ICC Business Charter for Sustainable Development.

Innofactor's internal operations are managed through predefined core processes and standards. Innofactor's quality system describes the company's business model

and has been divided into seven documented business processes and eight support service processes. These processes are monitored, for example, by using process meters and audits. The company's support service processes related to human resources management, risk management and legal issues define the main issues with regards to corporate responsibility. Each process has its own Process Performance Indicators that are monitored within the company and set annually for the process owner. The framework for Innofactor's operations is provided by the ISO 9001, ISO 27001, ISO 13485 and AQAP-2110 standards, which the company's various processes adhere to. In the external audits in 2019, only one minor deviation, related to the ISO13485:2016 standard, was discovered, which is a very good achievement.

Environmental Responsibility

As an organization operating in the IT sector, Innofactor has a unique opportunity to be part of the solution in reducing environmental impacts. The digital solutions we deliver to our customer organizations play an important role in mitigating and adapting to climate change. Digitalization of manual processes and digital healthcare are examples of solutions through which Innofactor can improve its customers' and thereby the entire society's sustainable development.

Our environmental policy, which was revised in 2019, guides us in improving our environmental impacts. Our environmental policy defines the principles we always follow in our own operations and in the deliveries to our customers. The principles of Innofactor's environmental policy include continuous development, improvement of preventative actions, and reacting to the changing operating environment. Innofactor complies to all applicable environmental laws and regulations and expects its partners and suppliers to comply with them as well. The environmental policy concerns the entire Innofactor Group and is available on Innofactor's website.

At the end of 2019, we carried out an energy survey for major companies as required by the Energy Efficiency Act. The energy survey was carried out at our Espoo Campus

as it is the company's largest office. Based on the survey, the most significant sources of electricity consumption are the lighting and the use of IT equipment. The office at the Espoo Campus is a rental property, and therefore we are discussing possibilities for energy savings with the property owner.

In 2019, we introduced a policy for extending the lifecycle of computers. Factors considered in the computer renewals concentrate on the user's needs and the possibility of updating the old device.

We recycle all recyclable materials such as cardboard, organic waste, metal, plastic and glass. Our electronic waste is being recycled by Kuusakoski Recycling. As for charity, in 2019 we participated in the protection of the Baltic Sea through the Baltic Sea Action Group.

Remote work is an essential part of the operations of a modern digital organization. We offer our employees good opportunities, depending on their job description, to location-independent work, which can be seen in the increased number of Microsoft Teams meetings. We became fully operational with the Teams tool in the summer 2018, with 10,000 Teams meetings throughout the year. In 2019, the number of meetings increased to well over 30,000. Use of Teams as a meeting tool brings added value to the operations of both Innofactor and its customers.

Social Responsibility

The impact of the organizational change that took place at the end of 2018 has been positive in 2019. The purpose of the change was to reduce organizational levels and speed up decision-making. In particular, we wanted to strengthen the role of teams and enable the superiors to focus on high-quality managerial work. During 2019, Innofactor has focused on supporting and implementing the organizational change and the new operating models. In the new organization model, People Managers support team members, and internal communications while we have also focused on developing internal communications during 2019. Internal processes have been developed to enable new ways of working. Training for managers has

focused on soft skills, for example, through Interactive Coaching courses. In order to support the entire Nordic organization's operating models, Innofactor Academy has regularly organized, for example, Scrum trainings throughout 2019.

We encourage our employees towards sustainability by offering trainings on sustainable development and by providing information on ways in which each employee, through their own role, can affect Innofactor's environmental impact. Each employee can participate in the discussion about sustainability through a Microsoft Teams-based discussion forum, Innofactor Game Changers. In the forum, we initiate discussions and share ideas about sustainability. In addition to the online discussion forum, we have arranged quarterly sustainability lunches to activate discussion and explore new ideas for more sustainable practices.

In 2019, Innofactor increase the recruitment and training of students nearing their graduation. To this end, a new Innofactor DigiStar Trainee Program was launched in Finland. In 2019, Innofactor recruited and trained a total of 20 undergraduate students in the Nordic countries.

Information Security and Data Protection

Innofactor's customers require appropriate information security in their services and that the services enable operation in accordance with the EU General Data Protection Regulation (GDPR). Innofactor's management has identified several critical cyber risk scenarios against which a company needs to protect itself. The company is committed to protecting its customers' and partners' information and systems, and naturally, Innofactor itself as a company. In order to ensure the level of information security corresponding to the risks, Innofactor maintains a certified information security management system in accordance with the ISO 27001 standard.

In its operation, Innofactor is committed to maintaining high level of data protection and respects the privacy and rights of its personnel, customers and users. Through regular internal audits, we aim to continuously develop data protection and information security in our operations

and processes. Information security and data protection are mandatory parts of the employee induction training. Employees are also continuously trained on information security and data protection. Processes and instructions concerning information security and data protection are the responsibility of Innofactor's Chief Information Security Officer. The company has also appointed a Data Protection Officer, who reports directly to the CEO.

Anti-corruption and Anti-bribery

Innofactor's Code of Conduct defines the general principles and guidelines that the company's employees and partners adhere to. We arrange trainings concerning the instructions in all of our offices at regular intervals. Innofactor's Code of Conduct forbids any kind of corruption and bribery. In the Nordic countries, Innofactor operates in a very regulated environment, and in 2019, all subcontracting took place within the EEA or USA. This

operating environment and in Finland, for example, the strict compliance to the Act on Contractor's Obligations and Liability, training the employees, continuous dialog within the company's management, and monitoring subcontractors are important factors related to preventing the risk.

Transparent business operation in accordance with the highest ethical standards is the basis of our company's operation. We use our anonymous whistleblowing channel for reporting suspected infringements that are against our Code of Conduct. The channel is open for our personnel and other Innofactor stakeholder groups. All reports are always handled confidentially.

Risks Related to Corporate Responsibility

Innofactor's main risks related to corporate responsibility can be divided into four categories: personnel turnover, risks to reputation regarding data protection and

information security, risks to reputation due to corruption and bribery, and risk of being cut off from public procurement competitions. Innofactor's operations do not include actual significant environmental risks, even though the energy consumption is being monitored and there is a continuous effort to decrease it. The risks related to personnel turnover, data protection and information security are described under the heading "Major risks and uncertainties."

Share and Shareowners

At the end of 2019, Innofactor Plc's share capital was EUR 2,100,000.00 and the total number of shares was 37,388,225. Innofactor Plc has one series of shares. Each share is entitled to one vote.

In 2019, the highest price of the company share was EUR 0.84 (2018: 1.13), the lowest price was EUR 0.36 (2018: 0.35), and the average price was EUR 0.59 (2018: 0.69). The closing price for the year on December 31, 2019, was EUR 0.72 (2018: 0.36).

In public trading in 2019, a total of 10,919,321 shares were traded (2018: 11,142,838), which corresponds to 29.7 percent (2018: 30.8%) of the average number of shares on the said period. In 2019, there were 36,806,307 shares on the average (2018: 36,188,225). The share trading decreased by 2 percent compared to the corresponding period in 2018.

The market value of the share capital at the closing price of EUR 0.72 on December 31, 2019, was EUR 26,844 thousand (2018: 13,100), which shows an increase of 104.9 percent.

On December 31, 2019, the company had a total of 11,115 shareowners (2018: 11,363), including administrative registers.

Theme	Operating model	Goal	Key figure	2019
Environmental responsibility	Innofactor is committed to decreasing the environmental impact of its operations and to react to the challenges set by climate change.	Promoting and developing environmental responsibility in Innofactor's operations.	Number of actions advancing environmental responsibility	3
Social responsibility	Innofactor's personnel plays a key role, and we consider them to be in a central role with regards to the organization's ability to operate and renew itself and creation of new innovations.	To be an inspiring and sought-after employer.	Hired students and recent graduates.	20
Data protection and information security	Innofactor is committed to protecting its customers' and partners' information and systems as well as its own information and information systems.	Reliable operator that takes information security and data protection into consideration.	Number of administrative sanctions	0
Anti-corruption and anti-bribery	Innofactor's Code of Conduct defines the general principles and guidelines that the company's employees and partners adhere to.	Transparent business operations in accordance with the highest ethical standards.	No violations	No violations

The Board of Directors has the following authorizations:

- ▶ Until June 30, 2020, to decide on a share issue and granting of special rights entitling to shares, concerning a maximum of 3,600,000 new shares (decided by the General Meeting of April 2, 2019); the authorization has been used for 1,200,000 shares in the personnel issue published on May 14, 2019, which means that 2,400,000 shares of the authorization remain.
- ▶ Until June 30, 2020, to decide on a transfer of a maximum of 3,600,000 treasury shares (decided by the General Meeting of April 2, 2019); the authorization has not been used.

Own Shares

The General Meeting of April 2, 2019, authorized the Board of Directors to decide on acquiring of a maximum of 3,600,000 of the 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, 2020. This authorization replaces the Board's earlier authorizations concerning share repurchase.

At the end of 2019, the company had no treasury shares.

Share Owning by the Management

Share Owning by the Board of Directors on December 31, 2019:

- ▶ Pekka Eloholma, 70,106 shares, 0.19%
- ▶ Sami Ensio, 7,880,237 shares, 21.08%
 - ▶ *Sami Ensio, 5,706,477 shares, 15.26%*
 - ▶ *minor under guardianship, 724,588 shares, 1.94%*
 - ▶ *minor under guardianship, 724,586 shares, 1.94%*
 - ▶ *minor under guardianship, 724,586 shares, 1.94%*
- ▶ Anna Lindén, 39,000 shares, 0.10%
- ▶ Risto Linturi and companies he has control over, 826,411 shares, 2.21%

Share Owning by the CEO on December 31, 2019:

- ▶ Sami Ensio, 7,880,237 shares, 21.08%
 - ▶ *Sami Ensio, 5,706,477 shares, 15.26%*
 - ▶ *minor under guardianship, 724,588 shares, 1.94%*
 - ▶ *minor under guardianship, 724,586 shares, 1.94%*
 - ▶ *minor under guardianship, 724,586 shares, 1.94%*

Share Owning by Other Members of the Executive Board on December 31, 2019:

- ▶ Janne Heikkinen, 123,044 shares, 0.33%
- ▶ Vesa Syrjäkari, 60,000 shares, 0.16%
- ▶ Jufo Peltomaa, 0 shares
- ▶ Markku Puolanne, 10,000 shares, 0.03%
- ▶ Jørn Ellefsen, 75,000 shares, 0.20%

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 year, on December 31, 2019, was as follows.

Nimi	Number of shares	% of share capital
1. Ensio Sami	7,880,237	21.08%
<i>Ensio Sami</i>	<i>5,706,477</i>	<i>15.26%</i>
<i>Minor under guardianship</i>	<i>724,588</i>	<i>1.94%</i>
<i>Minor under guardianship</i>	<i>724,586</i>	<i>1.94%</i>
<i>Minor under guardianship</i>	<i>724,586</i>	<i>1.94%</i>
2. Keskinäinen Eläkevakuumus-yhtiö Ilmarinen	1,800,000	4.81%
3. Hallikainen Jyrki	1,471,009	3.93%
4. Laiho Rami Tapani	1,262,159	3.38%
5. Linturi Kaija ja Risto R. Linturi Oyj	1,256,411	3.36%
<i>Linturi Kaija Anneli</i>	<i>489,107</i>	<i>1.31%</i>
<i>Linturi Risto Erkki Olavi</i>	<i>430,000</i>	<i>1.15%</i>
6. Tilman Tuomo Tapani	1,030,397	2.76%
7. Ärje Matias Juhanoika	882,065	2.36%
8. Mäki Antti-Jussi	877,192	2.35%
9. Saarelainen Mika Pekka	678,649	1.82%
10. Muukkonen Teemu Heikki	522,230	1.40%
11. Ingman Finance Oy Ab	500,000	1.34%
12. Järvenpää Janne-Olli	315,211	0.84%
13. Rausanne Oy	302,545	0.81%
14. Kukkonen Heikki-Harri	301,931	0.81%
15. Hellen Stefan Andreas	250,000	0.67%
16. Laiho Jari Olavi	235,000	0.63%
17. Essel Ari Markku	177,030	0.47%
18. Mäkinen Antti Vilho Juhani	164,000	0.44%
19. Anttila Mikko Matias	139,808	0.37%
20. Heino Petri Juhani	135,000	0.36%

Board of Directors and the Company's Management

Board of Directors

In 2019, the members of the Innofactor Plc's Board of Directors were:

- ▶ Pekka Eloholma (Chairman of the Board)
- ▶ Sami Ensio
- ▶ Anna Lindén
- ▶ Risto Linturi

The Chairman of the Board of Directors for Innofactor's Finnish group companies is Sami Ensio, and the member of the Board of Directors is Executive Vice President, Business Development and Operational Excellence Vesa Syrjäkari with General Counsel Michaela Skrabb as the deputy member.

The Board members of Innofactor Plc's Swedish, Danish and Norwegian holding companies are the Group CEO Sami Ensio (Chairman) and Executive Vice President, Business Development and Operational Excellence Vesa Syrjäkari with General Counsel Michaela Skrabb as the deputy member in the Swedish and Danish companies.

The Board members of Innofactor Plc's Swedish, Danish and Norwegian operative country companies are the Group CEO Sami Ensio (Chairman) and Executive Vice President, Business Development and Operational Excellence Vesa Syrjäkari and the local Managing Directors of the country companies. In the operative company in Norway (Innofactor AS), also the General Counsel Michaela Skrabb has been a Board member.

CEO

Innofactor Plc's CEO is Sami Ensio. Mr. Ensio also acted as the CEO of the Innofactor Plc's Finnish group companies and the CEO of the Swedish group companies as of May 16, 2019. In Sweden, Denmark and Norway, the local Country Managers act as the CEOs of the operative companies. However, the Norwegian operative company (Innofactor AS) had no CEO from August 14, 2018, to February 28, 2019, and the Group's Development Director Vesa Syrjäkari was the acting Country Manager.

Executive Board

In 2019, the Innofactor Group's Executive Board consisted of

- ▶ Sami Ensio, CEO, Country Manager in Finland and Chairman of the Executive Board
- ▶ Jørn Ellefsen, Country Manager, Norway (since March 1, 2019)
- ▶ Janne Heikkinen, Executive Vice President, Products and Services
- ▶ Marko Lehtonen, CFO (until June 13, 2019)
- ▶ Sanna Lindner, EVP, Human Resources (until January 31, 2019)
- ▶ Viktor Lundqvist, Country Manager, Sweden (until May 16, 2019)
- ▶ Per Bendix Olsen, Country Manager, Denmark (until March 9, 2019)
- ▶ Jufo Peltomaa, Chief Technology Officer (since October 28, 2019)
- ▶ Markku Puolanne, CFO (since August 12, 2019)
- ▶ Vesa Syrjäkari, Development Director (also acting Country Manager in Norway until February 28, 2019, and Country Manager in Denmark since March 10, 2019)

Loans of Related Parties

Persons in the company's management, who are considered related parties, owe EUR 136 thousand to the company as a result of personnel share issues. The loan period is five years, and the loan is repaid in fixed monthly installments. The interest rate for the loan is 12-month Euribor 360. The minimum interest rate is 0%. The accrued interest is paid to the company monthly. The company has no other significant related party transactions.

Auditor

The auditor of Innofactor Plc was Ernst & Young Oy Authorized Public Accounting Firm, with Juha Hilmola (APA) as the auditor with principal responsibility.

Board of Directors' Proposal on the Distribution of Profits

Innofactor is a growing company and intends to use its operating profit on actions promoting growth, for example, on realizing mergers. Innofactor has defined a dividend distribution policy according to which the aim of the Board of Directors is to provide an opportunity for the shareholders to distribute, from the part of the operating margin (EBITDA) that exceeds 10%, the maximum dividend allowed by the state of the business. For 2019, the operating margin (EBITDA) was 7.9% of the net sales. In making the proposal on the dividend, the Board of Directors takes into account the company's financial situation, profitability and near-term outlook.

At the end of the financial period of 2019, the distributable assets of the Group's parent company were EUR 28,238,839.

The Board of Directors proposes that no dividend be distributed for the financial period of 2019.

Comprehensive Consolidated Profit and Loss Statement, IFRS

EUR thousand	Note	2019	2018
Net sales	3	64,198	63,144
Other operating income		44	205
Materials and services		-6,073	-6,812
Employee benefits/expenses	6	-43,802	-46,432
Depreciation	5	-4,294	-2,842
Other operating expenses	4	-9,278	-11,134
Operating profit		795	-3,872
Financial income	8	23	952
Financial expenses	9	-807	-892
Profit before taxes		12	-3,811
Income taxes	10	406	625
Profit/loss for the period		418	-3,186
Other comprehensive income			
Items that may be later recognized in profit or loss:			
Exchange differences		52	-275
Total comprehensive income		470	-3,462
Distribution of the profit and comprehensive income			
To shareholders of the parent company		470	-3,462
Earnings per share calculated from the profit attributable to equity holders of the parent::			
basic earnings per share (EUR)	11	0.0113	-0.0880
diluted earnings per share (EUR)	11	0.0113	-0.0880

Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2019	Dec 31, 2018
ASSETS			
Non-current assets			
Other tangible assets	12	530	484
Buildings and structures	12	4,760	0
Goodwill	13	26,003	26,126
Other intangible assets	13	3,745	6,114
Shares and holdings		79	78
Receivables		629	155
Deferred tax assets	14	5,602	5,602
		41,347	38,558
Current assets			
Trade and other receivables	15, 19	13,409	13,059
Cash and cash equivalents	18	963	258
		14,373	13,317
TOTAL ASSETS		55,720	51,875

Consolidated Balance Sheet, IFRS

EUR thousand	Note	Dec 31, 2019	Dec 31, 2018
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to the shareholders of the parent company			
Share capital	17	2,100	2,100
Share premium reserve	17	72	72
Reserve fund	17	59	59
Fund for invested unrestricted equity	17	20,921	20,321
Retained earnings		-440	2,974
Exchange difference		-985	-1,038
Result for the financial period		418	-3,186
Total shareholders' equity		22,145	21,303
Non-current liabilities			
Loans from financial institutions	18, 23	3,684	5,418
Lease liabilities	18, 23	3,269	0
Deferred tax liabilities	14	813	1,190
		7,767	6,608
Current liabilities			
Current financial liabilities	18, 23	8,334	10,000
Lease liabilities	18, 23	1,566	0
Trade and other payables	19	15,909	13,964
		25,809	23,965
Total liabilities		33,576	30,573
Total shareholders' equity and liabilities		55,720	51,875

Consolidated cash flow statement, IFRS

EUR thousand	Note	2019	2018
Cash flow from operating activities			
Operating profit		795	-3,872
Adjustments:			
Depreciation	5	4,294	2,842
Changes in working capital:			
Change in trade or other receivables		-407	3,474
Change in trade and other payables		2,165	-2,209
Interests paid		-662	-870
Interests received		23	52
Net cash flow from operating activities		6,209	-581
Investment cash flow			
Acquisition of subsidiaries		-49	-200
Investments in intangible and tangible assets		-619	-1,133
Loan receivables paid back		63	109
Investments on non-current asset investments		0	-16
Net cash flow from investments		-606	-1,239
Cash flow from financing			
Loans withdrawn		165	3,237
Loans paid		-3,566	-2,069
Lease liability payments		-1,618	0
Share issue		120	0
Net cash flow from financing		-4,898	1,168
Change in cash and cash equivalents			
Cash and cash equivalents, opening balance		258	910
Cash and cash equivalents, closing balance		963	258

Consolidated Statement of Change in Shareholders' Equity, IFRS

Equity attributable to the shareholders of the parent company

EUR thousand	Note 17	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange difference	Total shareholders' equity
Shareholders' equity Jan 1, 2019		2,100	72	59	20,321	0	-212	-1,038	21,303
Comprehensive income									
Result for the financial period							418		418
Personnel share issue					600		101		701
Adjustments for previous financial periods							-329		-329
Other comprehensive income:									
Exchange differences								52	52
Total comprehensive income					600		190	52	842
Shareholders' equity Dec 31, 2019		2,100	72	59	20,921	0	-22	-985	22,145

Equity attributable to the shareholders of the parent company

EUR thousand	Note 17	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange difference	Total shareholders' equity
Shareholders' equity Jan 1, 2018		2,100	72	59	20,321	0	2,974	-762	24,764
Comprehensive income									
Result for the financial period							-3,186		-3,186
Other comprehensive income:									
Exchange differences								-275	-275
Total comprehensive income							-3,186	-275	-3,186
Shareholders' equity Dec 31, 2018		2,100	72	59	20,321	0	-212	-1,038	21,303

Notes to the Consolidated Financial Statements (IFRS)

1. Basic Information on the Group

Innofactor Plc is a Finnish public company established in accordance with Finnish legislation. The domicile of the parent company is Espoo and its registered address is Keilaranta 9, 02150 Espoo.

The Innofactor Group is one of the leading software providers focused on Microsoft solutions in the Nordic Countries. Innofactor delivers to its customers IT projects as a system integrator and develops its own software products and services.

A copy of the consolidated financial statements is available at the company's Internet address www.innofactor.com or at the head office, address Keilaranta 9, 02150 Espoo, Finland.

Innofactor Plc's Board of Directors has approved these financial statements for publishing in its meeting on March 9, 2020. According to the Finnish Companies Act, shareholders may approve or reject the financial statements at a General Meeting held after their publication. The Meeting may also decide to amend the financial statements.

2. Accounting Policies

Accounting Policies

Innofactor Plc's consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), observing the IAS and IFRS standards as well as SIC and IFRIC interpretations valid on December 31, 2019. In the Finnish Accounting Act and provisions issued thereunder, International Financial Reporting Standards refer to standards and related interpretations approved for adoption within the EU in accordance with the procedure laid down in regulation (EC) No. 1606/2002. The notes to the consolidated financial statements also comply with the provisions of Finnish accounting and corporate legislation that supplement the IFRS provisions.

The consolidated financial statements have been prepared on a historical cost basis, unless otherwise stated in the accounting policies. The consolidated financial statements are presented in thousands of euros unless otherwise stated. As the figures are presented in thousands of euros, rounding may cause differences.

Application of the New and Amended IFRS Norms

Changes That Will Take Effect During the Financial Period of 2019 Or Later

IFRS 16 Leases:

Innofactor implemented the IFRS 16 standard as of January 1, 2019. The implementation of the standard has affected the company's balance sheet by increasing the committed capital and interest-bearing debt. The standard has not had a significant effect on the company's earnings per share, but it has improved the company's operating margin (EBITDA), because a lease cost has been divided into depreciations and financial expenses. The standard has also improved the company's operating cash flow and deteriorated the financing cash flow, because the lease payments have mainly been presented in the financing cash flow.

The IFRS 16 standard has changed the definition of a lease to be based on control. The leases are differentiated based on whether the lessor has control over the specified asset. Control is defined as follows:

- ▶ The lessor receives a significant portion of the financial benefit resulting from the use of the asset, and
- ▶ The lessor has the right to decide how the asset is used.

Innofactor's right-of-use assets consist of leased premises, ICT hardware and leased vehicles. In accordance with IAS 17, the Group's leases were categorized as operative. Based on the analyses made in connection with implementing the new standard, almost all premises, ICT hardware and vehicles fulfill the new definition of a lease. In accordance with the concession allowed by the IFRS 16 standard, current agreements (the remaining lease time is under 12 months) or assets of low value are left outside of the lease definition, and the lease liability is registered evenly in the profit and loss statement.

When implementing the standard, Innofactor has

- ▶ Registered the right-of-use assets and corresponding lease liabilities in the Group's balance sheet at the current value of future lease payments,
- ▶ Registered the depreciations of right-of-use assets and the lease liability interests to the Group's profit and loss statement, and
- ▶ Divided the total amount of paid lease liabilities into equity payments and interest payments.

The equity payment is presented in the financing cash flow and the interest payment in the operating activities cash flow.

Due to the implementation of the standard, the interest-bearing liabilities have risen to EUR 4.8 million (December 31, 2019). The operating cash flow has increased by EUR 1.5 million and the financing cash flow has decreased correspondingly. The operating margin has improved by approximately EUR 1.7 million as the lease liabilities have been categorized as depreciations and interests.

In the implementation of the standard, Innofactor has used the simple procedure in which the comparison figures have not been adjusted. In its reporting, the

company has also taken into account the two exceptions that make it easier to implement the standard and which are related to leases of low value and short term.

The effects of implementing the IFRS 16 standard are as follows:

Opening Balance, January 1, 2019

Assets	
Tangible assets	+ EUR 5,792 thousand
Liabilities	
Current lease liabilities	+ EUR 956 thousand
Non-current lease liabilities	+ EUR 4,835 thousand

Financial statement January 1–December 31, 2019

- ▶ Decrease in lease liabilities, EUR 1,676 thousand
- ▶ Increase in planned depreciations, EUR 1,531 thousand
- ▶ Increase in lease liability financing costs, EUR 145 thousand

Implementation of the IFRS 16 Standard

In connection with the implementation of the IFRS 16 standard, the Group registered into the balance sheet the liabilities for lease agreements which were previously categorized as operative lease agreements in accordance with the IAS 17 standard. The lease liabilities are presented in the balance sheet as part of the interest-bearing debts, and they have been valued as discounted at the current value of the remaining lease liabilities on January 1, 2019. The discount rate used is 3%.

In applying the IFRS 16 standard, the company uses the following presuppositions

- ▶ the standard is not applied to lease agreements with a lease term of under 12 months, and
- ▶ the standard is not applied to tangible assets of low value.

	EUR thousand
Operative lease liabilities in the financial statement, January 1, 2019	6,646
Current leases registered as costs	-101
Adjustments due to assessments related to the length of the lease term	-924
IT hardware and car lease agreements recognized as lease agreements	171
Lease liabilities, January 1, 2019	5,792
Current lease liabilities	956
Non-current lease liabilities	4,835
Total, January 1, 2019	5,792
Right-of-use assets registered in the balance sheet are presented as part of the tangible assets. Tangible assets are divided into the following items	
Buildings	5,621
Cars	99
Machines and equipment	72
Total, January 1, 2019	5,792

The preparation of the financial statements in accordance with the IFRS standards requires that the management makes certain assessments and judgment-based solutions. Information on the judgment-based solutions, which the management has used when applying the accounting policies and which have the most significant impact on the figures presented in the financial statements, is given under the section "Critical accounting judgments and key sources of estimation uncertainty."

Segment Structure

The Innofactor Group provides comprehensive solutions in a Microsoft-based environment. The Group has one reportable segment. The operations are reviewed as a whole to estimate the profitability and to manage the resources.

Subsidiaries

Subsidiaries are companies over which the Group exercises control. This control arises from the Group holding more than half of the voting rights or otherwise being in a position to exercise control. The existence of potential control has also been taken into account in assessing the conditions under which control arises when instruments entitling to potential control are currently exercisable. Control refers to the right to stipulate the principles of the company's finances and business operations to gain from the operations.

Mutual holdings in the Group are eliminated using the acquisition cost method. The consideration transferred and the acquired company's identifiable assets and assumed liabilities are measured at fair value at the acquisition date. The acquisition costs, excluding the costs to issue debt or equity securities, have been recognized as a cost. The consideration transferred does not include transactions treated separately from the acquisition. The impact of these is recognized in profit or loss in connection with the acquisition. Possible contingent additional consideration has been measured at fair value at the acquisition date and has been classified as liability or equity. Contingent additional consideration classified as debt is measured at fair value at the closing date, and the gain or loss arising is recognized in profit or loss or

in other comprehensive income. Contingent additional consideration classified as equity is not remeasured.

The subsidiaries acquired are consolidated from the date when control commences, and the subsidiaries disposed of are included in the consolidated financial statements until control ceases. All internal transactions, receivables, liabilities and unrealized profits, as well as internal profit distribution are eliminated in the consolidated financial statements. In a phased acquisition, the previously held equity interest is measured at fair value, and the resulting gain or loss is recognized in profit or loss. If the Group no longer has a controlling stake in a subsidiary, the remaining asset is measured at fair value at the date the control is lost, and the resulting gain or loss is recognized in profit or loss.

Tangible Assets

Tangible assets have been measured at acquisition value less accumulated depreciation and impairment losses.

If an item of tangible assets consists of several parts with economic lives of different lengths, the parts are treated as separate assets. When a part is renewed, the costs are capitalized and the possible remaining carrying amount is written off. In other cases, subsequent costs are included in the carrying amount of the item of tangible assets only when it is probable that the future economic benefits that are attributable to it will flow to the Group and the acquisition cost of the item can be determined reliably. Other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation of assets is calculated using the straight-line method over the estimated useful lives.

The estimated useful lives are as follows:

Machinery and equipment 3-10 years

The residual values and useful lives of assets are reviewed at the end of each financial period and, if necessary, adjusted to reflect the changes in the expected economic benefits.

The sales gains or losses from the sale or disposition of items of tangible assets are recognized in profit or loss under other operating income or expenses. The sales profit is defined as the difference between the sales price and the remaining purchase price.

Government Grants

Government grants received for realized costs are recognized in profit or loss as income for the period that the grant becomes receivable. These grants are recognized in other income.

Intangible Assets

Goodwill

Goodwill arising in business combinations is recognized at the amount exceeding the Group's share of the fair value of the net assets of the acquired company at the time of acquisition.

Goodwill is not subject to depreciation, but it is tested annually for impairment. Goodwill is measured at original acquisition cost less impairment losses.

Research and Development Costs

Research and development costs are recognized as costs in profit or loss. The development costs incurred by the design of new or advanced products are capitalized in the balance sheet as intangible assets from the date on which the product is regarded as technically feasible, commercially utilizable and able to generate future economic benefits. Capitalized development costs include the material, work and testing expenses that result directly from completing an asset for the intended purpose. The development costs recognized as expenses are not capitalized later.

Depreciation is recognized from the date the asset is ready for use. An asset which is not ready for use is tested annually for impairment. After initial recognition, capitalized development costs are measured at cost less accumulated depreciation and impairment losses. The useful life of capitalized development costs is 3-5 years, during which time capitalized costs are amortized on a straight-line basis.

In 2019 and 2018, no development costs were capitalized as the requirements were not met.

Other Intangible Assets

An intangible asset is recognized in the balance sheet at acquisition cost, if the cost can be reliably determined and it is likely that the expected economic benefit from the asset will flow to the Group.

Intangible assets with a limited useful life are recognized in profit or loss and amortized on a straight-line basis over their known or estimated useful lives.

In 2019, Innofactor activated costs related to intangible assets for EUR 4 thousand (EUR 786 thousand in 2018). These costs will be amortized in 5 years.

The major part of other intangible assets has been formed in relation to business acquisitions and consists of customer relationships and technology. The amortization period is defined separately for each acquisition and is 5-9 years.

The amortization period for software is 3-5 years.

Leases

Group as a Lessee

Lease agreements, which fulfill the requirements of the IFRS 16 standard, are recognized in the balance sheet as right-of-use assets and corresponding lease liabilities. The right-of-use assets and lease liabilities are valued at the current value of the remaining lease payments at the time of acquisition.

The comparison data for 2018 have been drawn up using the principle described below.

Leases concerning tangible assets where the Group retains a significant part of the risks and rewards of ownership are treated as financial leasing agreements. An asset acquired by means of a financial leasing agreement is recognized in the balance sheet at the starting time of the lease, at the fair value of the leased asset at the time of signing the contract or at the current value of the minimum leases, whichever is lower. Depreciations of an asset acquired by means of a financial leasing agreement are made within the estimated useful life of the item or within the lease time, whichever is shorter. Leases paid are divided into financial cost and part payment of debt during the lease time in such a way that, on each period, the remaining liability has an equal interest rate. Changes in leases are recognized as costs during the periods when they occur. Lease liabilities are included in the financial liabilities.

Lease agreements in which the risks and rewards of ownership remain at the lessor are treated as other lease agreements. Leases paid based on other lease agreements are recognized as costs in profit or loss in equal installments during the lease period. Incentives received have been deducted from the leases paid on the basis of the temporal distribution of the benefit.

Impairment of Tangible Assets and Intangible Assets

The Group assesses at the closing date of each reporting period whether there is any indication of impairment of an asset. If there are such indications, the asset's recoverable amount is estimated. In addition, the recoverable amount is estimated annually for the following assets regardless of whether there are any indications of impairment: goodwill and intangible assets with an infinite useful life.

The recoverable amount is the asset's fair value less costs to sell or its value in use, whichever is higher. Value in use refers to the estimated future net cash flows, discounted to their present value, expected to be derived from the said asset or cash-generating unit. The discount rate used is the interest rate before tax that represents the market's view of the time value of money and special risks associated with the asset.

An impairment loss is recognized, if the carrying amount of the asset is higher than its recoverable amount. The impairment loss is recognized immediately in profit or loss. An impairment loss of a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets of the unit pro rata. The useful life of the depreciated asset is re-evaluated in connection with the recognition of an impairment loss. An impairment loss recognized for an asset other than goodwill is reversed, if a change has taken place in the estimates used to determine the recoverable amount of the asset. However, the maximum reversal of an impairment loss amounts to the carrying amount of the asset had no impairment loss been recognized. An impairment loss recognized for goodwill is not reversed in any situation. No impairment losses were recognized in 2019 and 2018.

Employee Benefits

Pension Obligations

Pension arrangements are classified as benefit pension plans or contribution plans. In the contribution plans, the Group makes fixed payments to an external unit. The Group does not have a legal or constructive obligation to make additional payments, if the recipient is not able to pay the pension benefits concerned. All such arrangements that do not meet these conditions are benefit pension plans.

The Group's pension arrangements have been implemented through a pension insurance company, and they are based on contribution plans. In the contribution plan arrangement, payments are recognized in the profit and loss statement during the period to which the payment applies.

Taxes Based on Taxable Income and Deferred Taxes for the Financial Period

The tax expense comprises taxes on taxable income and deferred taxes for the financial period. Taxes are recognized in profit or loss, except when they are directly connected with items recognized in shareholders' equity or other items of the comprehensive income. In this case, also the tax is recognized in the items concerned. The tax based on taxable income for the financial period is calculated on taxable income according to the tax rate in the country concerned.

Deferred taxes are calculated on temporary differences between the carrying amount and the taxable value. However, deferred tax liabilities are not recognized for taxable temporary differences when the deferred tax liability arises from the initial recognition

of goodwill, or if the liabilities arise from the initial recognition of an asset or liability in a transaction which is other than a business combination and which affects neither accounting nor taxable profit (or loss recognized in taxation) at the time of the transaction.

The largest temporary differences arise from the depreciation of tangible assets, previously unrecognized tax losses, and adjustments based on fair value measurement on business combinations.

Deferred taxes are calculated by using the tax rates enacted or approved in practice by the closing date of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that such future taxable profit will be available against which the temporary difference can be utilized. An estimate is made at the closing date of the reporting period on whether the conditions for recognizing deferred tax assets are met.

Revenue Recognition Principles

Revenue from the sale of products and services is presented as net sales measured at fair value and adjusted for indirect taxes, discounts and currency translation differences from sales in foreign currencies.

Services Sold

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 Projects

Long-term projects include planning, implementation, project management and commissioning services related to software and solutions to be implemented for the customer. Long-term fixed-price projects are recognized using the percentage of completion method when the outcome of the project can be estimated reliably. The percentage of completion is determined as the ratio of costs incurred to date to the total estimated costs of the project.

If the estimate of the outcome of the project changes, the recognized sales are adjusted in the financial period during which the change is discovered and can be estimated. An expected loss on a project is recognized in profit or loss immediately when it is identified.

Maintenance Fees

Maintenance fees are recognized over the contract period.

Licenses

Licenses are recognized at the time of delivery as the ownership of the license is transferred to the customer or based on the project's completion percentage when the licenses are sold as part of a project delivery.

Financing

Innofactor's financial assets have been categorized according to IFRS 9 into the following categories: financial assets at allocated acquisition cost and financial assets at fair value through profit or loss. The financial assets are categorized as they are first registered, and the categorization is based on the business model applied by the company as regards financial assets and nature of contract-based cash flows.

Valuing an instrument, which belongs to financial assets, at allocated acquisition cost requires that the contract-based cash flows consist entirely of an interest and capital reimbursement (the so called SPPI criteria). The fulfilling of the SPPI criteria is assessed separately for each financial instrument. If the SPPI criteria are not fulfilled, the financial assets are valued at fair value through profit or loss.

Financial assets are presented as current assets, if their maturity is under 12 months, the investment is planned to be relinquished within 12 months. In other cases, the asset is presented as a non-current asset. Transaction costs are included in the original carrying amounts of the financial assets, when the asset has been valued at allocated acquisition cost. The purchases and sales of financial instruments are registered at the clearance date. The fair values of financial instruments have been defined through discounted cash flows.

Cash and Cash Equivalents

Cash and cash equivalents comprise bank deposits. Bank overdrafts are included in the current liabilities in the balance sheet.

Impairment of Financial Assets

In estimating the losses for write-offs of sales receivables, a customer classification is used in which the reservation for credit loss is calculated based on experience, that is, based on expected credit losses from different customer groups. The Group's realized credit losses have historically been very small due to the large share of net sales coming from public administration, third sector and large companies. Sales receivables and assets based on contracts are written off the profit or loss as final credit losses, when it is not reasonable to expect a payment to be received for them. If the amount of the impairment

loss decreases during a future financial period and the deduction can be objectively considered to be related to a transaction taking place after the impairment entry, the recognized loss will be reversed as incurred in profit or loss.

Financial Liabilities

Initially, financial liabilities are measured at fair value. Transaction costs are included in the original carrying amount of financial liabilities measured at amortized cost. Later all financial liabilities are measured at amortized cost, using the effective interest method. Financial liabilities are rated as current liabilities when they are planned to be settled within 12 months from the reporting time.

The lending costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognized as part of the cost of that asset, if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the costs can be determined reliably. Other lending costs are recognized as expenses in the period in which they have incurred. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. When the draw-down occurs, the fees paid on the establishment of loan facilities are recognized as part of transaction costs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Derivative Agreements

Initially, derivative agreements are recognized at fair value on the date when the Group becomes a party of the agreement, and later they will continue to be valued at fair value. Profit and loss for valuing at fair value are treated in the accounting in a way defined by the purpose of use of the derivative agreement. Initially, derivative agreements are recognized at fair value on the date when the Group becomes a party of the agreement, and later they will be valued at fair value at the time of reporting. Changes in fair value are recognized in financial income or expenses in the profit and loss statement.

Shareholders' Equity

Ordinary shares are presented as share capital. Costs relating to the issue or acquisition of equity instruments are presented as a deduction in shareholders' equity. If Innofactor repurchases its own equity instruments, the purchase price of such instruments is deducted from the shareholder's equity.

Operating Profit

The IAS 1 Presentation of Financial Statements standard does not define the concept of operating profit. The Group has defined the concept as follows: Operating profit is the net total which is formed when other operating income is added to the net sales and the following items are deducted: materials and services, cost of employee benefits, depreciation and possible impairment losses, and other operating expenses. All other items of the profit and loss statement are presented below the operating profit. Currency translation differences are included in the operating profit, if they arise from business related items; otherwise they are recognized in financial items.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of financial statements requires estimates and assumptions concerning the future. The end results may deviate from these estimates and assumptions. The application of the accounting policies also requires judgment.

The estimates made in the preparation of the financial statements are based on the best view of the management at the closing date of the reporting period. The estimates are based on the previous experiences and on assumptions concerning the future that are considered the most probable at the closing date. They may be related to the expected development of the Group's financial operating environment in terms of sales and cost level. The Group regularly monitors the realization of the estimates and assumptions and the factors behind them by using several both internal and external sources of information. Possible changes in the estimates and assumptions are recognized in the financial period during which the estimate or assumption is adjusted and in the subsequent financial periods.

The key assumptions concerning the future and those key sources of estimation uncertainty at the closing date of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are presented later in this report. The Group management considers these sections of the financial statements the most essential, because the accounting policies concerning them are the most complicated and their application requires the use of the most significant estimates and assumptions concerning, for example, the measurement of financial assets. In addition, the impact of possible changes in the assumptions and estimates used in these sections of the financial statements is estimated as the most significant.

Determination of the Fair Value of Assets Acquired in Business Combinations

The estimation of the fair value of intangible assets is based on an estimate of the cash flows related to the assets as there is no information available in the market concerning the purchase of similar assets. Additional information on the measurement of intangible assets acquired in business combinations is presented in Note 3 Business acquisitions.

The Group management believes that the used estimates and assumptions are sufficiently exact for determining fair value. Additionally, the Group examines at every closing date of a reporting period or, if necessary, more frequently, if there are any indications of impairment in tangible and intangible assets.

Impairment Testing

The Group carries out annual impairment testing on goodwill, unfinished intangible assets and intangible assets with an infinite useful life, and estimates the indications of impairment in accordance with the accounting policies described above. The recoverable amounts of the cash-generating units have been determined on the basis of the value in use. These calculations require the use of estimates.

Revenue Recognition

As described under the revenue recognition principles, revenue and expenses from long-term projects are recognized as revenue or expenses, using the percentage of completion method, when the outcome of a long-term project can be estimated reliably. The percentage of completion method is based on estimates of the expected project revenue and expenses from the project, as well as on reliable measurement of the progress of the project. If the estimate of the outcome of a project changes, the recognized project revenue and profit are correspondingly changed in the period in which the change is discovered and can be estimated reliably. An expected loss on a project is recognized as an expense immediately.

3. Net Sales

EUR thousand	2019	2018
Revenue from services	33,282	35,579
Revenue recognized from long-term projects	30,917	27,564
Total	64,198	63,144

From long-term projects in progress at the balance sheet date, a total of EUR 28.7 million (EUR 26.4 million in 2018) of realized revenues had been recognized.

For advance payments for long-term projects in progress, the balance sheet included EUR 301 thousand on December 31, 2019 (EUR 747 thousand on December 31, 2018).

On January 1–December 31, 2019, approximately 61 percent of the net sales came from Finland, approximately 22% from Sweden, approximately 6% from Denmark, and approximately 11% from Norway.

Distribution of Revenue From Services and Long-Term Projects

EUR thousand	1 Jan 1–Dec 31 2019	1 Jan 1–Dec 31 2018	Change
Revenue from services	33,282	35,579	-6.5%
Revenue recognized from long-term projects	30,917	27,564	12.2%
Total	64,198	63,144	1.7%

Unfulfilled Long-Term Customer Contracts

EUR thousand	2019	2018
Total transaction price for partially or entirely unfulfilled long-term customer contracts	49,753	29,830

Estimated time of recognition

Estimated recognition within the next year	29,166	27,719
Estimated recognition later	20,587	2,111
Total	49,753	29,830

For continuing service contracts, the value of long-term customer contracts is calculated as the value of the net sales in one year. On December 31, 2019, this was EUR 14,490 thousand and on December 31, 2018, it was EUR 13,081 thousand.

The transaction price used is the net sales received from the customers.

Net Sales by Customer Location

EUR thousand	2019	2018
Finland	38,601	36,073
Rest of Europe	25,469	27,070
Rest of the world	128	0
Total net sales	64,198	63,144

4. Other Operating Expenses

EUR thousand	2019	2018
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The following table shows three of the most significant items included in other operating expenses:

Expenses for business premises	2,494	2,464
Voluntary indirect employee costs	1,464	1,982
Marketing expenses	519	716
Total	4,477	5,162
Other unspecified operating expenses	4,801	5,972
Other operating expenses, total	9,278	11,134

Remuneration of the Auditors

EUR thousand	2019	2018
Auditing	109	107
Other services	34	3
Total	143	109

5. Depreciation, Amortization and Impairment

EUR thousand	2019	2018
Depreciation by asset group		
Intangible assets	2,489	2,527
Total	2,489	2,527

Tangible assets		
Estates	1,531	0
Machinery and equipment	273	316
Total	1,805	316
Total depreciation	4,294	2,842

6. Employee Benefits/Expenses

EUR thousand	2019	2018
Wages and salaries	35,195	36,998
Pension expenses – defined contribution plans	5,135	5,413
Other indirect employee costs	3,472	4,021
Total	43,802	46,432

Group's personnel	2019	2018
Average in the financial period	534	591
At the end of the financial period	538	550

Information on management benefits is presented in Note 24 Related party transactions.

7. Research and Development Costs

In 2019, the research and development costs recognized as expenses totaled EUR 2,795 thousand (EUR 2,860 thousand in 2018).

8. Financial Income

EUR thousand	2019	2018
Interest income	4	52
Other financial income *	19	900
Total	23	952

* Other financial income for 2018 includes financial income of EUR 900 thousand related to the adjustment of the additional purchase price related to the acquisition.

9. Financial Expenses

Items recognized in profit or loss

EUR thousand	2019	2018
Interest expenses	-654	-881
Change in fair value registered from interest rate derivatives	-8	-11
Interest expenses for right-of-use assets	-145	0
Total financial expenses	-807	-892

10. Income Taxes

EUR thousand	2019	2018
Tax based on the taxable income of the financial period	0	47
Deferred tax related to the creation or cancellation of temporary differences	406	578
Total	406	625

Reconciliation between the income tax expense and the taxes calculated at the 20.0% tax rate valid in the Group's home country:

EUR thousand	2019	2018
Earnings before taxes	12	-3,811
Taxes calculated at the domestic tax rate	-2	762
Non-deductible expenses	-8	2,572
Tax effect of utilizing confirmed losses	600	495
Change in tax rate	31	31
Change in deferred taxes	5	0
Group transfers recognized in profit or loss for which no deferred tax assets or liabilities have been registered	-219	-3,251
Other	0	15
Taxes in the profit and loss statement	406	625

11. Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to the shareholders of the company by the weighted average number of outstanding shares during the financial period.

	2019	2018
Profit for the year attributable to shareholders of the parent company (EUR)	417,750	-3,186,271
Weighted average number of shares during the financial period	36,806,307	36,188,225
Basic earnings per share (EUR/share)	0.0113	-0.0880

12. Tangible Assets

EUR thousand	Machinery and equipment	Buildings and structures	Total
Acquisition cost, Jan 1, 2019	4,143	0	4,143
Change in the calculation principles (IFRS 16) on Jan 1, 2019	171	5,621	5,792
Additions in 2019	245	574	819
Acquisition costs, Dec 31, 2019	4,559	6,194	10,753
Accumulated depreciation, amortization and impairment, Jan 1, 2019	-3,659	0	-3,659
Depreciation in 2019	-371	-1,435	-1,806
Carrying amount, Jan 1, 2019	484	0	484
Carrying amount, Dec 31, 2019	529	4,760	5,290
Acquisition cost, Jan 1, 2018	3,985	0	3,985
Additions in 2018	158	0	158
Acquisition costs, Dec 31, 2018	4,143	0	4,143
Accumulated depreciation, amortization and impairment, Jan 1, 2018	-3,345	0	-3,345
Depreciation in 2018	-314	0	-314
Carrying amount, Jan 1, 2018	640	0	640
Carrying amount, Dec 31, 2018	484	0	484
		Jan 1, 2019	Dec 31, 2019
Tangible assets		484	455
Right-of-use assets		5,792	4,835
Total		6,275	5,290

Right-of-use assets

EUR thousand	Machinery and equipment	Buildings and structures	Total
Acquisition cost, Jan 1, 2019	171	5,621	5,792
Additions in 2019	0	574	574
Depreciation in 2019	97	1,435	1,531
Carrying amount, Dec 31, 2019	74	4,760	4,835

Lease liabilities are described in Note 21.

13. Intangible Assets

EUR thousand	Goodwill	Other intangible assets	Total
Acquisition cost, Jan 1, 2019	27,337	15,501	42,838
Additions in 2019	0	4	4
Change in value from exchange rate changes	-123	116	-7
Acquisition cost, Dec 31, 2019	27,214	15,621	42,835
Accumulated depreciation, amortization and impairment, Jan 1, 2019	-1,216	-9,389	-10,605
Depreciation in 2019	0	-2,490	-2,490
Accumulated depreciation, amortization and impairment, Dec 31, 2019	-1,216	-11,879	-13,095
Carrying amount, Jan 1, 2019	26,126	6,114	32,240
Carrying amount, Dec 31, 2019	26,003	3,745	29,748
Acquisition cost, Jan 1, 2018	27,614	14,646	42,260
Additions in 2018	0	881	881
Change in value from exchange rate changes	-277	-26	-303
Acquisition cost, Dec 31, 2018	27,337	15,501	42,838
Accumulated depreciation, amortization and impairment, Jan 1, 2018	-1,216	-6,862	-8,078
Depreciation in 2018	0	-2,527	-2,527
Accumulated depreciation, amortization and impairment, Dec 31, 2018	-1,216	-9,389	-10,605
Carrying amount, Jan 1, 2018	26,398	7,797	34,195
Carrying amount, Dec 31, 2018	26,126	6,114	32,240

Intangible Assets

Impairment Testing

The Group has one cash-generating unit (CGU), software business, to which all the goodwill created in business acquisitions is allocated.

In impairment testing, all the Group's recoverable amounts are determined on the basis of value in use. The cash flow forecasts are based on the forecasts approved by the management and they cover a period of three years. The cash flows after the forecast period approved by the management have been extrapolated by using a growth factor of 1.0%.

The essential variables in the calculation of value in use are the following:

1. Budgeted operating margin – The value of the variable is based on the budget approved by the Board of Directors and the management's estimate on the development of the operating margin during the next three years. During the forecast period, no essential changes are expected in the operating margin.
2. Change in working capital – The value of the variable is based on the average working capital in relation to the net sales and the management's estimate on changes in the working capital during the next three years. During the forecast period, no essential changes are expected in the change in the working capital.

3. Discounting rate – Determined by using Weighted Average Cost of Capital (WACC), which defines the overall cost of equity and debt, taking the special risks concerning the items into consideration. The discount rate has been determined before taxes. The discount rate used in the calculations is 8.61% (6.8% in 2018).
4. Growth rate in the forecast period – The company considers the used net sales to be conservative, considering the realized long-term growth of the field and of Innofactor's business.

According to the impairment testing, the recoverable amounts exceed the corresponding balance sheet values by approximately EUR 42 million. No impairment losses were recognized in 2019 and 2018.

According to the sensitivity analysis that the Group carried out on goodwill, a decrease of 24% in the net sales compared to the estimated net sales of 2020 or a decrease of 28% in profitability compared with the estimated net sales of 2020 would indicate a need for impairment. On the basis of the sensitivity analysis, an increase in the discount rate to 10.1% would cause a need for impairment.

Recognition of Goodwill

EUR thousand	2019	2018
IT service business	26,003	26,126
Goodwill	26,003	26,126

14. Deferred Tax Assets and Liabilities

Changes in deferred taxes in 2019:

EUR thousand	Dec 31, 2018	Recognized in profit or loss	Recognized in equity	Dec 31, 2019
Deferred tax assets				
From Group combinations *	5,602	0	0	5,602
Total	5,602	0	0	5,602
Deferred tax liabilities				
Measurement of intangible assets and tangible assets at market value in business combinations				
	1,190	-406	29	813
Total	1,190	-406	29	813

* Of the deferred tax assets, approximately EUR 2,862 thousand consist of historical, confirmed losses.

At the end of 2019, the amount of losses, which have not been used in the Group's taxation and which have not been recognized as deferred taxes in accordance with the prudence concept, is EUR 26.9 million. Of this, EUR 17.8 million is in Finland and EUR 8.9 million in other Nordic countries. In Finland, the deferred losses will expire within 2019–2028. The losses in other Nordic countries will not expire. For the deferred losses, the amount of deferred tax receivables that has not been recognized is EUR 5.2 million. The figures do not include the losses to be used in the taxation for 2019, which have not yet been confirmed.

Additionally, the Group has research and development costs that have not been subtracted from taxes and depreciations for EUR 2.8 million (2018: EUR 2.8 million) for which deferred tax receivables have not been recognized. The not recognized deferred tax receivable for these is EUR 0.6 million (2018: EUR 0.6 million).

15. Trade and Other Receivables

EUR thousand	2019	2018
Trade and other receivables		
Trade receivables	9,543	9,853
Receivables from customers for long-term projects	2,163	1,459
Loan receivables	66	123
Accrued income	1,637	1,624
Total	13,409	13,059

EUR thousand	2019	2018
Breakdown of trade receivables by age		
Not past due	5,089	4,877
Past due		
Past due 1-90 days	3,835	4,819
Past due over 90 days	619	157
Total	9,543	9,853

No significant credit risk concentrations are associated with the receivables. The balance sheet values correspond best to the maximum amount of the credit risk, excluding the fair value of collateral, in cases where the other parties to the agreement are unable to fulfill their obligations related to financial instruments. The Group's operating practices do not include the acquisition of collateral for trade and other receivables. The principles for managing credit risks are described in Note 19.

Assets Based on Customer Contracts

EUR thousand	2019	2018
Receivables based on project contracts	2,163	1,459
Total	2,163	1,459

EUR thousand	2019	2018
Liabilities based on project contracts	589	973
Total	589	973

Liabilities and receivables based on project contracts are stated in the accrued income and liabilities in the balance sheet. Liabilities and receivables based on project contracts have increased since 2018 due to an increase in net sales and changes in completion percentage of customer projects. Innofactor does not expect to enter into contracts in which the time between the handover of projects or services to the customer and the payment made by the customer would be longer than one year. For this reason, the transaction prices are not adjusted to take the time value of money into account.

16. Cash and Cash Equivalents

EUR thousand	2019	2018
Bank accounts	963	258
Total	963	258

17. Notes Concerning Shareholders' Equity

Number of shares in 2019	2019	2018
Outstanding shares, Jan 1	36,188,225	36,188,225
Share issue	1,200,000	0
Outstanding shares, Dec 31	37,388,225	36,188,225

Innofactor Plc has one share type. The share has no nominal value. All the issued shares have been paid in full.

The equity funds are described below:

Share Premium Reserve

In the cases in which option rights have been decided upon while the old Companies Act (29.9.1978/734) was in force, the cash payments received for subscriptions have been recognized in the share capital and share premium reserve in accordance with the conditions of the arrangement, with the transaction costs deducted.

Reserve fund

The reserve fund is a fund for unrestricted equity formed on the basis of the decision of the General Meeting.

Fund for Invested Unrestricted Equity

The fund for invested unrestricted equity contains other equity type investments and the subscription price of shares to the extent that they are not, based on a specific decision, recognized in the share capital. For the option programs that have been decided on after

the new Companies Act (21.7.2006/624) entered into force (September 1, 2006), the fees for subscriptions are recognized in full in the fund for invested unrestricted equity.

Dividends

No dividends were distributed in 2019. The Board of Directors has proposed that no dividends be distributed for the financial period of January 1–December 31, 2019.

Own Shares

The General Meeting of April 2, 2019, authorized the Board of Directors to decide on acquiring of a maximum of 3,600,000 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, 2020. This authorization replaces the Board's earlier authorizations concerning share repurchase.

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

18. Financial Risk Management

In its normal business operations, the Group is susceptible to several financial risks. The goal of the Group's risk management is to minimize the negative effects of the changes in the financial markets on the result of the Group. The main financial risks are credit risks, exchange rate risks, and interest risks. The general principles of the Group's risk management are approved by the Board of Directors and the practical implementation is the responsibility of the Group's financial department.

Interest Risk

At the closing date, the company had fluctuating rate bank loans totaling EUR 12.0 million (EUR 15.4 million on December 31, 2018). The company has been subjected to the cash flow interest risk through the loan portfolio. The goal of the company's risk management as concerns the interest risk is to minimize the negative impacts of interest rate changes on the company's result. As the implementation method for interest risk management, the company uses interest rate swap agreements. The average interest rate of the loans was 3.5 percent (3.5% in 2018).

The company has interest rate swap agreements, which are used for changing a fluctuating reference interest rate into a fixed reference interest rate. On December 31, 2019, the company had interest rate swap agreements, which had the nominal value of EUR 5.4 million and the due date of December 27, 2022, and which have been measured at fair value, which is based on the market information available at the closing date of the reporting period.

The realized average balances of the fluctuating rate loans during the financial period have been used in the sensitivity analysis. At the closing date, the effect of the fluctuating rate interest-bearing loans on the result before taxes would have been EUR +/-131 thousand (2018: EUR +/-143 thousand) had the interest rate been increased or decreased by 1 percentage point.

Exchange Rate Risk

The Innofactor Group operates globally and is susceptible to risks related to the currencies of the countries in which it operates. Changes in exchange rates, especially the rates of Swedish krona and Norwegian krone, affect the Group's net sales and profitability. Innofactor has significant business operations based on Swedish krona and Norwegian krone. The exchange rate risk is mainly due to the assets and liabilities registered in the balance sheet and the net investments made in the subsidiaries abroad. Also, the business contracts made by subsidiaries pose an exchange rate risk, although these contracts are mainly made in the currency the unit uses in its operation. The management of exchange rate risks in the Group aims at minimizing the uncertainty that changes in exchange rates cause in the result through cash flows and assessment of receivables and liabilities.

Credit Risk

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

The aging analysis of the trade receivables is presented in Note 15. Trade and other receivables.

Risks Related to Receivables from Projects

A large part of Innofactor's net sales comes from project business. A significant part of projects consists of long term projects in which scheduled payments and their terms are typically agreed on with the customer beforehand. When Innofactor performs work in customer projects, which is scheduled to be invoiced afterwards, project receivables are accrued. Especially

in public administration projects, scheduled payments often take place nearer to the end of the project, which means increased project receivables and related risks. In customer negotiations, Innofactor pays special attention to scheduling the payments and the size of payments, and in customer projects, to project management and steering in accordance with the scheduled payments. Project receivables are monitored regularly.

Risks Related to the Cash Position

The Group continually estimates and monitors the amount of financing required for the business operations, for example, by analyzing cash flow forecasts monthly to ensure that the Group has sufficient liquid funds to finance its operations. The Group analyzes the liquidity forecasts regularly, and assesses the effect of possible acquisitions on the cash position.

The Group has not identified significant liquidity risk concentrations in the financial assets.

EUR thousand

Balance sheet value	0-6 months	6-12 months	over 1 year	2-4 years
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Dec 31, 2019

Maturity distribution of financial liabilities

Loans from financial institutions

12,018	4,205	4,129	1,810	1,874
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Lease liabilities

4,835	778	788	1,416	1,853
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Trade and other payables

15,909	13,816	2,093	0	0
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Balance sheet value	0-6 months	6-12 months	over 1 year	2-4 years
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Dec 31, 2018

Maturity distribution of financial liabilities

Loans from financial institutions

15,418	5,483	4,517	1,788	3,630
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Trade and other payables

13,964	11,922	2,042	0	0
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Capital Structure Management

The shareholders' equity in the consolidated balance sheet is managed as capital assets. The goal of capital structure management is to ensure operational preconditions of the Group and increase shareholder value in the long term. The capital structure can be managed through decisions concerning, for example, dividend distribution, acquisition and transfer of treasury shares, and share issues. The shareholders' equity in the consolidated balance sheet is managed as capital assets. No external capital requirements are applied to the Group.

The development of the capital structure of the Group is monitored continually by means of Net Gearing.

EUR thousand	2019	2018
Interest-bearing loans from financial institutions	12,018	15,418
Lease liabilities	4,835	0
Cash and cash equivalents	963	258
Total shareholders' equity	22,145	21,303
Net gearing	71.8%	71.2%
Net gearing without IFRS 16	49.9%	71.2%

Financial Risk Management

In its normal business operations, the Innofactor Group is susceptible to normal financing risks. In total at the end of the year, Innofactor had approximately EUR 12.0 million in interest-bearing debts from financial institutions, which have been taken out to finance earlier acquisitions and working capital. Of the debts, approximately EUR 8.3 million is current liabilities consisting of loan installments of EUR 1.8 million in 2020 and a credit limit of approximately EUR 6.5 million. The company had lease liabilities in accordance with IFRS 16 (leases for the duration of fixed-term leases) for EUR 4.8 million, of which EUR 1.6 million was current and EUR 3.3 million non-

current. The total of interest-bearing liabilities was EUR 16.9 million. Innofactor has committed itself to the following covenants: Equity ratio calculated every 6 months is at least of 40%, and interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 2.5, and certain other normal conditions for loans. The Innofactor Group's interest bearing liabilities divided by the 12-month operating margin (EBITDA) on December 31, 2019, exceeded the covenant limit of 2.5 agreed on with the financial institution. However, the financial institution issued a waiver on December 31, 2019, accepting this deviation. In addition to the clearly improved cash flow from

operating activities, Innofactor has previously renegotiated some loan conditions to enable more flexible financing. These together are believed to ensure Innofactor's financial standing also in the future.

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.

19. Fair Values of Financial Assets and Liabilities

The table below shows the fair value and carrying amount of each item in financial assets and liabilities. These values correspond with the consolidated balance sheet values.

EUR thousand	Dec 31, 2019		Dec 31, 2018	
	Note	Carrying amount	Carrying amount	
Trade and other receivables	15	13,409	13,059	
Cash and cash equivalents	16	963	258	
Total		14,373	13,317	
Loans from financial institutions		12,018	15,418	
Lease liabilities		4,835	0	
Total		16,853	15,418	
Trade and other payables:				
Received advances		589	0	
Trade payables		2,202	2,982	
Other payables		5,678	3,730	
Accrued expenses		7,387	7,191	
Interest rate swap agreements, not in hedge accounting *)		52	60	
Total		15,909	13,964	

*) fair value hierarchy level 2

Trade and Other Receivables

The original carrying amount of the receivables corresponds to their fair values, as the effect of discounting is not essential considering the maturity of the receivables.

Loans From Financial Institutions

The carrying amount of loans corresponds with their fair value.

Trade and Other Payables

The original carrying amount of the trade and other payables corresponds to their fair values, as the effect of discounting is not essential considering the maturity of the payables.

Derivatives

Fair value of derivative agreements has been defined based on available market information.

20. Other Leases

Group as a Lessee

The Group leases all the premises it uses. The average lease period is 2–5 years, normally with an option to renew the lease after the original date of expiry.

Minimum lease payments paid on non-cancellable other leases:

EUR thousand	2019	2018
Within one year	0	2,007
Within 1-5 years*	0	4,639
Total	0	6,646

In accordance with IFRS 16, lease liabilities are not reported as a note here after January 1, 2019.

21. Lease liabilities

Maturity

EUR thousand	Total	less than 1 year	1–5 years	over 5 years
Dec 31, 2019				
Lease liabilities (IFRS 16)	4,835	1,566	3,269	0
Other lease liabilities	260	129	132	
Total	5,096	1,695	3,401	0

Balance sheet

EUR thousand	
Non-current lease liabilities	3,269
Current lease liabilities	1,566
Total	4,835

Financial statement

EUR thousand	
Deduction of other expenses (lease liabilities)	1,676
Addition of right-of-use asset deductions	-1,531
Addition of operating profit	145
Addition of financial expenses	-145
Result for the financial period	0

Current lease liabilities recognized in 2019	472
Low value lease liabilities recognized in 2019	21

The cash flow effect of the company's lease agreements was EUR -2,246 thousand in 2019 (EUR -2,343 thousand in 2018).

Interests for lease liabilities are stated in Note 9. Financial expenses. Right-of-use assets are described in Note 12.

22. Contingent Liabilities and Assets and Acquisition Commitments

Collateral

EUR thousand	2019	2018
Collateral given for own commitments		
Lease collateral	246	183
Mortgages on company assets *	16,535	16,972
Mortgages on company assets have been given as collateral for the credit limit and a loan.		
Bank guarantees	303	303
Bank guarantees have been given as collateral for lease agreements.		

Other Leases

The liabilities from the Group's other leases are presented in Note 20. Other leases.

23. Statement of Changes in Interest Bearing Debts

EUR thousand	Non-current	Current	Total
Liabilities Jan 1, 2019	5,418	10,000	15,418
Loans withdrawn	0	165	165
Loans paid	-1,741	-1,832	-3,573
Changes with no related cash flow:			
Effective interest	7	0	7
Lease liabilities *	3,269	1,566	4,835
Liabilities Dec 31, 2019	6,953	9,900	16,853

* IFRS 16 Lease liabilities (Note 21)

EUR thousand	Non-current	Current	Total
Liabilities Jan 1, 2018	7,280	6,948	14,228
Loans withdrawn	0	3,237	3,237
Loans paid	-1,884	-185	-2,069
Changes with no related cash flow:			
Effective interest	22	0	22
Liabilities Dec 31, 2018	5,418	10,000	15,418

24. Related Party Disclosures

Persons in the company's management, who are considered related parties, owe EUR 136 thousand to the company (EUR 70 thousand in 2018) as a result of personnel share issues. The loan period is five years, and the loan is repaid in fixed monthly installments. The interest rate for the loan is 12-month Euribor 360. However, the interest rate is always a minimum of 0%. The accrued interest is paid to the company monthly.

The company has no other significant related party transactions.

Management's Employment Benefits

EUR thousand	2019	2018
Salaries and fees paid to the CEO and Group management during the financial period including benefits in kind as follows:		
CEO (including Board fees)	311	296
Other Group management	776	1,159
Total	1,087	1,455

Management's employment benefits include the salaries and fees of the Executive Board.

EUR thousand	2019	2018	
Board members and deputy members			
Eloholma Pekka	Chairman of the Board of Directors in 2019	48	42
Ensio Sami	Board member in 2019	24	24
Lindén Anna	Board member in 2019	24	21
Linturi Risto	Board member in 2019	24	18
Rahkonen Ari	Chairman of the Board of Directors in 2018	0	12
Mäkinen Jukka	Board member in 2018	0	3
Nurmi Ilari	Board member in 2018	0	3
Puolakka Pekka	Board member in 2018	0	3
Vepsäläinen Anni	Board member in 2018	0	3
Total	120	129	

The CEO's retirement age and the basis for calculating the pension comply with the effective Employee Pensions Act. The mutual term of notice of the CEO is 6 months. If the company terminates the CEO's contract, the CEO will be paid the salary for the period of notice and also, as a compensation for the termination, a one-time payment equaling to the CEO's 12 months' salary.

25. Group Companies

At the end of the financial period, the Innofactor Group includes the following companies:

- ▶ Innofactor Plc, Finland (parent company)
- ▶ Innofactor Software Oy, Finland, Espoo, 100%
- ▶ Innofactor Business Solutions Oy, Finland, Espoo, 100%
- ▶ Innofactor CS Oy, Finland, Turku, 100%
- ▶ Innofactor Holding AB, Sweden, 100%
- ▶ Innofactor AB, Sweden, 100%
- ▶ Lumagate Holding AB, Sweden, 100%
- ▶ Innofactor Holding ApS, Denmark, 100%
- ▶ Innofactor A/S, Denmark, 100%
- ▶ Innofactor Holding AS, Norway, 100%
- ▶ Innofactor AS, Norway, 100%

26. Events After the Closing Date

Events After the Review Period

- ▶ On January 30, 2020, Innofactor announced in a stock exchange release that it will deliver a financial management system for a Finnish trading company. The value of the procurement is approximately EUR 0.65 million, which is estimated to be registered for 2020.
- ▶ On February 12, 2020, Innofactor announced in a stock exchange release that the Hospital District of Helsinki and Uusimaa (HUS) has selected Innofactor as the provider of architectural and system development, maintenance and other services related to the Health Village services for a maximum amount of EUR 2,000,000. The services are estimated to be provided during years 2020 and 2021.
- ▶ On February 13, 2020, Innofactor announced in a stock exchange release that the Legal Register Centre has selected Innofactor as the provider of the further development stage of the HAIPA project, which is the ERP and document management system for administrative courts and special courts. The procurement consists of the specialist work related to the project as well as the implementation in the different agencies in cooperation with the customer. The procurement may also include maintenance services related to the system. The contract period is estimated to start in March 2020 and will last until the end of 2020. Additionally, the customer reserves the right to two options for 2021 and 2022, which will be agreed on separately. The estimated total value (excluding VAT) stated by the customer in the procurement decision is EUR 2,157,000.
- ▶ On February 13, 2020, Innofactor announced in a stock exchange release that Ullensaker municipality in Norway has selected Innofactor as the provider of ICT consultancy services related to comprehensive public cloud journey including infrastructure, identity and access, security and modern employee experience. The consultancy services include architectural and system development, maintenance and other services for an estimated total amount of NOK 10,000,000 (approximately EUR 1,000,000), which are estimated to be provided during years 2020 and 2021. The customer also reserves an option of extending the service for two more years.
- ▶ On March 4, 2020, Innofactor announced in a stock exchange release that The Social Insurance Institution of Finland (Kela) has selected Innofactor as the provider of a administrative case management solution as SaaS. The system delivery and the related integrations are planned to be implemented during 2020-2021. The contract will be valid for four years to begin with, and after that, it will be valid until further notice. The estimated total value of the procurement during the contract period is approximately EUR 1,050,000.

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

Parent Company Financial Statement, FAS

EUR

PARENT COMPANY FINANCIAL STATEMENT	Note	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
		12 months	12 months
NET SALES	1	7,176,408	5,348,028
Other operating income	2	34,137	133,170
Materials and services			
Purchases during the financial period	3	-1,796,595	-1,294,755
Personnel expenses	4	-2,124,839	-2,326,863
Depreciation			
Planned depreciation		-321,270	-393,109
Other operating expenses	6	-3,057,694	-2,167,895
OPERATING RESULT		-89,853	-701,425
Financial income and expenses	7		
Dividend yield		0	191,505
Interest and financial income		709,801	743,539
Interest and other financial expenses		-400,137	-374,614
Total financial income and expenses		309,664	560,430
RESULT BEFORE BALANCE CARRYFORWARD AND TAXES		219,811	-140,995
Group contribution		81,396	0
EARNINGS BEFORE TAXES		301,207	-140,995
RESULT FOR THE FINANCIAL PERIOD		301,207	-140,995

Balance Sheet, FAS

EUR

ASSETS	Note	Dec 31, 2019	Dec 31, 2018
NON-CURRENT ASSETS			
Intangible assets			
Intangible rights	8	542,815	728,141
Goodwill	8	241,536	362,304
Tangible assets			
Machinery and equipment	8	37,906	46,967
Investments			
Shares in Group companies	9	28,696,532	28,696,532
Other shares and holdings		77,625	77,625
TOTAL NON-CURRENT ASSETS		29,596,414	29,911,569
CURRENT ASSETS			
Receivables			
Non-current			
Loan receivables		616,987	281,075
Other receivables		23,134,463	25,463,504
Current			
Trade receivables		12,785,020	9,644,257
Accrued income	11	350,136	397,628
Cash and bank receivables		475	328
TOTAL CURRENT ASSETS		36,887,080	35,786,792
ASSETS		66,483,494	65,698,361

EUR

LIABILITIES	Note	Dec 31, 2019	Dec 31, 2018
SHAREHOLDERS' EQUITY			
	12		
Share capital		2,100,000	2,100,000
Revaluation fund		2,000,000	2,000,000
Fund for invested unrestricted equity		29,015,281	28,415,281
Profit from previous financial periods		-1,178,450	-1,037,455
Personnel share issue 2019		100,800	0
Profit/loss for the financial period		301,207	-140,995
Total shareholders' equity		32,338,839	31,336,832
LIABILITIES			
	13		
Non-current			
Loans from financial institutions		3,077,055	4,994,635
Non-current total		3,077,055	4,994,635
Current			
Loans from financial institutions		4,817,110	5,725,816
Trade payables		187,928	1,061,348
Other payables		25,401,051	21,890,463
Accrued expenses	14	661,512	689,268
Current total		31,067,601	29,366,895
Total liabilities		34,144,656	34,361,530
LIABILITIES		66,483,494	65,698,361

Parent Company Cash Flow Statement

EUR	Jan 1–Dec 31, 2019	Jan 1–Dec 31, 2018
Operating activities cash flow		
Operating profit/loss	-89,853	-701,425
Adjustments:		
Depreciation	321,270	393,109
Change in working capital		
Change in trade or other receivables	-2,078,897	-1,398,570
Change in trade and other payables	2,424,693	818,449
Interests received	1,118	0
Dividend yield	0	191,505
Paid interests and other financial expenses	-338,911	-348,750
Total operating activities cash flow	239,419	-1,045,682
Investment cash flow		
Investments in subsidiary shares	0	-200,000
Investments in other shares	0	-15,525
Investments in fixed assets	-6,115	-560,689
Loan receivables paid back	143,809	194,879
Loans paid	2,329,041	0
Loans granted	0	-1,035
Total investment cash flow	2,466,735	-582,371
Cash flow before financing	2,706,154	-1,628,053
Financing cash flow		
Loans withdrawn	0	2,714,406
Loans paid	-2,826,287	-1,146,115
Payments received from share issue	120,280	0
Total financing cash flow	-2,706,007	1,568,290
Change in cash and cash equivalents as per cash flow statement	147	-59,762
Change in cash and cash equivalents	147	-59,762
Cash and cash equivalents, opening balance	328	60,090
Cash and cash equivalents, closing balance	475	328

Parent Company, Notes to Financial Statements

Accounting Principles Used in the Parent Company's Financial Statements

The financial statements of Innofactor Plc for the financial period of 2019 have been prepared in accordance with the Finnish accounting regulations.

Intangible and Tangible Assets

The intangible and tangible assets have been recognized at historical cost less planned depreciation. Planned depreciation has been calculated on the basis of the assets' economic lives as follows:

- Intangible rights	3-5 years
- Goodwill	5 years
- Tangible assets	3-5 years

Acquisition costs for non-current asset items, which have a probable economic life of under three years, and small purchases (under EUR 850) have been recognized as cost in their entirety in the financial period in which they were purchased.

Securities Included in Financial Assets

Securities included in financial assets have been measured at the acquisition price or the market price, whichever is lower.

Items in Foreign Currency

Items in foreign currency have been converted using the weighted average rate quoted by the European Central Bank at the closing date.

Derivatives

Fair value of derivative agreements has been defined based on available market information. The interest rate swap agreement will be valid until December 27, 2022. In accordance with the interest rate swap agreement, the reference interest rate of the non-current loan, 6 months' Euribor, has been changed into a fixed reference interest rate. The interest rate swap agreement may be dissolved during its exercise period. At the time of dissolving, the market value of the agreement will be defined and the party for whom the market value is negative will compensate it to the other party.

Notes to the Financial Statements (EUR)

1. Net sales (EUR) by market area	2019	2018
Finland	6,307,700	4,493,268
Rest of Europe	868,708	854,760
Total net sales	7,176,408	5,348,028

2. Other operating income	2019	2018
Lease revenue	29,900	31,914
Other operating income	4,237	101,256
Total other operating income	34,137	133,170

3. Materials and services	2019	2018
Purchases during the financial period	1,796,595	1,294,755
Total	1,796,595	1,294,755

4. Personnel expenses	2019	2018
Salaries and fees	1,788,591	1,963,871
Pension expenses	280,449	329,461
Other indirect employee costs	55,799	33,531
Total personnel expenses	2,124,839	2,326,863

Management salaries and fees

CEO and Board Member Sami Ensio	310,610	296,190
Board members and deputy members	96,000	129,000
Total	406,610	425,190

The CEO's retirement age and the basis for calculating the pension comply with the effective Employee Pensions Act. The mutual term of notice of the CEO is 6 months. If the company terminates the CEO's contract, the CEO will be paid the salary for the period of notice and also, as a compensation for the termination, a one-time payment equaling to the CEO's 12 months' salary.

Average number of personnel	24	25
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5. Planned depreciation	2019	2018
For intangible rights	185,326	250,063
For goodwill	120,768	120,768
For machinery and equipment	15,176	22,278
Total	321,270	393,109

6. Other operating expenses	2019	2018
Leases and other expenses for premises	866,563	870,621
IT hardware, licenses and communications	1,268,134	216,152
Travel expenses	130,671	156,460
Training expenses	34,969	67,048
Entertainment expenses	68,421	59,440
Other operating expenses	681,592	470,219
	3,050,350	1,839,940

Group's internal expenses	7,344	327,955
Other operating expenses, total	3,057,694	2,167,895

Remuneration of the Auditors

Auditing	49,566	75,000
Other services	32,710	0
Total	82,276	75,000
Fees in total	82,276	75,000

7. Financial income and expenses	2019	2018
Interests and other financial income		
Dividend yield from companies of the Group	0	191,505
From companies of the Group	708,683	745,794
From others	1,118	0
Total interests and other financial income	709,801	937,299

Interest and other financial expenses		
To companies of the Group	-61,225	0
Interest expenses to others	-338,911	-376,869
Total interests and other financial expenses	-400,137	-376,869
Total financial income and expenses	309,664	560,430
Group contributions received	81,396	0

Balance Sheet Notes (EUR)

8. Intangible and tangible assets

	Intangible	Goodwill	Tangible	Total
Acquisition cost, Jan 1, 2019	1,047,111	603,840	132,048	1,782,999
Additions	0	0	6,115	6,115
Acquisition cost, Dec 31, 2019	1,047,111	603,840	138,163	1,789,114
Accumulated depreciation, amortization and impairment, Jan 1, 2019	318,970	241,536	85,081	645,587
Depreciation for the financial year	185,326	120,768	15,176	321,270
Accumulated depreciation, Dec 31, 2019	504,296	362,304	100,257	966,857
Carrying amount, Dec 31, 2019	542,815	241,536	37,906	822,257

	Intangible	Goodwill	Tangible	Total
Acquisition cost, Jan 1, 2018	501,130	603,840	117,340	1,222,309
Additions	545,981	0	14,708	560,689
Acquisition cost, Dec 31, 2018	1,047,111	603,840	132,048	1,782,999
Accumulated depreciation, amortization and impairment, Jan 1, 2018	68,907	120,768	62,803	252,478
Depreciation for the financial year	250,063	120,768	22,278	393,109
Accumulated depreciation, Dec 31, 2018	318,970	241,536	85,081	645,587
Carrying amount, Dec 31, 2018	728,141	362,304	46,967	1,137,412

9. Investments	
Acquisition cost, Jan 1, 2019	28,696,532
Acquisition cost, Dec 31, 2019	28,696,532
Carrying amount, Dec 31, 2019	28,696,532

Acquisition cost, Jan 1, 2018	23,696,532
Additions	5,000,000
Acquisition cost, Dec 31, 2018	28,696,532
Carrying amount, Dec 31, 2018	28,696,532

Other investments

Ownership of other companies: Arc Technology Oy shares, 18.2%	77,625
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Shares and holdings owned by the parent company

Subsidiary shares:	Domicile	Country	Share of ownership
Innofactor Software Oy	Espoo	Finland	100%
Innofactor Business Solutions Oy	Espoo	Finland	100%
Innofactor CS Oy	Turku	Finland	100%
Innofactor Holding AB	Stockholm	Sweden	100%
Lumagate Holding AB	Stockholm	Sweden	100%
Innofactor Holding ApS	Copenhagen	Denmark	100%
Innofactor Holding AS	Oslo	Norway	100%

The carrying amount of the subsidiary shares is EUR 28,696,532 in total. The companies have been consolidated into the consolidated financial statements of the parent company.

10. Receivables	2019	2018
Non-current receivables		
Loan receivables	616,987	281,075
Receivables from participating interest companies	87,932	87,932
Other receivables from Group companies	23,046,531	25,375,572

Current receivables		
Trade receivables	24,138	23,849
Trade receivables from Group companies	12,760,882	9,620,408
Total trade receivables	12,785,020	9,644,257

Receivables from Group companies in total	35,807,413	34,995,980
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11. Accrued income	2019	2018
Pre-paid licenses	325,506	251,660
Periodical personnel expenses	16,980	42,633
Other	7,650	103,335
Accrued income in total	350,136	397,628

12. Shareholders' equity	2019	2018
Shareholders' equity, opening balance	2,100,000	2,100,000
Shareholders' equity, closing balance	2,100,000	2,100,000
Revaluation fund, opening balance	2,000,000	2,000,000
Revaluation fund, closing balance	2,000,000	2,000,000

Unrestricted shareholders' equity

Fund for invested unrestricted equity, opening balance	28,415,281	28,415,281
Personnel loan in 2019	600,000	0

Fund for invested unrestricted equity, closing balance	29,015,281	28,415,281
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Profit from previous financial periods, opening balance	-1,178,450	-1,037,455
Cost effect of the personnel share issue 2019	100,800	0
Profit from previous financial periods, closing balance	-1,077,650	-1,037,455
Result for the financial period	301,207	-140,995
Total unrestricted shareholders' equity	28,238,839	27,236,832
Total shareholders' equity	32,338,839	31,336,832

* Change in the value of treasury shares

Calculation of distributable funds	2019	2018
Result from previous financial periods	-1,077,650	-1,037,455
Result for the financial period	301,207	-140,995
Fund for invested unrestricted equity	29,015,281	28,415,281
Total	28,238,839	27,236,832

13. Liabilities	2019	2018
Non-current liabilities		
Loans from financial institutions	3,077,055	4,994,635
Total non-current liabilities	3,077,055	4,994,635
Current liabilities		
Loans from financial institutions	4,817,110	5,725,816
Trade payables	187,928	499,340
Trade payables to Group companies	1,592,990	562,008
Trade payables in total	1,780,918	1,061,348
Other payables	1,316,474	1,054,387
Other payables to Group companies	22,491,588	20,836,075
Other payables in total	23,808,061	21,890,462
Accrued expenses	661,512	689,268
Liabilities to Group companies	24,084,578	21,398,083
Total current liabilities	31,067,602	29,366,895
Total liabilities	34,144,657	34,361,530

14. Accrued expenses	2019	2018
Periodical personnel expenses	348,215	385,334
Leases	211,865	192,174
Other	101,432	111,760
Accrued expenses in total	661,512	689,268

15. Commitments and contingent liabilities	2019	2018
Bank guarantees		
Bank guarantee has been given as collateral for lease agreements	252,960	252,960
Leasing liabilities		
To be paid in the next financial period	17,177	45,934
To be paid later	0	6,072
Total	17,177	52,006
Lease liabilities		
To be paid in the next financial period	1,023,250	995,779
To be paid later	3,069,749	4,232,061
Total	4,092,999	5,227,840
Mortgages on company assets as collateral for loan		
Mortgages on company assets as collateral for loan	4,000,000	4,000,000

Board of Directors' Proposal on the Distribution of Profits

At the end of the financial period of 2019, the distributable assets of Innofactor Plc are EUR 28,238,838.70. The Board of Directors proposes that no dividend be distributed for the financial period of 2019.

Company Shares

Innofactor Plc has one series of shares. The number of shares is 37,388,225. The share has no nominal value. One share entitles the holder to one vote at the General Meeting. All shares entitle their holders to dividends of equal value. Innofactor Plc's share capital, paid in full and entered in the Trade Register, is EUR 2,100,000.00.

Storing the Accounting Material

Innofactor Plc, Keilaranta 9, 02150 Espoo

INNOFACTOR PLC

SIGNATURES FOR THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Espoo, March 9, 2020

Sami Ensio
CEO, Board Member

Pekka Eloholma
Chairman of the Board of Directors

Anna Lindén
Board Member

Risto Linturi
Board Member

AUDITOR'S NOTE

The report on the audit has been issued today.

Helsinki, March 10, 2020

Ernst & Young Oy
Authorised Public Accountants

Juha Hilmola, APA
Authorised Public Accountant (KHT)

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Innofactor Plc

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Innofactor Corporation (business identity code 0686163-7) for the year ended 31 December, 2019. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- ▶ the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- ▶ the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in 4 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Revenue Recognition of Fixed price projects

Refer to note summary of significant accounting policies and note 3.

The company provides its customer with services based on fixed price contracts. Revenue is recognized over time which involves the use of management judgement when determining the percentage of completion of the projects.

The group focuses on revenue as a key performance measure which could create an incentive for revenue to be recognized before the control have been transferred.

Revenue recognition of fixed price projects was determined to be a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2) due to the management's judgement used when determining the percentage of completion of the projects.

How our audit addressed the Key Audit Matter

- ▶ Our audit procedures to address the significant risk of material misstatement related to revenue recognized over time, included amongst other: assessing the application of group's accounting policies over revenue recognition.
- ▶ familiarizing with supporting documentation concerning revenue recognized for instance contracts and comments.
- ▶ assessing the progress and overall situation of the fixed price projects and key ratios by performing inquiries to persons on different levels in the organization.
- ▶ analyzing key elements of the estimates, for instance, estimated revenue and estimated hours to complete.
- ▶ assessing the group's disclosures on revenue recognition.

Valuation of Goodwill

Refer to note summary of significant accounting policies and note 13.

At the balance sheet date 31 December 2019, the value of goodwill amounted to 26.0 M€ representing 47 % of the total assets and 117 % of the total equity (2018: 26.1 M€, 50% of the total assets and 123% of the total equity). Valuation of goodwill was a key audit matter because:

- ▶ goodwill represents a significant proportion of the balance sheet
- ▶ annually performed impairment testing estimation process is complex and is judgmental
- ▶ it is based on assumptions relating to market and economic conditions.

Valuation of goodwill is tested annually through goodwill impairment test. Innofactor has allocated goodwill to a cash generating unit (CGU) which is the level for goodwill impairment test. The recoverable amount of the cash generating unit is based on value in use calculations, the outcome could vary significantly if different assumptions were applied. There are a number of assumptions used to determine the value in use of the cash generating units, including revenue growth, EBITDA and the discount rate applied. Changes in the above-mentioned assumptions may result in an impairment of goodwill.

How our audit addressed the Key Audit Matter

In our audit procedures related to valuation of goodwill we involved our internal valuation specialist to assist us in evaluating the assumptions and methodologies used by the management. Procedures included comparison of management assumptions with external market data and peer group average calculated by us focusing particularly on

- ▶ forecasted revenue growth
- ▶ EBITDA percentage and
- ▶ weighted average cost of capital used in discounting cash flows.

We reviewed the goodwill impairment test performed by the management and compared the discounted cash flows to the company's market value. In addition, we evaluated the disclosures presented and the appropriateness of the sensitivity analysis related to goodwill impairment testing.

Valuation of Deferred Tax Assets

Refer to note summary of significant accounting policies and note 14.

As of balance sheet date, the group had deferred tax assets arising from the unused tax losses carry forward amounting to 2.9 M€ and from the consolidation entries 2.7 M€ (2018: 2.9 M€ from the carry forward of unused losses amounting to 2.6 M€ and from the consolidation entries 2.7 M€).

The amount of deferred tax asset is material to financial statements. Management assessment related to the recognition of deferred tax assets and the likelihood of future income is judgmental and based on assumptions affected by future market and economic developments. Due to above mentioned judgmental factors, valuation of deferred tax assets was determined to be a key audit matter.

How our audit addressed the Key Audit Matter

When auditing deferred tax assets we evaluated company's evidence that there will be future taxable income available to utilize the deferred tax assets.

As part of our audit procedures we

- ▶ utilized tax specialists to analyze and assess the assumptions used to determine tax positions and corroborating the assumptions with supporting evidence.
- ▶ assessed the key assumptions in the calculations prepared by the management focusing on forecasted future economic development and the company's ability to generate taxable income.
- ▶ tested deferred tax assets including the assessment of recognizing judgmental tax positions. We reviewed the communication with tax authorities.
- ▶ assessed disclosures related to deferred taxes.

Testasimme johdon laatimia arvonalentumislaskelmia sekä vertasimme diskontattujen kassavirtojen määrää yhtiön markkina-arvoon. Lisäksi arvioimme esitettyjä liitetietoja sekä arvonalentumistestauksessa esitettyjen herkkyyksien asianmukaisuutta.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting

Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the

economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- ▶ Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on Our Audit Engagement

We were appointed as auditors by the Annual General Meeting on 2 April 2019.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, March 10, 2020

Ernst & Young Oy
Authorized Public Accountant Firm

Juha Hilmola

Authorized Public Accountant

Additional Information

Key Figures per Share

	2019	2018
Earnings per share (EUR)	0.0113	-0.0880
Equity / share attributable to the shareholders of the parent company (EUR)	0.592	0.589
Highest price of the share (EUR)	0.84	1.13
Lowest price of the share (EUR)	0.36	0.35
Market value of the shares (EUR thousand)	26,845	13,100
Turnover of shares	10,919,321	11,142,838
Turnover of shares (%)	29.7	30.8
Weighted average of the number of shares during the financial period	36,806,307	36,188,225
Number of shares at the end of the financial period	37,388,225	36,188,225

Shareholding

On December 31, 2019, Innofactor Plc had 11,115 shareholders including the administrative registers (10). The share of administratively registered shares was 5.96% of the total number of shares.

Distribution of shareholding at December 31, 2019

Shares	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-100	6,398	57.56	182,862	0.49
101-1 000	2,850	25.64	1,249,561	3.34
1 001-10 000	1,558	14.02	5,231,899	13.99
10 001-100 000	271	2.44	7,167,071	19.17
yli 100 000	38	0.34	23,556,832	63.01
Total	11,115	100.00	37,388,225	100.00

Shareholders by shareholder group December 31, 2019 (% of shares)	
Other foreign	0.738
Administratively registered	5.962
Financial and insurance institutions	1.884
Enterprises	6.44
Public entities	4.81
Non-profit organizations	0.12
Private households	80.05
Total	100.00

Calculation of Key Figures

Percentage of Return on Equity:

$$\frac{\text{Profit or loss before taxes} - \text{Taxes}}{\text{Shareholders' equity}}$$

Percentage of Return on Investment:

$$\frac{\text{Profit or loss before taxes} + \text{Interest and other financial expenses}}{\text{Shareholders' equity} + \text{Interest bearing financial liabilities}}$$

Net Gearing:

$$\frac{\text{Interest bearing liabilities} - \text{Cash funds}}{\text{Shareholders' equity}}$$

Equity Ratio, %:

$$\frac{\text{Shareholders' equity}}{\text{Balance sheet total} - \text{Advances received}}$$

Result / Share:

$$\frac{\text{Profit before taxes attributable to equity holders of the parent} - \text{Taxes}}{\text{Average number of shares on the financial period adjusted after the share issue}}$$

Shareholders' Equity / Share:

$$\frac{\text{Shareholders' equity attributable to equity holders of the parent}}{\text{Undiluted number of shares on the date of the financial statement}}$$

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