

Innofactor Plc Interim Report October 31, 2017, at 9:00 Finnish time

Innofactor Plc's Interim Report for January 1–September 30, 2017 (IFRS)

Weak third quarter – we expect the operating margin of the fourth quarter to be approximately on the same level as in 2016

July–September 2017 in brief:

- The net sales were approximately EUR 13.9 million (2016: 11.8), which shows an increase of 18%.
- The operating margin was approximately EUR -0.9 million (2016: 0.9), which shows a decrease of 202.1%. The weaker than expected profitability was contributed to by the lower than expected net sales and the fact that the results from the Danish business operations were significantly less than expected.
- The operating loss was EUR 1.5 million (2016: operating profit 0.3), decreasing by 707.9%. The operating loss was affected by increased write-offs related to acquisitions, in accordance with IFRS 3, resulting in a decrease of EUR 507 thousand (2016: 455) in the operating profit.
- The weaker than expected profitability was affected by the weaker than expected net sales, which was due to, for example, delays in starting many customer projects after the summer, due to reasons related to customers, especially in Finland. Also, in Denmark and Sweden we were forced to register some losses on customer projects.

January–September 2017 in brief:

- The net sales were approximately EUR 48.9 million (2016: 41.6), which shows an increase of 17.5%.
- The operating margin was approximately EUR 1.2 million (2016: 2.8), which shows a decrease of 59.3%.
- The operating loss was approximately EUR 0.9 million (2016: operating profit 1.0), decreasing by 185.2% due to increased write-offs related to acquisitions, in accordance with IFRS 3, resulting in a decrease of EUR 1,522 thousand (2016: 1,365).
- Innofactor received several significant orders during the first half of the year. For example, the Unemployment Insurance Fund (TVR) for approximately EUR 1.0 million, the Hospital District of Helsinki and Uusimaa (HUS) for approximately EUR 1.8 million, IF Metall (in Sweden) for approximately EUR 0.6-4 million, a Finnish service company for approximately EUR 0.5 million, and the Finnish Red Cross for approximately EUR 0.6 million.

	Jul 1–Sep 30, 2017	Jul 1–Sep 30, 2016*	Change	Jan 1–Sep 30, 2017	Jan 1–Sep 30, 2016*	Change	Jan 1–Dec 31, 2016*
Net sales, EUR thousand	13,930	11,803	18.0%	48,899	41,624	17.5%	59,616
Operating margin (EBITDA), EUR thousand	-877	859	-202.1%	1,156	2,841	-59.3%	4,831
percentage of net sales	-6.3%	7.3%		2.4%	6.8%		8.1%
Operating profit/loss (EBIT), EUR thousand*	-1,544	254	-707.9%	-857	1,006	-185.2%	2,332
percentage of net sales*	-11.1%	2.2%		-1.8%	2.4%		3.9%
Earnings before taxes, EUR thousand*	-1,617	157	-1,129.9%	-1,199	724	-265.6%	1,920
percentage of net sales*	-11.6%	1.3%		-2.5%	1.7%		3.2%
Earnings, EUR thousand*	-1,293	125	-1,134.4%	-959	579	-265.6%	1,516
percentage of net sales*	-9.3%	1.1%		-2.0%	1.4%		2.5%
Net gearing	56.1%	55.5%		56.1%	55.5%		70.2%
Equity ratio	43.7%	41.6%		43.7%	41.6%		35.8%
Active personnel on average during the review period**	623	511	21.9%	609	505	20.6%	532
Earnings per share (EUR)	-0.0357	0.0038	-1,040.3%	-0.0274	0.0176	-255.4%	0.0467

*) In accordance with IFRS 3, the operating result for July 1–September 30, 2017, includes EUR 507 thousand (2016: 455) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor's operative business loss for the review period of July 1–September 30, 2017, would have been EUR 1,037 thousand (2016: operating profit 709), the operative business result before taxes EUR 1,110 thousand (2016: 612), the operative business result EUR -888 thousand (2016: 490), and the operative business result per share EUR -0.0245 (2016: 0.0149). In accordance with IFRS 3, the operating result for January 1–September 30, 2017, includes EUR 1,522 thousand (2016: 1,365) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor's operative business profit for the review period of January 1–September 30, 2017, would have been EUR 665 thousand (2016: 2,371), the operative business result before taxes EUR 323 thousand (2016: 2,089), the operative business result EUR 258 thousand (2016: 1,671), and the operative business result per share EUR 0.0074 (2016: 0.0508).

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

Innofactor's future outlook for 2017 (updated on October 13, 2017)

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

CEO Sami Ensio's review: Realizing common Nordic operating models and systems is slower than expected – concrete benefits will be delayed

The net sales grew by 18.0 percent in the second quarter (net sales EUR 13.9 million). Innofactor has estimated that the Nordic IT market will grow faster in 2017 than in the previous years, and this estimate remains the same. The market growth is believed to also increase Innofactor's growth possibilities.

In the third quarter of 2017, the operating margin (EBITDA) was EUR -0.9 million (-6.3 percent of the net sales) and decreased by 202.1 percent from the previous year. The weaker than expected profitability was affected by the weaker than expected net sales, which was due to, for example, delays in starting many customer projects after the summer, due to reasons not attributable to Innofactor, especially in Finland. Also, in Denmark and Sweden we were forced to register some losses on customer projects. In Innofactor's history, the end of the year has typically been better in terms of operating margin than the beginning of the year, but special attention needs to be paid to improving the profitability. We expect the operating margin of the fourth quarter to be approximately on the same level as in 2016, when it was approximately EUR 2 million.

Realizing common Nordic operating models and systems is slower than expected. The transition phase was seen in the third quarter of 2017 in the form of an unexpected negative operating margin. We still believe that 20 percent growth, of which majority is intended to be achieved by organic growth, as well as 20 percent operating margin in the long term shall be achieved. However, at this point, we do not expect this to happen by 2020.

Despite the weak operating margin level, the cash flow from business activities in the first three quarters remained strong and was approximately EUR 3.1 million (2016: EUR 2.5 million).

Innofactor is still actively looking for new strategic partnerships in the Nordic Countries. The Group's goal is to grow both organically and through acquisitions.

Strategy and its realization in the review period

Innofactor is the one of the leading implementers of cloud solutions and digitalization in the Nordic Countries. Innofactor has the widest solution offering and leading know-how in the Microsoft ecosystem in the Nordic Countries. Innofactor has over 600 enthusiastic and motivated top specialists in Finland, Sweden, Denmark and Norway. Innofactor's customers include over 1,500 companies and public administration and third sector organizations. During the years 2017-

2020, Innofactor will primarily strive to unify its offering in the Nordic Countries in its selected areas. This may happen either through organic growth or selected acquisitions.

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

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

Innofactor's strategy for achieving this vision includes:

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

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

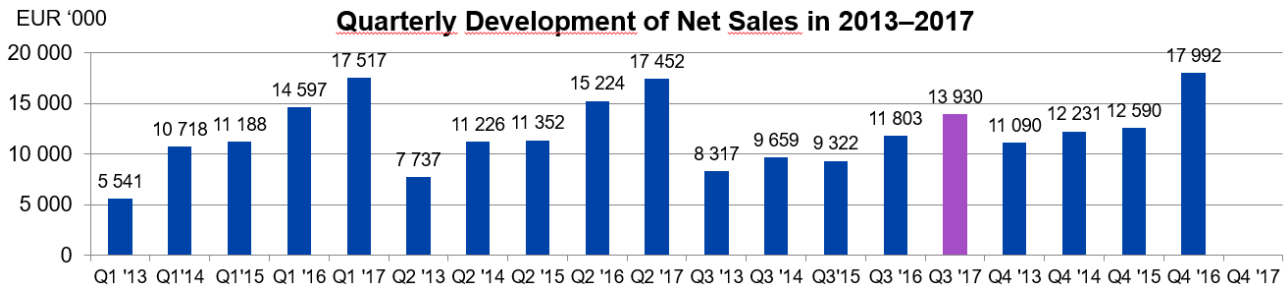
- By achieving annual growth of about 20 percent, of which majority is intended to be achieved by organic growth
- By achieving approximately 20 percent operating margin (EBITDA) in relation to the net sales
- By keeping cash flow positive and securing a solid financial standing in all situations

Innofactor's net sales in the review period of January 1–September 30, 2017, grew by 17.5% and the main part of this was based on inorganic growth resulting from the Lumagate acquisition.

Innofactor's operating margin (EBITDA) in relation to net sales was 2.4 percent in the review period. Typically, Innofactor's profitability has improved towards the end of the year.

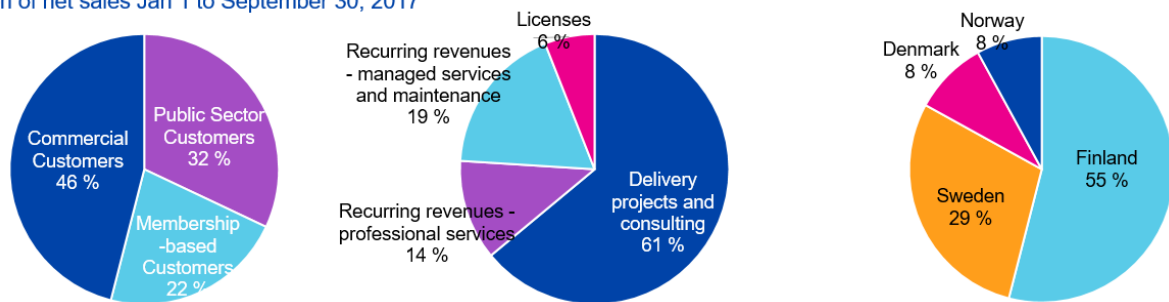
Innofactor's operating cash flow in the review period of January 1–September 30, 2017, was EUR 3.1 million positive (2016: EUR 2.5 million). Innofactor's financial stability is good. Net gearing at the end of the review period was 56.1 percent (2016: 55.5 percent).

Innofactor's net sales still in strong growth



Innofactor’s net sales on July 1–September 30, 2017, were EUR 13,930 thousand (2016: 11,803), which shows an increase of 18.0 percent, and on January 1–September 30, 2017, the net sales were EUR 48,899 thousand (2016: 41,624), which shows an increase of 17.5 percent.

Distribution of net sales Jan 1 to September 30, 2017



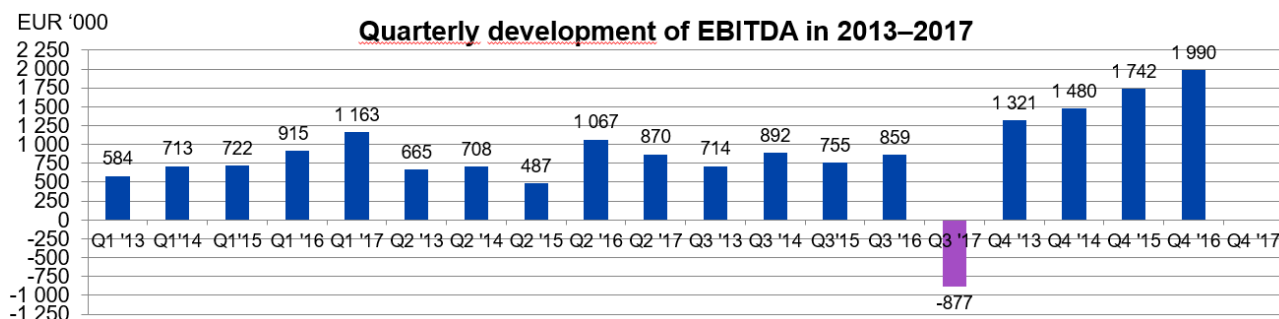
Innofactor's business operations were focused on Finland, Sweden, Denmark and Norway. On January 1–September 30, 2017, approximately 55 percent of the net sales came from Finland, approximately 29 percent from Sweden, approximately 8 percent from Denmark and approximately 8 percent from Norway.

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

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

- approximately 61 percent from IT system delivery projects and consulting
- approximately 14 percent from specialist work based on recurring service contracts, such as smaller customer-specific changes and further development of IT systems
- approximately 19 percent from services based on recurring service contracts, such as SaaS, cloud and hosting services, and from software maintenance
- approximately 6 percent from licenses, of which the share of licensing income to third parties was approximately 4 percent of the net sales

Innofactor’s 10 largest clients accounted for approximately 24 percent of the net sales during the review period January 1–September 30, 2017.



Innofactor’s operating margin (EBITDA) in July 1–September 30, 2017, was EUR -877 thousand (2016: 859), which shows a decrease of 202.1 percent. EBITDA accounted for -6.3 percent of the net sales (2016: 7.3%). Innofactor’s operating loss in July 1–September 30, 2017, was EUR 1,544 thousand (2016: operating profit EUR 254), which shows a decrease of 707.9 percent. The operating profit accounted for -11.1 percent of the net sales (2016: 2.2%).

Innofactor's operating margin (EBITDA) in January 1–September 30, 2017, was EUR 1,156 thousand (2016: 2,841), which shows a decrease of 59.3 percent. EBITDA accounted for 2.4 percent of the net sales (2016: 6.8%). Innofactor’s operating loss in January 1–September 30, 2017, was EUR 857 thousand (2016: operating profit EUR 1,006), which shows a decrease of 185.2 percent. The operating loss accounted for -1.8 percent of the net sales (2016: 2.4%).

Acquisitions have been a central part of Innofactor’s strategy. Depreciations of intangible rights resulting from acquisitions vary greatly depending on how valuable the customer contracts and technology of the acquired company are estimated to be and also in what kind of schedule the resulting intangible rights will be depreciated. For this reason, the company’s view is that instead of the operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciations.

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

In accordance with IFRS 3, the operating result for July 1–September 30, 2017, includes EUR 507 thousand (2016: 455) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor’s operative business loss for the review period of July 1–September 30, 2017, would have been EUR 1,037 thousand (2016: operating profit 709), which shows a decrease of 246.3 percent.

The operating result for the review period of January 1–September 30, 2017, includes EUR 1.5 million (2016: 1.4) in depreciations related to acquisitions, consisting of allocations of the

purchase price to intangible assets. Adjusted for the said depreciations, Innofactor's operative business profit for the review period of January 1–September 30, 2017, would have been EUR 665 thousand (2016: 2,371), which shows a decrease of 72.0 percent.

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

Innofactor's balance sheet total at the end of the review period was EUR 59,918 thousand (2016: 53,606). The growth in the balance sheet total was mainly due to the acquisition of the Lumagate companies in October 2016. The Group's liquid assets totaled EUR 545 thousand (2016: 827), consisting totally of cash funds.

The operating cash flow remained strong, and in January 1–September 30, 2017, it was EUR 3,053 thousand (2016: 2,456). The investment cash flow was EUR -1,322 thousand (2016: -2,553).

The equity ratio at the end of the review period was 43.7 percent (2016: 41.6%) and net gearing was 56.1 percent (2016: 55.5%).

At the end of the review period, the company had EUR 8,377 thousand in current interest bearing liabilities (2016: 6,898) and EUR 6,436 thousand in non-current interest bearing liabilities (2016: 5,903). The total amount of interest bearing liabilities was EUR 14,813 thousand (2016: 12,801).

The return on investment in January 1–September 30, 2017, decreased from the previous year and was -3.0 percent (2016: 5.9%).

The return on equity in January 1–September 30, 2017, decreased from the previous year and was -5.4 percent (2016: 4.9%).

The non-current assets in Innofactor's balance sheet at the end of the review period were EUR 42,726 thousand in total and consisted of the following items:

- Tangible assets EUR 686 thousand
- Goodwill value EUR 27,615 thousand*
- Other intangible assets EUR 8,295 thousand*
- Shares and holdings EUR 62 thousand
- Receivables EUR 375 thousand
- Deferred tax assets EUR 5,693 thousand

Innofactor's gross investments in tangible and intangible assets in the review period of January 1–September 30, 2017, were EUR 1,398 thousand (2016: 338), consisting of normal additional and replacement investments required by growth.

The write-offs on intangible assets were EUR 1,595 thousand (2016: 1,450). In the review period of January 1–September 30, 2017, the company has activated development costs of its ERP system for a total of EUR 869 thousand.

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

Innofactor's research and product development investments remain approximately the same as before

In the Innofactor strategy, renewed at the end of 2015, the role of product and service development gained more importance and investments for 2017 were increased. The acquisitions of Cinteros AB and the Lumagate companies in 2016 and their products, which have thus become Innofactor's products, support this strategic development.

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

Innofactor's research and development costs recognized in profit or loss for January 1–September 30, 2017, were approximately EUR 2,232 thousand (2016: 2,505), which accounts for 4.6 percent of the net sales (2016: 6.0%).

Innofactor's personnel

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

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

The average number of active personnel in July 1–September 30, 2017, was 623 persons (2016: 511), which shows an increase of 21.9 percent.

The average number of active personnel in January 1–September 30, 2017, was 609 persons (2016: 505), which shows an increase of 20.6 percent.

In the review period of January 1–September 30, 2017, net sales per active person were approximately EUR 80.3 thousand (2016: 82.4), which shows an approximate decrease of EUR 2.1 thousand per person.

At the end of the review period, the number of active personnel was 627 (2016: 519), which shows an increase of 20.8 percent.

At the end of the review period, the average age among personnel was 39.7 years (2016: 39.9).

Women accounted for 29 percent (2016: 28%) of the personnel. Men accounted for 71 percent (2016: 72%) of the personnel.

Other events in the review period

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

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

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

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

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

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

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

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

On April 10, 2017, Innofactor announced in a stock exchange release that IF Metall in Sweden selected Innofactor as the provider of the further development and support of IF Metall's

membership management system and that the value of the deal is approximately EUR 0,6 million at the minimum and EUR 4 million at the maximum in 2017–2020.

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

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

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

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

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

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

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

Share and shareowners

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

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

On July 1–September 30, 2017, the highest price of the company share was EUR 1.70 (2016: EUR 1.04), the lowest price was EUR 1.34 (2016: EUR 0.82), and the average* price was EUR 1.46 (2016*: EUR 0.98).

On January 1–September 30, 2017, the highest price of the company share was EUR 1.80 (2016: EUR 1.04), the lowest price was EUR 1.13 (2016: EUR 0.75), and the average* price was EUR 1.44 (2016*: EUR 0.92).

The closing price for the review period on September 30, 2017, was EUR 1.37 (2016: EUR 0.98).

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

In public trading on July 1–September 30, 2017, a total of 3,925,652 shares were traded (2016: 4,253,658 shares), which corresponds to 10.8 percent (2016: 13.0%) of the average number of shares on the said period. In July 1–September 30, 2017, there were 36,188,225 shares on the average (2016: 32,843,204*). The share trading decreased by 7.7 percent compared to the corresponding period in 2016.

In public trading on January 1–September 30, 2017, a total of 16,312,703 shares were traded (2016: 8,208,802 shares), which corresponds to 46.5 percent (2016: 24.9%) of the average number of shares on the said period. In January 1–September 30, 2017, there were 35,056,492 shares on the average (2016: 32,913,457*). The share trading increased by 98.7 percent compared to the corresponding period in 2016.

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

The market value of the share capital at the closing price of the review period, EUR 1.37, on September 30, 2017, was EUR 49,578 thousand (2016: 32,243), which shows an increase of 53.8 percent.

On September 30, 2017, the company had a total of 12,500 shareowners (2016: 10,815), including administrative registers.

The Board of Directors has the following authorizations:

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

On March 28, 2017, Innofactor published a flagging announcement pursuant to Chapter 9, Section 5 of the Finnish Securities Markets Act, stating that Svalroma Consulting AB's ownership of the

Innofactor Plc votes and shares exceeds five percent (5%) due to receipt of the company shares as purchase price for Cinteros AB.

Treasury shares

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

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

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

Management of the company

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

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

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

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

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

Market outlook and business environment

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

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

Short term risks and uncertainty factors

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

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

Acquisitions and changes in the group structure

No acquisitions were carried out during the review period. The subsidiary in Denmark, Innofactor Business Solutions ApS, has been merged into Innofactor A/S as of September 1, 2017.

Events after the review period

On October 13, 2017, Innofactor announced in a stock exchange release that it revises its guidance for 2017.

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

Espoo, October 31, 2017

INNOFACTOR PLC

Board of Directors

Additional information:

CEO Sami Ensio, Innofactor Plc

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Briefings concerning the Interim Report January 1–September 30, 2017

On October 31, 2017, at 10:00 Finnish time, Innofactor will hold a briefing concerning the interim report in Finnish for the media, investors and analysts at the company's premises at Keilaranta 9, Espoo. The report will be presented by CEO Sami Ensio.

Innofactor will also hold a corresponding conference call in English on October 31, 2017, at 16:00 Finnish time.

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

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

Distribution:

NASDAQ Helsinki

Main media

www.innofactor.com

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

Accounting policies

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

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

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

The interim report adheres to the same accounting policies and calculation methods as the last annual financial statement 2016. However, as of January 1, 2017, the Group has introduced the new or renewed IFRS standards and IFRIC interpretations published by IASB and mentioned in the accounting policies section of the financial report 2016. The principles for calculating the key figures and the calculation formulas have not been changed and they have been presented in an appendix to this report.

In addition to the IFRS key figures, Innofactor publishes certain alternative key figures in order to present the financial development of the actual business operations and to improve comparisons between different periods. Acquisitions are a central part of Innofactor's strategy. Depreciations of intangible rights resulting from acquisitions vary greatly depending on how valuable the customer contracts and technology of the acquired company are estimated to be and also in what kind of schedule the resulting intangible rights will be depreciated. For this reason, the company's view is that instead of the operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciations. In addition to the operating margin, the company also publishes the operative business result adjusted for the above-mentioned depreciations, operative business result before taxes, operative business result, and operative business result per share. Depreciations related to acquisitions, adjusted from the above-mentioned key figures, in the period January 1–September 30, 2017, were EUR 1,522 thousand (2016: 1,365).

Other alternative key figures used by Innofactor are equity ratio, net gearing, return on investment, return on equity, and net sales per person. The formulas for calculating the other alternative key figures are presented at the end of this report.

Drafting a financial statement in accordance with the IFRS standards requires the management of Innofactor to use estimates and presuppositions, which affect the amounts of assets and debts at the time of drafting the balance sheet and the amounts of earnings and costs for the review

period. The application of the accounting policies also requires judgment. As estimates and presuppositions are based on the views held at the time of drafting the statement, they contain risks and uncertainty factors. The actual figures may deviate from the estimates and presuppositions. The figures of the profit and loss statement and the balance sheet are figures for the Group. The figures of the statement have been rounded, so the sum of individual figures may differ from the sum presented.

IFRS 15 Revenue from Contracts with Customers

The new standard will be applied for the annual reporting periods beginning on or after January 1, 2018. The new standard defines a five-step model for recognizing revenue based on contracts with customers and replaces the current standards IAS 18 and IAS 11 as well as the related interpretations. The standard includes new guidance for license revenue, accounting for costs, determining transaction price among other things. It also expands demands for notification related to revenue from customer contracts. Innofactor is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected.

Some Innofactor delivery projects include software licenses which currently are recognized at the time of delivering the license to the customer or at the time of entering into agreement with the customer. If these arrangements in certain cases should be treated as a single performance obligation, revenue and cost of the software licenses should be deferred and recognized over time together with the related project.

Currently, some software licenses are recognized at the time of delivery to the customer or at the time of entering into agreement with the customer. Innofactor is assessing whether in some cases the control of the software is transferred to customer during or at the end of the delivery project. If so, revenue and cost of the software license should be recognized at a later point in time than currently.

Some Innofactor maintenance contracts include a set-up activity. If the set-up activity does not constitute a separate performance obligation, revenue relating to the activity would need to be deferred and recognized over time. Also related costs should be capitalized, if the criteria under IFRS 15 were met.

Based on the above findings, it is likely that profit from some Innofactor agreements will be deferred to a certain extent in comparison to current accounting principles. Innofactor will continue preparations for the new standard and is currently assessing the effect of the standard on the Group's earnings.

Innofactor will adopt the new standard on January 1, 2018, using the modified retrospective approach.

The figures in this interim report have not been audited.

Comprehensive consolidated profit and loss statement, IFRS

EUR thousand	Jul 1–Sep 30, 2017	Jul 1–Sep 30, 2016	Jan 1–Sep 30, 2017	Jan 1–Sep 30, 2016	Jan 1–Dec 31, 2016
Net sales	13,930	11,803	48,899	41,624	59,616
Other operating income	16	300	138	334	569
Materials (–)	-1,775	-950	-4,924	-3,869	-5,482
Employee benefits/expenses (–)	-10,276	-8,282	-34,364	-29,187	-40,697
Depreciation (–)	-667	-605	-2,013	-1,835	-2,499
Other operating expenses (–)	-2,772	-2,012	-8,593	-6,061	-9,175
Operating profit/loss	-1,544	254	-857	1,006	2,332
Financial income	0	0	8	1	5
Financial expenses (–)	-73	-97	-350	-283	-417
Profit/loss before taxes	-1,617	157	-1,199	724	1,920
Income taxes	324	-32	240	-145	-384
Profit/loss for the financial period	-1,293	125	-959	579	1,536
Other comprehensive income Items that may be later recognized in profit or loss:					
Exchange differences	-52	-16	-367	-37	-20
Total comprehensive income	-1,345	109	-1,326	542	1,516

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

basic earnings per share (EUR)	-0.0357	0.0038	-0.0274	0.0176	0.0467
diluted earnings per share (EUR)	-0.0357	0.0038	-0.0274	0.0176	0.0467

Consolidated Balance Sheet, IFRS

EUR thousand	Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
Non-current assets			
Tangible assets	686	520	628
Goodwill	27,615	22,195	27,690
Other intangible assets	8,295	8,293	9,141
Shares and holdings	62	62	62
Receivables	375	663	595
Deferred tax assets	5,693	6,284	5,760
Non-current assets	42,726	38,017	43,876
Current assets			
Trade and other receivables	16,647	14,762	18,809
Cash and cash equivalents	545	827	902
Current assets	17,192	15,589	19,711
TOTAL ASSETS	59,918	53,606	63,587

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR thousand	Sep 30, 2017	Sep 30, 2016	Dec 31, 2016
Equity attributable to the shareholders of the parent company			
Share capital	2,100	2,100	2,100
Share premium reserve	72	72	72
Other reserves (+/-)	59	59	59
Fund for invested unrestricted equity	20,262	16,153	16,153
Treasury shares	0	-115	-161
Retained earnings	2,952	3,304	4,278
Total shareholders' equity	25,445	21,573	22,501
Non-current liabilities			
Loans from financial institutions	6,436	5,903	9,038
Deferred tax liabilities	2,009	2,111	2,234
Long term liabilities total	8,445	8,014	11,272
Current liabilities			
Loans from financial institutions	8,377	6,898	7,663
Trade and other payables	17,651	17,121	22,151
Current liabilities total	26,028	24,019	29,814
Total liabilities	34,473	32,033	41,086
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	59,918	53,606	63,587

Statement of change in shareholders' equity, IFRS

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Treasury shares	Retained earnings	Total shareholders' equity
Shareholders' equity Jan 1, 2017	2,100	72	59	16,153	-161	4,278	22,501
Comprehensive income							
Result for the financial period						-959	-959
Correction							0
Other comprehensive income:							
Exchange differences						-367	-367
Total comprehensive income	0	0	0	0	0	-1,326	-1,326
Share issue				4,109			4,109
Purchase of own shares					-199		-199
Transfer of own shares					360		360
Transactions with shareholders in total	0	0	0	4,109	161	0	4,270
Shareholders' equity Sep 30, 2017	2,100	72	59	20,262	0	2,952	25,445

Statement of change in shareholders' equity, IFRS

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Treasury shares	Retained earnings	Hybrid bond	Total shareholders' equity
Shareholders' equity Jan 1, 2016	2,100	72	59	16,153	-345	3,295	3,200	24,534
Comprehensive income								
Result for the financial period						579		579
Other comprehensive income:								
Exchange differences						-37		-37
Total comprehensive income	0	0	0	0	0	542	0	542
Transactions with shareholders								
Purchase of own shares					-255			-255
Cancellation of treasury shares					485	-485		0
Transactions with shareholders in total	0	0	0	0	230	-485	0	-255
Redemption of the hybrid bond							-3,200	-3,200
Interest payments on the hybrid bond						-47		-47
Shareholders' equity Sep 30, 2016	2,100	72	59	16,153	-115	3,304	0	21,573

Consolidated Cash Flow Statement, IFRS

EUR thousand	Jan 1–Sep 30, 2017	Jan 1–Sep 30, 2016	Jan 1–Dec 31, 2016
Cash flow from operating activities			
Operating profit	-857	1,006	2,332
Adjustments:			
Depreciation	2,013	1,835	2,499
Changes in working capital:			
Change in trade or other receivables (+/-)	2,244	1,024	-273
Change in trade and other payables (+/-)	-5	-1,093	-838
Interests paid (-)	-350	-283	-370
Interests received	8	1	5
Total cash flow from operating activities	3,053	2,490	3,355
Investment cash flow			
Acquisition of subsidiaries	-59	-2,215	-6,475
Investments in intangible and tangible assets (-)	-1,398	-338	-843
Change in loan receivables	135	-34	87
Total cash flow from investments	-1,322	-2,587	-7,231
Cash flow from financing			
Loans withdrawn	60	9,152	13,783
Loans paid	-1,949	-5,569	-6,302
Redemption of the hybrid bond	0	-3,200	-3,200
Interest payments on the hybrid bond	0	-47	-47
Purchase of own shares	-199	-255	-300
Total cash flow from financing	-2,088	81	3,934
Change in cash and cash equivalents (+/-)	-357	-16	58
Cash and cash equivalents, opening balance	902	843	843
Cash and cash equivalents, closing balance	545	827	902

Consolidated Profit and Loss Statement by Quarter, IFRS

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

Commitments and contingent liabilities

<u>EUR thousand</u>	<u>Sep 30, 2017</u>	<u>Sep 30, 2016</u>	<u>Dec 31, 2016</u>
Collateral given for own commitments			
Collateral for rent	210	185	212
Mortgages on company assets*	17,436	16,562	17,453
Bank guarantees	303	303	303
Other own guarantees			
Lease liabilities			
Current lease liabilities	278	99	303
Lease liabilities maturing in 1-5 years	326	120	341
Total	604	219	644
Rental liabilities			
Current rental liabilities	1,831	1,735	1,976
Rental liabilities maturing in 1-5 years	1,297	2,121	2,034
Total	3,128	3,856	4,010
Other own guarantees total	3,732	4,075	4,654

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

The preliminary acquisition cost calculation for Lumagate

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

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

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

The acquisition cost according to IFRS is the estimated purchase price of the shares, which in the preliminary acquisition cost calculation is EUR 6,684 thousand and has been presented in more detail in the following calculation.

Values registered for consolidation (EUR thousand)

Tangible assets	32
Intangible assets	1,058
Deferred tax assets	27
Trade and other receivables	2,716
Cash and cash equivalents	367
Total assets	4,200
Other payables	3,013 (includes a deferred tax liability of 227)
Total liabilities	3,013
Net assets	1,187 (total assets - total debts)
Acquisition cost	6,684 (cash 4,627, conditional compensation 2,057)
Goodwill	5,496 (acquisition cost - net assets)
Purchase price paid in cash	4,627
Cash funds of the acquired subsidiary	367
Cash flow effect	-4,260

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

The acquisition created a preliminary goodwill of EUR 5,496 thousand. The goodwill is based on the expected synergy benefits arising from the acquisition of Lumagate and on making use of the common sales and marketing network in the group and expanding customer relationships. The acquisition cost calculation is preliminary and there have been no changes after the financial statement.

Largest shareholders

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

Name	Number of shares	% of share capital
1. Ensio Sami	7,468,823	20.64%
<i>Ensio Sami</i>	5,295,063	14.63%
<i>Minor under guardianship</i>	724,588	2.00%
<i>Minor under guardianship</i>	724,586	2.00%
<i>Minor under guardianship</i>	724,586	2.00%
2. Tilman Tuomo Tapani	2,433,568	6.72%
3. Ilmarinen Mutual Pension Insurance Company	1,550,000	4.28%
4. Laiho Rami Tapani	1,308,659	3.62%
5. Linturi Kaija and Risto	1,261,411	3.49%
<i>R. Linturi Oyj</i>	494,107	1.37%
<i>Linturi Kaija Anneli</i>	430,000	1.19%
<i>Linturi Risto Erkki Olavi</i>	337,304	0.93%
6. Ärje Matias Juhanpoika	882,065	2.44%
7. Mäki Antti-Jussi	877,192	2.42%
8. Muukkonen Teemu Heikki	522,230	1.44%
9. Ingman Finance Oy Ab	500,000	1.38%
10. Järvenpää Janne-Olli	315,211	0.87%
11. Kukkonen Heikki-Harri	282,931	0.78%
12. Rausanne Oy	273,040	0.75%
13. Hellen Stefan Andreas	250,000	0.69%
14. Laiho Jari Olavi	235,000	0.65%
15. Karppinen Antti Sakari	200,000	0.55%
16. Mäkinen Antti Vilho Juhani	144,000	0.40%
17. Mandatum Life	136,710	0.38%
18. Tervonen Heikki Väinö Tapio	135,000	0.37%
19. Salmela Alpo Jalmari	134,000	0.37%
20. Muurinen Hannu Olavi	125,750	0.35%

Formulas for calculating the key figures

Operating margin (EBITDA):

Operating profit/loss - Depreciations

Percentage of return on equity:

Profit or loss before taxes - Taxes

Shareholders' equity

Percentage of return on investment:

Profit or loss before taxes + Interest and other financial expenses

Shareholders' equity + Interest bearing financial liabilities

Net gearing:

Interest bearing liabilities - Cash funds

Shareholders' equity

Equity ratio, (%):

Shareholders' equity

Balance sheet total - Received advances

Result/share:

Profit before taxes attributable to equity holders of the parent - Taxes

Average number of shares on the financial period adjusted after the share issue

Shareholders' equity / share:

Equity attributable to the shareholders of the parent company

Undiluted number of shares on the date of the financial statement

Net sales / person:

Net sales

Active personnel on average during the review period