

Innofactor Plc Interim Report October 29, 2019, at 9:00 Finnish time

## **Innofactor Plc's Interim Report for January 1–September 30, 2019 (IFRS)**

**Innofactor's operating margin and order backlog significantly better than in comparison periods, also the net sales turned to growth in the third quarter**

July–September 2019 in brief:

- The net sales were approximately EUR 14.0 million (2018: 13.8), which shows an increase of 1.4%.
- The operating margin was approximately EUR 1.5 million (2018: -0.5), which shows an increase of EUR 2.0 million
- The operating profit was approximately EUR 0.3 million (2018: -1.2), which shows an increase of EUR 1.4 million
- The order backlog at the end of the review period was EUR 53.2 million (2018: 25.6), which shows an increase of 107%
- The measures for improving profitability, carried out near the end of 2018, have had the planned effect in 2019
- In the third quarter, Innofactor got several major orders, for example the Finnish Tax administration has selected Innofactor as the primary provider of IT specialist services in the area of cloud specialists, approximately EUR 10-20 million, Swedish Epiroc Rock Drills has selected Innofactor as provider of directory services, approximately EUR 0.7 million, and got also several smaller orders

January–September 2019 in brief:

- The net sales were approximately EUR 46.8 million (2018: 47.3), which shows a decrease of 1.0%
- The operating margin was approximately EUR 3.5 million (2018: -0.1), which shows an increase of EUR 3.6 million
- The operating profit was approximately EUR 0.3 million (2018: -2.2), which shows an increase of 114.5%

**Key figures of the group, IFRS**

	Jul 1–Sep 30, 2019	Jul 1–Sep 30, 2019	Change	Jan 1– Sep 30, 2019	Jan 1–Sep 30, 2019	Change
Net sales, EUR thousand	13,968	13,773	1.4%	46,767	47,253	-1.0%
Growth of net sales	1.4%	-2.5%		-1.0%	-2.6%	
Operating profit before depreciation and amortization (EBITDA), EUR thousand*	1,535	-503	405.2%	3,532	-124	2,938.7%
percentage of net sales*	11.0%	-3.7%		7.6%	-0.3%	
Operating profit/loss (EBIT), EUR thousand*	252	-1,186	121.3%	315	-2,177	114.5%
percentage of net sales*	1.8%	-8.6%		0.7%	-4.6%	
Earnings before taxes, EUR thousand*	42	-1,223	103.4%	-259	-2,480	89.6%
percentage of net sales*	0.3%	-8.9%		-0.6%	-5.2%	
Earnings, EUR thousand*	93	-763	112.2%	-183	-2,227	91.8%
percentage of net sales*	0.7%	-5.5%		-0.4%	-4.7%	
Order backlog***	53,167	25,602	107.1%	53,167	25,602	107.1%
Net gearing*	84.6%			84.6%		
Net gearing without IFRS 16	60.5%	71.4%		60.5%	71.4%	
Equity ratio*	40.2%			40.2%		
Equity ratio without IFRS 16	44.6%	41.2%		44.6%	41.2%	
Active personnel on average during the review period**	535	591	-9.5%	535	598	-10.5%
Active personnel at the end of the review period**	542	588	-7.8%	542	588	-7.8%
Earnings per share (EUR)	0.0036	-0.0271	113.5%	0.0013	-0.0548	102.3%

\*) In accordance with IFRS 3, the operating result for July 1–September 30, 2019, includes EUR 507 thousand (2018: 507) and the result for January 1–September 9, 2019, EUR 1,522 thousand (2018: 1,522) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. The implementation of the IFRS 16 standard affects extensively different figures for 2019. The handling of lease liabilities in a new way in accordance with IFRS 16 had the following effects: on July 1–September 30, 2019, EUR 645 and on January 1–September 30, 2019, EUR 1,265 thousand thousand in the operating margin (EBITDA). Additional information on the standard's implementation and effects can be found in the "Accounting policies" section of "Financial statement summary and appendixes January 1–September 30, 2019 (IFRS)."

\*\*\*) 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.

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**Innofactor's future outlook for 2019**

Innofactor's net sales in 2019 are estimated to increase from 2018, during which the net sales were EUR 63.1 million, and the operating margin (EBITDA) in 2019 is estimated to grow to EUR 4–6 million, while the operating margin in 2018 was EUR -1.0 million.

**CEO Sami Ensio's review: The record order backlog turned the net sales to growth in the third quarter and ensured good profitability**

The net sales in the third half of 2019 were EUR 14.0 million, which shows an increase of 1.4 percent compared to the previous year. The net sales grew in Finland, Norway and Denmark, but decreased in Sweden. The weaker than expected net sales were partly due to the lower exchange rates of Swedish krona and Norwegian krone in relation to euro. This had an effect of approximately EUR 0.1 million. Due to the measure for improving efficiency, the net sales per employee grew 12.0% from the previous year.

The operating margin (EBITDA) improved by EUR 2.0 million from the previous year and was EUR 1.5 million (11.0 percent of the net sales). The improvement in the operating margin was especially due to the measures in the last quarter of 2018 for reorganizing operation and making it more efficient, cost-cutting, and the changes in handling lease liabilities due to IFRS 16, which had an effect of EUR 0.6 million in the operating margin. Historically, Innofactor's operating margin has improved in every quarter towards the end of the year.

In the third quarter, the order backlog again grew to a record-breaking amount and was EUR 53.2 million at the end of the quarter (2018: 25.6), which shows an increase of 107% compared to the same time in the previous year.

I am especially happy that the Tax administration selected Innofactor in a public procurement competition as the primary provider of IT specialist services in the area of cloud specialists. In the area of cloud specialists, the purpose of the procurement is to expand the use of the Tax administration's MS Azure and Office365 cloud services as the platform for different systems. The emphasis in this area is on the specialist resources for the Azure cloud service infrastructure, but the services also include support, for example, for application development tools. 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. Innofactor's order backlog is calculated based on customer's estimate of six years volume.

As regards Sweden, measures aiming at increasing net sales are ongoing. Our goal is to turn the net sales also in Sweden into growth still in the last quarter of 2019. The search for the new Country Manager for Sweden is in progress, but we were not able to select one in the third quarter as we had planned. Our new goal is to select the new Country Manager by the end of November.

Innofactor has hired a new Chief Technology Officer, Jufo Peltomaa, and he started on October 28, 2019. I am very glad to have him with us to strengthen the Innofactor team.

Innofactor's vision is to be the leading implementer of digitalization in each of the Nordic countries. We believe in our chosen Nordic strategy and in reaching our long-term goals. This requires perseverance and determination from the company's management and employees as well as investors. Innofactor is still actively looking for new strategic partnerships in the Nordic countries. The Group's goal is to grow both organically and through acquisitions (however, these are not a priority in 2019).

### **Strategy and its realization in the review period**

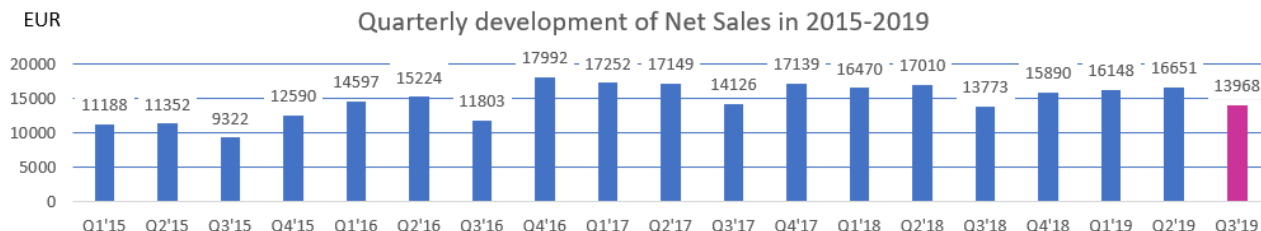
Innofactor's vision is to be the leading provider of organizations' digital transformation in each of the Nordic countries (Finland, Sweden, Denmark and Norway) The long-term financial goal is to grow profitably by achieving an annual growth of approximately 20 percent, of which majority is intended to be achieved by organic growth, by achieving approximately 20 percent operating margin (EBITDA) in relation to the net sales, and by keeping the cash flow positive and by securing solid financial standing in all situations. In 2019, Innofactor will focus especially on improving its profitability.

The operating margin (EBITDA) grew in January–September 2019 from EUR -0,1 million in the same period in the previous year to EUR 3.5 million (7.6 percent of the net sales). As regards profitability, Innofactor was able to again improve its performance substantially, but a significant effort is still needed in order to reach the long-term goal of approximately 20 percent.

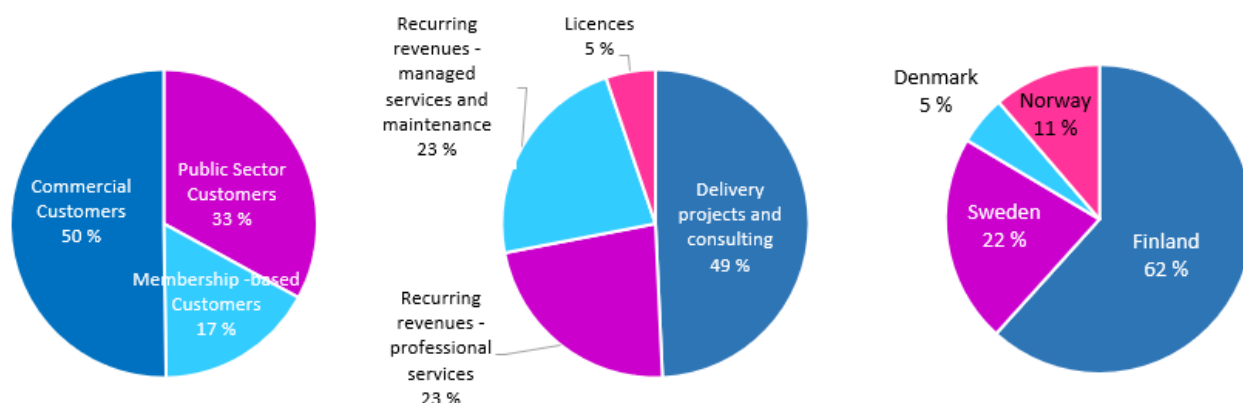
Innofactor's net sales in January–September were EUR 46.8 million (2018: 47.3), which shows a decrease of 1.0 percent compared to the previous year. In the third quarter, the net sales grew in Finland, Norway and Denmark, but decreased in Sweden. It is essential for Innofactor's strategy to gain growth also in Sweden. Our goal is to turn also the net sales in Sweden into growth in the last quarter of 2019 at the latest. The goal of getting the net sales to grow is also supported by the record-breaking order backlog of EUR 53.2 million (2018: 25.6).

Innofactor's operating cash flow in the review period of January 1–September 30, 2019, was EUR 3.4 million (2018: -1.9) and the equity ratio at the end of the review period was 40.2 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 1,6 million in the operating cash flow and approximately 4.3 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.

**Innofactor’s net sales and net sales per employee increased from the comparison period**



Innofactor’s net sales in July 1–September 30, 2019, were EUR 13,968 thousand (2018: 13,773), which shows an increase of 1.4 percent. The net sales per active employee were approximately EUR 26.1 thousand (2018: 23.3), which shows an increase of 12.0 percent. We focus on continuing to increase the net sales per active employee.



Innofactor's business operations were focused on Finland, Sweden, Denmark, and Norway. In January 1–September 30, 2019, approximately 62 percent of the net sales came from Finland, approximately 22 percent from Sweden, approximately 11 percent from Norway, and approximately 5 percent from Denmark. The net sales grew in Finland and Norway but decreased in Sweden and Denmark.

Of the net sales in January 1–September 30, 2019, approximately 50 percent came from commercial clients, approximately 33 percent from public sector clients, and approximately 17 percent from third sector clients.

Innofactor's net sales in the review period of January 1–September 30, 2019, came from the following sources:

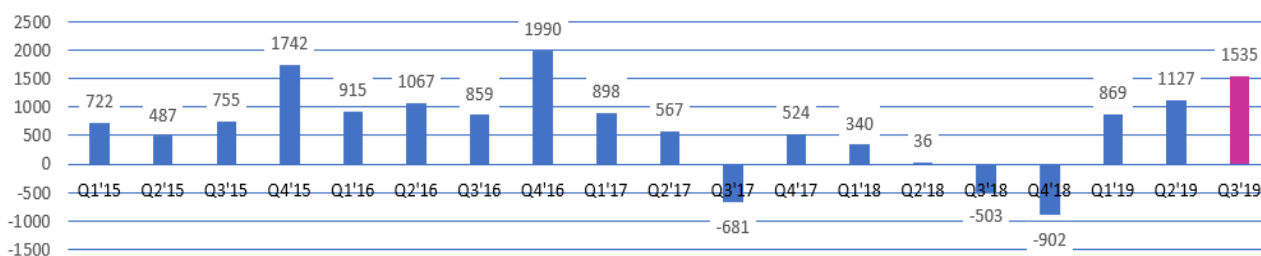
- approximately 5 percent from licenses, of which the share of licensing income to third parties was approximately 4 percent of the net sales
- approximately 23 percent from services based on recurring service contracts, such as SaaS, cloud and hosting services, and from software maintenance

- approximately 23 percent from specialist work based on recurring service contracts, such as smaller customer-specific changes and further development of IT systems
- approximately 49 percent from IT system delivery projects and consulting

Innofactor’s 10 largest clients accounted for approximately 24 percent of the net sales during the review period January 1–September 30, 2019.

**Innofactor’s operating margin was clearly higher than in the comparison period**

Quarterly development of EBITDA in 2015-2019



Innofactor’s operating margin (EBITDA) on July 1–September 30, 2019, was EUR 1,535 thousand (2018: -503), which shows improvement of EUR 2,038 thousand. EBITDA accounted for 10.6 percent of the net sales (2018: -3.7%). Innofactor’s operating profit on July 1–September 30, 2019, was EUR 252 thousand (2018: -1,186), which shows an increase of EUR 1,438 thousand . Operating profit accounted for 1.8 percent of the net sales (2018: -8.6%).

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

In accordance with IFRS 3, the operating result for July 1–September 30, 2019, includes EUR 507 thousand (2018: 507) and the result for January 1–September 9, 2019, EUR 1,522 thousand (2018: 1,522) 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 July 1–September 30, 2019, would have been EUR 759 thousand (2018: -679), improving by EUR 1,438 thousand. In January 1–September 30, 2019, Innofactor’s business profit would have been EUR 3,057 thousand (2018: -655), which shows an increase of EUR 3,712 thousand.

Implementing IFRS 16 in the review period of July 1–September 30, 2019, improves the operating margin (EBITDA) by EUR 645 thousand, because a lease cost is divided into depreciations and financial expenses. In the review period of January 1–September 30, 2019, the corresponding effect is EUR 1,265 thousand. The implementation of IFRS 16 is explained in more detail in the section “Financial statement summary and appendixes January 1–September 30, 2019 (IFRS).”

In the review period, the operating margin was lowered by EUR 101 thousand due to the cost registered for the personnel issue according to IFRS 2.

### **Innofactor’s order backlog grew again, making an alltime record**

Innofactor's order backlog at the end of the review period was EUR 53,167 thousand (2018: 25,602), which shows an increase of 107.1%. Before implementing the Nordic ERP system in two stages in Sweden on July 1, 2018, and October 1, 2018, the figures there are partly based on management estimates, because they had no system for reliably monitoring the order backlog.

### **Innofactor’s operating cash flow in the review period improved essentially from the situation one year earlier**

Innofactor's balance sheet total at the end of the review period was EUR 54,703 thousand (2018: 56,147). The Group's liquid assets totaled EUR 230 thousand (2018: 311), consisting totally of cash funds.

The operating cash flow in January 1–September 30, 2019, was EUR 3,428 thousand (2018: -1,888). The investment cash flow was EUR -202 thousand (2018: -1,119).

The equity ratio at the end of the review period was 40.2 percent (2018: 41.2%) and net gearing was 84.6 percent (2018: 71.4%).

At the end of the review period, the company had EUR 9,150 thousand in current interest bearing liabilities (2018: 10,262) and EUR 4,134 thousand in non-current interest bearing liabilities (2018: 6,383). The total amount of interest bearing liabilities was EUR 13,284 thousand (2018: 16,645).

The return on investment in January 1–September 30, 2019, improved from the previous year and was 1.2 percent (2018: -7.5%). The return on equity in January 1–September 30, 2019, improved from the previous year and was 0.3 percent (2018: -11.9%).

The non-current assets in Innofactor's balance sheet at the end of the review period were EUR 42,000 thousand in total.

Innofactor's gross investments in tangible and intangible assets in the review period of January 1–September 30, 2019, were EUR 216 thousand (2018: 956), consisting of normal additional and replacement investments required by growth.

The handling of lease liabilities in a new way in accordance with IFRS 16 had a positive effect of EUR 1,265 thousand in the operating cash flow, approximately 24.1 percentage point negative effect in the net gearing and approximately 4.3 percentage point negative effect in the equity ratio. The implementation of IFRS 16 is explained in more detail in the section “Financial statement summary and appendixes January 1–September 30, 2019 (IFRS).”

### **Innofactor’s research and product development investments at level of year 2018**

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

Innofactor's research and development costs recognized in profit or loss for January 1–September 30, 2019, were approximately EUR 2,138 thousand (2018: 2,173), which accounts for 4.6 percent of the net sales (2018: 4.6%).

### **The number of personnel in Innofactor is clearly lower than in the previous year due to the business development actions implemented**

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

The average number of active personnel in July 1–September 30, 2019, was 535 persons (2018: 591), which shows a decrease of 9.5 percent. The average number of active personnel in January 1–September 30, 2019, was 535 persons (2018: 598), which shows a decrease of 10.5 percent. At the end of the review period, the number of active personnel was 542 (2018: 598), which shows a decrease of 9.4 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 the review period, the average age among personnel was 40.8 years (2018: 40.7). Women accounted for 27 percent (2018: 29%) of the personnel. Men accounted for 73 percent (2018: 71%) of the personnel.



**Other events in the review 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 system delivery is 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.

### 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 37,388,225. Innofactor Plc has one series of shares. Each share is entitled to one vote.

On July 1–September 30, 2019, the highest price of the company share was EUR 0.65 (2018: 0.79), the lowest price was EUR 0.56 (2018: 0.75), and the average price was EUR 0.61 (2018: 0.72).

On January 1–September 30, 2019, the highest price of the company share was EUR 0.72 (2018: 1.13), the lowest price was EUR 0.36 (2018: 0.66), and the average price was EUR 0.55 (2018: 0.84).

The closing price for the review period on September 30, 2019, was EUR 0.64 (2018: 0.70).

In public trading in July 1–September 30, 2019, a total of 1,709,401 shares were traded (2018: 2,031,594 shares), which corresponds to 4.6 percent (2018: 5.6%) of the average number of shares on the said period. On July 1–September 30, 2019, there were 37,388,225 shares on the average (2018: 36,188,225). The share trading decreased by 19 percent compared to the corresponding period in 2018.

In public trading in January 1–September 30, 2019, a total of 8,135,687 shares were traded (2018: 6,774,976 shares), which corresponds to 22.2 percent (2018: 18.7%) of the average number of shares on the said period. On January 1–September 30, 2019, there were 36,610,203 shares on the average (2018: 36,188,225). The share trading increased by 20.1 percent compared to the corresponding period in 2018.

The market value of the share capital at the closing price of EUR 0.636, on September 30, 2019, was EUR 23,779 thousand (2018: 25,187), which shows a decrease of 5.6 percent.

On September 30, 2019, the company had a total of 11,126 shareowners (2018: 11,711), including administrative registers.

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 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.

### **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 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 2018.

Innofactor Plc's entire Corporate Governance and statements are available on the company's web site at: <https://www.innofactor.com/invest-in-us/corporate-governance/>

### **Market outlook and business environment**

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

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

### **Short term risks and uncertainty factors**

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

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

### **Acquisitions and changes in the Group structure**

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

On July 2, 2019, Innofactor started a merger of two operative companies 100% owned by the Group in Sweden, Innofactor AB and Innofactor Cloud Platform AB, and it is estimated to be realized on December 31, 2019.

**Events after the review period**

There have been no significant events in Innofactor after the review period.

Espoo, October 29, 2019

INNOFACTOR PLC

Board of Directors

Additional information:

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**Briefings concerning the Interim Report January 1–September 30, 2019**

A briefing in Finnish concerning the interim report will be held for media, investors and analysts on October 29, 2019, at 10:00 Finnish time, at the company's premises at Keilaranta 9, Espoo. The report will be presented by CEO Sami Ensio. The corresponding conference call in English will be held at 12:00 Finnish time.

Please register for the briefings beforehand by sending email to [ir@innofactor.com](mailto:ir@innofactor.com).

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

Distribution:

NASDAQ Helsinki

Main media

[www.innofactor.com](http://www.innofactor.com)

## **Financial statement summary and appendixes January 1–September 30, 2019 (IFRS)**

### **Accounting policies**

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

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

The interim report adheres to the same accounting policies and calculation methods as the last annual financial statement 2018. However, as of January 1, 2019, 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 2018. The principles for calculating the key figures and the calculation formulas have not been changed, and they have been presented in an appendix to this report.

In addition to the IFRS key figures, Innofactor publishes certain alternative key figures in order to present the financial development of the actual business operations and to improve comparisons between different periods. Acquisitions are a central part of Innofactor's strategy. Depreciations of intangible rights resulting from acquisitions vary greatly depending on how valuable the customer contracts and technology of the acquired company are estimated to be and also in what kind of schedule the resulting intangible rights will be depreciated. For this reason, the company's view is that instead of the operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciations. In addition to the operating margin, the company also publishes the following figures adjusted for the above-mentioned depreciations: the operative business result, operative business result before taxes, operative result, and operative result per share. Depreciations related to acquisitions, adjusted from the above-mentioned key figures, in the period of January 1–September 30, 2019, were EUR 1,522 thousand (2018: 1,522).

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

Drafting a financial statement in accordance with the IFRS standards requires the management of Innofactor to use estimates and presuppositions, which affect the amounts of assets and debts at the time of drafting the balance sheet and the amounts of earnings and costs for the review period. The application of the accounting policies also requires judgment. As estimates and presuppositions are based on the views held at the time of drafting the statement, they contain risks and uncertainty factors. The actual figures may deviate from the estimates and presuppositions. The figures of the profit and loss statement and the balance sheet are figures for the Group. The figures of the statement have been rounded, so the sum of individual figures may differ from the sum presented.

The figures in this interim report have not been audited.

### **IFRS 16 Leases**

Innofactor has 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 does not have a significant effect on the company's earnings per share, but it improves the company's operating margin (EBITDA), because a lease cost is divided into depreciations and financial expenses. The standard also improves the company's operating cash flow and deteriorates the financing cash flow, because the lease payments are mainly presented in the financing cash flow.

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

Opening balance, January 1, 2019

#### Assets

Tangible assets	+ EUR 5 792 thousand
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#### Liabilities

Current lease liabilities	+ EUR 1,032 thousand
Non-current lease liabilities	+ EUR 4,759 thousand

Financial statement January 1–September 30, 2019

- Decrease in lease liabilities, EUR 1,265 thousand
- Increase in planned depreciations, EUR 1,148 thousand
- Increase in lease liability financing costs, EUR 117 thousand

The implementation of the IFRS 16 standard affects the operating margin (EBITDA) and the key figures that have been calculated based on the balance sheet total or interest bearing debt.

In the implementation of the standard, Innofactor uses the simple method in which the comparison figures will not be adjusted. In its reporting, the company also takes 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.

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

<b>EUR thousand</b>	<b>Jul 1–Sep 30, 2019</b>	<b>Jul 1–Sep 30, 2018</b>	<b>Jan 1– Sep 30, 2019</b>	<b>Jan 1–Sep 30, 2018</b>	<b>Jan 1–Dec 31, 2018</b>
Net sales	13,968	13,773	46,767	47,253	63,144
Other operating income	-13	20	29	46	205
Materials (–)	-1,376	-1,691	-4,353	-5,471	-6,812
Employee benefits/expenses (–)	-9,194	-9,818	-32,425	-34,495	-46,432
Depreciation (–)	-1,283	-683	-3,216	-2,053	-2,842
Other operating expenses (–)	-1,850	-2,787	-6,487	-7,458	-11,134
<b>Operating profit/loss</b>	<b>252</b>	<b>-1,186</b>	<b>315</b>	<b>-2,177</b>	<b>-3,872</b>
Financial income	5	15	13	29	952
Financial expenses (–)	-215	-52	-587	-332	-892
<b>Profit/loss before taxes</b>	<b>42</b>	<b>-1,223</b>	<b>-259</b>	<b>-2,480</b>	<b>-3,811</b>
Income taxes	90	243	305	496	625
<b>Profit/loss for the financial period</b>	<b>132</b>	<b>-980</b>	<b>46</b>	<b>-1,984</b>	<b>-3,186</b>
Other comprehensive income Items that may be later recognized in profit or loss:					
Exchange differences	-39	217	-229	-243	-275
<b>Total comprehensive income</b>	<b>93</b>	<b>-763</b>	<b>-183</b>	<b>-2,227</b>	<b>-3,462</b>

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

basic earnings per share (EUR)	0.0036	-0.0271	0.0013	-0.0548	-0.0880
diluted earnings per share (EUR)	0.0036	-0.0271	0.0013	-0.0548	-0.0880



**Consolidated Balance Sheet, IFRS**
**ASSETS**

EUR thousand	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
<b>Non-current assets</b>			
Tangible assets	5,683	516	484
Goodwill	25,858	26,058	26,126
Other intangible assets	4,130	6,638	6,114
Shares and holdings	78	78	78
Receivables	649	248	155
Deferred tax assets	5,602	5,755	5,602
<b>Non-current assets</b>	<b>42,000</b>	<b>39,292</b>	<b>38,558</b>
<b>Current assets</b>			
Trade and other receivables	12,474	16,544	13,059
Cash and cash equivalents	230	311	258
<b>Current assets</b>	<b>12,704</b>	<b>16,855</b>	<b>13,317</b>
<b>TOTAL ASSETS</b>	<b>54,703</b>	<b>56,147</b>	<b>51,875</b>

**SHAREHOLDERS' EQUITY AND LIABILITIES**

<b>EUR thousand</b>	<b>Sep 30, 2019</b>	<b>Sep 30, 2018</b>	<b>Dec 31, 2018</b>
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	20,921	20,321	20,321
Retained earnings	-1,577	322	-1,250
<b>Total shareholders' equity</b>	<b>21,576</b>	<b>22,875</b>	<b>21,303</b>
<b>Non-current liabilities</b>			
Loans from financial institutions	4,134	6,383	5,418
Lease liabilities	3,649		
Deferred tax liabilities	886	1,510	1,190
<b>Long-term liabilities total</b>	<b>8,669</b>	<b>7,893</b>	<b>6,608</b>
<b>Current liabilities</b>			
Loans from financial institutions	9,150	10,262	10,000
Lease liabilities	1,540		
Trade and other payables	13,769	15,118	13,964
<b>Current liabilities total</b>	<b>24,459</b>	<b>25,379</b>	<b>23,965</b>
<b>Total liabilities</b>	<b>33,128</b>	<b>33,272</b>	<b>30,573</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>54,703</b>	<b>56,147</b>	<b>51,875</b>

**Statement of change in shareholders' equity, IFRS**

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange difference	Total shareholders' equity
<b>Shareholders' equity Jan 1, 2019</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>20,321</b>	<b>0</b>	<b>-212</b>	<b>-1,037</b>	<b>21,303</b>
Addition to the fund for invested unrestricted equity, June 27, 2019				600				600
Comprehensive income								0
Result for the financial period						46		46
Correction								0
Other comprehensive income:								
Exchange differences						-144		-144
							-229	-229
<b>Total comprehensive income</b>						<b>-98</b>	<b>-229</b>	<b>-327</b>
<b>Shareholders' equity September 30, 2019</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>20,921</b>	<b>0</b>	<b>-309</b>	<b>-1,267</b>	<b>21,576</b>

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange difference	Total shareholders' equity
<b>Shareholders' equity Jan 1, 2018</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>20,321</b>	<b>0</b>	<b>2,974</b>	<b>-762</b>	<b>24,764</b>
Comprehensive income								
Change in calculation principles, IFRS 15						337		337
Result for the financial period						-1,984		-1,984
Other comprehensive income:								
Exchange differences							-243	-243
<b>Total comprehensive income</b>						<b>-1,647</b>	<b>-243</b>	<b>-1,890</b>
<b>Shareholders' equity September 30, 2018</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>20,321</b>	<b>0</b>	<b>1,327</b>	<b>-1,005</b>	<b>22,875</b>

**Consolidated Cash Flow Statement, IFRS**

EUR thousand	Jan 1–Sep 30, 2019	Jan 1–Sep 30, 2018	Jan 1–Dec 31, 2018
<b>Cash flow from operating activities</b>			
Operating profit	315	-2,177	-3,872
Adjustments:			
Depreciation *)	3,216	2,053	2,842
<b>Change in working capital</b>	3,532	-124	-1,029
Change in trade and other receivables (+/–)	535	376	3,474
Change in trade and other payables (+/–)	-195	-1,845	-2,209
Adjustments:	14	0	0
<b>Change in working capital</b>	354	-1,469	1,266
<b>Cash flow from operating activities before financing and income taxes paid</b>	<b>3,885</b>	<b>-1,593</b>	<b>236</b>
Interests received	13	29	52
Interests paid (–)	-471	-324	-870
<b>Net cash flow from operating activities</b>	<b>3,428</b>	<b>-1,888</b>	<b>-581</b>
<b>Investment cash flow</b>			
Acquisition of subsidiaries	-49	-200	-200
Investments in intangible and tangible assets (–)	-216	-956	-1,133
Loan receivables paid back	64	52	109
Shares and holdings	0	-16	-16
<b>Net cash flow from investments</b>	<b>-202</b>	<b>-1,119</b>	<b>-1,239</b>
<b>Cash flow from financing</b>			
Loans withdrawn	838	3,256	3,237
Loans paid	-2,972	-847	-2,069
Lease liability payments *)	-1,213	0	0
Payments received from share issue	93	0	0
<b>Net cash flow from financing</b>	<b>-3,255</b>	<b>2,409</b>	<b>1,168</b>
<b>Change in cash and cash equivalents (+/–)</b>	<b>-29</b>	<b>-599</b>	<b>-652</b>
Cash and cash equivalents, opening balance	258	910	910
Cash and cash equivalents, closing balance	230	311	258

\*) IFRS 16 Leases was implemented on January 1, 2019, using the modified retrospective approach, and the comparison figures for 2018 have not been adjusted.

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

EUR thousand	Jan 1– Mar 31, 2019	Apr 1– Jun 30, 2019	Jul 1– Sep 30, 2019	Oct 1– Dec 31, 2019	Jan 1– Mar 31, 2018	Apr 1– Jun 30, 2018	Jul 1– Sep 30, 2018	Oct 1– Dec 31, 2018
<b>Net sales</b>	<b>16,148</b>	<b>16,651</b>	<b>13,968</b>		<b>16,470</b>	<b>17,010</b>	<b>13,773</b>	<b>15,890</b>
Other operating income	10	33	-13		9	17	20	159
Materials (–)	-1,478	-1,499	-1,376		-1,807	-1,974	-1,691	-1,341
Employee benefits/expenses (–)	-11,597	-11,634	-9,194		-12,125	-12,552	-9,818	-11,937
Depreciation (–)	-959	-975	-1,283		-704	-666	-683	-789
Other operating expenses (–)	-2,213	-2,424	-1,850		-2,207	-2,464	-2,787	-3,676
<b>Operating profit/loss</b>	<b>-90</b>	<b>153</b>	<b>252</b>		<b>-364</b>	<b>-629</b>	<b>-1,186</b>	<b>-1,693</b>
Financial income	4	5	5		4	10	15	923
Financial expenses (–)	-111	-262	-215		-117	-163	-52	-560
<b>Profit/loss before taxes</b>	<b>-197</b>	<b>-104</b>	<b>42</b>		<b>-477</b>	<b>-782</b>	<b>-1,223</b>	<b>-1,329</b>
Income taxes	109	106	90		95	157	243	129
<b>Profit/loss for the financial period</b>	<b>-88</b>	<b>2</b>	<b>132</b>		<b>-382</b>	<b>-625</b>	<b>-980</b>	<b>-1,200</b>
EBITDA	868	1,127	1,535		340	36	-503	-902

**Commitments and contingent liabilities**

EUR thousand	Sep 30, 2019	Sep 30, 2018	Dec 31, 2018
<b>Collateral given for own commitments</b>			
Lease collateral	228	184	183
Mortgages on company assets*	16,942	16,968	16,972
Bank guarantees	303	303	303
<b>Other own liabilities</b>			
Lease liabilities			
Current lease liabilities	147	313	172
Lease liabilities maturing in 1-5 years	16	189	94
<b>Total</b>	<b>163</b>	<b>503</b>	<b>266</b>
<b>Lease liabilities**</b>			
Current lease liabilities	88	1,973	2,007
Lease liabilities maturing in 1-5 years	0	4,821	4,639
<b>Total</b>	<b>88</b>	<b>6,794</b>	<b>6,646</b>
<b>Other own liabilities total</b>	<b>251</b>	<b>7,297</b>	<b>6,912</b>

**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, 2019, was as follows.

<b>Name</b>	<b>Number of shares</b>	<b>% of share capital</b>
1. Ensio Sami	7 880 237	21,08 %
<i>Ensio Sami</i>	5 706 477	15,26 %
<i>Minor under guardianship</i>	724 588	1,94 %
<i>Minor under guardianship</i>	724 586	1,94 %
<i>Minor under guardianship</i>	724 586	1,94 %
2. Ilmarinen Mutual Pension Insurance Company	1 800 000	4,81 %
3. Hallikainen Jyrki	1 471 009	3,93 %
4. Tilman Tuomo Tapani	1 265 437	3,38 %
5. Laiho Rami Tapani	1 265 159	3,38 %
6. Linturi Kaija ja Risto	1 256 411	3,36 %
<i>R. Linturi Oyj</i>	489 107	1,31 %
<i>Linturi Kaija Anneli</i>	430 000	1,15 %
<i>Linturi Risto Erkki Olavi</i>	337 304	0,90 %
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. Kukkonen Heikki-Harri	301 931	0,81 %
14. Rausanne Oy	272 545	0,73 %
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. Heino Petri Juhani	165 000	0,44 %
19. Mäkinen Antti Vilho Juhani	164 000	0,44 %
20. Anttila Mikko Matias	153 858	0,41 %

**Formulas for calculating the key figures**

**Operating margin (EBITDA):**

Operating profit/loss - Depreciations

**Order backlog:**

Received license and project orders - realized net sales related to the order + net sales from recurring agreements for the next 12 months (does not include expected purchase activity not based on agreement, so called Run Rate)

**Net sales / employee:**

Net sales

Active personnel on average during the review period

**Percentage of return on equity:**

Profit/loss for the financial period

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