

Innofactor Plc Interim Report April 23, 2014, at 8:30 Finnish time

Innofactor Plc's Interim Report for January 1–March 31, 2014 (IFRS)

Summary

	mo. 1–3/ 2014	mo. 1–3/ 2013	Change	mo. 1–12/ 2013
Net sales, EUR thousand	10,718	5,541	+93.4%	32,685
Growth of net sales	+93.4%	+39.5%		+73.7%
Operating margin (EBITDA), EUR thousand	713	584	+22.1%	3,284
percentage of net sales	6.7%	10.5%		10.0%
Operating profit/loss (EBIT), EUR thousand	373	424	-12.0%	2,255
percentage of net sales	3.5%	7.7%		6.9%
Earnings before taxes, EUR thousand*	570	412	+38.3%	1,863
percentage of net sales*	5.3%	7.4%		5.7%
Earnings, EUR thousand*	456	310	+47.1%	1,407
percentage of net sales*	4.3%	5.6%		4.3%
Net gearing	45.7%	-10.0%		55.9%
Equity ratio	49.0%	69.4%		43.1%
Personnel on average during the review period	413	198	+108.6%	307
Earnings per share (EUR)	0.0142	0.0104	+36.7%	0.0432

* The first quarter of 2014 included financial income of EUR 325 thousand for the additional purchase price related to the acquisition.

Innofactor's net sales in 2014 are expected to be about EUR 43–48 million (2013: EUR 32.7 million). The operating margin (EBITDA) in 2014 is expected to be about EUR 4–6 million (2013: EUR 3.3 million).

The figures in this interim report have not been audited.

Reporting

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

CEO Sami Ensio's review

In the first quarter of 2014, Innofactor continued profitable growth in accordance with its strategy. The growth of net sales was 93.4 percent (net sales EUR 10.7 million) and operating margin (EBITDA) was EUR 0.7 million (6.7 percent of the net sales). This proves that on the first quarter of 2014, Innofactor has been able to realize its selected growth strategy persistently and successfully.

At the end of January 2014, Innofactor completed, as planned, the integration project related to the acquisition of atBusiness Oy. At the beginning of 2014, Innofactor implemented a common Enterprise Resource Planning system for its Finnish operations. The entire personnel in Espoo moved to the common premises right at the beginning of the quarter and the personnel of the last separate offices in Tampere, related to the acquisition of Dynamic Team, by the end of the quarter.

In Denmark, the integration of Enabling Group has progressed well. The Copenhagen offices were combined during January 2014 and the main parts of the integration project were implemented by the end of the quarter as planned.

Due to the acquisitions and centralizing of operations, we think that Innofactor has good prerequisites to continue growing its operations profitably in 2014. Innofactor's strategy supports well the change in the markets and we believe that we can also benefit from any future growth in the IT market.

Innofactor is still actively looking for new strategic partnerships in the Nordic Countries. The group will seek growth, which can be organic or based on mergers or acquisitions.

Market outlook and business environment

Due to long-standing uncertainties in the economic situation, it is challenging to make a reliable estimate on the development of the IT market in the near future. According to research companies monitoring the IT market, the IT service markets grew globally about 2–3 percent in 2013 and the growth is expected to increase to about 4–5 percent in 2014. The growth in business software market was estimated to be about 5 percent globally in 2013 and it is estimated to grow about 6–7 percent in 2014.

The IT market is changing. Four global mega trends can be observed. First, using information technology and information systems is increasingly transferring into a cloud. The cloud will connect people, data, services and hardware into one global whole. The benefits of the cloud are cost-efficiency and flexibility. It is estimated that 70 percent of companies either already use cloud solutions or are planning to start using them. In the future, customers increasingly want to buy flexible services fitting their needs at the time, not so much large one-off delivery projects.

Second, the growth in the importance of social media that started with consumers is transferring to companies. Information systems are more and more expected to enable flexible communications between people and different systems, between employees, customers and partners. Approximately 57 percent of major companies are planning to invest in social media solutions in 2014.

Third, mobile devices and convergence of devices change how people behave at work and in their leisure time. People want their preferred common and personal services and same usability regardless of time, place and device used. IT is also consumerizing. Increasingly larger part of IT purchases in companies are made on the conditions of individuals, that is, consumer markets. It is estimated that the number of mobile workforce will increase to 1.3 billion by 2015, which is approximately 37 percent of the entire global workforce.

Fourth, the cloud, social media and mobile devices are estimated to increase the amount of data saved globally by about 30–50 percent every year. Analyzing this so-called Big Data will offer plenty of possibilities for developing the operations of companies and the public sector and also new business models.

Innofactor believes that Microsoft—and thus, companies operating in the Microsoft environment—will have a strong position on the changing IT market. Microsoft has the leading position in consumer and business software, competitive offering and strong proof of very rapid growth in cloud solutions. Additionally, the acquisition of the Nokia mobile phone business will give Microsoft a strong position in device markets. To maintain its leading position, Microsoft invests in product development significantly more than its competitors. In the calendar year 2013, Microsoft's investments in product development were about USD 11 billion, whereas the corresponding investments by Google were about USD 8 billion, IBM about USD 6 billion, and Apple about USD 5 billion

Innofactor believes that this development will create markets with long term growth for companies like Innofactor that are strongly committed to Microsoft.

As concerns Microsoft-based solutions, competition in the Nordic Countries is divided between different kinds of parties. The first group is formed by large companies that operate in all of the Nordic Countries. Typically, these companies offer a wide range of IT solutions for companies and organizations, using several competing technologies of which Microsoft technology is one option.

The second group is formed by companies that focus on a narrower solution area in the Nordic level. These companies also offer IT solutions for companies and organizations using several competing technologies of which Microsoft technology is typically one option.

The third group is formed by companies operating in just one country. These small or medium-sized companies often focus on one solution area, client and/or field. For example, in the association and parish sector, there are national software providers specialized in these fields.

There are also specialized providers for these fields for the selected solutions, such as network services, case management and customer relationship management systems.

Innofactor has made a strategic choice by focusing on solutions implemented with and utilizing the Microsoft platforms and by selecting as its solution areas the ones in which Microsoft's growth, and thus its partners' and ecosystem's growth, has exceeded the general average growth of IT service and software markets many times over. Innofactor is primarily focused on large and medium-sized companies and government organizations, which have high standards in their IT solution acquisitions.

Innofactor's competitive edge is based on a strategy, which differs from its competitors' strategies and which focuses on providing a wide range of Microsoft-based solutions for companies and organizations and also utilizing its own software and products. Innofactor has a leading position in and understanding of the Microsoft ecosystem in the Nordic Countries. Innofactor has one of the largest solution, product and service offerings based on Microsoft platforms in Europe. Profound understanding and good reputation in several customer verticals in the private, public and third sectors makes it possible to develop business operations so that they will serve the customers even better. Innofactor considers itself able to provide solutions that are competitive when compared to its competitors.

Microsoft's partner network in the Nordic Countries, and also elsewhere in Europe, is quite fragmented and mainly consists of a large number of small and medium-sized local providers typically focused on one solution area. For Innofactor, this provides interesting potential for consolidation and globalization. Innofactor's good reputation, unique proofs of rapid and profitable growth and successful acquisitions together with business culture with entrepreneurial spirit make it a very attractive partner when making reorganizations in the field in the Nordic Countries.

Net sales

Innofactor's net sales on January 1–March 31, 2014, were EUR 10,718 thousand (2013: 5,541), which shows an increase of 93.4 percent.

Financial performance

Innofactor's operating margin (EBITDA) on January 1–March 31, 2014, was EUR 713 thousand (2013: 584), which shows an increase of 22.1 percent. EBITDA accounted for 6.7 percent of the net sales (2013: 10.5%). Innofactor's operating profit on January 1–March 31, 2014, was EUR 373 thousand (2013: 424), which shows a decrease of 12.0 percent. Operating profit accounted for 3.5 percent of the net sales (2013: 7.7%).

Financing and investments

Innofactor's balance sheet total at the end of the review period was EUR 46,667 thousand (2013: 22,351). The group's liquid assets totaled EUR 660 thousand (2013: 2,533), consisting totally of cash funds.

The operating cash flow in the review period of January 1–March 31, 2014, was EUR 1,299 thousand (2013: 2,286). The investment cash flow was EUR -218 thousand (2013: -71).

The equity ratio at the end of the review period was 49.0 percent (2013: 69.4%) and net gearing was 45.7 percent (2013: -10.0%).

At the end of the review period, the company had EUR 838 thousand in current interest bearing liabilities (2013: 250) and EUR 9,705 thousand in non-current interest bearing liabilities (2013: 888).

The return on investment on January 1–March 31, 2014, was 8.8 percent (2013: 11.3%).

The return on equity on January 1–March 31, 2014, was 8.8 percent (2013: 8.9%).

The non-current assets in Innofactor's balance sheet at the end of the review period were EUR 31,853 thousand in total and consisted of the following items:

- Tangible assets EUR 883 thousand
- Goodwill EUR 19,544 thousand
- Other intangible assets EUR 3,890 thousand
- Deferred tax assets EUR 7,536 thousand

Innofactor's gross investments in tangible assets in the review period of January 1–March 31, 2014, were EUR 184 thousand (2013: 71), consisting of normal additional and replacement investments required by growth.

According to the impairment tests carried out, there are no impairments. The write-offs on intangible assets were EUR 151 thousand (2013: 84).

Research and product development

Innofactor's research and development costs recognized in profit or loss for January 1–March 31, 2014, were EUR 568 thousand (2013: 512), which accounts for 5.3 percent of the net sales (2013: 9.2%).

Personnel

The average number of personnel at Innofactor during January 1–March 31, 2014, was 413 (2013: 198), an increase of 108.6 percent.

At the end of the review period, the number of personnel was 419 (2013: 204), which shows an increase of 105.4 percent.

At the end of the review period, the average age among personnel was 38.5 years (2013: 35.8). Of the personnel, 39.6 percent (2013: 43.0%) had a Master's Degree, 28.6 percent (2013: 33.3%) had a Bachelor's Degree or were studying for a Master's Degree, and 31.8 percent (2013: 23.7%) had some other degree. Women accounted for 23 percent of the personnel and men for 77 percent (2013: 22% and 78%).

Business operations

Innofactor's business operations were focused on Finland and Denmark. On January 1–March 31, 2014, about 81 percent of the net sales came from Finland and about 19 percent from Denmark.

Of the net sales on January 1–March 31, 2014, about 51% came from commercial clients and about 49% from government and third sector clients.

Innofactor's net sales in the review period of January 1–March 31, 2014, came from the following sources:

- about 69% from system integrator services (including system delivery projects, consulting, and smaller changes and further development);
- about 7% from licenses, of which the share of licensing income to third parties was about 2%;
- about 24% from recurring service contracts (incl. maintenance agreements, SaaS, cloud and hosting services).

Innofactor's 10 largest clients accounted for about 22 percent of the net sales during the review period January 1–March 31, 2014.

Other events in the review period

On January 9, 2014, Innofactor announced in a stock exchange release that the new Innofactor Plc shares had been registered in the Trade Register. After the registrations, the total number of Innofactor Plc shares is 32,153,737.

On January 24, 2014, Innofactor announced in a stock exchange release that Innofactor Plc's CFO Mikko Karvinen had resigned from the company at his own request on January 23, 2014. Karvinen will continue in his role until April 30, 2014.

On March 7, 2014, Innofactor announced in a stock exchange release that Innofactor's Board of Directors had appointed Tiina Pulli as the new Chief Financial Officer (CFO) at Innofactor Plc as of May 1, 2014. Pulli will join the company already earlier to familiarize herself with Innofactor's operations. Tiina Pulli will be a member of Innofactor's Executive Board and will report to Sami Ensio, the CEO of Innofactor Plc.

On March 20, 2014, the Annual General Meeting of Innofactor Plc resolved to adopt the accounts and the group's financial statement for the financial period that ended on December 31, 2013, and granted the members of the Board of Directors and the Chief Executive Officer discharge from liability for the financial period that ended on December 31, 2013.

The General Meeting decided, in accordance with the proposal of the Board of Directors, that no dividend will be paid for the financial period January 1–December 31, 2013.

The General Meeting decided that the Chairman of the Board of Directors shall be paid a fee totaling EUR 36,000 per year and the other members of the Board of Directors shall be paid a fee totaling EUR 24,000 per year. No separate fees for meetings shall be paid. Half of the fee (50%) shall be paid monthly in cash and the other half (50%) as shares of Innofactor Plc. The shares shall be handed over to the members of the Board of Directors and, if necessary, shall be acquired from public trading directly on behalf of the members within two weeks of publishing the interim report of Innofactor Plc for January 1–March 31, 2014. Innofactor Plc requires the members of the Board of Directors to keep the shares, which they have received as part of the fees, for the duration of their membership in the Board of Directors.

The General Meeting decided that the number of Board members is six. Of the current members of the Board of Directors, Sami Ensio, Jukka Mäkinen, Pyry Lautsuo and Ilari Nurmi were re-elected. Tiia Tuovinen and J.T. Bergqvist were elected as new members. At their organizing meeting held immediately after the General Meeting, the Board of Directors elected Pyry Lautsuo as the Chairman of the Board.

Ernst & Young Oy, an auditing firm authorized by the Central Chamber of Commerce, was elected as the auditor for the company. Ernst & Young Oy has stated that it will appoint Juha Hilmola, Authorized Public Accountant, as the auditor with principal responsibility. It was decided that the auditing fee shall be paid according to a reasonable invoice.

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 32,153,737. Innofactor Plc has one series of shares. Each share is entitled to one vote.

On January 1–March 31, 2014, the highest price of the company share was EUR 1.59 (2013: EUR 0.56), the lowest price was EUR 1.17 (2013: EUR 0.48), and the average* price was EUR 1.39 (2013: EUR 0.52).

The closing price for the review period on March 31, 2014, was EUR 1.35 (2013: EUR 0.51).

*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 January 1–March 31, 2014, a total of 3,242,512 shares were traded (2013: 783,198 shares), which corresponds to 10.1 percent (2013: 2.6%) of the average number of shares on the said period. On January 1–March 31, 2014, there were 32,043,098 shares on the average (2013: 29,809,371*). The share trade increased by 314.0 percent compared to the corresponding period in 2013.

* 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 1.35, on March 31, 2014, was EUR 43,408 thousand (2013: 15,164), which shows an increase of 186.3 percent.

On March 31, 2014, the company had 11,932 shareowners (2013: 11,686), including administrative registers.

The Board of Directors has the following authorizations:

- Until June 30, 2015, 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 in the General Meeting of September 17, 2013); based on which 1,015,372 new shares were issued on September 17, 2013, and 1,244,685 new shares were issued on December 31, 2013, leaving the number of shares remaining in the authorization at 12,739,943.
- Until June 30, 2015, to decide on a transfer of a maximum of 1,000,000 treasury shares (decided by the General Meeting of September 17, 2013); the authorization has not been used.

Innofactor Plc issued no flagging announcements during the review period.

Share owning by the Board of Directors:

- Pyyry Lautsuo, 80,094 shares, 0.25%
- J.T. Bergqvist, 300,000 shares, 0.93%
- Sami Ensio, 7,422,087 shares, 23.08%
 - Sami Ensio, 5,248,327 shares, 16.32%
 - minor under guardianship, 724 588 shares, 2.25%
 - minor under guardianship, 724 586 shares, 2.25%
 - minor under guardianship, 724 586 shares, 2.25%
- Jukka Mäkinen, 50,270 shares, 0.16%
- Ilari Nurmi, 30,107 shares, 0.09%
- Tiia Tuovinen, 0 shares, 0.00%

Share owning by the CEO:

- Sami Ensio, 7,422,087 shares, 23.08%
 - Sami Ensio, 5,248,327 shares, 16.32%
 - minor under guardianship, 724 588 shares, 2.25%
 - minor under guardianship, 724 586 shares, 2.25%
 - minor under guardianship, 724 586 shares, 2.25%

Share owning by other members of the Executive Board:

- Christian Andersen, 203,157 shares, 0.63%
 - CHRA Holding ApS, 203,157 shares, 0.63%
- Heikki Jekunen, 0 shares, 0.0%
- Elina Jokinen 0 shares, 0.0%
- Mikko Karvinen, 100,000 shares, 0.31%
- Mikko Lampi, 1,045,543 shares, 3.25%
- Janne Martola, 100,000 shares, 0.31%
- Ingrid Peura, 0 shares, 0.0%
- Juha Rokkanen, 103,873 shares, 0.32%

Share owning by auditors:

- Juha Hilmola, 0 shares, 0.0%

Treasury shares

The General Meeting of September 17, 2013, authorized the Board of Directors to decide on acquiring of a maximum of 8,000,000 treasury 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). Shares will be acquired from the sellers of

atBusiness according to the terms of the contract signed on June 6, 2013, concerning the acquisition of the atBusiness shares, and at the price agreed on in the contract, and/or on Nasdaq OMX Helsinki Ltd with the public trading on the market. The number of treasury shares at a time may be, at the maximum, one tenth of the total number of shares in the company. The shares may be used to develop the capital structure, to widen the ownership base, in making a payment for an acquisition, or when the company buys property related to its business operations or as part of the incentive compensation plan, or to be otherwise invalidated or conveyed. 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 March 17, 2015. On the basis of the authorization, Innofactor Plc acquired treasury shares during the review period as follows: on December 23, 2013, and December 27, 2013, a total of 4,681,499 shares. After this, the authorization is valid for 3,318,501 shares.

Innofactor Plc canceled these treasury shares during the financial period of 2013 and had no treasury shares on March 31, 2014.

Management of the company

Innofactor Plc complies with the recommendations of the Corporate Governance Code 2010 for Finnish listed companies, published by the Securities Market Association.

At the General Meeting on March 20, 2014, the number of the members of the Board of Directors was confirmed to be six. The General Meeting decided to accept the proposal of re-electing current Board members Sami Ensio, Jukka Mäkinen, Pyry Lautsuo and Ilari Nurmi and to elect Tiia Tuovinen and J.T. Bergqvist as new Board members. At their organizing meeting held immediately after the General Meeting, the Board of Directors elected Pyry Lautsuo as the Chairman of the Board.

The General Meeting approved the proposal to re-appoint Ernst & Young Oy, an auditing firm authorized by the Central Chamber of Commerce, as the auditor for the company, with Juha Hilmola, APA, as the main responsible auditor.

Innofactor has drawn up a separate Corporate Governance Statement for the financial period of 2013.

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

Major risks and uncertainties

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

Risks related to operations

Risks of operating in developing countries have increased due to Russia's activities in Ukraine. Innofactor's office in St. Petersburg employs about 10 people, who work there for the Finnish operations. Innofactor actively monitors the development of the situation in Russia. The possible actions will not have a significant effect on Innofactor's net sales or result.

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

Financial risks

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

Risks related to shares

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

Acquisitions and changes in the group structure

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

Corporate responsibility

Innofactor's operations are guided by the company's strategy, values, corporate governance, quality system, personnel policy, general principles of corporate responsibility, environmental policy, and legislation.

The group is committed to operating profitably and increasing its net sales while taking into account the societal effects.

Innofactor takes care of the well-being of its personnel by maintaining a stable, safe and communicative atmosphere and by building a reliable development path into the future. Innofactor invests in developing its personnel through training, learning while working and work rotation.

In its operations, Innofactor adheres to the principles of sustainable development and the environmental guidelines of the Federation of Finnish Technology Industries. Through the solutions it has developed, the group has helped its customers to reach their environmental goals and contributed to the sustainable development of the society. Innofactor delivers electronic solutions and web services that decrease the environmental effects of its customers' operations.

Innofactor strives to establish long-term cooperation with its clients and partners and thereby create networks in which complementary expertise produces innovative solutions.

Strategy

Innofactor strengthens its customers' competitiveness by providing outstanding IT solutions, products and services. Innofactor focuses on Microsoft-based solutions and Microsoft's ecosystem. Innofactor's clients comprise of private and public sector organizations. Innofactor currently operates in Finland, Denmark, Sweden and Russia. Innofactor's strategy is to actively expand its operations in the Nordic Countries, which may happen either organically or through acquisitions.

Innofactor's Mission: We strengthen our customers' competitiveness with outstanding IT solutions, products and services.

Innofactor's Vision: We are the number one Microsoft-based solution provider in the Nordic Countries.

Innofactor's strategy is to build competitive advantage as the leading provider focused on Microsoft-based solutions and Microsoft's ecosystem. The most important strategic choices related to this objective are the following:

- private and public sector customers
- comprehensive IT solution offering
- state-of-the-art products and services
- high-level customer service
- long-term customer partnerships
- fast and profitable growth

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

- by achieving over 10 percent operating margin (EBITDA) every year in 2014–2017
- by achieving an average annual growth of 25–35 percent in 2014–2017 through organic growth as well as acquisitions
- by keeping the cash flow positive and by securing solid financial standing in all situations

Implementation of the strategy during the review period

The growth of Innofactor's net sales during the review period, 93.4 percent, exceeded the annual growth of 30–40 percent stated in the previous strategy and also the annual growth of 25–35 percent stated in the new strategy. Innofactor's operating margin (EBITDA) in relation to net sales was 6.7 percent. According to the strategy, the annual EBITDA must be over 10 percent. However, in the previous years, Innofactor has typically been able to gain better profitability in the second half of the year than in the first. Innofactor's cash flow in the review period was slightly negative, mainly due to advance payment of installments for 2014 (the cash flow from operating activities was EUR 1.3 million positive) and the financial standing was secure (Net Gearing 45.7 percent).

Innofactor did not make any acquisitions during the review period.

Events after the review period

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

Future outlook

Innofactor's net sales in 2014 are expected to be about EUR 43–48 million (2013: EUR 32.7 million). The operating margin (EBITDA) in 2014 is expected to be about EUR 4–6 million (2013: EUR 3.3 million).

Espoo, April 23, 2014

INNOFACTOR PLC

Board of Directors

Additional information:

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Briefings concerning the Interim Report January 1–March 31, 2014

On April 23, 2014, at 9:00 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 and CFO Mikko Karvinen. The presentations of the briefing will be available on Innofactor's web site after the briefing.

We ask you to register for the briefing beforehand either by sending email to ir@innofactor.com or by phoning to +358 50 307 0026 (Ingrid Peura).

Innofactor will also hold a conference call in English for analysts, media and investors on April 23, 2014, at 16:00 Finnish time. Registrations to ir@innofactor.com at least one hour before the event.

Financial releases in 2014

The schedule for financial releases in 2014 is as follows:

July 8–July 21, 2014: Silent period

July 22, 2014: Interim report January–June

October 7–October 20, 2014: Silent period

October 21, 2014: Interim report January–September

Distribution:
NASDAQ OMX Helsinki
Main media
www.innofactor.com

Financial statement summary and appendixes January 1–March 31, 2014 (IFRS)

Drafting principles

This Interim Report has been drafted in accordance with the IAS 34 Interim financial reporting standard. The financial statement adheres to the same drafting principles and calculation methods as the last annual financial statement. The principles for calculating the key figures and the calculation formulas have not been changed and they have been presented in the financial report 2013. The figures include the acquired Enabling Group in the balance sheet as of December 31, 2013, and in other calculations as of January 1, 2014.

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 the interim report have not been audited.

Consolidated Profit and Loss Statement, IFRS

EUR thousand	Jan 1–Mar 31, 2014	Jan 1–Mar 31, 2013	Jan 1–Dec 31, 2013
Net sales	10,718	5,541	32,685
Other operating income	140	12	321
Materials (–)	-1,023	-359	-2,542
Employee benefits/expenses (–)	-7,862	-3,853	-22,576
Depreciation (–)	-340	-160	-1,029
Other operating expenses (–)	-1,260	-757	-4,604
Operating profit/loss	373	424	2,255
Financial income	325	2	769
Financial expenses (–)	-128	-14	-1,161
Profit/loss before taxes	570	412	1,863
Income taxes	-114	-102	-456
Profit/loss for the financial period	456	310	1,407
Items that may be later transferred into profit or loss:			
Exchange differences	-2	0	-3
Total comprehensive income	454	310	1,404

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

Basic earnings per share (EUR)	0.0142	0.0104	0.0432
Diluted earnings per share (EUR)	*	*	*

* The dilution effect has not been calculated, because the remaining Innofactor SW Oy warrant programs have no financial value after the business operations of the company have been sold.

Consolidated Balance Sheet, IFRS
ASSETS

EUR thousand	Mar 31, 2014	Mar 31, 2013	Dec 31, 2013
Non-current assets			
Tangible assets	883	442	868
Goodwill	19,544	2,834	19,335
Other intangible assets	3,890	1,614	3,916
Deferred tax assets	7,536	7,691	7,604
Non-current assets	31,853	12,581	31,723
Current assets			
Trade and other receivables	14,154	7,237	13,957
Cash and cash equivalents	660	2,533	991
Current assets	14,814	9,770	14,948
TOTAL ASSETS	46,667	22,351	46,671

**SHAREHOLDERS' EQUITY AND
LIABILITIES**

EUR thousand	Mar 31, 2014	Mar 31, 2013	Dec 31, 2013
Shareholders' equity			
Share capital	2,100	2,100	2,100
Share premium reserve	72	72	72
Other reserves (+/-)	59	59	59
Fund for invested unrestricted equity	14,995	8,834	13,427
Fund for other shareholders' equity	3,200	0	3,200
Treasury shares	0	-211	0
Retained earnings	1,222	3,133	767
Total shareholders' equity	21,648	13,987	19,626
Non-current liabilities			
Loans from financial institutions	9,705	888	10,035
Deferred tax liabilities	920	503	887
Long term liabilities total	10,625	1,391	10,922
Current liabilities			
Loans from financial institutions	838	250	1,920
Trade and other payables	13,556	6,723	14,203
Current liabilities total	14,394	6,973	16,123
Total liabilities	25,019	8,364	27,045
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	46,667	22,351	46,671

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, 2014	2,100	72	59	13,427	0	767	3,200	19,626
Comprehensive income								
Profit for the financial period						456		456
Other comprehensive income:								
Exchange differences						-2		-2
Total comprehensive income	0	0	0	0	0	454		454
Share issue				1,568				1,568
Purchase of treasury shares								0
Cancellation of treasury shares								0
Transactions with shareholders in total	0	0	0	1,568	0	0	0	1,568
Issuing a hybrid bond								0
Shareholders' equity Mar 31, 2014	2,100	72	59	14,995	0	1,221	3,200	21,648

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Treasury shares	Retained earnings	Issuing a hybrid bond	Total shareholders' equity
Shareholders' equity Jan 1, 2013	2,100	72	59	8,834	-129	2,824	0	13,760
Comprehensive income								
Profit for the financial period						310		310
Other comprehensive income:								
Exchange differences						-1		-1
Total comprehensive income	0	0	0	0	0	309	0	309
Share issue								
Purchase of treasury shares					-82			-82
Cancellation of treasury shares								0
Transactions with shareholders in total					-82			-82
Issuing a hybrid bond								0
Shareholders' equity Mar 31, 2013	2,100	72	59	8,834	-211	3,133	0	13,987

Consolidated Cash Flow Statement, IFRS

EUR thousand	Jan 1– Mar 31, 2014	Jan 1– Mar 31, 2013	Jan 1– Dec 31, 2013
Cash flow from operating activities			
Operating profit	373	424	2,255
Adjustments:			
Depreciation	340	160	1,029
Non-cash transactions	325	0	-278
Changes in working capital:			
Change in trade or other receivables (+/-)	-129	1,608	-1,495
Change in trade and other payables (+/-)	519	106	529
Interests paid (-)	-128	-14	-681
Interests received	0	2	10
Total cash flow from operating activities	1,299	2,286	1,369
Investment cash flow			
Acquisition of subsidiaries	0	0	-2,450
Investments in intangible and tangible assets (-)	-218	-71	-365
Total cash flow from investments	-218	-71	-2,815
Cash flow from financing			
Payments received from share issue	0	0	0
Loans withdrawn	328	0	4,554
Issuing a hybrid bond	0	0	3,200
Loans paid	-1,740	-256	-2,642
Purchase of treasury shares (-)	0	-82	-3,331
Total cash flow from financing	-1,412	-338	1,781
Change in cash and cash equivalents (+/-)	-331	1,877	335
Cash and cash equivalents, opening balance	991	656	656
Cash and cash equivalents, closing balance	660	2,533	991

Consolidated Profit and Loss Statement by Quarter, IFRS

EUR thousand	Jan 1– Mar 31, 2014	Apr 1– Jun 30, 2014	Jul 1–Sep 30, 2014	Oct 1– Dec 31, 2014	Jan 1– Mar 31, 2013	Apr 1– Jun 30, 2013	Jul 1–Sep 30, 2013	Oct 1–Dec 31, 2013
Net sales	10,718				5,541	7,737	8,317	11,090
Other operating income	140				12	55	28	226
Materials (–)	-1,023				-359	-670	-628	-885
Employee benefits/expenses (–)	-7,862				-3,853	-5,102	-6,015	-7,606
Depreciation (–)	-340				-160	-223	-311	-335
Other operating expenses (–)	-1,260				-757	-1,355	-988	-1,504
Operating profit/loss	373				424	442	403	986
Financial income	325				2	3	2	762
Financial expenses (–)	-128				-14	-289	-135	-723
Profit/loss before taxes	570				412	156	270	1,025
Income taxes	-114				-102	-39	-66	-249
Profit/loss for the financial period	456				310	117	204	776

Commitments and contingent liabilities

EUR thousand	Mar 31, 2014	Mar 31, 2013	Dec 31, 2013
Collateral given for own commitments			
Collateral for rent	488	205	490
Mortgages on company assets*	16,250	2,250	16,250
Bank guarantees	283	18	283
Other own guarantees			
Lease liabilities			
Current lease liabilities	393	95	393
Lease liabilities maturing in 1-5 years	229	28	313
Total	622	123	706
Rental liabilities			
Current rental liabilities	1,457	640	1,608
Rental liabilities maturing in 1-5 years	4,450	213	4,702
Total	5,907	853	6,310
Other own guarantees total	6,529	976	7,016

*Of the mortgages on company assets, EUR 1,250 thousand was in the company's possession on March 31, 2014.

The accrued interest on the hybrid bond was EUR 84 thousand on March 31, 2014.

Key Figures of the Group, IFRS

	mo. 1–3/ 2014	mo. 1–3/ 2013	Change	mo. 1–12/ 2013
Net sales, EUR thousand	10,718	5,541	+93.4%	32,685
Growth of net sales	+93.4%	+39.5%		+73.7%
Operating margin (EBITDA), EUR thousand	713	584	+22.1%	3,284
percentage of net sales	6.7%	10.5%		10.0%
Operating profit/loss (EBIT), EUR thousand	373	424	-12.0%	2,255
percentage of net sales	3.5%	7.7%		6.9%
Earnings before taxes, EUR thousand*	570	412	+38.3%	1,863
percentage of net sales*	5.3%	7.4%		5.7%
Earnings, EUR thousand*	456	310	+47.1%	1,407
percentage of net sales*	4.3%	5.6%		4.3%
Shareholders' equity, EUR thousand	21,648	13,987	+54.8%	19,626
Interest bearing liabilities, EUR thousand	10,543	1,138	+826.4%	11,955
Cash and cash equivalents, EUR thousand	660	2,533	-73.9%	991
Deferred tax assets, EUR thousand	7,536	7,691	-2.0%	7,604
Return on equity**	8.8%	8.9%		8.4%
Return on investment**	8.8%	11.3%		12.9%
Net gearing	45.7%	-10.0%		55.9%
Equity ratio	49.0%	69.4%		43.1%
Balance sheet total, EUR thousand	46,667	22,351	+110.5%	46,671
Research and development, EUR thousand	568	512	+10.9%	2,067
percentage of net sales	5.3%	9.2%		6.3%
Personnel on average during the review period	413	198	+108.6%	307
Personnel at the end of the review period	419	204	+105.4%	416
Number of shares at the end of the review period	32,153,737	30,165,900	+6.6%	30,909,052
Earnings per share (EUR)	0.0142	0.0104	+36.7%	0.0432
Shareholders' equity per share (EUR)	0.673	0.470	+43.1%	0.635

* The first quarter of 2014 included financial income of EUR 325 thousand for the additional purchase price related to the acquisition.

** The percentages for the return on equity and return on investment have been adjusted to correspond with the figures for a 12-month period.

The preliminary acquisition cost calculation for Enabling ApS (current Innofactor Business Solutions ApS)

On December 13, 2013, Innofactor Plc signed an agreement on acquiring the entire share capital of Enabling Holding ApS and its subsidiaries Enabling ApS and Enabling Sweden AB (collectively Enabling Group) from the company's management. According to the agreement published by the company on December 13, 2013, the purchase price will be defined based on Enabling Group's realized EBITDA in 2014. The minimum purchase price is about EUR 1.6 million and the maximum about EUR 4.0 million. The purchase price will be paid mainly in Innofactor Plc shares and a minority in cash. The name of Enabling ApS has been changed to Innofactor Business Solutions ApS.

The closing of the deal took place on December 31, 2013, and the figures for Innofactor Business Solutions ApS have been consolidated in the Innofactor Group's balance sheet on that same date. As the value of the Innofactor shares used for paying the first part of the purchase price, the closing price of the share on December 30, 2013, EUR 1.26, was used.

The rest of the purchase price is intended to be paid with Innofactor shares during the first half of 2015. All Innofactor shares used as payment in this transaction are subject to transfer restrictions, which will be gradually released during 2014–2017.

The acquisition cost according to IFRS is the estimated purchase price of the shares, which in the preliminary acquisition cost calculation is EUR 3,134 thousand, and has been presented in more detail in the following calculation. The acquisition cost calculation is preliminary.

Values registered for consolidation (EUR thousand)	
Tangible assets	28
Intangible assets	220
Trade and other receivables	638
Cash and cash equivalents	127
Total assets	1,014
Financial liabilities at market value	422
Other payables	490 (includes a deferred tax liability of 44)
Total liabilities	912
Net assets	102 (total assets - total debts)
Acquisition cost	3,134 (cash 40, new shares 1,569, conditional compensation 1,526)
Goodwill	3,032 (acquisition cost - net assets)
Purchase price paid in cash	40
Cash funds of the acquired subsidiary	127
Cash flow effect	+87

The value of the customer contracts and the related customer relationships included in the intangible assets (EUR 220 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 acquisition created goodwill of EUR 3,032 thousand. The goodwill is based on the expected synergy benefits arising from the acquisition of Innofactor Business Solutions ApS and on making

use of the common sales and marketing network in the group and expanding customer relationships.

The preliminary acquisition cost calculation for atBusiness Oy (current Innofactor Business Solutions)

On June 6, 2013, Innofactor acquired the entire share capital (the part giving 100% full control) and all capital loans of atBusiness Oy. The purchase price in total is about EUR 6.3-7.6 million and the Enterprise Value (EV) about EUR 14.4–15.7 million.

Of the purchase price, about EUR 6,257 thousand was paid at the time of closing the deal. The capital loan was paid in total and it was EUR 5,057 thousand (EUR 2,702 thousand in cash and EUR 2,355 thousand in Innofactor shares). The shares were paid for the part of the fixed price, which was EUR 1,200 thousand (EUR 200 thousand in cash and EUR 1,000 thousand in Innofactor shares). The shares were new Innofactor Plc shares and they were issued in accordance with the authorizations granted to the Board of Directors. In both transactions, the subscription price of the shares was the volume weighted average price of the Innofactor share on the period of January 2, 2013–June 5, 2013, which was EUR 0.6739 per share. In order to pay the purchase price, a total of 4,978,279 new shares were issued.

The final purchase price of atBusiness Oy shares will be determined by the realized operating margin (EBITDA) of the Innofactor group for the 12 months following the acquisition (June 1, 2013–May 31, 2014). The minimum purchase price of the shares is the EUR 1,200 thousand already paid and the maximum is EUR 2,500 thousand. Of the rest of the purchase price, EUR 0–1,300 thousand, 45% is intended to be paid in cash and 55% in Innofactor shares. Innofactor estimates that the rest of the purchase price will be about EUR 217 thousand. The subscription price of the shares will be the volume weighted average price of the Innofactor share on April 30–May 30, 2014. The company may also pay these shares in cash, either entirely or in part, if it so chooses.

The figures of Innofactor Business Solutions Oy have been consolidated into the Innofactor Group as of June 1, 2013.

The acquisition cost according to IFRS is EUR 2,500 thousand (the estimated purchase price of the shares) and has been presented in more detail in the following preliminary calculation.

Values registered for consolidation (EUR thousand)

Tangible assets	16
Intangible assets	2,458 (of which technology 310 and customer relationships 2,144)
Deferred tax asset	348
Trade and other receivables	3,054
Cash and cash equivalents	365
Total assets	6,241
Financial liabilities at market value	13,707 (includes a capital loan of 5,057 at cost price)
Other payables	3,538 (includes a deferred tax liability of 601)
Total liabilities	17,245
Net assets	-11,004 (total assets - total debts)
Acquisition cost	2,500 (cash 2,902; instruments equivalent to own capital 3,355; conditional compensation 1,300; capital loan -5,057)
Adjustment of the additional purchase price	1,083
Goodwill	13,504 (acquisition cost - net assets)
Purchase price paid in cash	2,902
Cash funds of the acquired subsidiary	365
Cash flow effect	-2,537

In the acquisition, the value of atBusiness Oy customer relationships and software has been set to EUR 2,454 thousand. These intangible assets are included in the other intangible assets in the group balance sheet.

According to IFRS 3, the purchasing party recognizes, if necessary, some assets and liabilities that the target of the acquisition has not previously recognized as assets and liabilities in its financial

statement. For example, the purchasing party recognizes acquired intangible assets that can be identified individually, such as brand, patent or customer relationship, which the target has not recognized as assets in its financial statement, because it has created them internally and has recognized the related costs as expenses.

In the acquired company, the customer relationships and technology as well as deferred tax assets have been identified as such assets. A separate value definition has defined the market value of the customer relationships and software at the time of acquisition to be EUR 2,454 thousand. Defining the value is based on a MEEM calculation (Multi Period Excess Earnings Method). The value of the customer relationships and software will be depreciated according to the plan during 9 years. The deferred tax assets are EUR 348 thousand.

According to IFRS 3.32, the purchasing party must register goodwill at the time of acquisition and it is defined as the difference of the following:

- a) consideration transferred and
- b) the net amount of the acquired individually identifiable assets and the taken liabilities at the time of acquisition, valued in accordance with the IFRS 3 standard.

The goodwill of the acquisition, after taking into account the deferred taxes, is EUR 13,504 thousand. The goodwill is based on synergy benefits expected from the acquisition of Innofactor Business Solutions Oy, utilizing the common sales and marketing network, expanding customer relationships in the group, and the transferred personnel.

atBusiness Oy's confirmed losses have been taken into account in the preliminary acquisition cost calculation. The amendment of the additional purchase price related to the acquisition, EUR 1,083 thousand, has been taken into account in the calculation and in the updated estimate of the final purchase price. The acquisition cost calculation is preliminary.

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 March 31, 2014, was as follows:

Name	Number of shares	% of share capital
1. Ensio Sami	7,422,087	23.08%
<i>Ensio Sami</i>	5,248,327	16.32%
<i>Minor under guardianship</i>	724,588	2.25%
<i>Minor under guardianship</i>	724,586	2.25%
<i>Minor under guardianship</i>	724,586	2.25%
2. Tilman Tuomo Tapani	2,788,099	8.67%
<i>Tilman Tuomo Tapani</i>	2,747,492	8.54%
<i>Mpire Capital Oy</i>	40,607	0.13%
3. Salminen Jyrki Kalle Tapio	2,611,149	8.12%
4. Laiho Rami Tapani	1,419,215	4.41%
5. Linturi Kaija and Risto	1,280,411	3.98%
<i>R. Linturi Oyj</i>	513,107	1.60%
<i>Linturi Kaija Anneli</i>	430,000	1.34%
<i>Linturi Risto Erkki Olavi</i>	337,304	1.05%
6. Lampi Mikko Olavi	1,045,543	3.25%
7. Ärje Matias Juhanpoika	946,278	2.94%
8. Mäki Antti-Jussi	930,201	2.89%
9. Luostarinen Juha Markku T	929,438	2.89%
10. Muukkonen Teemu Heikki	501,468	1.56%
11. Kukkonen Heikki-Harri	355,021	1.10%
12. Järvenpää Janne-Olli	322,804	1.00%
13. Jokinen Klaus Antero	300,001	0.93%
14. Bergqvist J.T.	300,000	0.93%
15. Laiho Jari Olavi	270,000	0.84%
16. Ementor Norge As	269,299	0.84%
17. Karppinen Antti Sakari	153,621	0.48%
18. Nurmi Mika Tapio	128,053	0.40%
19. Muurinen Hannu Olavi	125,750	0.39%
20. Tiirikainen Vesa Martti	125,750	0.39%