Corporate Governance Statement for the Financial Period 2014

23.2.2015

Sami Ensio

CEO
Tel. +358 50 584 2029
sami.ensio@innofactor.com

Project number: Ei

Security classification: Julkinen

Contents

1 Information about following the Corporate Governance

Innofactor Plc is a Finnish public limited company which, in its decision-making and administration, complies with the Finnish Companies Act, other regulations concerning public companies, and the company's Articles of Association.

Innofactor Plc complies with the recommendations of the Corporate Governance Code 2010 for Finnish listed companies, published by the Securities Market Association. Additionally, Innofactor Plc complies with the Guidelines for Insiders drawn up by the Helsinki exchange and follows a consistent communications policy.

The Corporate Governance of Innofactor Plc was last updated on February 24, 2014.

2 Deviating from the recommendations

Regarding the Corporate Governance for Finnish listed companies in 2010, published by the Securities Market Association, one exception has been made during January-March 2014. Deviating from the recommendation 9, to Innofactor Plc's Board of Directors have not been appointed on March 26, 2013 representatives of both genders as this has not been necessary considering the requirements of the operation and the development stage of the company. The Board of Directors appointed by the General Meeting on 20 March 2014 has been in accordance with the recommendation 9.

The Chairman of the Board of Directors of Innofactor Plc, Pyry Lautsuo, has on November 9, 2014 resigned from the Board due to family reasons. After the resignation of Lautsuo, the Board of Directors elected Sami Ensio, the CEO and the largest owner of the company, as Chairman of the Board until the next General Meeting. The resignation of the Chairman of the Board caused a special circumstance which lead to an exemption from the recommendation 36 of the Finnish Corporate Governance Code for Listed Companies.

3 Availability of the Corporate Governance on the web site

The Corporate Governance for Finnish listed companies in 2010, published by the Securities Market Association, is publicly available at the web site of the Securities Market Association at www.cgfinland.fi, referred to on the Innofactor web site.

4 Description of the composition and operation of the Board of Directors and the committees set up by the Board of Directors

4.1 Board of Directors

4.1.1 Composition

Pyry Lautsuo (Chairman of the Board and member of the Board until November 9, 2014), born in 1946, M.Sc. (Tech.)

In 1970–2006, Lautsuo worked in various positions in IBM, the latest of which was as the CEO of the Finnish unit. Lautsuo has vast experience on software business both in Finland and globally. Previously, he has been a member of the Board of Directors in Affecto Oyj and Tectia Oyj and the Chairman of the Board in the Finnish Information Processing Association (FIPA), among others. Lautsuo has been the Chairman of the Board in Innofactor Plc's Board of Directors since 2011. No other important positions of trust.

Sami Ensio (Chairman of the Board since 9 November 2014), born in 1971, M.Sc. (Tech.)

Currently, Ensio is the CEO of Innofactor Plc and before that, he was the CEO of Innofactor Oy and a member of its Board of Directors since the year 2000. Ensio has strong and extensive knowledge of the software field and plenty of experience in strategic and operative management in the field. Ensio has been a member of the Board of Directors of Innofactor Plc since 2010. Ensio is a member of the Board of Directors of Sovelto Plc. No other important positions of trust.

J.T. Bergqvist, born in 1957, D.Sc. (Tech.) (Member of the Board since 20 March 2014)

Member of the Board of Directors as of March 20, 2014. Bergqvist has most recently been CEO and Chairman of Board of Directors of K. Hartwall Oy Ab. Bergqvist has been a member of the Board of Directors of Norvestia Oyj since 2003 and a member of the Board of Directors of the Swiss company Ascom AG since 2005. Previously, he has been Chairman of the Board of Directors of Electrobit Oyj and has held various prominent leadership roles at Nokia, including membership of the Group Executive Board in 2002–2005.

Juha Koponen, born in1972, D.Sc. (Tech.) (Member of the Board until 20 March 2014)

Koponen is currently the CEO of Netcycler Oy which is providing swap.com Internet service at the US markets. Before that, Koponen gained almost ten years of experience in software business, channel marketing and globalization in First Hop Oy, in which he had various tasks in the Executive Board. Koponen has been a member of the Board of Directors of Innofactor Plc since 2011. No other important positions of trust.

Jukka Mäkinen, born in 1954, M.Sc. (Econ. & Bus. Adm.)

Currently, Mäkinen is the CEO of the private equity company Eqvitec Partners. Mäkinen has 20 years of experience in IT companies: Siemens-Nixdorf, Oracle, IBM, and Xerox. Mäkinen has been in the Board of Directors of over 20 different companies and has implemented several acquisitions both in Finland and internationally. Mäkinen has been a member of the Board of Directors of Innofactor Plc since 2012. No other important positions of trust.

Ilari Nurmi, born in 1975, M.Sc. (Tech.) Currently, Nurmi is the Product Manager and a member of the Executive Board in Basware Oyj. Before that, Nurmi worked for 14 years in managerial positions in Nokia Plc's product management, product marketing, and marketing in Finland and USA. Nurmi's special strength is his extensive knowledge of international software product management and product business. Nurmi has been a member of the Board of Directors of Innofactor Plc since 2013. No other important positions of trust.

Pekka Puolakka, born in 1971, LL.M, lawyer (Member of the Board until 20 March 2014)

Puolakka has worked in various tasks in different law firms. His latest main occupation was as the Managing Partner of Law Firm Sorainen in the Baltic countries. Puolakka has previously been a member of the Board of Directors of Innofactor Oy, and has been in the Board of Directors of Innofactor Plc since 2010. No other important positions of trust.

Tiia Tuovinen, born in 1964, LL.M. (Member of the Board since 20 March 2014)

Member of the Board of Directors as of March 20, 2014. Tuovinen is General Counsel for TeliaSonera's Broadband business area. She has a long experience in legal affairs in TeliaSonera, Sonera, Telecom Finland, and Confederation of Finnish Industries. Tuovinen has experience of working in Boards of Directors from Kekkilä Group Oy; Tectia Oyj; TEO

LT, Ab; and SIA Lattelecom. In addition to strong legal expertise, Tuovinen also has extensive knowledge in the ICT sector.

4.1.2 Evaluation of independence of the Board members

The Chairman of the Board Pyry Lautsuo (Board member until 9 November 2014) is independent of the company and of the main shareholders.

Board member Sami Ensio is not independent of the company as he is the CEO of the company and, together with his underage children, the most significant owner of the company with an ownership share of about 24%.

Board member J.T. Bergqvist is independent of the company and of the main shareholders.

Board member Juha Koponen (Board member until 20 March 2014) is independent of the company and of the main shareholders.

Board member Jukka Mäkinen is independent of the company and of the main shareholders.

Board member Ilari Nurmi is independent of the company and of the main shareholders.

Board member Pekka Puolakka (Board member until 20 March 2014) is independent of the company and of the main shareholders.

Board member Tiia Tuovinen is independent of the company and of the main shareholders.

4.1.3 Description of operation

Rules of procedure for the Board of Directors

1. General

The tasks and responsibilities of the Board of Directors are based on the Companies Act, Securities Market Act, other laws, Articles of Association, Corporate Governance for Finnish listed companies published by the Securities Market Association, NASDAQ OMX Helsinki exchange's rules for communications and insider management, and the rules of procedure for the Board of Directors.

These rules of procedure were approved by the company's Board of Directors on February 24, 2014. The Board of Directors will update and change the rules as required.

2. Composition of the Board of Directors

In accordance with the Articles of Association, the company has a Board of Directors, which comprises at a minimum of four (4) and at a maximum of eight (8) members.

The Annual General Meeting elects the members and deputy members for the Board of Directors. The term of the members ends at the end of the following Annual General Meeting, unless an Extraordinary General Meeting decides to change the Board of Directors before that. A member of the Board *of Directors may resign from the task before the end of his/her term. The Board of Directors must be notified of the premature resignation. The General Meeting can dismiss a member of the Board of Directors. If the position of a member of the Board of Directors becomes vacant during the term and there is no deputy member, it is the duty of the remaining members of the Board of Directors to ensure that a new member is elected for the remainder of the term by the General Meeting. If the Board of Directors with its remaining members and deputy members has a quorum, the election may be postponed to the following General Meeting, in which the members of the Board of Directors would be elected in any case.*

The Board members elect one of them as a Chairman for a term of one year. The tasks of the Chairman are described in section 5. No deputy chairman has been elected for the Board of Directors as it has been agreed on that the CEO will act as a deputy when the Chairman is absent.

The Board of Directors can name an outsider as a secretary or select a Board member as the secretary. The tasks of the secretary are described in section 6. Unless otherwise agreed on, the CEO will act as the secretary of the Board.

3. Familiarization and independence of the Board members

The CEO explains the company's and group's business operations to the new Board members as soon after the selection as possible. As part of familiarizing the Board members, the company arranges training on securities market law and company law and other regulations concerning the company's operation as necessary.

The Board of Directors assesses the independence of its members as required and makes sure that any lack of impartiality is assessed when necessary.

4. Responsibilities of the Board of Directors

Responsibilities of the Board of Directors and its members are based on the Companies Act and the company's Articles of Association. The Board of Directors has general authority to decide and act in all such matters that are not reserved by the Companies Act or Articles of Association to other corporate governing bodies. The Board of Directors is responsible for the effective organizing of the company and the monitoring of the management of the company according to the best interests of the company and its shareholders.

The main responsibilities of the Board of Directors are as follows:

- *Being responsible for the management and proper arrangement of the operation of the company.*
- *Defining the company's operational tasks and values and approving the company's strategic goals.*
- *Monitoring the implementation of the operational plan and controlling the company and the efficiency of its management.*
- *Deciding on major investments, acquisitions, and buying and selling of property.*
- *Being responsible for proper supervision of the book-keeping and controlling the financial matters of the company.*
- *Confirming the budget.*
- *Appointing the CEO (and his/her deputy) or ending his/her term.*

- *Monitoring the CEO's work and ensuring that the company's management system works.*
- *Appointing the Management Team members and deciding on their fees.*
- *Reviewing and approving interim reports, financial statements and corporate reviews.*
- *Accepting the company's principles of risk management.*
- *Taking care of the tasks defined for the appointment and auditing committee.*

5. Responsibilities of the Chairman of the Board

The general responsibility of the Chairman of the Board is to lead the Board's work in such a manner that its responsibilities are carried out as efficiently and appropriately as possible. In this function, the Chairman's duty is:

- *to ensure that the Board of Directors is operational and has a quorum;*
- *to monitor the CEO's work and oversee that the CEO is able to perform his/her tasks;*
- *to convene the meetings in accordance with the meeting plan of the Board of Directors;*
- *to ensure that the Board of Directors also meets at other times, when necessary, or if a Board member or the CEO so demands;*
- *to draw up agendas for Board meetings together with the CEO;*
- *to lead and develop the Board's work, monitor meeting preparations, act as a chairman of a meeting, and ensure that minutes of meeting are written and signed;*
- *to ensure that statutory tasks and tasks specified in the Articles of Association and decisions related to these are made in time;*
- *to accept the CEO's representation expenses and other expenses, vacations and other days off;*
- *to keep in touch with the Board members and the CEO between meetings;*
- *to keep in touch with the owners and other interest groups as necessary;*
- *to monitor closely the company's operation and take care of internal control;*
- *to help create a good atmosphere for the Board of Directors to work in; and*
- *to ensure that the Board of Directors operates in accordance with the rules of procedure accepted by the Board of Directors.*

The Chairman of the Board also approves the compensations paid by the company to the Board members for the expenses related to their work in the Board of Directors. The CEO approves the compensation paid by the company to the Chairman of the Board for the expenses related to the work in the Board of Directors.

6. The responsibilities of the secretary of the Board of Directors

The general responsibility of the Board secretary is to support the Chairman's work in such a manner that it is carried out as efficiently and appropriately as possible. In this function, the secretary's duties are:

- *to collect issues to be discussed in a meeting into an agenda;*

- *to send the agenda to the Board members after the Chairman of the Board and the CEO have approved it;*
- *to maintain the minutes of Board meetings; and*
- *to ensure that the minutes of meeting are signed and archived in an appropriate manner.*

7. Meetings of the Board of Directors

The Board of Directors makes its decisions in Board meetings.

The Board of Directors meets according to a predefined schedule approximately once a month and, if necessary, arranges additional meetings, which may also be held via conference calls.

For its operation, the Board of Directors draws up a meeting calendar, which includes at least the following meetings:

- *January–February*
    - *The Board's self-assessment concerning its operation during the previous year.*
    - *Discussing the extensive personnel satisfaction report.*
- *February–March*
    - *Meeting for reviewing business operations and updating strategy. In this meeting, the Board members report to the Board of Directors about the results of the previous quarter, customer and personnel satisfaction, changes made in the operation on the basis of these, situation in the current quarter, strategy and business changes to be made for the next quarter, and risks related to the business. For each Board member, 10–20 minutes is reserved for the presentation and 5–10 minutes is reserved for discussion after that. On the basis of the Management Team's presentation, the Board of Directors discusses about the possible changes in the company's strategy and operation and assesses the risks. The special theme on Q1 is personnel.*
    - *Annual accounts meeting in which the Board of Directors handles and approves the annual accounts and annual report. In the annual accounts meeting, the company's auditor is also present, except when the assessment of the auditing services, proposal for the auditor, and other possible issues belonging to the general operation of the Board of Directors are discussed.*
    - *Convening the General Meeting.*
- *March*
    - *Regrouping meeting in which the Board of Directors elects one of its members as the Chairman and draws up a meeting calendar.*
- *April*
    - *Handling the interim report for the first quarter.*
- *May*
    - Meeting for business review and strategy update in which *the special theme on Q2 is customers, processes and quality.*
- *July–August*

        - *Handling the interim report for the second quarter.*
        - *Meeting for business review and strategy update in which the special theme on Q3 is a more detailed annual review of the strategy.*
    - *September–October*
        - *Handling the interim report for the third quarter.*
    - *November–December*
        - *Meeting for business review and strategy update in which the special theme on Q4 is the next year's annual plans and budget.*
        - *Budget meeting in which the Board of Directors handles and approves the company's budget for the next financial period, the schedule for publishing the annual accounts and, if possible, the preliminary time of the General Meeting.*

The meetings may also be held as conference calls or by using other technical devices.

8. Convening meetings

The Chairman of the Board is responsible for convening the meetings. The CEO, together with the Chairman of the Board and with the help of the secretary, takes care of preparing the agenda for a Board meeting. The Board secretary must be notified five business days before the meeting on any issues that are to be dealt with in the meeting.

An invitation to the meeting and materials for the meeting are delivered electronically in such a manner that the Board members receive them at least two business days before the meeting or, whenever possible, the materials for the meeting are delivered to the Board members by 15:00 on the Friday before the meeting.

The invitation includes the agenda, the minutes of the previous Board meeting, the latest monthly financial report, and other possible documents related to the handling of issues on the agenda.

The materials for the meeting and other confidential material relating to the company are not to be sent through unsecured email, unless it is absolutely necessary.

9. Handling issues and making decisions in the meetings

The Chairman of the Board, or if he/she is absent, the CEO, acts as the chairman in the Board meetings.

The Board of Directors handles the issues listed in the agenda of the meeting. In addition to the issues based on these rules of procedure, the Board meeting handles as standard issues the approval and signing of the minutes of the previous meeting, the financial review, and the CEO's situation review.

Other issues than those in the agenda may be handled on the initiative of either a Board member or the CEO. A decision on other issues can be made only, if all Board members accept it.

In addition to the Board members, the CEO, CFO (during issues concerning the financial reporting) and Board secretary are present in the meetings. An issue is presented to the Board of Directors by the CEO or some other person to whom the CEO, with the Board's approval, has delegated the making of the presentation.

The CEO has the right to be present in the meetings and the right to be heard, unless otherwise decided by the Board of Directors in a specific case. The auditor has the right to be present and the right to be heard at the Board meetings in which issues related to the auditor's tasks are discussed. If necessary, the Board of Directors discusses the company and its development without the operating management being present.

The Board of Directors has a quorum when over half of the Board members are present. Decisions are made by simple majority of votes. All Board members must be reserved an opportunity to participate in the handling of an issue, if possible, in order to ensure that the decision of the Board of Directors is made in an appropriate manner. If the votes are divided equally, the Chairman's vote decides.

If a Board member disagrees with a decision of the Board of Directors, he/she may state a dissenting opinion to be registered to the minutes of the meeting. The dissenting opinion must be stated immediately after the decision has been made.

A Board member or the CEO may not participate in the handling of a contract between him/herself and the company or in the handling of a contract between the company and a third party, if he/she may thereby receive a material benefit, which may be in contradiction with the interest of the company or which is related to a company or other organization in which he/she is a member of the operating management or governing body. The Board of Directors is responsible for taking any lack of impartiality into consideration when necessary. A Board member must also always assess and consider the need for recusing him/herself.

If a Board member is unable to attend, his/her deputy (if one has been elected) must be reserved the same opportunity to participate in handling the issue.

A quorum requires that the invitation has been delivered to all Board members in an appropriate manner. Any inadequacies in the invitation are considered corrected, if all Board members are present in the meeting or if the Board members afterwards accept the decisions, for example, by signing the minutes of meeting.

10. Minutes of meeting

Minutes of meeting with consecutive numbering according to the calendar year are drawn up for the Board meetings. The minutes of meeting must state the time and location of the meeting and the names of Board members present. The Chairman of the Board is responsible for maintaining the minutes of meeting. A person named by the Board of Directors acts as the Board secretary.

The minutes of meeting are kept in the form of a final protocol. For important issues, also the main grounds for the decision are entered into the minutes of meeting or an attachment thereof. Any dissenting opinions, votes and Board member's incompetence due to the likelihood of bias are entered into the minutes of meeting.

All Board members sign the minutes of meeting. The minutes of meeting for a phone meeting are signed by all Board members who took part in handling the issue.

The minutes of meeting without attachments are delivered to the Board members after each meeting when the Chairman of the Board and the CEO have approved the minutes. The goal is to deliver the minutes of meeting within five business days after the meeting. The minutes of meeting will be approved in the next Board meeting.

The minutes of meeting will be stored at the head office of the company for as long as the company shall exist.

11. Providing information for the Board of Directors between the meetings

The CEO is responsible for ensuring that the Board of Directors is notified of the minutes of the Executive Board meetings. The secretary of the Executive Board sends the minutes of meeting to the Board of Directors electronically without delay as soon as the CEO has approved the minutes. The goal is to deliver the minutes of meeting within five business days after the meeting.

It is the CEO's responsibility to keep the Chairman of the Board well informed of the company's daily situation.

The CEO also has the responsibility to inform the company's Board of Directors on his/her own initiative about important matters concerning the company's operation, such as development of sales, significant changes in liquidity and bearing, substantial credit losses, and significant purchases or other contracts.

If necessary, in matters of importance for the company, individual Board members have the right, at the cost of the company, to seek information and advice from independent sources.

12. Assessing the operation of the Board of Directors

The Board of Directors must assess its operation and working methods annually. The assessment is carried out as an internal self-assessment.

The purpose of the assessment is to find out how the operation of the Board of Directors has been carried out and how it can be developed.

Number of meetings during the previous financial period

There were 17 meetings held.

Participation of the members in the meetings

The members of the Board of Directors were present in the meetings as follows:

- Pyry Lautsuo (Board member until 9 November 2014) 14/15 (93%)
- Sami Ensio 17/17 (100%)
- J.T. Bergqvist (Board member since 20 March 2014) 14/15 (93%)
- Juha Koponen 2/2 (100%)
- Jukka Mäkinen 17/17 (100%)
- Ilari Nurmi 16/17 (94%)
- Pekka Puolakka (Board member until 20 March 2014) 2/2 (100%)
- Tiia Tuovinen (Board member since 20 March 2014) 12/15 (80%)

4.2 Supervisory Board

Innofactor Plc has no Supervisory Board.

4.3 Committees of the Board of Directors

The Board of Directors has not set up any committees.

5 Description of the organ that is responsible for the tasks of an Audit Committee

The Board of Directors takes care of the tasks of an Audit Committee. Information related to the Board of Directors can be found in section 4.1.

6 Information on the CEO and CEO's tasks

6.1 CEO

Sami Ensio, born in 1971, M.Sc. (Tech.)

Currently, Ensio is the CEO of Innofactor Plc and before that, he was the CEO of Innofactor Oy and a member of its Board of Directors since the year 2000. Ensio has strong and extensive knowledge of the software field and plenty of experience in strategic and operative management in the field. Ensio has been a member of the Board of Directors of Innofactor Plc since 2010. Ensio is a member of the Board of Directors of Sovelto Plc. No other important positions of trust.

6.2 Description of tasks

The CEO is responsible for the day-to-day management of the company, which consists of managing and controlling the company's business in accordance with instructions and decisions issued by the Board of Directors.

The CEO may not carry out unusual or extensive actions without the specific approval of the Board of Directors, except in situations in which not carrying out the action would cause essential damage to the operations of the company and the approval of the Board of Directors cannot be obtained in time. The Board of Directors must be immediately notified of such actions for which there was no time to wait for the Board's approval.

The main responsibilities of the CEO are:

- to be responsible for the day-to-day management of the company;

- to approve business plans and performance objectives and control their implementation;
- to actively protect the company's interests;
- to ensure the effective functioning of the Board of Directors and to ensure that the members of the Board of Directors receive proper and adequate information;
- to see to it that the accounting and book-keeping of the company complies with the law and that the financial matters are being handled in a reliable manner;
- to report accurately and precisely following the instructions given by the Board of Directors;
- to implement decisions made by the Board of Directors and the General Meeting; and
- to ensure on his/her part that the company respects its legal obligations and regulations.

Even if the CEO is not a member of the Board of Directors, he/she has the right to be present and to be heard in the Board meetings, unless otherwise decided by the Board of Directors in a specific case.

The CEO may not participate in the handling of a contract between him/herself and the company or in the handling of an issue between the company and a third party, if he/she may thereby receive a material benefit, which may be in contradiction with the interest of the company.

7 Description of the main features of the internal monitoring and risk management systems related to the financial reporting process

It is the duty of the Innofactor Plc's Board of Directors to take care that the monitoring of the group's book-keeping and financial control have been properly arranged. The internal monitoring in the group is implemented by the Board of Directors together with the CEO. For monitoring purposes, there is a reporting system, according to which information is produced concerning the group's business operations and subsidiaries.

The group does not have a separate internal audit, because it has not been considered necessary, taking into account the scope of the business operation.

The Chairman of the Board is responsible for the internal monitoring of the group and reports any findings to the Board of Directors. Internal monitoring is based on procedures and reporting, which are implemented on different levels of the subsidiaries' organizations.

The operation, finances and shares of the Innofactor group include risks that may be essential 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.

7.1.1 Risks related to operation

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

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

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

Increase in personnel costs: The main part of Innofactor's costs consists of personnel costs and other employee benefits (in 2014, about 69%). Of Innofactor's own employees, currently all work in the Nordic Countries, whereas some competitors rely heavily on workforce in countries with cheap labor. If the personnel costs continue rising in Finland and Denmark at the same rate as before, it will create a risk for Innofactor, if the prices paid for IT services will not rise correspondingly. Innofactor is monitoring the situation and aims at increasing the share of work done by subcontractors and abroad.

Competition: Innofactor's main competitors are companies offering traditional information technology services and software in the Nordic Countries. Some competitors have larger financial resources, wider product selection, cheaper workforce and larger existing customer base than Innofactor does, and they can use these when competing with Innofactor for the same deliveries. The price competition on the field is expected to remain tough. If the competition becomes tougher, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor continuously strives to improve its competitiveness.

Research and product development: In Innofactor's operation, research and product development play a central role. In 2014, about 4.5% of the net sales was used for it. Each research and product development project carries the risk that the end results are not as successful financially as planned and that the investment in the project does not pay itself back. In organizing its operations, Innofactor aims at minimizing the risks inherent in research and product development.

Globalization: In accordance with its strategy, Innofactor is seeking for more growth also in the global markets, especially in the Nordic Countries. Global operations typically always involve higher risks than operation at home. Innofactor strives to make sure that the investments in becoming a global player will not be so great that it would jeopardize the group's ability to make profit and to grow.

Changes in technology: Fast technological development is characteristic for Innofactor's field of business. There can be quick changes in the customers' requirements and choices concerning software technology. An important change under way is the transfer of software to cloud technologies. If Innofactor cannot answer the technology challenges, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor strives to actively invest in new technologies.

Reaching the growth goals: Realizing the desired organic growth requires a growth rate that is clearly faster than the growth in the general IT market. This creates a risk that it cannot be realized in the future, although it has been done before. It is possible that the IT market in Innofactor's market area will not grow or may even shrink in 2015. Ensuring growth has a central part in planning Innofactor's operations and setting its goals. Innofactor strives to lessen this operational risk by focusing on the growing Microsoft solution areas, which grow faster than the IT market in general, and by focusing on sales to keep the order book on a sufficient level as regards the business operations.

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

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

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

7.1.2 Financial risks

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

Financing risks: In its normal business operations, the Innofactor group is susceptible to normal financing risks. In June 2013, Innofactor took a loan package totaling EUR 12.5 million in order to purchase the share capital of atBusiness Oy and to rearrange an old loan of about EUR 1.0 million, related to the acquisition in Denmark in 2012. This increased Innofactor's financing risks compared to previous years. At the end of 2014, a total of EUR 9.9 million of this loan remains unpaid. In total at the end of 2014, Innofactor had EUR 10.6 million in interest bearing debts and also EUR 3.2 million in the hybrid bond. Innofactor's financing risks have decreased since 2013 as the amount of interest bearing debt is lower. Innofactor has committed itself to the following covenants: equity ratio calculated every 6 months is at least 40% on December 31, 2014, and on every 6-month check point after that. Additionally, interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 3.0 in two review periods (December 31, 2014, and June

30, 2015), and a maximum of 2.5 in the financial statement of December 31, 2015, and on each 6-month review period after that. The goal of managing the financing risks is to minimize the negative effects of the changes in the financial markets to the result of the group. Risk management has been centralized to the CFO, who is responsible for the group's financing and regularly reports to the company's Executive Board, CEO, and Board of Directors. It is possible that, in the future, the group will not get the financing it needs and this will have a negative effect on the group's business and its development, especially on making acquisitions.

Risks related to the cash position: The Innofactor group handles management of liquid assets with the help of centralized payments and cash management. The group strives for continuous monitoring and assessment of the needed business financing in order to ensure that the group has enough liquid assets in its use. Additionally, the group's subsidiaries have in their use checking accounts with an overdraft limit of about EUR 2.9 million in total in order to cover any seasonal variations in liquid assets. Excess cash balance is placed on savings accounts or funds with capital guarantee.

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

Deferred tax asset risk: Innofactor's balance sheet includes a significant amount of deferred tax assets that are based on previous financial periods. If group's internal factors or outside factors independent of the group's operation change significantly, it is possible that the group can't utilize in full the receivables currently activated in the balance sheet. The assessment of these receivables and the related internal and external factors are being monitored actively by financial periods and, if necessary, these receivables will be re-assessed.

7.1.3 Risks related to shares

The number of Innofactor Plc shares traded on January 1–December 31, 2014, decreased by 44.4% compared to the same period in the previous year. In 2014, share trading was 20.1% of the share capital. In the Helsinki stock exchange, companies' average trade in 2014 was 69.1% of the share capital. Lower than average share trading may result in a liquidity risk for the share and its price formation. Innofactor strives to improve the liquidity of the share and decrease the related liquidity risk by its strategy of increasing the value for the shareowners and by its active investor communications.