

Innofactor Plc's Interim Report May 5, 2020, at 9:00 Finnish time

Innofactor Plc's Interim Report for January 1–March 31, 2020 (IFRS)

Record EBITDA in the first quarter

January–March 2020 in brief:

- The net sales were approximately EUR 17.2 million (2019: 16.1), which shows an increase of 6.2%
- EBITDA was approximately EUR 2.0 million (2019: 0.9), which shows an increase of 125%
- The operating profit was approximately EUR 0.8 million (2019: -0.09), which shows an increase of EUR 0.9 million
- The order backlog at the end of the review period was EUR 54.1 million (2019: 41.0), which shows an increase of 32%
- Innofactor got several significant orders in the first quarter, for example,
 - The KOSTI project of the Legal Register Centre, approximately EUR 2.2 million (not yet in the order backlog at the end of the review period)
 - The further development of the HAIPA project for the Legal Register Centre, approximately EUR 2.2 million
 - The further development of HUS Health Village, approximately EUR 2.0 million
 - The case management solution for KELA, approximately EUR 1.1 million (not yet in the order backlog at the end of the review period)
 - The Ullensaker municipality in Norway, approximately EUR 1.0 million
 - A Finnish trading company, approximately EUR 0.7 million

	Jan 1–March 31, 2020	Jan 1–March 31, 2019	Change
Net sales, EUR thousand	17,152	16,148	6.2%
Growth of net sales	6.2%	-2.0%	
Operating result before depreciation and amortization (EBITDA), EUR thousand*	1,957	869	125.2%
percentage of net sales*	11.4%	5.4%	
Operating profit/loss (EBIT), EUR thousand**	816	-90	1009.0%
percentage of net sales*	4.8%	-0.6%	
Earnings before taxes, EUR thousand***	-123	-197	37.2%
percentage of net sales*	-0.7%	-1.2%	
Earnings, EUR thousand*	204	-88	332.2%
percentage of net sales*	1.2%	-0.5%	
Order backlog	54,091	41,029	31.8%
Net gearing*	60.6%	89.2%	
Net gearing without IFRS 16	37.3%	65.6%	
Equity ratio***	43.5%	40.0%	
Equity ratio without IFRS 16	48.5%	43.7%	
Active personnel on average during the review period****	541	544	-0.6%
Active personnel on average at the end of the review period****	542	541	+0.2%
Earnings per share (EUR)	0.0054	-0.0024	324.7%

*) The handling of lease liabilities in accordance with IFRS 16 had a positive effect of EUR 504 (2019: 300) thousand in the operating margin (EBITDA) in January 1–March 31, 2020.

**) In accordance with IFRS 3, the operating result for January 1–March 31, 2020, includes EUR 473 thousand (2019: 507) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets.

***) Exchange rate changes related to the Group's internal debts (due to the weakened rate of the Swedish krona and Norwegian krone in relation to euro) results in a exchange rate loss of EUR -859 thousand in accordance with IFRS, but this loss does not affect the cash flow, only the result for the financial period, the Group's balance sheet and the equity ratio.

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

Innofactor's future outlook for 2020

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

CEO Sami Ensio's review: Strong start for 2020 – the negative business effects of the Coronavirus epidemic are estimated to remain minor

The net sales in the first quarter of 2020 were EUR 17.2 million, which shows an increase of 6.2 percent compared to the previous year. The net sales grew in all countries. The operating margin (EBITDA) grew 125.4 percent from the previous year and was EUR 2.0 million (11.4 percent of the net sales), and it was positive in all countries. In the first quarter, the order backlog grew to a record-breaking amount and was EUR 54.1 million at the end of the quarter, which shows an increase of 31.8 percent compared to the corresponding time in the previous year.

The Coronavirus epidemic has not so far had a significant effect on Innofactor's ability to provide services for its customers. Our employees have been working remotely as of March 12, 2020. Work efficiency in remote work remains at the same level as in the normal situation, and there has not been an increase in sick days.

However, our estimate is that the Coronavirus epidemic will have a minor effect on the net sales and profitability of the rest of the year. We estimate that we probably will not achieve comparable growth and profitability in the second quarter as we did in the first quarter. The growth and profitability in the third and fourth quarters will depend greatly on the schedule in which the restrictions due to the Coronavirus will be removed in the Nordic countries. We expect that the restrictions will be removed for the most part in August 2020 at the latest.

The Coronavirus epidemic will affect Innofactor in the short term mainly, if our customers scale back their purchases or move their acquisitions to a later date. We estimate that the negative effects of the Coronavirus epidemic in Innofactor's business remain minor for the following reasons:

- A significant part (over 50 percent) of Innofactor's business consists of recurring services, and the customers' purchase behavior does not affect these much
- We mainly offer business critical systems for our customers, and customers typically continue their development and maintenance even in unusual conditions
- Approximately half of our customer base consists of public administration and third sector customers, who are affected more slowly by the Coronavirus and who also consider it sensible to proceed with their purchases in order to keep the society going.
- Our business customers are mainly from fields, such as industry, which are not so strongly and quickly affected by the Coronavirus as certain other fields.
- Our order backlog is very strong, and if needed, we are able to transfer personnel between projects to some degree and make our deliveries faster, which means that a loss of an individual customer will not necessarily affect our business
- We have been able to quickly develop new services for the Coronavirus epidemic situation for our customers, such as the Remote Work Acceleration Pack

(www.innofactor.com/remote-work), which we believe will bring some replacement net sales to compensate for any losses

- The societies in the countries in which we operate are granting many forms of relief, flexibility and support, which also helps Innofactor's profitability and financing

In the long term, we believe that the digital step the society is taking due to the Coronavirus epidemic will increase Innofactor's possibilities to grow its business operations. The abilities of a modern digital organization will be even more important for our customers in the future – also in preparation for the possible second wave of the epidemic. It is also possible that some of our customers will transfer some of their operations back to the Nordic countries in order to be closer to their customers. This would have a favorable effect as regards the business model of Innofactor's chosen strategy based on Nordic specialists. We also believe that Microsoft's position has strengthened during the Coronavirus epidemic. We believe in our chances of increasing our market share in the Nordic countries.

In April, Innofactor renewed the responsibility areas of the Executive Board so that as a CEO, I will also be the acting Chief Technology Officer until further notice. This will further speed up the decision-making, and we believe this will be of use in the business environment changes due to the Coronavirus epidemic, which require us to quickly renew our offering. The previous Chief Technology Officer Jufo Peltomaa will not continue in the company's service. I want to thank Jufo for his contribution in developing Innofactor's operation.

Innofactor's vision is to be the leading implementer of digitalization in each of the Nordic countries. We believe even stronger in our chosen Nordic strategy and in reaching our long-term goals in the world after the Coronavirus epidemic. Innofactor is still actively looking for new strategic partnerships. The Group's goal is to grow both organically and through acquisitions. The Coronavirus epidemic may provide new and even surprising opportunities for this, and those may require fast actions. In view of this, we have drafted a separate plan, started to actively monitor the situation and, at the end of April, acquired EUR 3.0 million in additional funding in the form of a senior loan from a major Finnish pension insurance company to support our possible projects for gaining growth.

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. The majority of this is intended to be achieved organically by achieving approximately 20 percent operating margin (EBITDA) in relation to the net sales, by keeping the cash flow positive and by securing solid financial standing in all situations.

Innofactor’s net sales in the first quarter were EUR 17.2 million (2019: 16.1), which shows an increase of 6.2 percent compared to the previous year. The net sales grew in all countries. The goal of getting the net sales to grow is also supported by the record-breaking order backlog of EUR 54.1 million (2019: 41.0). Of course, further actions are required to achieve the growth of 20 percent. The Coronavirus situation and Innofactor's strengthened financing position may also provide new possibilities for inorganic growth in the future. For this reason, Innofactor acquired EUR 3.0 million in additional funding in the form of a senior loan from a major Finnish pension insurance company.

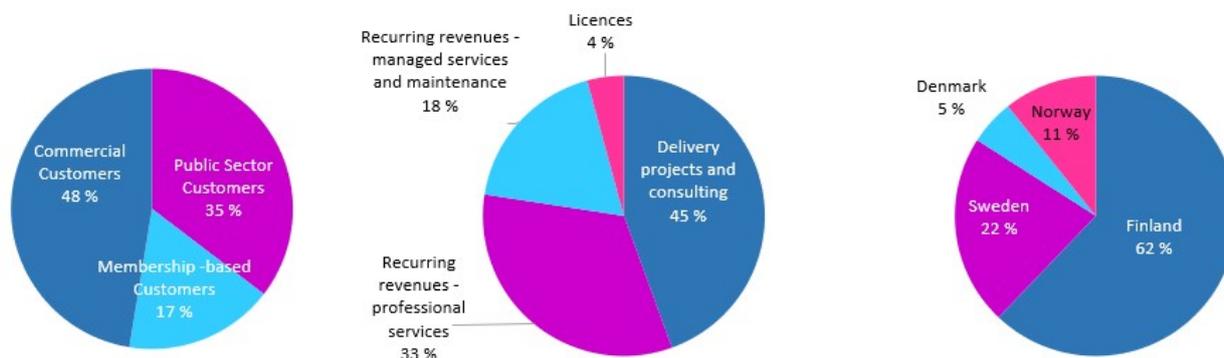
In the review period, the operating margin (EBITDA) grew 125.4 percent from the previous year and was EUR 2.0 million (11.4 percent of the net sales). As regards profitability, Innofactor was able to improve its performance substantially, but some effort is still needed in order to reach the long-term goal of approximately 20 percent.

Innofactor’s operating cash flow in the review period of January 1–March 31, 2020, was EUR 3.1 million (2019: EUR 1.6 million) and the equity ratio at the end of the review period was 43.5 percent (2019: 40.0 percent). 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 grew in all countries from that of the comparison period – public administration and third sector customers provide stability during the Coronavirus situation



Innofactor’s net sales in January 1–March 31, 2020, were EUR 17,152 thousand (2019: 16,148), which shows an increase of 6.2 percent, although the exchange rate change of the Swedish krona and Norwegian krone decreased the net sales by approximately EUR 0.2 million. The net sales per active employee were approximately EUR 31.7 thousand (2019: 29.7), which shows an increase of 6.8 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–March 31, 2020, 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 all countries.

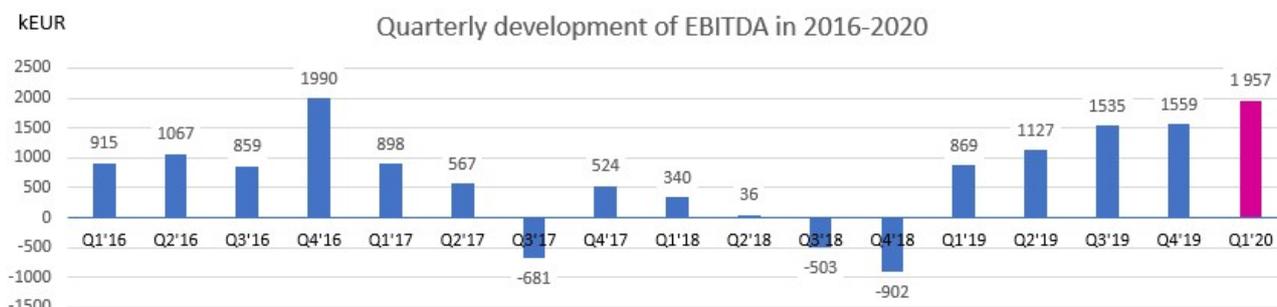
Of the net sales in January 1–March 31, 2020, approximately 48 percent came from commercial clients, approximately 35 percent from public sector clients, and approximately 17 percent from third sector clients.

Innofactor's net sales in the review period of January 1–March 31, 2020, came from the following sources:

- approximately 45 percent from IT system delivery projects and consulting
- approximately 33 percent from specialist work based on recurring service contracts, such as smaller customer-specific changes and further development of IT systems
- approximately 18 percent from services based on recurring service contracts, such as SaaS, cloud and hosting services, and from software maintenance
- approximately 4 percent from licenses, of which the share of licensing income to third parties was approximately 4 percent of the net sales

Innofactor's 10 largest clients accounted for approximately 29 percent of the net sales during the review period January 1–March 31, 2020.

Innofactor’s operating margin was clearly higher than in the comparison period and positive in all countries



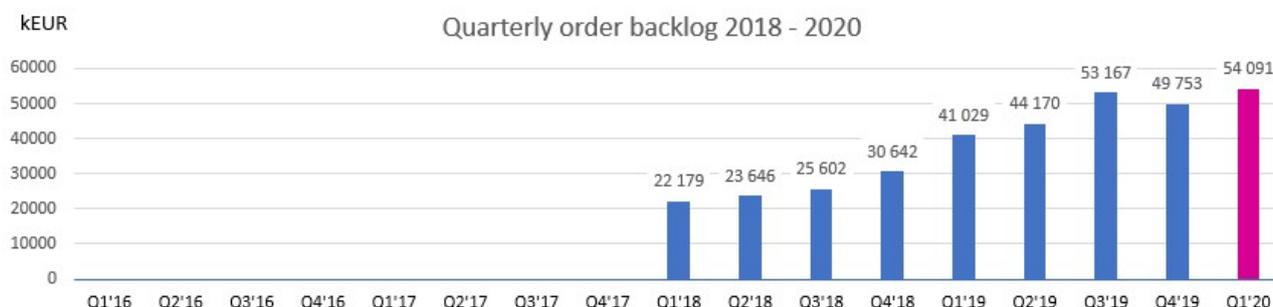
Innofactor's operating margin (EBITDA) in January 1–March 31, 2020, was EUR 1,957 thousand (2019: 869), which shows an increase of 125.4 percent. EBITDA accounted for 11.4 percent of the net sales (2019: 5.4%). Innofactor’s operating margin was positive in all countries.

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

Innofactor's operating profit in January 1–March 31, 2020, was EUR 816 thousand (2019: operating loss -90), which shows an increase of EUR 906 thousand. The operating profit accounted for 4.8 percent of the net sales (2019: operating loss 0.6%).

In accordance with IFRS 3, the operating result for January 1–March 31, 2020, includes EUR 473 thousand (2019: 507) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor’s operative business profit for the review period of January 1–March 31, 2020, would have been EUR 1,290 thousand (2019: 417), which shows an increase of 208.8 percent.

Innofactor’s order backlog grew again, making an all-time record



Innofactor's order backlog at the end of the review period was EUR 54,091 thousand (2019: 41,029), which shows an increase of 31.8%. The order backlog grew for example due to the following: the further development of the HAIPA project for the Legal Register Centre, approximately EUR 2.2 million, HUS Health Village approximately 2.0 million EUR, the Ullensaker municipality in Norway, approximately EUR 1.0 million, and a Finnish trading company, approximately EUR 0.7 million.

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

Innofactor's balance sheet total at the end of the review period was EUR 55,680 thousand (2019: 55,823). The Group's liquid assets totaled EUR 910 thousand (2019: 250), consisting totally of cash funds.

The operating cash flow in January 1–March 31, 2020, was EUR 3,142 thousand (2019: 1,560). The investment cash flow was EUR -118 thousand (2019: -50).

The equity ratio at the end of the review period was 43.5 percent (2019: 40.0%) and net gearing was 60.6 percent (2019: 89.2%).

At the end of the review period, the company had EUR 5,826 thousand in current interest bearing liabilities to financial institutions (2019: 9,176) and EUR 3,619 thousand in non-current interest bearing liabilities to financial institutions (2019: 5,025). The current liabilities consist of EUR 1,743 thousand for loan installments and a credit limit of EUR 4,083 thousand available at the time (2019: 7,366). The total amount of interest bearing liabilities to financial institutions was EUR 9,444 thousand (2019: 14,201). The company had lease liabilities in accordance with IFRS 16 (leases for the duration of fixed-term leases) EUR 5,345 thousand (2019: 5,010) of which EUR 1,840 thousand in current leases (2019: 1,173) and EUR 3,505 thousand in non-current leases (2019: 3,837). The total amount of interest bearing liabilities was EUR 14,789 thousand (2019: 19,211).

The return on investment in January 1–March 31, 2020, improved from the previous year and was 2.7 percent (2019: -1.0%). The return on equity in January 1–March 31, 2020, improved from the previous year and was 0.9 percent (2019: -1.6%).

The non-current assets in Innofactor's balance sheet at the end of the review period were EUR 41,151 thousand in total.

Innofactor's gross investments in tangible and intangible assets in the review period of January 1–March 31, 2020, were EUR 229 thousand (2019: 50), consisting of normal additional and replacement investments required by growth.

Innofactor's research and product development investments increased slightly from last year

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–March 31, 2020, were approximately EUR 845 thousand (2019: 725), which accounts for 4.9 percent of the net sales (2019: 4.5%).

Innofactor's number of personnel remained approximately the same as last year

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 January 1–March 31, 2020, was 541 persons (2019: 544), which shows a decrease of 0.6 percent. At the end of the review period, the number of active personnel was 542 (2019: 541), which shows an increase of 0.2 percent.

At the end of the review period, the average age among personnel was 41.4 years (2019: 40.7). Women accounted for 27 percent (2019: 27%) of the personnel. Men accounted for 73 percent (2019: 73%) of the personnel.

Other events in the review period

On January 30, 2020, Innofactor announced in a stock exchange release that it will deliver a financial management system for a Finnish trading company. The value of the procurement is approximately EUR 0.65 million, which is estimated to be registered for 2020.

On February 12, 2020, Innofactor announced in a stock exchange release that the Hospital District of Helsinki and Uusimaa (HUS) has selected Innofactor as the provider of ICT services related to

the Health Village for a maximum amount of EUR 2,000,000. The services are estimated to be provided in 2020–2021.

On February 13, 2020, Innofactor announced in a stock exchange release that the Legal Register Centre selected Innofactor as the provider of the further development stage of the HAIPA project, which is the ERP and document management system for administrative courts and special courts. The procurement consists of the specialist work related to the project as well as the implementation in the different agencies and possibly maintenance for the system. The contract period is estimated to start in March 2020 and will last until the end of 2020. Additionally, the customer reserves the right to two options for 2021 and 2022, which will be agreed on separately. The estimated total value (excluding VAT) stated by the customer in the procurement decision is EUR 2,157,000.

On February 13, 2020, Innofactor announced in a stock exchange release that the Ullensaker municipality in Norway selected Innofactor as the provider of ICT consultancy services. The services consist of a comprehensive public cloud solution including the cloud infrastructure, identity and access, cloud security and modern employee experience. The consultancy services include architectural and system development, maintenance and other services for an estimated total amount of NOK 10,000,000 (approximately EUR 1,000,000), which are estimated to be provided during years 2020 and 2021. The customer also reserves an option of extending the service for two more years.

On March 4, 2020, Innofactor announced in a stock exchange release that the Social Insurance Institution of Finland selected Innofactor as the provider of an administrative case management solution. The procurement includes the case management solution and its delivery, support services, and specialist work ordered separately. The system delivery and the related integrations are planned to be implemented during 2020–2021. The contract will be valid for four years to begin with, and after that, it will be valid until further notice. The estimated total value of the procurement during the contract period is approximately EUR 1,050,000.

On March 24, 2020, Innofactor announced in a stock exchange release that the Legal Register Centre selected Innofactor as the provider of the bankruptcy and reorganization proceedings system (KOSTI). The procurement consists of the following for the KOSTI system: delivery and implementation projects, maintenance and support services, and specialist services for further development. The system delivery is planned to be implemented in stages during 2020–2021. The predicted total value (excluding VAT) stated by the Legal Register Centre in the procurement decision is EUR 2,247,000. The agreement will be valid until further notice.

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 January 1–March 31, 2020, the highest price of the company share was EUR 0.95 (2019: EUR 0.70), the lowest price was EUR 0.51 (2019: 0.36), and the average price was EUR 0.73 (2019: EUR 0.45).

The closing price for the review period on March 31, 2020, was EUR 0.66 (2019: EUR 0.51).

In public trading in January 1–March 31, 2020, a total of 5,409,684 shares were traded (2019: 3,141,978 shares), which corresponds to 14.5 percent (2019: 8.7%) of the average number of shares on the said period. On January 1–March 31, 2020, there were 37,388,225 shares on the average (2019: 36,188,225). The share trading increased by 72.2 percent compared to the corresponding period in 2019.

The market value of the share capital at the closing price of EUR 0.66, on March 31, 2020, was EUR 24,601 thousand (2019: 18,384), which shows an increase of 33.8 percent.

On March 31, 2020, the company had a total of 11,122 shareowners (2019: 11,265), including administrative registers.

The Board of Directors has been given the following authorizations:

- Until June 30, 2021, 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 March 31, 2020); the authorization has not been used.
- Until June 30, 2021, to decide on a transfer of a maximum of 3,600,000 treasury shares (decided by the General Meeting of March 31, 2020); the authorization has not been used.

Own shares

The General Meeting of March 31, 2020, 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, 2021. This authorization replaces the Board's earlier authorizations concerning share repurchase.

The authorization has not been used. At the end of the review period, the company had no treasury shares.

Management of the company

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

The General Meeting of March 31, 2020, decided that the number of Board members is five. Previous members Pekka Eloholma, Sami Ensio, Anna Lindén and Risto Linturi, were re-elected as the members of the Board of Directors. Heikki Nikku was elected as a new member. In their organizing meeting held immediately after the General Meeting, the Board of Directors elected Anna Lindén as the Chairman of the Board.

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

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

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

Market outlook and business environment: We believe the markets will grow in the long term – due to the Coronavirus, the markets are not expected to grow in 2020

Main forces affecting market changes and main trends of innovation are, for example, augmented and virtual reality, Internet of Things (IoT), artificial intelligence, robotics, blockchains, and quantum computing. Factors enabling these include transfer of software into the cloud, data analytics, social media, and mobility. Prevention of the climate change sets new requirements for both societies and organizations, but it also creates new business opportunities and speeds up innovation. The purchase habits of customers have changed as these business changes are taking place. Our customers expect their IT partner to focus more on business benefits instead of technology benefits. They want to get solutions that are ready for use without a need to make major customer-specific changes. Additionally, customers increasingly expect to purchase continuous services instead of large one-off projects.

We estimate that the IT service market in the Nordic countries grew by approximately 3–5 percent in 2019. We estimate that the IT service market will not grow in the Nordic countries in 2020 due to the financial hardships caused by the Coronavirus. Our estimate is based on research institutes' forecasts and our own outlook on markets.

In the long term, we believe that the digital step the society is taking due to the Coronavirus epidemic will increase Innofactor's possibilities to grow its business operations. The abilities of a modern digital organization will be even more important for our customers in the future – also in preparation for the possible second wave of the epidemic. It is also possible that some of our customers will transfer some of their operations back to the Nordic countries in order to be closer to their customers. This would have a favorable effect as regards the business model of Innofactor's chosen strategy based on Nordic specialists. We also believe that Microsoft's position has strengthened during the Coronavirus epidemic. We believe in our chances of increasing our market share in the Nordic countries.

The competition in Microsoft-based solutions in the Nordic countries is fragmented. The first competitor group consists of large companies operating in all Nordic countries. These competitors sell a wide variety of IT solutions that corporations and organizations need, and they offer several competing technologies of which the Microsoft technology is one. The second competitor group consists of mid-sized companies that focus on a narrower solution area in the Nordic level and also offer several different technologies. The third competitor group consists of mid-sized companies operating mainly in a specific country and typically offering a wide variety of solutions using several competing technologies. The third competitor group consists of small companies operating only in their own country and focusing on a clearly defined solution area, technology and field of business.

Microsoft's fragmented partner network consisting of small and mid-sized companies offers us interesting possibilities for reorganizations. In acquisitions, we will probably focus on mid-sized companies operating in one country. With these, we will aim at expanding the coverage of our offering in a specific country and also possibly acquiring more cloud-based product and service business. Good reputation, fast and profitable growth, successful acquisitions, and entrepreneurial spirit will make us an attractive partner for reorganizations in the field. The Coronavirus epidemic will probably increase reorganizations, if small and mid-sized IT service companies end up in financial trouble.

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.

Risk of a pandemic: An epidemic spreading into a global pandemic could hinder Innofactor's business operations. If there were no significant epidemic in Innofactor's operating area in the Nordic countries, the detriment would be limited mostly to a decrease in availability of tools, especially computers, needed in Innofactor's business operations. Should there be a significant epidemic also in Innofactor's operating area in the Nordic countries, it could mean shifting to remote work mainly or entirely, as well as temporary decrease in customers' purchases and delays in some customer deliveries.

The risk of a pandemic has realized in the form of the Coronavirus (COVID-19), and the epidemic is present in significant amounts in Innofactor's operating area in the Nordic countries. All Nordic countries have introduced restrictions, and the operational preconditions for several companies have weakened. Innofactor had prepared for the risk of a pandemic by giving the employees instructions concerning traveling and especially any symptoms after it, purchasing a larger than normal stock of computers, and by making a separate plan for getting all personnel to work remotely, if necessary. In accordance with the plan, it was recommended that the entire personnel start working remotely as of March 12, 2020.

It is estimated that it has been possible to perform over 98% of tasks remotely for now. As concerns some Innofactor customers, a decrease of deliveries and purchases or delaying them until a later date has been observed. This has so far had a minor effect on Innofactor's business. Should the restrictions continue for long (later than August 2020), Innofactor's customers' situation would probably weaken in the extent that it might also result in a decrease in Innofactor's net sales. In this case, Innofactor would have to consider new adjustment actions. The planning of our current operation is based on the assumption that at least a major part of the restrictions that currently hamper companies' operation can be removed in the Nordic countries in August 2020 at the latest, which means there will be no significant decrease in business activities and there probably won't be a need for any major adjustment actions.

Financing risks: In its normal business operations, the Innofactor Group is susceptible to normal financing risks. In total at the end of the review period, Innofactor had approximately EUR 9.4 million in interest bearing debts to financial institutions, which have been taken out to finance earlier acquisitions and working capital. Of the debts, approximately EUR 3.6 million is non-current and approximately EUR 5.8 million current liabilities consisting of loan installments of EUR 1.7 million in 2020 and a credit limit of approximately EUR 4.1 million. Additionally, the company had lease liabilities in accordance with the IFRS 16 standard (leases for the duration of fixed-term leases) for EUR 5.3 million, of which EUR 1.8 million was current and EUR 3.5 million non-current. The total of interest-bearing liabilities was EUR 14.8 million.

After the review period ended, Innofactor has acquired EUR 3.0 million in new additional financing in the form of a senior loan from a major Finnish pension insurance company to support growth projects and renegotiated loan terms with the bank. From now on, Innofactor is committed to the following covenants common to both financiers: Equity ratio calculated every 6 months is at least 36% until June 30, 2021, 38% until December 31, 2022, and 40% afterwards; interest bearing

liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 3.5 until December 31, 2020, 3.25 until June 30, 2021, 3.0 until December 31, 2021, 2.75 until June 30, 2022, and 2.5 afterwards; and certain other normal conditions for loans. Additionally, due to the Coronavirus epidemic, we have agreed that installments for the new and current loans will be paid for the first/next time in April 2021.

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. Financing risk management has been centralized to the CFO, who is responsible for the Group's financing and regularly reports to the company's Executive Board, CEO, and Board of Directors. It is possible that, in the future, the Group will not get the financing it needs and this would have a negative effect on the Group's business and its development, especially on making acquisitions.

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

Acquisitions and changes in the Group structure

During the review period, Innofactor increased its ownership of Arc Technology Oy by 26.94 percent. At the end of the review period, Innofactor's share of ownership in the company was 45.13 percent. Arc Technology Oy is reported in the Q1/2020 interim report as a participating interest company and from Q2/2020 onwards as a subsidiary, because Innofactor assumed the control in the Board of Directors in April 2020. The change from the previous share of ownership will be recognized during Q2/2020 as Arc Technology will be reported as a subsidiary. The increase in the ownership of Arc Technology Oy had no effect in the result of the review period, and the result for 2020 is not estimated to be significant. For 2020, Arc Technology Oy is estimated to increase Innofactor's net sales approximately by EUR 1 million.

There were no other changes in the group structure during the review period.

Events after the review period

On April 27, 2020, Innofactor announced in a stock exchange release that VTT Technical Research Centre of Finland Ltd selected Innofactor as the provider of application management services for Microsoft Office 365 and Microsoft SharePoint environments. The procurement consists of application management tasks and services related to maintenance and development of an O365 cloud environment and On Premises SharePoint 2019 environment. The length of the agreement period is three years. Additionally, the customer reserves an option for continuing the agreement for two years, one year at a time. The procurement's estimated total value (excluding VAT) for the agreement period is EUR 2,500,000.

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

Espoo, May 5, 2020

INNOFACTOR PLC

Board of Directors

Additional information:

CEO Sami Ensio, Innofactor Plc

Tel. +358 50 584 2029

sami.ensio@innofactor.com

Briefings concerning the Interim Report January 1–March 31, 2020

Innofactor will publish the interim report for January–March on Tuesday, May 5, 2020, at around 9:00 Finnish time.

A video conference in Finnish concerning the interim report will be held for media, investors and analysts on the same day at 10:00 Finnish time. The report will be presented by CEO Sami Ensio. The corresponding video conference in English will be held at 12:00 Finnish time.

Please register for the conferences beforehand by sending email to ir@innofactor.com.

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

Distribution:

NASDAQ Helsinki

Main media

www.innofactor.com

Financial statement summary and appendixes January 1–March 31, 2020 (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 2019. However, as of January 1, 2020, 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 2019. 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 January 1–March 31, 2020, were EUR 473 thousand (2019: 507).

Other alternative key figures used by Innofactor are order backlog, equity ratio, net gearing, return on investment, return on equity, and net sales per person. Equity ratio and net gearing are presented also without the effects of IFRS 16 in order to preserve the comparability to previous reporting periods. 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.

Comprehensive consolidated profit and loss statement, IFRS

EUR thousand	Jan 1–Mar 31, 2020	Jan 1–Mar 31, 2019
Net sales	17,152	16,148
Other operating income	5	10
Materials (–)	-1,463	-1,478
Employee benefits/expenses (–)	-11,395	-11,597
Depreciation (–)	-1,141	-959
Other operating expenses (–)	-2,342	-2,213
Operating profit/loss	816	-90
Financial income	92	4
Financial expenses (–)*	-1,032	-111
Profit/loss before taxes	-123	-197
Income taxes	327	109
Profit/loss for the financial period	204	-88
Other comprehensive income		
Items that may be later recognized in profit or loss:		
Exchange differences	312	45
Total comprehensive income	516	-43
Distribution of the profit and comprehensive income		
To shareholders of the parent company	516	-43

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

basic earnings per share (EUR)	0.0054	-0.0024
diluted earnings per share (EUR)	0.0054	-0.0024

*) Exchange rate changes related to the Group's internal debts (due to the weakened rate of the Swedish krona and Norwegian krone in relation to euro) results in a exchange rate loss of EUR -859 thousand in accordance with IFRS, but this loss does not affect the cash flow, only the result for the financial period, the Group's balance sheet and the equity ratio.

Consolidated Balance Sheet, IFRS
ASSETS

EUR thousand	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
Non-current assets			
Tangible assets	5,730	5,478	5,290
Goodwill	26,003	26,042	26,003
Other intangible assets	3,109	5,352	3,745
Shares and holdings	78	78	79
Receivables	629	155	629
Deferred tax assets	5,602	5,602	5,602
Non-current assets	41,151	42,708	41,347
Current assets			
Trade and other receivables	13,620	12,865	13,409
Cash and cash equivalents	910	250	963
Current assets	14,529	13,115	14,373
TOTAL ASSETS	55,680	55,823	55,720

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR thousand	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
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	20,921
Retained earnings	-245	-1,292	-1,008
Total shareholders' equity	22,907	21,261	22,145
Non-current liabilities			
Loans from financial institutions	3,619	5,025	3,684
Lease liabilities	3,505	3,837	3,269
Deferred tax liabilities	711	947	813
Long-term liabilities total	7,834	9,808	7,767
Current liabilities			
Loans from financial institutions	5,826	9,176	8,334
Lease liabilities	1,840	1,173	1,566
Trade and other payables	17,273	14,404	15,909
Current liabilities total	24,938	24,753	25,808
Total liabilities	32,773	34,562	33,575
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	55,680	55,823	55,720

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
Shareholders' equity Jan 1, 2020	2,100	72	59	20,921	0	-21	-985	22,145
Comprehensive income								
Result for the financial period						204		204
Exchange differences							312	312
Total comprehensive income				0		450	312	762
Shareholders' equity Mar 31, 2020	2,100	72	59	20,921	0	429	-673	22,908

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange difference	Total shareholders' equity
Shareholders' equity Jan 1, 2019	2,100	72	59	20,321	0	-212	-1,037	21,303
Comprehensive income								
Result for the financial period						-88		-88
Correction								0
Exchange differences							45	45
Total comprehensive income						-88	45	-43
Shareholders' equity Mar 31, 2019	2,100	72	59	20,321	0	-299	-993	21,261

Consolidated Cash Flow Statement, IFRS

EUR thousand	Jan 1–Mar 31, 2020	Jan 1–Mar 31, 2019
Cash flow from operating activities		
Operating profit	816	-90
Adjustments:	0	0
Depreciation *)	1,141	959
Operating profit before a change in working capital	1,957	869
Change in trade and other receivables (+/-)	-321	194
Change in trade and other payables (+/-)	1,691	302
Other adjustments	-104	269
Change in working capital	1,266	766
Cash flow from operating activities before financing and income taxes paid	3,223	1,635
Interests received	92	4
Interests paid (-)	-173	-79
Net cash flow from operating activities	3,142	1,559
Investment cash flow		
Acquisition of subsidiaries	0	0
Investments in intangible and tangible assets (-)	-229	-50
Loan receivables paid back	111	0
Shares and holdings	0	0
Net cash flow from investments	-118	-50
Cash flow from financing		
Loans withdrawn	12	538
Loans paid	-2,585	-1,755
Lease liability payments *)	-504	-300
Payments received from share issue	0	0
Net cash flow from financing	-3,078	-1,517
Change in cash and cash equivalents (+/-)	-54	-8
Cash and cash equivalents, opening balance	963	258
Cash and cash equivalents, closing balance	910	250

*) 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, 2020	Apr 1– Jun 30, 2020	Jul 1– Sep 30, 2020	Oct 1– Dec 31, 2020	Jan 1– Mar 31, 2019	Apr 1– Jun 30, 2019	Jul 1– Sep 30, 2019	Oct 1– Dec 31, 2019
Net sales	17,152				16,148	16,651	13,968	17,432
Other operating income	5				10	33	-13	15
Materials (–)	-1,463				-1,478	-1,499	-1,376	-1,720
Employee benefits/expenses (–)	-11,395				-11,597	-11,634	-9,194	-11,377
Depreciation (–)	-1,141				-959	-975	-1,283	-1,078
Other operating expenses (–)	-2,342				-2,213	-2,424	-1,850	-2,791
Operating profit/loss	816				-90	153	252	480
Financial income	92				4	5	5	10
Financial expenses (–)	-1,032				-111	-262	-215	-219
Profit/loss before taxes	-123				-197	-104	42	271
Income taxes	327				109	106	90	101
Profit/loss for the financial period	204				-88	2	132	371
EBITDA	1,957				868	1,127	1,535	1,559

Group's commitments and contingent liabilities

EUR thousand	Mar 31, 2020	Mar 31, 2019
Collateral given for own commitments		
Lease collateral	233	182
Mortgages on company assets	16,491	16,962
Bank guarantees	253	303
Other own liabilities		
Lease liabilities		
Current lease liabilities	15	161
Lease liabilities maturing in 1-5 years	12	68
Total	27	230
Lease liabilities*		
Current lease liabilities	0	161
Lease liabilities maturing in 1-5 years	0	0
Total	0	161
Other own liabilities total	27	391

* The change is due to the implementation of the IFRS 16 standard

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, 2020, was as follows.

Name	Number of shares	% of share capital
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%
Ilmarinen Mutual Pension Insurance Company	1,800,000	4.81%
2. Hallikainen Jyrki	1,471,009	3.93%
4. Laiho Rami Tapani	1,262,159	3.38%
5. Linturi Kaija and 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%
6. Tilman Tuomo Tapani	1,020,397	2.73%
7. Ärje Matias Juhanoika	882,065	2.36%
8. Mäki Antti-Jussi	847,192	2.27%
9. Saarelainen Mika Pekka	678,649	1.82%
10. Muukkonen Teemu Heikki	514,468	1.38%
11. Ingman Finance Oy Ab	500,000	1.34%
12. Järvenpää Janne-Olli	315,211	0.84%
13. Rausanne Oy	302,545	0.81%
14. Kukkonen Heikki-Harri	301,931	0.81%
15. Hellen Stefan Andreas	250,000	0.67%
16. Laiho Jari Olavi	235,000	0.63%
17. Mäkinen Antti Vilho Juhani	164,000	0.44%
18. Heikki Tervonen Oy	153,000	0.41%
19. Anttila Mikko Matias	139,808	0.37%
20. Heino Petri Juhani	137,467	0.37%

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