

Innofactor Plc Financial Statement February 9, 2023, at 9:00 a.m. Finnish time

Innofactor Plc Financial Statement 2022 (IFRS)

Innofactor's Q4 net sales grew by 17.1 percent and exceeded EUR 20 million for a single quarter for the first time in the company's history

October–December 2022 in brief:

- Net sales were approximately EUR 20.5 million (2021: 17.5), representing growth of 17.1%
 - Of the growth, approximately EUR 2.2 million (12.7%) was organic, excluding the Invenco acquisition and the deduction of approximately EUR 0.4 million recognized in the net sales of Q4/2022 due to uncertainty concerning a receivable in an individual project for which net sales had previously been recognized
- Operating margin was approximately EUR 2.6 million (2021: 1.7), which shows an increase of 57.1%
 - The operating margin was also affected by the deduction of EUR 0.4 million in the net sales for Q4/2022 due to uncertainty concerning a receivable in an individual project
- Operating profit was EUR 1.8 million (2021: 0.5), representing an increase of 244.9%
- The order backlog at the end of the review period was EUR 75.8 million (2021: 72.8), representing an increase of 4.1%
- Innofactor received several significant orders in the fourth quarter, for example:
 - An information management solution for the Finnish Defence Forces Logistics Command, approximately EUR 22 million (not yet in the order backlog at the end of the review period, it is estimated that slightly over half of the total amount of EUR 22 million will be entered in the order backlog in the first quarter of 2023)

January–December 2022 in brief:

- Net sales were approximately EUR 71.1 million (2021: 66.4), representing an increase of 7.2%
 - Without the Prime business sold in the first quarter of 2021, the comparable change would have been an increase of 8.1 percent
 - Of the growth, approximately EUR 3.0 million (4.6%) was organic, excluding the Invenco acquisition, net sales from the Prime business in 2021 and the deduction of approximately EUR 0.4 million recognized in the net sales of Q4/2022 due to uncertainty concerning a receivable in an individual project
- Operating margin was approximately EUR 7.8 million (2021: 10.1), representing a decrease of 22.8%
 - The operating margin in 2021 included a capital gain of approximately EUR 2.6 million from the sale of the Prime business, without which the operating margin

would have been approximately EUR 7.5 million, the comparable operating margin increased by 3.4%

- Operating profit was EUR 4.8 million (2021: 6.5), representing a decrease of 27.1%
 - The operating profit for 2021 includes a corresponding sales gain as the operating margin, without which the operating profit would have been approximately EUR 4.0 million, comparable operating profit increased by 19.9%

Key figures of the group, IFRS

	Oct 1–Dec 31, 2022	Oct 1–Dec 31, 2021	Change	Jan 1–Dec 31, 2022	Jan 1–Dec 31, 2021	Change
Net sales, EUR thousand	20,536	17,530	17.1%	71,130	66,364	7.2%
Growth of net sales	17.1%	-4.0%		7.2%	0.3%	
Operating result before depreciation and amortization (EBITDA), EUR thousand	2,612	1,663	57.1%	7,808	10,111	-22.8%
percentage of net sales	12.7%	9.5%		11.0%	15.2%	
Operating profit/loss (EBIT), EUR thousand*	1,805	523	244.9%	4,751	6,519	-27.1%
percentage of net sales*	8.8%	3.0%		6.7%	9.8%	
Earnings before taxes, EUR thousand*	1,678	330	407.7%	4,178	5,730	-27.1%
percentage of net sales*	8.2%	1.9%		5.9%	8.6%	
Earnings, EUR thousand*	1,328	297	347.3%	3,320	4,504	-26.3%
percentage of net sales*	6.5%	1.7%		4.7%	6.8%	
Order backlog	75,831	72,837	4.1%	75,831	72,837	4.1%
Net gearing	50.0%	30.9%		50.0%	30.9%	
Net gearing without IFRS 16	30.0%	18.1%		30.0%	18.1%	
Equity ratio	44.8%	51.1%		44.8%	51.1%	-12.3%
Equity ratio without IFRS 16	49.2%	54.7%		49.2%	54.7%	
Active personnel on average during the review period**	562	495	13.5%	536	516	3.9%
Active personnel at the end of the review period**	564	500	12.8%	564	500	12.8%
Earnings per share (EUR)	0.0363	0.0080	352.3%	0.0907	0.1208	-24.9%

*) In accordance with IFRS 3, the operating result for October 1–December 31, 2022, includes EUR 55 thousand (2021: 74) and in January 1–December 31, EUR 277 thousand (2021: 464) in depreciation related to acquisitions, consisting of allocations of the purchase price to intangible assets.

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

Innofactor's future outlook for 2023

Innofactor's net sales and operating margin (EBITDA) in 2023 are estimated to increase from 2022, during which net sales were EUR 71.1 million and operating margin was EUR 7.8 million.

CEO Sami Ensio's review: We are confident that, in 2023, we will be able to continue the strong growth we achieved in the second half of 2022

Net sales in the fourth quarter of 2022 were a record-high EUR 20.5 million, representing year-on-year growth of 17.1 percent. Net sales increased in Finland (in spite of a deduction of approximately EUR 0.4 million recognized in the net sales of Q4/2022 due to uncertainty concerning a receivable related to previously recognized net sales) and Norway, but decreased in Denmark (due to exceptionally strong Q4 net sales in Denmark in 2021) and Sweden (although the business improved towards the end of 2022 compared to the earlier part of the year). Net sales per employee grew by 3.2 percent overall from the previous year. The operating margin (EBITDA) grew by 57.1 percent year-on-year and came to EUR 2.6 million (12.7 percent of net sales). In the fourth quarter of 2022, EBITDA was positive in all of Innofactor's operating countries. The order backlog at the end of the quarter was EUR 75.8 million (2021: 72.8), representing an increase of 4.1 percent compared to the same time in the previous year.

Net sales for the full year 2022 reached a record high of EUR 71.1 million, representing year-on-year growth of 7.2 percent. The operating margin (EBITDA) was EUR 7.8 million (11.0 percent of net sales). We achieved good business growth in Finland, Norway and Denmark in 2022, and profitability was also at a good level in those countries. Unfortunately, net sales in Sweden declined again in 2022 and profitability was in the negative, although the operating margin for the latter two quarters of the year was positive. We have taken corrective measures in Sweden to turn our Swedish business to growth and profitability. On the whole, Innofactor reached record-high net sales, EBITDA (excluding non-recurring income from divestments) and order backlog in 2022.

In our strategy, we have set ourselves a target of approximately 20 percent annual growth. While we did not reach that target in the first half of the year, our growth exceeded 19 percent in the latter half of the year. We have identified four key drivers of growth: 1) improving operational efficiency and increasing the invoicing rate, 2) increasing the share of licenses and SaaS services, 3) increasing the number of employees, and 4) acquisitions. The first two drivers of growth also have a positive effect on the operating margin. Our growth in the latter half of the year and improved profitability towards the end of the year were particularly attributable to the following: improving operational efficiency and the resulting increase in the invoicing rate by several percentage points in the fourth quarter compared to the first three quarters; the growth of license and SaaS net sales from 25 percent in the first quarter to 28 percent in the fourth quarter; and the Invenco acquisition in June 2022. Our goal in 2023 is to improve the efficiency of our operations, increase the invoicing rate and further increase the share of net sales derived from licenses and SaaS.

In our Q2 interim report, we mentioned challenges related to certain individual project deliveries. The problematic projects in question were, for the most part, completed by the end of 2022. For one project, we recognized a deduction of approximately EUR 0.4 million in revenue in the fourth quarter due to uncertainty related concerning a receivable related to previously recognized net sales. We have improved our operating model to identify potentially challenging projects much

earlier than before and enhanced the management of such projects to ensure their successful completion. The aim is to prevent the future occurrence of similar problematic projects.

Innofactor received a record number of new orders in 2022. The case and document management system for the Greater Stockholm Fire Brigade is an important strategic achievement, as it is the first delivery of our Dynasty product outside Finland. We see very attractive opportunities in Sweden and the other Nordic countries for significant market growth over the next few years with the help of our Dynasty product, which has become the market leader in Finland. In Finland, we achieved excellent success in several public procurement processes in 2022 with our Dynasty product. In December, Innofactor won the largest contract in its history when the Finnish Defence Forces selected our offer, which is based on our Dynasty product, as its new information management solution. The value of the contract is estimated to be approximately EUR 22 million. We are grateful to our customers for their trust.

In June 2022, Innofactor acquired Invenco Ltd, a company that specializes in data and analytics. We see significant growth opportunities in the area of data and analytics in Finland, and we now pursue these opportunities together with the leading professionals who joined us as part of the Invenco acquisition. Invenco was a long-term Microsoft partner with approximately 50 employees, of whom 35 are senior data professionals. Invenco's annual net sales were approximately EUR 6 million and its EBITDA was approximately 5 percent of net sales. Innofactor's aim is to grow the net sales of the data and analytics unit and improve its profitability through synergies, for example. One excellent example of this is the decision of the Aalto University Foundation in August 2022 to select Innofactor as part of a consortium formed with Invenco Ltd to develop and maintain Aalto University's centralized data warehouse in a contract valued at approximately EUR 5 million.

Innofactor's aim is to be the leading provider of organizations' digital transformation in each of the Nordic countries. We believe in our chosen Nordic strategy and in reaching our long-term goals. This requires perseverance and determination from the company's management and employees as well as investors. Innofactor is still actively looking for new strategic partnerships in the Nordic countries. The Group's goal is to grow both organically and through acquisitions.

I am also pleased that we were able to purchase our own shares in 2022 and will be able to distribute funds to our shareholders for the year 2022 in accordance with our dividend policy at EUR 0.06 per share (2022: EUR 0.08 per share). I want to take this opportunity to thank our customers, partners, employees, and investors for the year 2022.

Strategy and its realization in the review period

Innofactor's strategy comprises our purpose, mission, vision, strategic choices, values, working principle, and long-term financial goals.

Our purpose: Innovating to make the world work better

Our mission: Driving the modern digital organization

Our vision: Leading Nordic digital transformation partner in the Microsoft ecosystem

Our strategic choices:

- The most competent Nordic teams
- Productized and specialized offering
- Proactive and agile way of working
- Innovation with top customers

Our values:

- Accountability
- Empowerment
- Innovation
- Customer

Our working principle: Our principle is to put people first in everything we do. We want to create solutions that make people's everyday work and life run smoothly and bring a smile to their faces.

Our long-term financial goals:

- To achieve annual growth of about 20 percent, of which majority is intended to be achieved by organic growth
- To achieve about 20 percent EBITDA in relation to the net sales
- To keep the cash flow positive and secure good financial standing in all situations.

Innofactor's net sales during the review period January 1–December 31, 2022, were EUR 71.1 million (2021: 66.4), representing year-on-year growth of 7.2 percent. Without the Prime business sold in the first quarter of 2021, the comparable change would have been an increase of 8.1 percent. The strategic goal of net sales growth is also supported by the favorable development of the order backlog of EUR 75.8 million (2021: 72.8). The Invenco acquisition brings inorganic growth to Innofactor's business.

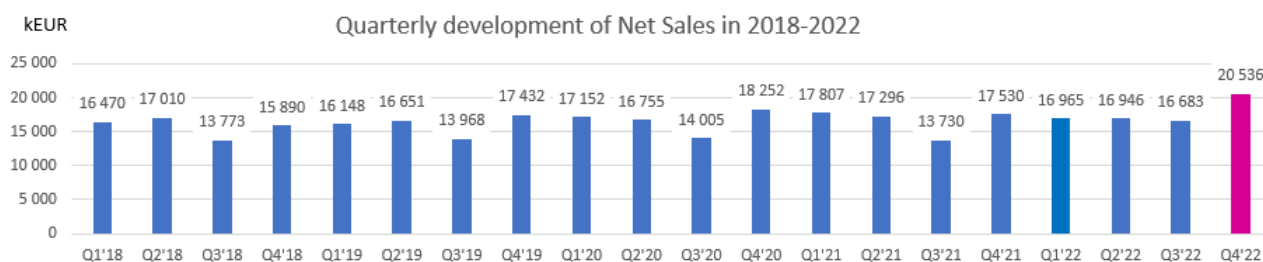
The operating margin (EBITDA) decreased during the review period January 1–December 31, 2022, from EUR 10.1 million in the corresponding period of the previous year to EUR 7.8 million (11.0 percent of net sales). The operating margin in 2021 included a capital gain of approximately EUR 2.6 million from the sale of the Prime business, without which the operating margin would have been approximately EUR 7.5 million, corresponding to the comparable operating margin increasing by 3.4%. With regard to profitability, continued attention and efforts by the management are still needed in the coming years to reach the long-term target of approximately 20 percent.

Innofactor’s operating cash flow for the review period January 1–December 31, 2022, amounted to EUR 6.7 million (2021: EUR 8.9 million) and the equity ratio at the end of the review period was 44.8 percent (2021: 51.1%). Cash flow in 2021 was increased by the capital gain of approximately EUR 2.6 million from the sale of the Prime business. The equity ratio in 2022 was reduced by a loan of approximately EUR 2.5 million taken in relation to the Invenco Ltd acquisition. Innofactor’s strong operating cash flow supports the company’s strategic goal of profitable growth and securing a solid financial standing in all situations.

The key actions to be taken to achieve growth of approximately 20 percent and EBITDA of approximately 20 percent:

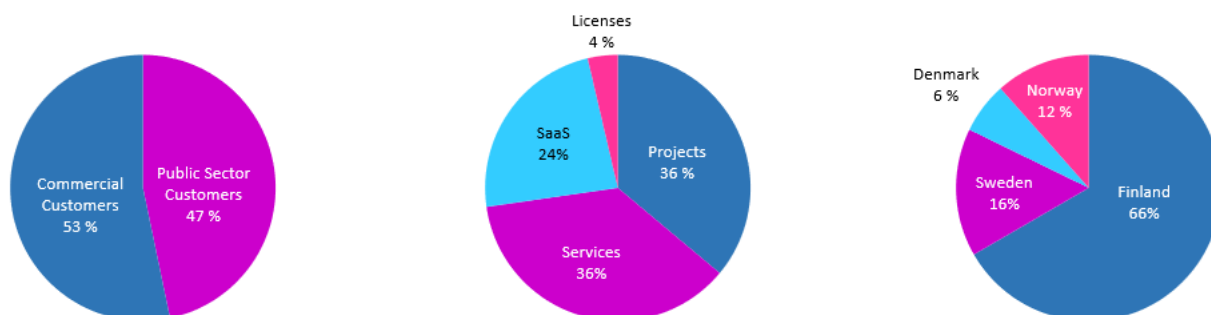
1. We will improve the efficiency of our operations and increase our invoicing rate by five percentage points. This will be achieved by, for example, improving the management of project and service contracts, enhancing the cross-resourcing of personnel between countries and units, reducing employee turnover and developing our self-directed team models.
2. We will increase the share of licenses and SaaS services to over 33 percent of net sales from the current level of approximately 28 percent. This will be achieved by, for example, developing our offering, such as the new MDRaaS service (CSOC) and by focusing our sales efforts on customers and solution areas with the highest growth potential and that present the best opportunities for scaling our existing offering in each of the Nordic countries.
3. We will increase the number of employees engaged in invoiced services. This will be achieved by, for example, doubling our recruitment of new university graduates to over 60 employees in 2023, concentrating the recruitment of senior professionals to our Nordic recruitment team, increasing the competence of our employees through certifications, reducing employee turnover, improving the efficiency of subcontracting and investing in the development of our employer brand.
4. We will become an even more proactive player in the Nordic M&A field. This will be achieved by, for example, through the internal reorganization of operations, emphasizing the role of country directors in actively seeking new potential acquisition targets in their respective countries.

Innofactor’s Q4 net sales grew by 17.1 percent and exceeded EUR 20 million for a single quarter for the first time in the company’s history



Innofactor’s net sales for the period October 1–December 31, 2022, amounted to EUR 20,536 thousand (2021: 17,530), representing growth of 17.1 percent. Organic net sales growth was approximately EUR 2.2 million (12.7%). The organic growth does not take into account the net sales of Invenco Ltd, acquired at the end of June, and the deduction of approximately EUR 0.4 million recognized in the net sales of Q4/2022 due to uncertainty concerning a receivable in an individual project for which net sales had previously been recognized. Net sales per active employee amounted to approximately EUR 36.5 thousand (2021: 35.4), representing an increase of 3.2 percent.

Innofactor’s net sales for the period January 1–December 31, 2022, amounted to EUR 71,130 thousand (2021: 66,364), representing growth of 7.2 percent. Organic net sales growth was approximately EUR 3.0 million (4.6%). Net sales per active employee amounted to approximately EUR 132.7 thousand (2021: 128.6), representing an increase of 3.2 percent. We focus on continuing to increase net sales per active employee in 2023 as well.



Innofactor’s business operations were focused on Finland, Sweden, Denmark and Norway. During the period January 1–December 31, 2022, approximately 66 percent of the net sales came from Finland, approximately 16 percent from Sweden, approximately 12 percent from Norway, and approximately 6 percent from Denmark. Net sales grew in Finland, Norway and Denmark, but decreased in Sweden. In the fourth quarter of 2022, net sales increased in Finland and Norway, but decreased in Denmark and Sweden.

During the period January 1–December 31, 2022, approximately 53 percent of the net sales came from commercial clients (including third-sector clients) and approximately 47 percent came from public sector clients.

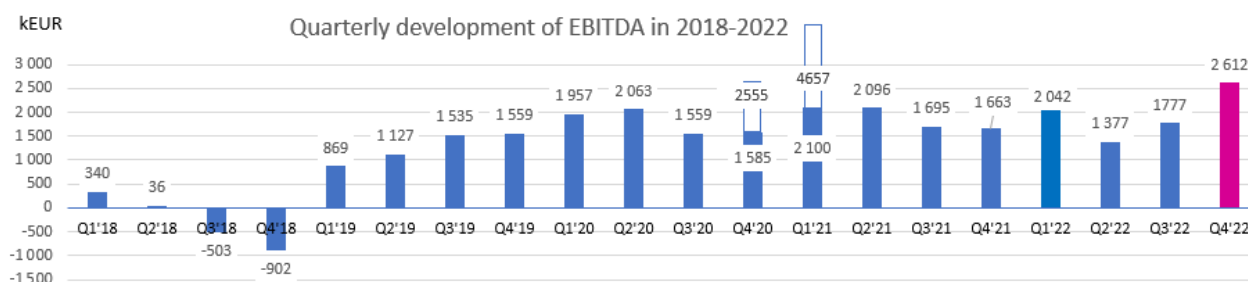
License and SaaS net sales grew throughout the year, from 25 percent in the first quarter to 28 percent in the fourth quarter, which improved profitability. Simultaneously, the share of projects decreased from 40 percent in the first quarter to 36 percent in the fourth quarter, which also had a positive effect on profitability.

Innofactor’s net sales for the review period of January 1–December 31, 2022, came from the following sources:

- Licenses: approximately 4 percent, including all non-recurring fees received for software
- SaaS: approximately 24 percent, including recurring income from SaaS, cloud and hosting services and from software maintenance
- Services: approximately 36 percent, including specialist work based on recurring service contracts, such as smaller customer-specific changes and the further development of IT systems
- Projects: 36 percent from IT system delivery projects and consulting

Innofactor’s 10 largest clients accounted for approximately 27.4 percent of net sales during the review period January 1–December 31, 2022.

Innofactor’s operating margin for the fourth quarter increased by 57.1 percent and was the highest operating margin for a single quarter in the company’s history (excluding the capital gain from the sale of the Prime business in Q1/2021)



Innofactor’s operating margin (EBITDA) for the period October 1–December 31, 2022, was EUR 2,612 thousand (2021: 1,663), representing growth of 57.1 percent. EBITDA represented 12.7 percent of net sales (2021: 9.5%).

Innofactor’s operating margin (EBITDA) for the period January 1–December 31, 2022, was EUR 7,808 thousand (2021: 10,111), representing a decrease of 22.8 percent. EBITDA represented 11.0 percent of net sales (2021: 15.2%). The operating margin in 2021 included a capital gain of approximately EUR 2.6 million from the sale of the Prime business, without which the operating margin would have been EUR 7,554 thousand (11.4% of net sales). The operating margin for 2022 increased by 3.4 percent from the comparable operating margin for 2021.

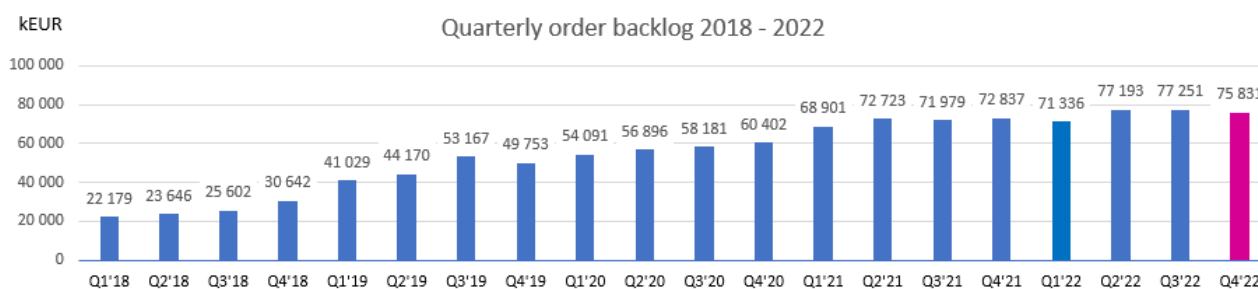
Innofactor’s operating profit for the period October 1–December 31, 2022, amounted to EUR 1,805 thousand (2021: 523), representing an increase of 245 percent. Operating profit was 8.8 percent of net sales (2021: 3.0%).

Innofactor’s operating profit for the period January 1–December 31, 2022, amounted to EUR 4,751 thousand (2021: 6,519), representing a decrease of 27.1 percent. Operating profit was 6.7 percent of net sales (2021: 9.8%). Without the capital gain from the sale of the Prime business in 2021, the comparable change would have been an increase of 19.9 percent.

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 operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciation.

In accordance with IFRS 3, the operating result for the review period October 1–December 31, 2022, includes EUR 55 thousand (2021: 74) and for January 1–December 31, 2022, EUR 277 thousand (2021: 464) in depreciation related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciation, Innofactor’s operative business profit for the review period of October 1–December 31, 2022, would have been EUR 1,860 thousand (2021: 597), representing growth of 211.6 percent. For the period January 1–December 31, 2022, Innofactor’s operating profit would have been EUR 5,028 thousand (2021: 6,983), representing a decrease of 28.0 percent.

Innofactor’s order backlog remained at a high level despite the fact that the company’s largest contract, announced in December, has not yet been entered in the order backlog



Innofactor’s order backlog at the end of the review period was EUR 75,831 thousand (2021: 72,837), representing an increase of 4.1 percent.

In December 2022, Innofactor won the largest contract in its history when the Finnish Defence Forces selected our offer, which is based on our Dynasty product, as its new information management solution. The value of the contract is estimated to be approximately EUR 22 million. The contract has not been entered in the order backlog yet. It is estimated that slightly over half of the total amount of EUR 22 million will be entered in the order backlog in the first quarter of 2023.

Innofactor's operating cash flow in the review period continued to be strong

Innofactor's balance sheet total at the end of the review period was EUR 55,815 thousand (2021: 51,057). The Group's liquid assets totaled EUR 1,956 thousand (2021: 1,963), consisting entirely of cash funds.

The operating cash flow for the review period January 1–December 31, 2022, was EUR 6,704 thousand (2021: 8,855). The cash flow from investing activities was EUR -3,593 thousand (2021: -643).

The equity ratio at the end of the review period was 44.8 percent (2021: 51.1%) and net gearing was 50.0 percent (2021: 30.9%).

At the end of the review period, the company had EUR 4,886 thousand in current interest-bearing liabilities to financial institutions (2021: 1,873) and EUR 4,517 thousand in non-current interest bearing liabilities to financial institutions (2021: 4,683). The company had IFRS 16 lease liabilities (leases for the duration of fixed-term leases) of EUR 4,947 thousand (2021: 3,261) of which EUR 2,115 thousand in current leases (2021: 1,603) and EUR 2,832 thousand in non-current leases (2021: 1,658). The total amount of interest-bearing liabilities was EUR 14,349 thousand (2021: 9,818).

The return on investment for the period January 1–December 31, 2022, decreased slightly year-on-year and was 14.5 percent (2021: 20.6%). The return on equity for the period January 1–December 31, 2022, decreased year-on-year and was 13.2 percent (2021: 18.4%).

The non-current assets on Innofactor's balance sheet at the end of the review period totaled EUR 39,319 thousand.

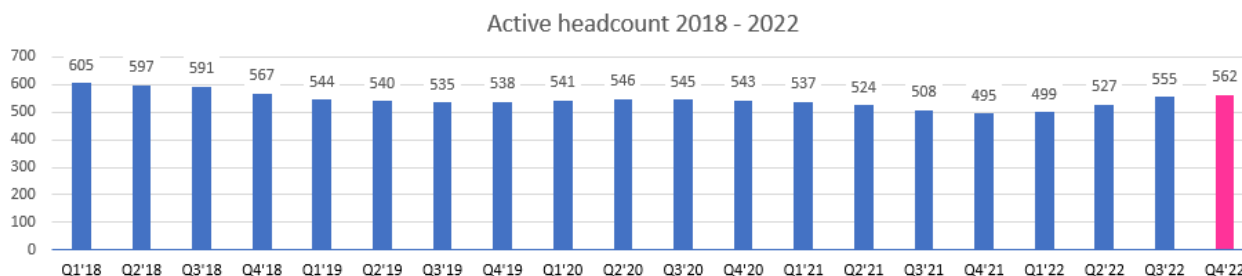
Innofactor's gross investments in tangible and intangible assets during the review period January 1–December 31, 2022, came to EUR 872 thousand (2021: 402), consisting of normal additional and replacement investments required by growth.

Innofactor's research and product development investments increased year-on-year

During the review period, the focus of product development was on the renewal of existing products and services as well as 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–December 31, 2022, amounted to approximately EUR 4,153 thousand (2021: 3,504), representing 5.8 percent of net sales (2021: 5.3%).

Innofactor’s number of employees increased year-on-year



Innofactor primarily monitors the number of active personnel. The number of active personnel does not include employees who are on leave for more than 3 months.

The average number of active personnel during the period October 1–December 31, 2022, was 562 (2021: 495), representing an increase of 13.5 percent. The average number of active personnel during the period January 1–December 31, 2022, was 536 (2021: 516), representing an increase of 3.9 percent. At the end of the review period, the number of active personnel was 564 (2021: 500), representing an increase of 12.8 percent.

At the end of the review period, the average age of the personnel was 42.7 years (2021: 42.5). Women accounted for 26 percent (2021: 27%) of the personnel. Men accounted for 74 percent (2021: 73%) of the personnel.

Other events in the review period

On January 4, 2022, Innofactor announced in a stock exchange release that it had completed the share repurchase program. Repurchases of treasury shares began on October 26, 2021, and ended on January 3, 2022. During this period, Innofactor acquired 800,000 treasury shares at an average price of EUR 1.5045. The shares were acquired at the current market price in public trading arranged by Nasdaq Helsinki Ltd.

On January 18, 2022, Innofactor announced in a stock exchange release that the Ministry of Social Affairs and Health selected Innofactor in a public procurement competition as the provider of the Case Management, Document Management, Services, and Reference Price Information System as well as the related maintenance and further development tasks of the Pharmaceuticals Pricing Board. The total value of the procurement (excluding VAT) stated by the Ministry of Social Affairs and Health in the procurement decision for the four-year contract period is approximately EUR 1,190,000.

On January 20, 2022, Innofactor announced in a stock exchange release that the Housing Finance and Development Centre of Finland (ARA) had selected Innofactor in a public procurement competition as the supplier of the Sequence Number Register. The procurement includes the

planning and implementation of the Sequence Number Register, the support, maintenance and further development services for the implemented solution, as well as system operation and control. The solution is based on Microsoft Azure cloud services. Innofactor's share of the total value of the procurement is approximately EUR 680,000. The minimum agreement period is three years.

On February 16, 2022, Innofactor announced in a stock exchange release that the Finnish Safety and Chemicals Agency (Tukes) selected Innofactor in a public procurement competition as the supplier of the "Agile development of services, servicing and maintenance" section of the framework agreement on for IT system development and maintenance. The framework agreement comprises a total of three areas for which a total of four framework contract suppliers were selected. A total of two framework contract suppliers were selected for the "Agile development of services and Servicing and maintenance" are. The Agile development of services, servicing and maintenance section focuses on the implementation of Tukes' systems in accordance with an agile approach, service validation, the servicing and maintenance of applications, and processing and repair of disruptions. The anticipated total value of the procurement indicated by Tukes in the procurement decision for all three covered areas, without value added tax, is approximately EUR 6.8 million. The duration of the framework agreement is four years, plus an option for two additional years.

On March 1, 2022, Innofactor announced in a stock exchange release that Innofactor and a Swedish bank have signed an agreement concerning the configuration, development, and support services for a Microsoft Dynamics 365 solution. Innofactor estimates the value of the agreement to be approximately EUR 800,000. The agreement will be valid until further notice.

On March 2, 2022, Innofactor announced in a stock exchange release that Finnvera had selected Innofactor as the provider of its case management system as a SaaS solution. The procurement comprises the case management system as well as the relevant access permissions, support and maintenance services, system delivery project, and supplementary expert services. The system will be based on Innofactor's Dynasty 10 solution. The service agreement related to the procurement will be valid for fixed period of four (4) years, after which the agreement will be valid until further notice. The planned start of the deployment project is on April 1, 2022. Innofactor estimates the total value of the procurement at approximately EUR 1.0 million.

On March 10, 2022, Innofactor announced in a stock exchange release that the Social Insurance Institution of Finland (Kela) has selected Innofactor as the provider of a administrative case management solution in a public competitive tendering process. The procurement includes a case management solution based on Innofactor's Dynasty 10 system, the delivery project, the maintenance and support services as well as any separately requested expert work related to the solution. The total value (excluding VAT) quoted by Kela in its procurement decision is approximately EUR 0.7 million. The agreement will be valid for fixed period of four (4) years, after which the agreement will be valid until further notice.

On March 31, 2022, Innofactor announced in a stock exchange release that Innofactor and a Norwegian non-profit organization have signed an agreement concerning a cloud migration project, which comprises the migration of the organization's IT system from an external On Premises server room to the Microsoft Azure cloud environment. The value (excluding VAT) of the agreement is approximately EUR 1.2 million. The cloud migration project will be delivered between April 2022 and January 2023.

On April 12, 2022, Innofactor announced in a stock exchange release that Senate Properties has selected Innofactor in a public procurement competition as the provider of a case and document management system as well as the related maintenance and further development tasks. The system will be based on Innofactor's Dynasty 10 solution. Delivery of the system is scheduled to take place within the 2022–2023 period, after which the delivery comprises maintenance and further development services. The total value of the procurement (excluding VAT) quoted by Senate Properties in its procurement decision is approximately EUR 2.2 million. The agreement will be valid for a fixed period of two (2) years from delivery, after which the agreement will be valid until further notice.

On May 12, 2022, Innofactor announced in a stock exchange release that Innofactor and a Danish pharmaceutical company have signed an agreement concerning the delivery of managed cloud services supporting a data integration platform. The services are implemented by using Microsoft Azure PaaS cloud services. The value (excluding VAT) of the agreement is approximately EUR 2.1 million. The agreement is valid until further notice.

On May 17, 2022, Innofactor announced in a stock exchange release that the State Treasury of Finland has selected Innofactor in a dynamic purchasing system to provide IT expert services to support the development and maintenance of a Microsoft Dynamics 365 CRM system. The tasks of the experts include the development, maintenance and support services of the CRM system that is already in use in the State Treasury. The development will be carried out mainly with agile methods according to the operating models of the State Treasury. Based on the assessment of the yearly work under the agreement provided by the State Treasury, Innofactor estimates the net sales derived from the agreement to amount to at least EUR 5.0 million. The agreement period is eight years.

On June 3, 2022, Innofactor announced in a stock exchange release that the Funding Centre for Social Welfare and Health Organisations (STEA) has selected Innofactor in a public procurement competition to continue the maintenance and development of a grant and case management system. The work will be carried out with agile methods. Innofactor's estimate of the value of the procurement for the three-year contract period is approximately EUR 1.8 million.

On June 8, 2022, Innofactor announced in a stock exchange release that the Greater Stockholm Fire Brigade (Storstockholms brandförsvär) has selected Innofactor in a public procurement competition to provide a case and document management system, as well as maintenance and support services related to it. The system will be based on the Innofactor Dynasty information and

case management solution. Innofactor's reference price for a contract period of eight years stated by the client in the procurement decision is approximately EUR 0.35 million.

On June 20, 2022, Innofactor issued a stock exchange release to announce that Innofactor Plc has signed an agreement on June 20, 2022, on acquiring the entire share capital of the privately owned company Invenco Ltd. The transaction is described in more detail under "Acquisitions and changes in the Group structure" and under "Preliminary acquisition cost calculation for Invenco Ltd" in the notes to the financial statements.

On August 3, 2022, Innofactor announced in a stock exchange release that the Legal Register Centre has selected Innofactor to continue the development and maintenance work of the ERP and document management system for administrative courts and special courts (HAIPA project). The system is based on Innofactor's Dynasty product family. The total value of the procurement (excluding VAT) stated by the Legal Register Centre in the procurement decision is approximately EUR 4.0 million. The contract period is two years, in addition to which there are two one-year options, which will be decided on separately.

On August 9, 2022, Innofactor announced in a stock exchange release that the Aalto University Foundation has selected Innofactor in a public procurement competition as part of a consortium formed with Invenco Ltd to develop and maintain Aalto University's centralized data warehouse. The tender was submitted as a consortium with Invenco Ltd, with Innofactor subsequently issuing a stock exchange release on June 20, 2022, to announce the acquisition of the share capital of Invenco Ltd. The acquisition was completed on June 30, 2022, after which Invenco Ltd is part of Innofactor Group. The estimated total value (excluding VAT) stated by the Aalto University Foundation in the public procurement decision for a contract period of four years is approximately EUR 5.0 million.

On September 28, 2022, Innofactor issued a stock exchange release announcing that, at its meeting on September 27, 2022, the Board of Directors of Innofactor Plc had decided to commence the acquisition of the company's own shares for the purpose of developing the company's capital structure. The company will acquire a maximum of 800,000 shares, which corresponds to approximately 2.1% of the total number of shares. The maximum amount to be used for the acquisition of shares is EUR 1,000,000. The decision was made on the basis of the authorization given by Innofactor Plc's Annual General Meeting on March 31, 2022, to acquire a maximum of 3,600,000 shares. The repurchase of shares will commence on September 28, 2022, at the earliest and will end at the latest on March 24, 2023, or at an earlier Annual General Meeting. Innofactor Plc has a total of 37,388,225 shares, of which the company currently owns 741,410 (approximately 2.0%). The company's own shares will be acquired at the current market price in public trading arranged by NASDAQ Helsinki Ltd using the company's unrestricted equity.

On December 7, 2022, Innofactor issued a stock exchange release announcing that the Board of Directors of Innofactor Plc had, on the date in question, decided on a directed share issue for the company's management. The directed share issue is carried out with the shares held by the

company. The decision on the transfer of the shares has been made on the basis of the authorization given by the General Meeting of Innofactor Plc on 31 March 2022. The share issue deviates from the shareholder's pre-emptive subscription right. The share issue is carried out in order to engage the commitment of the company's management, which means that there is an important financial reason for the deviation. A total of 50,000 shares held by the company will be transferred to the company's management at the price of EUR 1.00 per share. The basis for determining the transfer price is the volume-weighted average share price in October 2022 in public trading organized by NASDAQ Helsinki Oy. After the transfer, Innofactor Plc will hold 1,073,045 of its own shares.

On 22 December 2022, Innofactor issued a stock exchange release announcing that the Finnish Defence Forces Logistics Command has selected Innofactor in a public procurement competition as the provider of an information management system solution (PVASIA) and related services. The system will be based on Innofactor's Dynasty product family. The procurement comprises an integrated solution of information management, task management, case management, document management, electronic signature and information search services. The service agreement will be valid for six years, after which the maintenance agreement can be continued with four two-year options for a maximum of eight years. According to the release published on the website of the Ministry of Defence, the total value of the procurement, excluding VAT, is EUR 22 million.

Share and shareholders

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 confers one vote.

During the period October 1–December 31, 2022, the highest price of the company's share was EUR 1.13 (2021: 1.65), the lowest price was EUR 0.83 (2021: 1.39) and the average price was EUR 0.97 (2021: 1.51).

During the period January 1–December 31, 2022, the highest price of the company's share was EUR 1.54 (2021: 2.07), the lowest price was EUR 0.83 (2021: 1.24), and the average price was EUR 1.17 (2021: 1.61). The closing price for the review period on December 31, 2022, was EUR 1.05 (2021: 1.52).

In public trading during the period of October 1–December 31, 2022, a total of 2,651,360 shares were traded (2021: 9,778,622), which corresponds to 7.1 percent (2021: 26.2%) of the average number of shares in the said period. During the period October 1–December 31, 2022, there were 37,388,225 shares on average (2021: 37,388,225). The share trading volume decreased by 72.9 percent compared to the corresponding period in 2021.

In public trading during the period January 1–December 31, 2022, a total of 14,193,868 shares were traded (2021: 32,546,031), which corresponds to 38.0 percent (2021: 87.0%) of the average number of shares in the said period. During the period January 1–December 31, 2022, there were 37,388,225 shares on the average (2021: 37,388,225). The share trading volume decreased by 56.4 percent compared to the corresponding period in 2021.

The market value of the share capital at the closing price of EUR 1.05 on December 31, 2022, was EUR 39,332,413 (2021: 56,643,161), representing a decrease of 30.6 percent.

On December 31, 2022, the company had a total of 11,798 shareholders (2021: 12,343), including nominee-registered shares.

On December 31, 2022, the company held 1,180,121 treasury shares.

Decisions of the Annual General Meeting

On March 31, 2022, the Annual General Meeting decided, in accordance with the proposal of the Board of Directors that for the financial period of 2021 a repayment of capital of EUR 0.08 per share be paid. The repayment of capital was paid to shareholders who on the record date of the capital repayment on April 4, 2022, were recorded in the company's shareholders' register held by Euroclear Finland Oy. The repayment of capital were paid on April 11, 2022.

The Annual General Meeting of March 31, 2022, decided that the Board of Directors shall have four members. Mr. Sami Ensio, Ms. Anna Lindén, Mr. Risto Linturi, and Mr. Heikki Nikku were re-elected as members to the Board of Directors. At the organizing meeting held 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.

The Board of Directors has been given the following authorizations:

- Until June 30, 2023, 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 Annual General Meeting of March 31, 2022); the authorization has not been used.
- Until June 30, 2023, to decide on the acquisition of a maximum of 3,600,000 treasury shares (decided by the General Meeting of March 31, 2022); the Board of Directors decided on September 27, 2022, to commence the repurchase of the company's shares. The company will repurchase a maximum of 800,000 shares. The authorization was used to repurchase 488,711 shares by the end of the review period. At the end of the review period, the company held a total of 1,180,121 treasury shares.

- Until the next Annual General Meeting, to distribute assets to shareholders as repayment of capital totaling a maximum of EUR 3,279,058, which allows the distribution of assets up to a maximum of EUR 0.08 per share; the authorization has not been used.

Management of the company

Innofactor Plc complies with the recommendations of the Corporate Governance Code 2021 for Finnish listed companies, published by the Securities Market Association.

Innofactor has drawn up a separate Corporate Governance Statement for the financial period of 2022.

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

Related party transactions

The company's managers considered to be related parties have EUR 70 thousand in liabilities from the company's personnel issues to the company. As a rule, the loan period is five years, and the loan is repaid in fixed monthly installments. There are also two-year loans that are repaid in four equal instalments every six months. The interest rate on the loans is the 12-month Euribor 160. However, the interest rate is always a minimum of 0%. The accrued interest is paid monthly to the company. The company does not have any other major related party transactions.

Market outlook and business environment: We expect that the growth of the Nordic IT services market will continue in 2023 in spite of the general uncertainties in the business environment

We expect that the growth rate of the Nordic IT services market will be positive in 2023 but, due to the European security policy situation and the general economic downturn, we are not able to provide a more accurate estimate. Our growth target for the next few years is to surpass the market growth rate, and our long-term goal is annual growth of approximately 20 percent.

The key innovation trends and drivers of change in the market include the metaverse, augmented reality, virtual reality, the Internet of Things (IoT), artificial intelligence, robotics, blockchains, Low-code and citizen development, with facilitating roles being played by software moving to the cloud, data analytics, social media, and the use of mobile devices. Microsoft's strong investment in integrating artificial intelligence into its own platform and the growing awareness of the possibilities of artificial intelligence, which is believed to increase customers' need to renew information systems, are considered particularly significant for Innofactor's business. Combating climate change and the changed security policy situation in Europe place new demands on both societies and organizations, creating new business opportunities and accelerating innovation. The

purchasing behavior of our customers has evolved as part of this business transformation. Our customers' expectations for their IT partner are characterized by a greater focus on business benefits rather than technological benefits. Our customers are looking for more out-of-the-box solutions that do not require extensive customer-specific customization. In addition, customers are increasingly seeking continuous services instead of large one-time projects. Our customers also increasingly value reliable suppliers that are located close to them.

We estimate that the IT service market in the Nordic countries grew by a few percent in 2022. We estimate that growth in the Nordic IT services market will continue in 2023, but because of the uncertain economic and security policy situation, we cannot give a more detailed estimate. Our estimate is based on research institutes' forecasts and our own outlook on markets.

In the long term, we believe that the digital leap of society in response to the COVID-19 pandemic and the changes in the security policy situation in Europe 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. It is also likely 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 also has a favorable effect as regards the business model of Innofactor's chosen strategy based on Nordic specialists. Microsoft's position has also strengthened during the crises of the past few years. 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 group of competitors consists of large enterprises that operate in all of the Nordic countries. These competitors provide a wide range of IT solutions that are needed by various organizations and use several competing technologies, one of which is the Microsoft ecosystem. The second group consists of medium-sized companies that focus on a niche solution area at the Nordic level, also using several different technologies. The third group consists of medium-sized companies operating mainly in a single country, typically providing a broad range of solutions based on several competing technologies. The fourth group consists of small companies that only operate in their domestic market focusing on certain clearly defined solution areas, technologies, and industries.

Microsoft's fragmented Nordic partner network, which consists of small and medium-sized IT companies, continues to offer interesting acquisition opportunities for us. In the future, our acquisition strategy will likely be focused on medium-sized companies that operate in a single country. This will help us expand our offering at the country-specific level as well as potentially acquire additional 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.

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.

Risks related to operations

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

Skilled personnel and its availability: The development of Innofactor's operations and deliveries depends greatly on the Group having skilled personnel and being able to replace persons, who are leaving, with properly skilled persons. In Innofactor's field of business, there is a lack of and competition for certain personnel resources, which may lead to short employment relationships and high personnel turnover. 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 personnel and their success in their work. Innofactor invests in the continuous development of its personnel and in high personnel satisfaction, a good employer image, efficient recruitment and, if necessary, the use of subcontracting.

Increase in personnel costs: A majority of Innofactor's costs consists of salaries and other personnel costs (in 2022, about 68% of all costs, including depreciation). Currently, all of Innofactor's own employees work in the Nordic countries, whereas some competitors rely heavily on workforce in countries with cheap labor. If the personnel costs continue rising in the Nordic countries 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 constantly and strives to affect the moderate development of personnel costs via interest groups. It also aims at increasing the share of work done by subcontractors and abroad, when it makes sense from the point of view of business operations, for example, in large product development projects.

Profitability of projects: A Significant 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 and has included it as a central part of the

monitored key performance indicators. The relative share of project business has decreased and it will be further decreased, which reduces the risks associated to project business.

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 also notable legal resources, and they can use these when competing with Innofactor for the same deliveries. Additionally, new startup companies increase competition in certain deliveries. The price competition in 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 2022, approximately 5.8 percent of net sales was used on research and product development. 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. By constantly updating its offering and organizing its operations, Innofactor aims at minimizing the risks inherent in research and product development.

Changes in the technology and field of business: Fast development is characteristic for Innofactor's field of business. There can be quick changes in the customers' requirements and choices concerning software technology. Important changes under way include, for example, the transfer of software into cloud technologies, digitalization, artificial intelligence, blockchain and Internet of Things (IoT). If Innofactor cannot react to these changes, it may have an adverse effect on Innofactor's business, operating result and financial position. Innofactor strives to actively invest in new technologies and central areas of know-how and agree on customer deliveries in new areas.

Information security and data protection From the point of view of Innofactor's business, it is important to ensure adequate data security and data protection for customers. The realization of the risks relating to data security and data protection may lead to losses in net sales or, in the worst case, penalties imposed by a supervisory authority. Innofactor has acknowledged the risks related to data security and data protection, on the basis of which the company has implemented standard-based data security and data protection management processes. Innofactor has a data security policy approved by the management, defining Innofactor's key data security objectives and means of implementation, as well as the organization of data security and related responsibilities. The data security policy is written in accordance with the ISO 27001 data security standard and legislation.

Risk of a pandemic: An epidemic spreading into a global pandemic may hinder Innofactor's business operations. If there is no significant pandemic in Innofactor's operating area in the Nordic countries, the detriment will be limited mostly to a decrease in the availability of tools, especially computers, which are needed in Innofactor's business operations. If there is a significant pandemic also in Innofactor's operating area in the Nordic countries, it could mean introducing remote work,

either for a part of or the entire personnel, a temporary decrease in customers' purchases, and delays in some customer deliveries, increasing absence rates connected directly to the disease caused by the pandemic, quarantine or mental symptoms caused indirectly by isolation and increased personnel turnover due to remote work. COVID-19 caused an increase in sickness-related absences in 2022, and this may continue in 2023, but no other impacts related to COVID-19 are expected.

Reaching the growth targets: Realizing the desired growth requires a growth rate that is clearly faster than the growth in the IT market in general. This has the risk that it cannot be realized in the future, although it has been done often in the past. Also, it is possible that the IT market in Innofactor's market area will not grow or may even shrink. 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 backlog on a sufficient level as regards the business operations.

Globalization: In accordance with its strategy, Innofactor is seeking for more growth also in the global markets, outside of Finland, 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. Additionally, the company strives to create a management model, common processes and systems that will decrease the risks in global operations.

Uncertainties and risks related to acquisitions: The growth has partly been based on acquisitions. With acquisitions, there are uncertainties about finding suitable companies to acquire and in making the acquisitions at 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. Each acquisition, after it has been made, also carries some risks, which include the success of the integration, the stability of the key personnel, 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 significant 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 or loss of net sales. 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.

Financial risks

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

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 acquisitions and working capital. Of the debts, approximately EUR 4.5 million is non-current and approximately EUR 4.9 million is current liabilities. Additionally, the company had IFRS 16 lease liabilities (leases for the duration of fixed-term leases) of EUR 4.9 million, of which EUR 2.1 million was current and EUR 2.8 million was non-current. The total of interest-bearing liabilities was EUR 14.3 million. Innofactor has committed to the following covenants: Equity ratio calculated every 6 months is at least of 40%, and interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 2.5, and certain other normal conditions for loans. The goal of managing the financing risks is to minimize the negative effects of the changes in the financial markets on 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.

Interest risk: An interest risk is mainly due to the Group's short-term and long-term loans and the derivatives used for protecting them. Loans with fluctuating rates pose an interest risk to the Group's cash flow. This risk is decreased, for example, by using interest rate swap agreements. Interest rate hedging has been applied to more than half of the Group's loans.

Exchange rate risk: The Innofactor Group operates globally and is susceptible to risks related to the currencies of the countries in which it operates. Changes in exchange rates, especially the rates of Swedish krona and Norwegian krone, affect the Group's net sales and profitability as Innofactor has significant operations based on Swedish krona and Norwegian krone. The exchange rate risk is mainly due to the assets and liabilities registered in the balance sheet and the net investments made in the subsidiaries abroad. Also, the business contracts made by subsidiaries pose an exchange rate risk, although these contracts are mainly made in the currency the business unit uses in its operation. The management of exchange rate risks in the Group aims at minimizing the uncertainty that changes in exchange rates cause in the result through cash flows and assessment of receivables and liabilities.

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 has checking account limits with an overdraft facility in order to cover any seasonal variations in liquid assets. Excess cash balance is placed on savings accounts or funds with capital guarantee.

Risks related to receivables from projects: A large part of Innofactor's net sales comes from project business. A significant part of projects consists of long-term projects in which scheduled payments and their terms may be agreed on with the customer beforehand. When Innofactor performs work in customer projects, which is scheduled to be invoiced afterwards, project receivables are accrued. Especially in public sector projects, scheduled payments often take place nearer to the end of the project, which means increased project receivables and related risks. In 2022, Innofactor recognized a deduction of approximately EUR 0.4 million in Q4 net sales due to uncertainty concerning a receivable in an individual project for which net sales had previously been recognized. In customer negotiations, Innofactor pays special attention to scheduling the payments and the size of payments, and in customer projects, to project management and steering in accordance with the scheduled payments. Project receivables are monitored regularly.

Credit risk: Credit decisions related to sales receivables are monitored centrally by 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, and the Group has not suffered any significant credit losses. Should credit risks realize, it would weaken the Group's financial standing and liquidity. Sales receivables are monitored regularly.

Risks related to deferred tax assets: Innofactor's balance sheet includes deferred tax assets that are based on previous financial periods. Should the company's profitability decrease significantly in the long run, it is possible that the Group would not be able to utilize in full the receivables currently activated in the balance sheet.

Acquisitions and changes in the Group structure

On June 30, 2022, Innofactor acquired the entire share capital of Invenco Ltd, which owned the entire share capital of Invenco Software Ltd.

Invenco is an expert organization specialized in corporate performance management, data warehousing and reporting, and its most important areas of expertise are data integration, data warehousing, Business Intelligence (BI) and analytical solutions. Invenco is a long-term Microsoft partner in data and analytics. Invenco has approximately 50 employees, of whom 35 are senior data professionals. The company had four offices in Finland: Vantaa, Oulu, Tampere and Kuopio.

Invenco Ltd's net sales for the financial period July 1, 2020–June 30, 2021 was approximately EUR 6.2 million and its operating margin (EBITDA) was about EUR 0.3 million, representing

approximately 5 percent of net sales. Innofactor's objective going forward is to grow Invenco's net sales and improve its profitability through synergies, among other things.

The purchase price (Enterprise Value, EV) consists of a fixed purchase price of EUR 3.0 million and an additional purchase price tied to three years' net sales growth, which will amount to EUR 3.75 million at a maximum. According to the current estimate, the additional purchase price will not become payable. The transaction will be financed with Innofactor's cash funds and bank financing.

Invenco Ltd currently operates as a subsidiary of Innofactor Plc under the name Innofactor Invenco Ltd, and Invenco Software Ltd operates as a subsidiary of Innofactor Invenco Ltd under the name Innofactor Invenco Software Ltd.

Innofactor has initiated measures to simplify its group structure. The goal is to dissolve Innofactor HRM Oy during the first quarter of 2023 (the entire business operations of Innofactor HRM Oy have previously been transferred to Innofactor Software Oy by means of a business transfer, and there is no longer any need for the company) and merge Innofactor Invenco Software Ltd with Innofactor Invenco Ltd.

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

Events after the review period

Innofactor had no significant events after the review period.

Board of Directors' proposal on the distribution of profits

Innofactor is a growing company and intends to use its operating profit on actions promoting growth, for example, on realizing mergers. According to the dividend policy, Innofactor aims to pay a dividend regularly each year. The target is to pay about half of the result for the financial period in dividends, taking into account the company's financial position, possible corporate reorganizations, and other development needs. For 2022, the Group's result for the financial period was EUR 3,319,797.20. In making the proposal on the dividend, the Board of Directors takes into account the company's financial situation, profitability and near-term outlook.

At the end of the financial year 2022, the distributable assets of the Group's parent company amounted to EUR 23,493,847.82.

The Board of Directors proposes that Innofactor Plc distribute EUR 0.06 per share as a repayment of capital.

The Board of Directors further proposes that the Annual General Meeting authorize the Board to decide on a repayment of capital amounting to a maximum of EUR 2,459,293 (EUR 0.06 per share, taking into account the share issue authorization proposed to the Board of Directors).

Espoo, February 9, 2023

INNOFACTOR PLC

Board of Directors

Additional information:

CEO Sami Ensio, Innofactor Plc

tel. +358 50 584 2029

sami.ensio@innofactor.com

Briefings concerning the financial statement of January 1–December 31, 2022

Innofactor will publish the financial statement 2022 and interim report for October–December 2022 (Q4) on Thursday, February 9, 2023, at approximately 9:00 a.m. Finnish time.

A briefing in Finnish concerning the financial statement will be held for media, investors and analysts on the same day at 10:00 a.m. Finnish time, at the company's premises at Keilaranta 9, Espoo. The report will be presented by CEO Sami Ensio. The corresponding video conference in English will be held at noon Finnish time. The report will be presented by CFO Markku Puolanne.

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

Presentation materials will be available on Innofactor's website after the conferences.

Financial releases in 2023

The annual report for 2022 will be published on the company's website on Thursday, March 9, 2023.

The Annual General Meeting will be held on Friday, March 31, 2023, at 9:00 a.m. Finnish time.

The schedule for financial releases in 2023 is as follows:

- Interim report January–March 2023 (Q1) on Tuesday, April 25, 2023
- Half-yearly report January–June 2023 (Q2) on Thursday, July 20, 2023

- Interim report January–September 2023 (Q3) on Tuesday, October 24, 2023

Distribution:
NASDAQ Helsinki
Main media
www.innofactor.com

Financial statement summary and notes January 1–December 31, 2022 (IFRS)**Accounting policies**

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

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

The financial statement adheres to the same accounting policies and calculation methods as the last annual financial statement 2021. However, as of January 1, 2022, the Group has introduced the new or renewed IFRS standards and IFRIC interpretations published by IASB as mentioned in the accounting policies section of the financial report 2021. 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 operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciation. 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–December 31, 2022, amounted to EUR 277 thousand (2021: 464).

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

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

The figures in the financial statement have not been audited.

Comprehensive consolidated profit and loss statement, IFRS

EUR thousand	Oct 1–Dec 31, 2022	Oct 1–Dec 31, 2021	Jan 1–Dec 31, 2022	Jan 1–Dec 31, 2021
Net sales	20,536	17,530	71,130	66,364
Other operating income	247	91	290	2,681
Materials and services (–)	-3,126	-2,298	-10,762	-8,874
Employee benefit expenses (–)	-13,028	-11,457	-45,644	-43,453
Depreciation (–)	-808	-1,139	-3,057	-3,592
Other operating expenses (–)	-2,016	-2,203	-7,205	-6,607
Operating profit/loss	1,805	523	4,751	6,519
Financial income	14	-1	46	359
Financial expenses (–)	-141	-191	-619	-1,148
Profit/loss before taxes	1,678	330	4,178	5,730
Income taxes	-350	-34	-858	-1,226
Profit/loss for the financial period	1,328	297	3,320	4,504
Distribution of the result				
To shareholders of the parent company	1,328	297	3,320	4,504
To non-controlling interests	0	0	0	0
Other comprehensive income				
Items that may be later recognized				
in profit or loss:				
Translation differences	-133	39	-551	97
Total comprehensive income	1,195	336	2,769	4,601
Distribution of the comprehensive income				
To shareholders of the parent company	1,195	336	2,769	4,601
To non-controlling interests	0	0	0	0

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

basic earnings per share (EUR)	0.0363	0.0080	0.0907	0.1208
diluted earnings per share (EUR)	0.0363	0.0080	0.0907	0.1208

Consolidated balance sheet, IFRS
ASSETS

EUR thousand	Dec 31, 2022	Dec 31, 2021
Non-current assets		
Tangible assets	1,076	535
Right-of-use assets	4,843	3,166
Goodwill	26,831	26,393
Other intangible assets	2,398	633
Shares and holdings	5	5
Receivables	77	129
Deferred tax assets	4,090	4,830
Non-current assets	39,319	35,691
Current assets		
Trade and other receivables	14,540	13,403
Cash and cash equivalents	1,956	1,963
Current assets	16,495	15,366
TOTAL ASSETS	55,815	51,057

**SHAREHOLDERS' EQUITY AND
LIABILITIES**

EUR thousand	Dec 31, 2022	Dec 31, 2021
Share capital	2,100	2,100
Share premium reserve	72	72
Other reserves (+/-)	59	59
Fund for invested unrestricted equity	17,247	20,174
Retained earnings	7,669	5,496
Own shares	-447	-1,146
Translation differences	-1,902	-1,351
Equity attributable to the shareholders of the parent company	24,799	25,404
Non-controlling interest	0	0
Total shareholders' equity	24,799	25,404
 Non-current liabilities		
Loans from financial institutions	4,517	4,683
Lease liabilities	2,832	1,658
Deferred tax liabilities	1,851	1,487
Other non-current liabilities	0	0
Total non-current liabilities	9,200	7,828
 Current liabilities		
Loans from financial institutions	4,886	1,873
Lease liabilities	2,115	1,603
Trade and other payables	14,815	14,349
Current liabilities total	21,816	17,825
 Total liabilities	 31,016	 25,653
 TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	 55,815	 51,057

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 differences	Total shareholders' equity
Shareholders' equity Jan 1, 2022	2,100	72	59	20,174	-1,146	5,495	-1,351	25,404
Comprehensive income								
Result for the financial period						3,320		3,320
Other comprehensive income:								
Translation differences							-551	-551
Total comprehensive income						3,320	-551	2,769
Repayment of capital				-2,927				-2,927
Purchase of own shares					-447			-447
Shareholders' equity Dec 31, 2022	2,100	72	59	17,247	-1,592	8,815	-1,902	24,799

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange differences	Total shareholders' equity
Shareholders' equity Jan 1, 2021	2,100	72	59	20,921	0	1,739	-1,447	23,444
Comprehensive income								
Result for the financial period						4,504		4,504
Translation differences							97	97
Total comprehensive income						4,504	97	4,601
Dividend distribution						-748		-748
Repayment of capital				-748				-748
Purchase of own shares					-1,146			-1,146
Shareholders' equity December 31, 2021	2,100	72	59	20,174	-1,146	5,495	-1,351	25,404

Consolidated cash flow statement, IFRS

EUR thousand	Jan 1–Dec 31, 2022	Jan 1–Dec 31, 2021
Cash flow from operating activities		
Operating profit	4,751	6,519
Adjustments:		
Depreciation	3,057	3,592
Other transactions with no related cash flow:	42	-108
Operating profit before change in working capital	7,850	10,003
Change in trade and other receivables (+/–)	-102	479
Change in trade and other payables (+/–)	-630	-1,204
Change in working capital	-732	-725
Cash flow from operating activities before financing and income taxes paid	7,119	9,278
Interest received	6	6
Interest paid (–)	-421	-430
Taxes paid	0	0
Net cash flow from operating activities	6,704	8,855
Investment cash flow		
Acquisition of subsidiaries	-2,825	0
Investments in intangible and tangible assets (–)	-872	-402
Receivables from sales	0	-400
Loan receivables repaid	103	159
Net cash flow from investments	-3,593	-643
Cash flow from financing		
Loans withdrawn	4,679	0
Loans paid	-2,236	-4,873
Lease liability payments	-2,187	-1,801
Dividend distribution/repayment of capital	-2,927	-1,496
Payment of equity loans	0	0
Purchase of own shares	-447	-1,146
Net cash flow from financing	-3,118	-9,316
Change in cash and cash equivalents (+/–)	-7	-1,104
Cash and cash equivalents, opening balance	1,963	3,066

Cash and cash equivalents, closing balance

1,956

1,963

**Consolidated profit and loss
statement by quarter, IFRS**

EUR thousand	Jan 1– Mar 31, 2022	Apr 1– Jun 30, 2022	Jul 1–Sep 30, 2022	Oct 1–Dec 31, 2022	Jan 1– Mar 31, 2021	Apr 1– Jun 30, 2021	Jul 1–Sep 30, 2021	Oct 1–Dec 31, 2021
Net sales	16,965	16,946	16,683	20,536	17,807	17,296	13,730	17,530
Other operating income	22	12	9	247	2,569	10	11	91
Materials (–)	-2,172	-2,564	-2,900	-3,126	-2,233	-2,292	-2,050	-2,298
Employee benefit expenses (–)	-11,225	-11,125	-10,265	-13,028	-12,008	-11,387	-8,600	-11,457
Depreciation (–)	-723	-710	-817	-808	-848	-824	-780	-1,139
Other operating expenses (–)	-1,547	-1,891	-1,751	-2,016	-1,477	-1,532	-1,395	-2,203
Operating profit/loss	1,319	668	959	1,805	3,809	1,272	915	523
Financial income	30	-12	14	14	13	344	4	-1
Financial expenses (–)	-247	-17	-214	-141	-465	-329	-163	-191
Profit/loss before taxes	1,102	639	759	1,678	3,357	1,287	755	330
Income taxes	-256	-92	-160	-350	-721	-298	-174	-34
Profit/loss for the financial period	846	547	599	1,328	2,637	989	581	297
EBITDA	2,042	1,377	1,777	2,612	4,657	2,096	1,695	1,663

Acquisition cost calculation for Invenco Ltd

On June 20, 2022, Innofactor signed an agreement to acquire the entire share capital of Invenco Ltd. According to the agreement announced by the company on June 20, the acquisition price will be determined according to Invenco Ltd's operating margin for 2020–2022 and the additional purchase price will be determined by Invenco Ltd's net sales growth during the period 2023–2025.

The debt-free net purchase price (Enterprise Value, EV) is EUR 3.0 million at a minimum, and it was paid when the acquisition was completed on June 30, 2022, when Innofactor acquired ownership of all shares in Invenco Ltd. At the time of completing the transaction, the sellers were paid an initial purchase price of approximately EUR 2.5 million in cash. This was financed entirely by a new bank loan.

The remainder of the debt-free net purchase price, which may range from zero to EUR 3.75 million, will be paid annually over a period of three years. The debt-free net purchase price (Enterprise Value, EV) will be approximately EUR 6.75 at a maximum. According to the current estimate, the additional purchase price will not become payable.

Invenco Ltd's financial figures were consolidated into the Innofactor Group's balance sheet effective from June 30, 2022, and are, therefore, not included in the balance sheet of June 30, 2021. Invenco Ltd's name was changed to Innofactor Invenco Ltd, and Invenco's services are now provided under the Innofactor brand.

The IFRS acquisition cost is the estimated purchase price of the shares, which is EUR 2,425 thousand according to the acquisition cost calculation and presented in more detail in the following calculation.

	Fair values entered in consolidation (EUR thousand)
Tangible assets	142
Intangible assets	2,264
Right-of-use assets	317
Deferred tax assets	201
Non-current assets	14
Trade and other receivables	1,083
Cash and cash equivalents	160
Total assets	4,181
Lease liabilities	317
Other liabilities	1,971
Deferred tax liabilities	420
Total liabilities	2,707
Net assets	1,474 (total assets – total liabilities)
Acquisition cost	2,425 (cash 2,425, contingent consideration 0)
Goodwill	951 (acquisition cost – net assets)
Purchase price paid in cash	2,425
Cash assets of the acquired subsidiary	138
Cash flow effect	- 2,287

The fair value of customer contracts and related customer relationships included in intangible assets (EUR 2,100 thousand) has been determined on the basis of the estimated duration of the customer relationships and the discounted net cash flows from existing customer contracts.

The acquisition generated goodwill of EUR 951 thousand. The goodwill is based on the expected synergies from the Invenco Ltd acquisition, leveraging the growth of the shared sales and marketing network, and expanding customer relationships in the Group.

Largest shareholders

According to the share register maintained by Euroclear Finland Oy, the share ownership of the 20 largest Innofactor Plc shareholders at the end of the review period, on December 31, 2022, was as follows:

Name	Number of shares	% of share capital
1. Ensio Sami	7,895,773	21.12%
<i>Sami Ensio</i>	<i>5,722,013</i>	<i>15.30%</i>
<i>Minor under guardianship</i>	<i>724,588</i>	<i>1.94%</i>
<i>Iiris Ensio</i>	<i>724,586</i>	<i>1.94%</i>
<i>Minor under guardianship</i>	<i>724,586</i>	<i>1.94%</i>
2. Ilmarinen Mutual Pension Insurance Company	1,800,000	4.81%
3. Linturi Kaija and Risto	1,256,411	3.36%
<i>R. Linturi Oyj</i>	<i>489,107</i>	<i>1.31%</i>
<i>Linturi Kaija Anneli</i>	<i>430,000</i>	<i>1.15%</i>
<i>Linturi Risto Erkki Olavi</i>	<i>337,304</i>	<i>0.90%</i>
4. Laiho Rami Tapani	875,406	2.34%
5. Ärje Matias Juhanpoika	854,253	2.28%
6. Mäki Antti-Jussi	613,725	1.64%
7. Tilman Tuomo Tapani	538,538	1.44%
8. Hellen Stefan Andreas	486,000	1.30%
9. Ingman Finance Oy Ab	450,000	1.20%
10. Muukkonen Teemu Heikki	410,357	1.10%
11. Järvenpää Janne-Olli	266,397	0.71%
12. Mandatum Life Insurance Company Limited	247,104	0.66%
13. Kukkonen Heikki-Harri	218,606	0.58%
14. Puolakka Petri Yrjö Emil	202,511	0.54%
15. Laiho Jari Olavi	200,371	0.54%
16. Kannisto Jaakko Mikael	193,281	0.52%
17. Varsio Jussi Ilari	190,000	0.51%
18. Mäkinen Antti Vilho Juhani	168,000	0.45%
19. Saarnio Mikko Markus	138,000	0.37%
20. Muurinen Hannu Olavi	125,750	0.34%
Total	17,130,483	45.81%

Formulas for calculating the key figures

Operating margin (EBITDA):

Operating profit/loss - Depreciations

Order backlog:

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

Net sales/employee:

Net sales

Active personnel on average during the review period

Percentage of return on equity:

Profit/loss for the financial period

Shareholders' equity

Percentage of return on investment:

Profit or loss before taxes + Interest and other financial expenses

Shareholders' equity + Interest bearing financial liabilities

Net gearing:

Interest bearing liabilities - Cash funds

Shareholders' equity

Equity ratio, (%):

Shareholders' equity

Balance sheet total - Received advances

Result/share:

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

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

Shareholders' Equity/Share:

Equity attributable to the shareholders of the parent company

Undiluted number of shares on the date of the financial statement