TECNOTREE

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Q4

2012

Tecnotree

Financial review

TECNOTREE CORPORATION FINANCIAL REVIEW 1 JANUARY – 31 DECEMBER 2012 (UNAUDITED)

6 February 2013 at 8:30 am

Tecnotree is a global supplier of telecom IT solutions, providing products and services for charging, billing, customer care, and messaging and content services. The company's product portfolio comprises virtually the full range of business management systems for telecom operators, with standard solutions for fixed networks, mobile services and broad band and for managing subscriptions, services and cash flows for prepaid and post-paid customers. Tecnotree has a strong footing especially in developing markets.

STRONG CASH FLOW IN FOURTH QUARTER

Fourth quarter

- Cash flow after investments was EUR 5.5 (-3.5) million. The company's cash and cash equivalents were EUR 11.3 million at year end (EUR 6.7 million on 31 December 2011).
- Net sales were EUR 22.4 (16.1) million. The adjusted operating result for the quarter was -0.3 (-2.0) million. This includes impairment of EUR 3.9 million on receivables from customers and changes for previous periods totalling EUR 0.3 million that weakened the result. Without these the adjusted operating result would have been EUR 3.9 million positive.

Full year 2012

- Cash flow after investments was EUR -0.8 (-18.1) million.
- The company's cash situation was difficult at times. In June the company carried out a share issue through which it obtained EUR 5.4 million in equity after costs. In October the company obtained a credit facility for financing working capital of EUR 5.0 million.
- The order book at the end of the period stood at EUR 54.2 (31 December 2011: 40.4) million. Order intake totalled EUR 87.2 (88.5) million.
- Net sales in the year totalled EUR 73.4 (62.3) million and the adjusted operating result was EUR -4.9 (-1.7) million. Without the EUR 3.9 million impairment on receivables from customers, the adjusted operating result would have been EUR -1.0 million. The operating result was EUR -12.4 (-11.1) million and the result for the period EUR -17.0 (-15.6) million.

2013

- The order book at the end of 2012 stood at EUR 54.2 million, so the company moves into 2013 in a good position. The company estimates that its net sales and operating result will improve from the previous year.

KEY FIGURES	**10-12/ 2012**	10-12/ 2011	**1-12/ 2012**	1-12/ 2011
Net sales, MEUR	**22.4**	16.1	**73.4**	62.3
Adjusted operating result, MEUR*	**-0.3**	-2.0	**-4.9**	-1.7
Adjusted operating result without 2012 write-downs, MEUR*	**3.9**		**-1.0**	
Operating result, MEUR	**-3.7**	-3.5	**-12.4**	-11.1
Result before taxes, MEUR	**-3.1**	-3.3	**-13.7**	-9.9
Result for the period	**-6.3**	-7.5	**-17.0**	-15.6
Earnings per share, basic, EUR **	**-0.05**	-0.09	**-0.16**	-0.18
Order book, MEUR			**54.2**	40.4
Cash flow after investments, MEUR	**5.5**	-3.5	**-0.8**	-18.1
Change in cash and cash equivalents, MEUR	**7.8**	-1.0	**4.8**	-9.8
Cash and cash equivalents, MEUR			**11.3**	6.7
Equity ratio %			**42.2**	50.7
Net gearing %			**47.5**	43.1
Personnel at end of period			**1,116**	926

* Adjusted operating result = operating result before R & D capitalisation, amortisation of this and one-time costs. Details of these are given in the section “Result analysis”.
** This key figure has been adjusted for all periods presented to reflect the share issue.

Unless otherwise stated, all figures presented below are for the review period 1-12/2012 and the figures for comparison are for the corresponding period 1-12/2011.

President and CEO Kaj Hagros:

”Net sales rose 39 per cent in the fourth quarter and 18 per cent for the whole year from the previous year. The order book also continued to grow and was 34 per cent higher at the end of the year than at the end of the previous year. Orders received during the year and the order book at the end of the year were higher in 2011 and in 2012 than ever before. We consider these signs of strong demand and of the gradual implementation of our change in strategy. The large orders we have received for new systems require major investments in R & D, which has raised costs more than was planned. For this reason, and because of the impairment on receivables from customers, the whole year was loss-making. Without this impairment the adjusted operating profit for the fourth quarter would have been EUR 3.9 million.

Results will improve in the future as the company achieves repeat sales of the new systems under development. In addition, through projects to optimise project management, quality, process development and working capital, we are aiming at continuous improvement of the cash flow, profitability and customer satisfaction. The company’s financial position has improved in consequence of these measures. Cash flow after investments improved EUR 17.3 million from last year. Customer activity indicates that growth will continue during 2013.”

SALES AND NET SALES

Tecnotree's net sales in the review period increased 17.9 per cent to EUR 73.4 (62.3) million.

EUR 31.8 million of sales in the review period have been recognised by stage of completion (IAS 11 Construction Contracts) and EUR 41.6 million on delivery (IAS 18 Revenues).

	1-12/2012	1-12/2011	**1-12/2012**	1-12/2011
NET SALES BY MARKET AREA	**MEUR**	MEUR	**%**	%
Americas (North, Central and South America)	**38.5**	23.3	**52.4**	37.5
Europe	**6.7**	7.9	**9.1**	12.8
MEA (Middle East and Africa)	**24.9**	27.0	**34.0**	43.4
APAC (Asia and Pacific)	**3.3**	4.0	**4.5**	6.4
TOTAL	**73.4**	62.3	**100.0**	100.0

	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011
CONSOLIDATED ORDER BOOK	**MEUR**	MEUR	**%**	%
Americas (North, Central and South America)	**36.7**	25.2	**67.6**	62.3
Europe	**2.9**	3.6	**5.4**	9.0
MEA (Middle East and Africa)	**14.5**	11.1	**26.7**	27.5
APAC (Asia and Pacific)	**0.1**	0.5	**0.2**	1.2
TOTAL	**54.2**	40.4	**100.0**	100.0

Maintenance and service sales totalled EUR 26.1 (27.2) million or 35.6 per cent (43.6 %) of net sales.

RESULT ANALYSIS

The income and costs recorded for Tecnotree's business operations vary considerably from one quarter to another. For this reason it is important to base an examination of the profitability of the company on the result for more than one quarter.

Tecnotree reports its operating result in two stages: first the adjusted operating result and then the operating result after the capitalisation and amortisation of product development costs and one-time costs:

INCOME STATEMENT, KEY FIGURES, MEUR	**10-12/2012**	10-12/2011	**1-12/2012**	1-12/2011
Net sales	**22.4**	16.1	**73.4**	62.3
Other operating income	**0.1**	0.1	**0.1**	0.2
Operating costs excluding product development capitalisation and one-time costs	**-22.7**	-18.1	**-78.4**	-64.2
Adjusted operating result	**-0.3**	-2.0	**-4.9**	-1.7
Product development capitalisation				0.1
Product development amortisation	**-1.3**	-1.6	**-5.4**	-7.1
One-time costs	**-2.1**		**-2.1**	-2.4
Operating result	**-3.7**	-3.5	**-12.4**	-11.1
Result before taxes	**-3.1**	-3.3	**-13.7**	-9.9

Operating costs rose during 2012. Tecnotree's net sales have grown, which has increased variable costs. In addition, the company has made a concerted effort to increase net sales in the future as well, which has raised costs in the supply organisation, sales and development.

During the final quarter, adjustments were made to figures reported previously for the Indian company. As a result of these, reductions of EUR 2.1 million in net sales and EUR 1.8 million in costs were recorded, and EUR 0.3 million of capitalised R & D expenses was amortised in the final quarter. These changes had a net impact of EUR 0.3 million negative on the adjusted operating result and EUR 0.6 million negative on the operating result. For the current year, Tecnotree recorded impairment of EUR 2.5 million during the final quarter on receivables from a customer owned by the Libyan state, so that it has now recorded impairment for the full amount of the original receivables of EUR 7.6 million. The company also recorded impairment for the full amount of EUR 1.3 million for receivables from for another customer in the MEA region.

The impact of these entries made during the final quarter is shown in the following tables:

	Financial statements		Write-downs**		Without write-downs	
SPECIFICATION OF ADJUSTED OPERATING RESULT, MEUR	**10-12/ 2012**	**1-12/ 2012**	**10-12/ 2012**	**1-12/ 2012**	**10-12/ 2012**	**1-12/ 2012**
Net sales	22.4	73.4	-2.1		24.5	73.4
Other operating income	0.1	0.1			0.1	0.1
Operating costs excluding product development capitalisation and one-time costs *	-22.7	-78.4	-2.0	-3.9	-20.7	-74.5
Adjusted operating result	-0.3	-4.9	-4.1	-3.9	3.9	-1.0
Product development amortisation	-1.3	-5.4	-0.3		-1.0	-5.4
One-time costs	-2.1	-2.1			-2.1	-2.1
Operating result	-3.7	-12.4	-4.4	-3.9	0.8	-8.5
* Write-downs in operating costs:						
Impairment of receivables from customer owned by state of Libya			-2.5	-2.5		
Impairment of receivables from customer in MEA area			-1.3	-1.3		
Other write-downs of receivable and liability items			1.8			
TOTAl			-2.0	-3.9		

** write-down improves (+) / weakens (-) result

One-time items include costs of EUR 0.6 million arising from reducing the number of personnel and altogether EUR 1.5 million impairment losses recorded for the Europe and APAC regions in connection with impairment testing for goodwill. The benefits of the acquisition of the Indian company mainly affect the MEA and Americas regions, and no entries were made for these as the result of impairment testing.

Taxes for the period totalled EUR 3.3 (5.6) million, including the following items:

TAXES IN INCOME STATEMENT, MEUR	**1-12/2012**	1-12/2011
Withholding tax expenses in parent company	**-3.0**	-1.6
Income taxes on the results of Group companies	**-0.9**	-3.4
Prior year taxes	**-0.4**	-0.2
Deferred tax asset based on tax allowances in India	**-0.4**	1.0
Change in deferred tax liability based on:		
- R&D capitalisation	**0.9**	1.3
- cost capitalisations in Finnish taxation		-1.7
- dividend tax in India	**0.1**	-1.4
Other items	**0.4**	0.3
TAXES IN INCOME STATEMENT, TOTAL	**-3.3**	-5.6

Earnings per share were EUR -0.16 (-0.18). Equity per share at the end of the period was EUR 0.28 (31 December 2011: EUR 0.58). These key figures have been adjusted for all periods presented to reflect the share issue.

FINANCING AND INVESTMENTS

Tecnotree's liquid funds totalled EUR 11.3 (31 December 2011: 6.7) million. The change in cash and cash equivalents for the review period was EUR 4.8 million.

The balance sheet total on 31 December 2012 stood at EUR 81.8 (31 December 2011: 99.9) million. Interest-bearing liabilities were EUR 28.3 (31 December 2011: 28.1) million. The net debt to equity ratio (net gearing) was 47.5 per cent (31 December 2011: 43.1 %) and the equity ratio was 42.2 per cent (31 December 2011: 50.7 %).

Tecnotree's gross capital expenditure during the review period, excluding the capitalisation of development costs, was EUR 0.9 (0.0) million or 1.2 per cent (1.4 %) of net sales.

Financial income and expenses (net) during the review period totalled EUR -1.3 (1.2) million. The exchange rate gains and losses consist mainly of exchange rate differences from intragroup payables in the parent company.

FINANCIAL INCOME AND EXPENSES, MEUR	**1-12/2012**	1-12/2011
Interest income	**0.1**	0.1
Exchange rate gains	**1.5**	1.7
Other financial income	**0.2**	0.6
FINANCIAL INCOME, TOTAL	**1.8**	2.4
Interest expenses	**-2.0**	-0.6
Exchange rate losses	**-0.7**	-0.1
Other financial expenses	**-0.5**	-0.5
FINANCIAL EXPENSES, TOTAL	**-3.1**	-1.3
FINANCIAL ITEMS, TOTAL	**-1.3**	1.2

CHANGE IN WORKING CAPITAL, MEUR (increase - / decrease +)	**1-12/2012**	1-12/2011
Change in trade receivables	**-4.5**	-9.1
Change in other short-term receivables	**9.1**	-3.5
Change in inventories	**0.2**	0.2
Change in trade payables	**-3.4**	1.0
Change in other current liabilities	**2.0**	0.7
CHANGE IN WORKING CAPITAL, TOTAL	**3.4**	-10.6

To strengthen the balance sheet and improve the Company's liquidity, Tecnotree's Board of Directors decided on 28 May 2012 to carry out a rights offering. The proceeds from the offering amounted to EUR 5.9 million before related fees and expenses. Due to the reorganising of financing, financial costs were significantly higher in the review period than in the period for comparison.

During the fourth quarter the company utilised a EUR 5.0 million credit facility for financing working capital.

Payments from project sales vary depending on the progress made in the projects and on how the payment instalments have been agreed. The third quarter cash flow after investments was EUR 7.4 million negative because of exceptionally low customer payments. During the first six months this cash flow was EUR 1.1 million positive. During year 2012 the company took active measures to reduce its working capital and enhance its collection of receivables. The company's situation improved and the working capital decreased by EUR 5.3 million from the end of September.

The company's financial situation has been tight at times. During the year Tecnotree repaid EUR 2.2 million of its long-term loans and paid off the EUR 2.5 million loan that it had at the end of the previous year. The reached agreement with its creditor on the postponement of repayment instalments on the company's loan, so that instalments of EUR 1.1 million due in December were postponed until the beginning of 2013. The company has paid these instalments. The company has no overdue loan payments.

The bank promised not to exercise the rights it had under the covenant for the loan agreement, even though the company's figures did not fulfil the terms of the covenant. At the same time it was agreed to raise the interest margin paid by the company.

BUSINESS DESCRIPTION

Tecnotree is a global supplier of telecom IT solutions, providing products, services and solutions for charging, billing, customer care, and messaging and content services. The company's product portfolio comprises virtually the full range of business management systems for telecom operators, with standard solutions for fixed networks, mobile services and broad band and for managing subscriptions, services and cash flows for prepaid and post-paid customers. Tecnotree's solutions enable communication service providers to expand their business by creating digital market places, individual service packages and personalised subscriptions, and increase added value throughout their customers' life cycles.

Tecnotree's business is based on system project sales, system maintenance and on customising, support and operating services. Tecnotree has a strong footing especially in developing markets such as Latin America, Africa and the Middle East.

SEGMENT INFORMATION

The operating segments under IFRS 8 reported by Tecnotree are the geographical areas, which are Americas (North, Central and South America), Europe, MEA (Middle East and Africa), and APAC (Asia Pacific). This is because their results are monitored separately in the company's internal financial reporting. Tecnotree's chief operating decision maker, as referred to in IFRS 8, is the Group's management board.

Net sales and the result for the operating segments are presented based on the location of customers. The result for the operating segments includes the costs that can be allocated to the segments on a reasonable basis. Costs for product management, R & D and administration, depreciations, taxes and financial items are not allocated.

GEOGRAPHICAL AREAS

Tecnotree Group operates in the following geographical areas: Americas (North, Central and South America), Europe, MEA (Middle East and Africa) and APAC (Asia Pacific).

Americas (North, Central and South America)

Net sales in the Americas rose more than 65 per cent and the order book almost doubled from 2011. Prospects in the area are positive, with active demand for replacing critical business support systems. Sales in the area comprise expansions and upgrades of solutions installed for current customers, the renewal of annual maintenance contracts, and partial implementation of new orders. The company has succeeded in selling in the area business support systems and services that are part of its strategic core business. The area offers the company significant growth potential.

Europe

Net sales in Europe declined some 15 per cent from 2011. The decline in sales in the area is due to the fall in sales of the company's established messaging solutions while sales of the business support system products contained in the new strategy have still not compensated for this fall. The order book fell by almost one fifth. In Europe Tecnotree supplied completely new systems and expansions of existing systems, mainly to existing customers.

MEA (Middle East and Africa)

Sales in the Middle East and Africa declined 8 per cent from 2011, but demand picked up clearly in the final quarter and the order book rose more than 30 per cent from 2011. Tecnotree has an extremely broad customer base in the MEA region and the business of its customers is growing, so the company has considerable growth potential in the region. Implementation of Tecnotree's new strategy has made encouraging progress in the area, while demand for its established products has remained firm.

APAC (Asia and Pacific)

Net sales in the APAC region declined 18 per cent from the corresponding period in the previous year. Sales focused on established products to existing customers. The order book is clearly down on the previous year. Demand for the business support systems contained in Tecnotree's new strategy has been active and the decline in net sales is expected to temporary.

PERSONNEL

At the end of December 2012 Tecnotree employed 1,116 (31 December 2011: 926) persons, of whom 90 (31 December 2011: 80) worked in Finland and 1,026 (31 December 2011: 846) elsewhere.

The company employed on average 1,070 (922) people during the review period. Personnel by country were as follows:

PERSONNEL	1-12/2012	1-12/2011
Personnel, at end of period	**1,116**	926
Finland	**90**	80
Ireland	**56**	58
Brazil	**40**	43
Argentina	**36**	
India	**843**	690
Other countries	**51**	55
Personnel, average	**1,070**	922
Personnel expenses before R&D capitalisation (MEUR)	**35.4**	30.4

RIGHTS OFFERING

Based on the authorisations granted by the Extraordinary General Meeting of 28 May 2012 and the Annual General Meeting of 28 March 2012, the Board of Directors of Tecnotree decided on 28 May 2012 on a rights offering of approximately EUR 5.9 million such that the shareholders of Tecnotree had a pre-emptive right to subscribe for new shares in proportion to their current shareholding in Tecnotree. Altogether 48,997,451 new shares were offered for subscription in the offering. The subscription price for the offer shares was EUR 0.12 per offer share. The subscription period was from 5 June 2012 to 19 June 2012. Trading in the subscription rights commenced on 5 June 2012 and ended on 12 June 2012. A total of 31,394,457 new shares, representing 64.1 per cent of the total number of shares offered in the rights offering, were subscribed pursuant to subscription rights. The remaining 17,602,994 new shares, or 35.9 per cent of the rights offering, were subscribed without subscription rights.

The proceeds from the rights offering amounted to EUR 5.9 million before related fees and expenses. The shares subscribed in the offering were registered with the Trade Register on 29 June 2012 and trading in the new shares commenced on 2 July 2012. Since the actual value of the rights offering was at least EUR 5.0 million, the Company met the conditions for obtaining the credit facility for financing working capital.

TECNOTREE SHARES AND SHARE CAPITAL

At the end of December 2012 the shareholders' equity of Tecnotree Corporation stood at EUR 34.5 (31 December 2011: 49.5) million and the share capital was EUR 4.7 million. The total number of shares was 122,628,428.

The company held 134,800 of these shares, which represents 0.1 per cent of the company's total number of shares and votes. Equity per share, adjusted to reflect the share issue, was EUR 0.28 (31 December 2011: 0.58).

A total of 49,706,652 Tecnotree shares (EUR 11,745,120) were traded on the Helsinki Exchanges during the period 1 January – 31 December 2012, representing 40.5 per cent of the total number of shares.

The highest share price quoted in the period was EUR 0.35 and the lowest EUR 0.12. The average quoted price was EUR 0.25 and the closing price on 31 December 2012 was EUR 0.17. The market capitalisation of the share stock at the end of the period was EUR 20.8 million.

CURRENT AUTHORISATIONS

The Annual General Meeting held on 28 March 2012 authorised the Board of Directors in accordance with the proposal of the Board of Directors to decide on the acquisition of a maximum of 7,360,000 of the Company's own shares. Own shares may be acquired with unrestricted shareholders' equity otherwise than in proportion to the holdings of the shareholders through public trading of the securities on NASDAQ OMX Helsinki Oy at the market price of the shares in public trading at the time of the acquisition. Own shares can be acquired for the purpose of developing the capital structure of the Company, carrying out corporate acquisitions or other business arrangements to develop the business of the Company, financing capital expenditure, to be used as part of the Company's incentive schemes, or to be otherwise retained in the possession of the Company, disposed of or nullified in the extent and manner decided by the Board of Directors. The Board of Directors will decide on other terms of the share acquisition. The authorisation is valid for one year from the decision of the Annual General Meeting. The Board of Directors has not exercised this authorisation during the review period.

Furthermore, the Annual General Meeting authorised the Board of Directors in accordance with the proposal of the Board of Directors to decide to issue and/or to convey a maximum of 22,500,000 new shares and/or the Company's own shares either against payment or for free. New shares may be issued and the Company's own shares may be conveyed to the Company's shareholders in proportion to their current shareholdings in the Company or waiving the shareholder's pre-emption right, through a directed share issue if the Company has a weighty financial reason to do so. The Board of Directors may also decide on a free share issue to the Company itself. The Board of Directors is, within the authorisation, authorised to grant the special rights referred to in Chapter 10, Section 1 of the Companies Act, which carry the right to receive, against payment, new shares of the Company or the Company's own shares held by the Company in such a manner that the subscription price of the shares is paid in cash or by using the subscriber's receivable to set off the subscription price. The Board of Directors shall decide on other terms and conditions related to the share issues and granting of the special rights. The said authorisation is valid for one year from the decision of the Annual General Meeting. Due to the rights offering completed during the review period, the authorisation may be used to issue and/or convey a maximum of 13,502,549 new shares and/or the Company's own shares either against payment or for free.

STOCK OPTION PROGRAMMES AND INCENTIVE SCHEME

During the review period the company had in force the 2006 and 2009 stock option programmes. The exercise period for the 2009B options ended on 31 March 2012 and the exercise period for the 2006C options ended on 30 April 2012.

The state of the options on 31 December 2012 was as follows:

Option series	Maximum number of	Number of options granted	Exercise period	Exercise price
Performance based	2,280,012	876,792		
Time based	1,140,006	1,040,719		
Total based on original option program	3,420,018	1,917,511		
Increase based on share issue	312,932	285,678		
2009C total	3,732,950	2,203,189	1.4.2011–31.3.2013	0.675

The maximum number of 2009C options before the share issue was 3,420,018, of which a total of 1,917,511 options had been granted. Of the allocated options a total of 876,792 options become available to key personnel based on a performance appraisal in accordance with the terms and conditions of the 2009 option program. The rest of the 2009C allocated options (i.e. 1,040,719 time based options) are available during the exercise period. The stock options are part of the incentive and commitment scheme for key personnel.

Due to the share issue carried out during the review period and in accordance with the terms and conditions of the 2009 option program, the Board of Directors decided to increase the number of shares to be subscribed with the 2009C time based options by multiplying the number of shares to be subscribed by 1.2745. The Board of Directors further decided to reduce the subscription price for the 2009C time based options by the same factor, 1.2745, from EUR 0.86 to EUR 0.675.

After the increase mentioned above, altogether 3,732,950 stock options remained on 31 December 2012 of all the company's stock options in circulation. The shares that could be subscribed on the basis of these stock options accounted for a maximum of 2.95 per cent of the Company's shares and the votes carried by the shares after any increase in share capital. On 31 December 2012 the Company held 1,529,761 of all the current stock options. The issued stock options had a maximum diluting effect on 31 December 2012 of 1.76 per cent.

During the review period the Company had a current incentive scheme that the Board of Directors had established on 25 October 2011. Any reward in the scheme for the 2012 earning period was based on Tecnotree Group's earnings per share (EPS), adjusted operating profit and the Company's trade weighted average share price in December 2012, as well as on fulfilling the requirement to purchase shares. No reward accrued for the 2012 earning period.

RISKS AND UNCERTAINTY FACTORS

Tecnotree's largest customers are much bigger businesses than the company itself and the two largest customers account for more than half of net sales. The relationship between the company and its major customers is one of interdependence, which offers business opportunities but also poses risks.

Certain commitments are associated with the project and maintenance agreements made by the company, and unforeseen costs may arise in the future from these agreements. The company aims to limit these liabilities with limitation of liability clauses in customer contracts. In addition the company has a current global liability insurance to cover any liabilities that may materialise in connection with customer projects.

Project deliveries result in large accounts receivable. Most of Tecnotree's net sales come from developing countries and some of these contain political and economic challenges. There is the risk of a considerable delay in the payment of invoices in these countries and that Tecnotree will have to record credit losses.

In 2012 Tecnotree booked impairment totalling EUR 2.5 million for receivables from a customer owned by the government of Libya. Tecnotree originally had receivables totalling EUR 7.6 million from this company and has now recorded impairment for the full amount. In addition, in 2012 the company recorded impairment of EUR 1.3 million for receivables from a company in the MEA region, which corresponds to the full amount of the receivables.

Changes in exchange rates create risks especially in sales activities. A significant part of the company's net sales is in US dollars. The company hedges its currency denominated net position for a maximum period of 12 months, using currency forward contracts and currency options.

Carrying out projects involves risks. They are contained for example in projects that require new product development, where creating new product features may prove more difficult than anticipated. Another problem with project sales arises from variations in net sales and profit during the different quarters of the year. Forecasting these variations is often difficult.

Tecnotree operates in a rapidly changing sector. When making R&D decisions there is the risk that the choice made may not bring the expected returns.

Following the acquisition of Tecnotree Convergence Limited (previously Lifetree Convergence Limited) Tecnotree has made various changes, for example in sales and R & D activities and in the organisation, and there are risks relating to the success of these changes. Changes are needed, however, to be able to take advantage of the opportunities opened up by the acquisition. The amount paid for the acquisition and the resulting goodwill also involve risks. The calculations made to test goodwill are based on growth expectations that contain risks. In 2012 Tecnotree recorded impairment totalling EUR 1.5 million for the Europe and APAC regions as the result of this testing.

Tecnotree's risks and uncertainties in the near future relate to major projects that are under negotiation and to their timing, to receivables, to changes in foreign exchange rates and to financing. The company's current finance arrangement with the bank ends in December 2013. Under this arrangement, at the end of 2012 the company had a loan of EUR 13.3 million and a EUR 10 million credit facility. In addition the company has a separate EUR 5 million credit facility to finance working capital. Both credit facilities were in full use. The company has to arrange replacement financing during 2013 for the loan and credit facility that mature in December.

More details of the risks that Tecnotree is exposed to are given in the listing prospectus published in connection with the share issue in June 2012.

EVENTS AFTER THE END OF PERIOD

No significant events have occurred after the end of the period.

PROSPECTS IN 2013

Tecnotree's order book at the end of 2012 stood at EUR 54.2 million, so the company moves into 2013 in a good position. The company estimates that its net sales and operating result will improve from the previous year. Variations in the quarterly figures will be considerable.

PROPOSAL CONCERNING THE RESULT

The Board of Directors proposes to the Annual General Meeting, that no dividend be paid for the financial year ended 31 December 2012, and that the parent company's loss for the financial year, EUR 15,445,987.34, be covered by non-restricted equity reserves.

FINANCIAL INFORMATION

Tecnotree is holding a conference for analysts and the media to announce its result for the 2012 fiscal year at 10.00 am on 6 February 2013 in the Tapiola conference room at the Scandic Hotel Simonkenttä, Simonkatu 9, Helsinki. The financial review will be presented by CEO Kaj Hagros and the conference will be held in Finnish. The material to be presented at the press conference will be available at www.tecnotree.com.

TECNOTREE CORPORATION

Board of Directors

FURTHER INFORMATION

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TABLE SECTION

The financial figures in the income statement, balance sheet and key indicators are presented in million euros. The figures shown here have been calculated using exact values.

CONSOLIDATED INCOME STATEMENT, MEUR	Note	**10-12/ 2012**	10-12/ 2011	**1-12/ 2012**	1-12/ 2011
NET SALES	2	**22.4**	16.1	**73.4**	62.3
		0.1	0.1	**0.1**	0.2
Materials and services		**-4.0**	-2.1	**-14.4**	-10.8
Employee benefit expenses		**-11.0**	-7.3	**-35.4**	-30.5
Depreciation, amortisation and impairment charges	3	**-3.4**	-2.1	**-8.9**	-9.4
Other operating expenses		**-7.8**	-8.1	**-27.2**	-22.9
OPERATING RESULT	2	**-3.7**	-3.5	**-12.4**	-11.1
Financial income		**0.5**	0.5	**1.8**	2.4
Financial expenses		**0.1**	-0.3	**-3.1**	-1.3
RESULT BEFORE TAXES		**-3.1**	-3.3	**-13.7**	-9.9
Income taxes		**-3.3**	-4.2	**-3.3**	-5.6
RESULT FOR THE PERIOD		**-6.3**	-7.5	**-17.0**	-15.6
Allocated to:					
Equity holders of parent company		**-6.3**	-7.5	**-17.0**	-15.6
Non-controlling interest		**-0.0**	0.0	**-0.0**	0.0
Earnings per share calculated from the profit attributable to equity holders of parent company:					
Earnings per share, basic, EUR *		**-0.05**	-0.09	**-0.16**	-0.18
Earnings per share, diluted, EUR *		**-0.05**	-0.09	**-0.16**	-0.18

* This key figure has been adjusted for all periods presented to reflect the share issue.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, MEUR	**10-12/ 2012**	10-12/ 2011	**1-12/ 2012**	1-12/ 2011
RESULT FOR THE PERIOD	**-6.3**	-7.5	**-17.0**	-15.6
Other comprehensive income:				
Translation differences from foreign operations	**-3.1**	-1.5	**-3.4**	-7.3
Tax relating to components of other comprehensive income	**0.1**	0.1	**0.1**	0.3
Other comprehensive income, net of tax	**-3.0**	-1.4	**-3.3**	-7.1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**-9.3**	-8.9	**-20.3**	-22.6
Allocated to:				
Equity holders of parent company	**-9.3**	-8.9	**-20.3**	-22.6
Non-controlling interest	**-0.0**	0.0	**-0.0**	0.0

CONSOLIDATED BALANCE SHEET	Note	**31.12.2012**	31.12.2011
Assets			
Goodwill	3	**17.4**	19.2
Other intangible assets	3	**3.0**	9.7
Tangible assets		**4.7**	6.1
Deferred tax assets		**2.5**	3.1
Other non-current trade and other receivables		**0.4**	1.3
Current assets			
Inventories		**0.6**	0.8
Trade receivables		**22.2**	23.7
Other receivables		**19.0**	29.3
Investments		**0.6**	0.0
Cash and cash equivalents		**11.3**	6.7
TOTAL ASSETS		**81.8**	99.9
Shareholders' equity		**34.5**	49.5
Non-current liabilities			
Deferred tax liabilities		**2.8**	4.4
Non-current interest-bearing liabilities	4	**0.0**	12.2
Other non-current liabilities		**0.4**	0.4
Current liabilities			
Current interest-bearing liabilities	4	**28.3**	15.8
Trade payables and other liabilities		**15.6**	17.6
EQUITY AND LIABILITIES, TOTAL		**81.8**	99.9

CALCULATION OF CHANGES IN SHAREHOLDERS' EQUITY, MEUR

MEUR	A	B	C	D	E	F	G	H	I	J
Shareholders' equity 1 Jan. 2012	4.7	0.8	-0.1	-1.0	12.6	19.0	13.3	49.4	0.1	49.5
Share issue					5.4			5.4		5.4
Covering of loss						-13.9	13.9	0.0		0.0
Other changes							-0.1	-0.1	-0.0	-0.1
Total comprehensive income for the period				-3.3			-17.0	-20.3	-0.0	-20.3
Shareholders' equity 31 Dec. 2012	**4.7**	**0.8**	**-0.1**	**-4.2**	**18.0**	**5.2**	**10.1**	**34.5**	**0.1**	**34.5**

MEUR	A	B	C	D	E	F	G	H	I	J
Shareholders' equity 1 Jan. 2011	4.7	0.8	-0.1	6.1	12.6	29.4	18.5	72.1	0.1	72.1
Covering of loss						-10.4	10.4	0.0		0.0
Total comprehensive income for the period				-7.1			-15.6	-22.6	0.0	-22.6
Shareholders' equity 31 Dec. 2011	4.7	0.8	-0.1	-1.0	12.6	19.0	13.3	49.4	0.1	49.5

A = Share capital
B = Share premium fund
C = Own shares
D = Translation differences
E = Invested non-restricted equity reserve
F = Other reserves
G = Retained earnings
H = Total equity attributable to equity holders of parent company
I = Non-controlling interest
J = Total shareholders' equity

CONSOLIDATED CONDENSED CASH FLOW STATEMENT, MEUR	**1-12/2012**	1-12/2011
Cash flow from operating activities		
Result for the period	**-17.0**	-15.6
Adjustments of the result	**20.5**	14.2
Changes in working capital	**3.4**	-10.6
Interest paid	**-3.2**	-0.7
Interest received	**0.1**	0.1
Income taxes paid	**-5.1**	-4.7
Net cash flow from operating activities	**-1.3**	-17.3
Cash flow from investing activities		
Investments in intangible assets	**-0.2**	-0.3
Investments in tangible assets	**-0.7**	-0.7
Proceeds from disposal of intangible and tangible assets	**1.0**	0.0
Investments in other securities		-0.2
Proceeds from disposal of other securities	**0.3**	
Interest received from other securities	**0.0**	0.1
Dividends received from other securities	**0.0**	0.2
Net cash flow from investing activities	**0.4**	-0.9
Cash flow from financing activities		
Proceeds from share issue	**5.4**	
Borrowings received	**9.8**	9.5
Repayments of borrowings	**-9.5**	-1.1
Repayments of finance lease liabilities	**-0.0**	-0.1
Net cash flow from financing activities	**5.6**	8.3
Increase (+) and decrease (-) in cash and cash equivalents	**4.8**	-9.8
Cash and cash equivalents at beg. of period	**6.7**	16.7
Impact of changes in exchange rates	**-0.2**	-0.2
Cash and cash equivalents at end of period	**11.3**	6.7

1. ACCOUNTING PRINCIPLES FOR THE FINANCIAL REVIEW

This financial review has been prepared in accordance with the international financial reporting standard IAS 34 Interim Financial Reporting. The formulas for calculating the key figures presented and the accounting principles for the financial review are the same as the principles published in the 2011 Annual Report. The new and revised IFRS regulations that came into force on 1 January 2012 have not had a significant impact on the accounting principles and basis for preparing the interim report.

2. SEGMENT INFORMATION

The operating segments under IFRS 8 reported by Tecnotree are the geographical areas, which are Americas (North, Central and South America), Europe, MEA (Middle East and Africa), and APAC (Asia Pacific). This is because their results are monitored separately in the company's internal financial reporting. Tecnotree's chief operating decision maker, as referred to in IFRS 8, is the Group's management board.

Net sales and the result for the operating segments are presented based on the location of customers. The result for the operating segments includes the costs that can be allocated to the segments on a reasonable basis. Costs for product management, R & D and administration, depreciations, taxes and financial items are not allocated.

OPERATING SEGMENTS	**1-12/2012**	1-12/2011
NET SALES, MEUR		
Americas (North, Central and South America)	**38.5**	23.3
Europe	**6.7**	7.9
MEA (Middle East and Africa)	**24.9**	27.0
APAC (Asia Pacific)	**3.3**	4.0
TOTAL	**73.4**	62.3
RESULT, MEUR		
Americas (North, Central and South America)	**14.6**	7.3
Europe	**3.2**	3.9
MEA (Middle East and Africa)	**14.5**	14.9
APAC (Asia Pacific)	**1.3**	1.9
TOTAL	**33.5**	28.0
Non-allocated items	**-38.4**	-29.8
OPERATING RESULT BEFORE R&D CAPITALISATION & AMORTISATION AND ONE-TIME COSTS	**-4.9**	-1.7
Product development capitalisation	**0.0**	0.1
Product development amortisation	**-5.4**	-7.1
One-time costs	**-2.1**	-2.4
OPERATING RESULT	**-12.4**	-11.1
Financial items	**-1.3**	1.2
RESULT BEFORE TAXES	**-13.7**	-9.9

3. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

At end of the financial year, impairment losses totalling EUR 1.5 million were recorded for the Europe and APAC regions as a result of the goodwill impairment testing. The benefits of the acquisition of the Indian company mainly affect the MEA and Americas regions, for which the testing did not show any impairment. The impairment losses for Europe and APAC areas are allocated to the following balance sheet items:

IMPAIRMENT LOSSES, MEUR	**Europe**	**APAC**	**Total**
Goodwill	0.4	0.6	0.9
Capitalised product development costs	0.3	0.1	0.4
Other intangible assets	0.1	0.0	0.2
Tangible assets		0.0	0.0
IMPAIRMENT LOSSES, TOTAL	0.8	0.7	1.5

Product development amortisations for the review period were EUR 5.1 (7.1) million. At end of the review period, the carrying value of product development capitalisations after amortisations and impairment charges was EUR 1.7 (7.2) million.

4. INTEREST-BEARING LIABILITIES

Tecnotree’s current finance arrangement with the bank ends in December 2013 wherefore, at the end of the review period, the company had no long-term loans (EUR 12.2 million at end of 2011). Short-term loans amounted to EUR 13.3 (5.8) million and fully used credit facilities totalled EUR 15.0 (10.0) million.

INTEREST-BEARING LIABILITIES, MEUR	**31.12.2012**	31.12.2011
Loans from financial institutions, 1 Jan	**28.0**	19.7
Raised loans	**9.8**	9.5
Repayments of loans	**-9.5**	-1.1
Loans from financial institutions, end of period	**28.3**	28.0
Finance lease liabilities	**0.0**	0.0
Interest-bearing liabilities total	**28.3**	28.1

5. CONSOLIDATED CONTINGENT LIABILITIES

CONSOLIDATED CONTINGENT LIABILITIES, MEUR	**31.12.2012**	31.12.2011
On own behalf		
Real estate mortgages	**4.4**	7.7
Corporate mortgages	**42.3**	36.6
Pledged deposits		0.0
Guarantees	**0.5**	0.8
Other liabilities		
Desputed income tax liabilities in India	**0.7**	
Restriction related to real estate in Ireland		0.4

OTHER OPERATING LEASES, MEUR	**31.12.2012**	31.12.2011
Minimum rents payable based on other leases that cannot be cancelled:		
Other operating leases		
Less than one year	**0.5**	0.9
Between one and five years	**0.2**	0.9

In addition, the shares of the Indian subsidiary held by the parent company are pledged. These shares have a book value of EUR 35.4 million in the parent company. The net assets of the Indian subsidiary in the consolidated balance sheet are estimated at EUR 45.6 million.

During the beginning of the year, the company had funds of EUR 1.6 million temporarily frozen in India, while Atul Chopra's claim was being processed in court. In July, the court rejected the claim and released the funds.

6. RELATED PARTY TRANSACTIONS

During the review period, Tecnotree raised a variable-interest short-term working capital finance loan with market-based conditions of EUR 0.35 million from certain shareholders of the company included under related parties. The loans were entirely repaid in June.

7. CONSOLIDATED KEY FIGURES

CONSOLIDATED KEY FINANCIAL FIGURES	**1-12/2012**	1-12/2011
Return on investment, %	**-15.0**	-10.2
Return on equity, %	**-40.5**	-25.6
Equity ratio, %	**42.2**	50.7
Net gearing, %	**47.5**	43.1
Investments, MEUR	**0.9**	0.9
% of net sales	**1.2**	1.4
Research and development, MEUR	**13.0**	12.1
% of net sales	**17.7**	19.4
Order book, MEUR	**54.2**	40.4
Personnel, average	**1,070**	922
Personnel, at end of period	**1,116**	926

CONSOLIDATED KEY FIGURES PER SHARE	**1-12/2012**	1-12/2011
Earnings per share, basic, EUR **	**-0.16**	-0.18
Earnings per share, diluted, EUR **	**-0.16**	-0.18
Equity per share, EUR **	**0.28**	0.58
Number of shares at end of period, x 1,000	**122,494**	73,496
Number of shares on average, x 1,000	**98,264**	73,496
Share price, EUR		
Average	**0.25**	0.44
Lowest	**0.12**	0.33
Highest	**0.35**	0.63
Share price at end of period, EUR	**0.17**	0.38
Market capitalisation of issued stock at end of period, MEUR	**20.8**	28.0
Share turnover, million shares	**49.7**	22.8
Share turnover, % of total	**40.5**	31.0
Share turnover, MEUR	**11.7**	10.0
Price/earnings ratio (P/E)	**-1.0**	-1.8

** This key figure has been adjusted for all periods presented to reflect the share issue.

QUARTERLY KEY FIGURES	**4Q/12**	3Q/12	2Q/12	1Q/12	4Q/11	3Q/11
Net sales, MEUR	**22.4**	19.7	21.3	10.0	16.1	17.2
Net sales, change %	**39.5**	14.9	15.2	-5.5	15.1	29.3
Adjusted operating result *	**-0.3**	-0.8	2.0	-5.8	-2.0	1.9
% of net sales	**-1.1**	-4.0	9.3	-57.8	-12.2	10.9
Operating result, MEUR	**-3.7**	-2.1	0.6	-7.2	-3.5	0.1
% of net sales	**-16.3**	-10.4	2.7	-72.3	-22.1	0.7
Result before taxes, MEUR	**-3.1**	-3.0	0.4	-8.0	-3.3	0.5
Personnel at end of period	**1,116**	1,131	1,109	981	926	928
Earnings per share, basic, EUR **	**-0.05**	-0.02	0.01	-0.10	-0.09	0.01
Earnings per share, diluted, EUR **	**-0.05**	-0.02	0.01	-0.10	-0.09	0.01
Equity per share, EUR **	**0.28**	0.36	0.37	0.49	0.58	0.69
Net interest-bearing liabilities, MEUR	**16.4**	22.3	14.9	21.0	21.3	16.9
Order book, MEUR	**54.2**	59.2	58.8	36.2	40.4	21.0

* Adjusted result = operating result before R&D capitalisation, amortization of this and one-time costs. Details of these are given in the section “Result analysis”.
** This key figure has been adjusted for all periods presented to reflect the share issue.