TECNOTREE

powering the digital marketplace

# Tecnotree Oyj
# ANNUAL REPORT 2012

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# TECNOTREE 2012

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# CEO's Review

Execution of the new Tecnotree strategy begun in 2011 is progressing. The company is becoming a supplier of a broad range of business IT systems for digital services. We offer solutions for telecom operators to manage the services they offer, their customers and revenue. Tecnotree helps multiplay service providers develop their business towards a digital marketplace. Our products enable operators to offer individual service bundles that combine connectivity, applications and content, improve customer experience, and augment customer value in all phases of the life cycle.

**Significant R&D investment**
In 2012 we began developing a common product platform, so that customer deliveries will require less customisation. Through this transformation we are aiming at better profitability and scalability than in the project business. At the same time we have been trusted with some of the most lucrative and demanding projects in our sector; convergent systems for charging, billing, product management and customer care, in the rapidly developing markets in Latin America and Africa. Partly because of these major investments in product development, the company recorded a loss in 2012. Profitability will improve as the company gets to the point of supplying repeat orders for the new systems it is currently developing.

> "Record high order book and faster growth in net sales."

**Strong customer base**
Some of the largest operator groups in the world, such as América Móvil Group and MTN Group, depend on Tecnotree's solutions in their core operations. Our firm footing in the emerging markets keeps our company on the move. In our home market our customers include Elisa, DNA, TeliaSonera, Tele2, Telenor, Swisscom and Vodafone. In 2012 we added three new customers to our customer base of about a hundred operators.

**Record high order book and faster growth in net sales**
We continue to grow. Growth ties up capital, and at times the company's financial position in 2012 was challenging. However, thanks to the successful rights offering and the efforts to improve processes and reduce working capital, we managed an up-turn in our cash flow, from firmly negative in 2011 to positive in 2012. Judged by any yardstick, the transformation we have gone through has been challenging, but the confidence shown by our key customers, our record high order book, and the accelerating growth in net sales reassure us that we have turned the corner. Our personnel has shown dedication and put in unstinting efforts. Tecnotree's management through its shareholding has committed itself to the success of the company, and we hope to be able to reward the patience of investors in due time. In 2013 we are continuing our determined efforts to reach our goals.

**Opening door for start-up companies**
Alongside our global restructuring, in 2012 we started to actively support a promising start-up ecosystem in the geographical area of Espoo, Finland. In October we opened the Quja co-working campus for start-up technology companies. Adjacent to our head office, the premises cater for up to 50 companies or 150 employees.

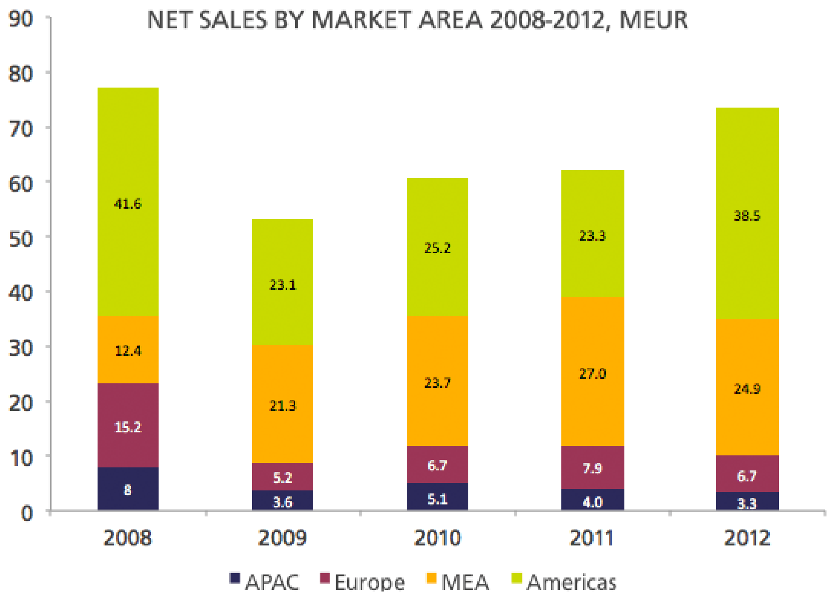
I would like to thank our customers, employees, partners and investors for all we have achieved in 2012! I am excited as I look forward to the opportunities that rapidly developing digital services and uncompromising work offer all of us in 2013.

**Kaj Hagros**
President and CEO

# Key Figures

| M€ | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Net sales, MEUR | 73,4 | 62,3 | 60,7 | 53,3 | 77,2 |
| Net sales, change % | 17,9 | 2,6 | 14,0 | -31,0 | 10,1 |
| Adjusted operating result, MEUR * | -4,9 | -1,7 | -2,5 | -8,8 | 8,0 |
| Operating result, MEUR | -12,4 | -11,1 | -8,1 | -15,0 | 11,5 |
| as % of net sales | -16,9 | -17,8 | -13,3 | -28,1 | 14,9 |
| Profit before taxes, MEUR | -13,7 | -9,9 | -9,4 | -15,4 | 13,5 |
| as % of ner sales | -18,7 | -15,9 | -15,5 | -29,0 | 17,5 |
| Result for the period, MEUR | -17,0 | -15,6 | -11,0 | -16,2 | 10,2 |
| Earnings per share, basic, EUR ** | -0,16 | -0,18 | -0,13 | -0,21 | 0,15 |
| Earnings per share, diluted, EUR ** | -0,16 | -0,18 | -0,13 | -0,21 | 0,15 |
| Equity per share, EUR ** | 0,28 | 0,58 | 0,85 | 0,91 | 1,22 |
| Net interest-bearing liabilities, MEUR | 16,4 | 21,3 | 2,4 | -8,3 | -31,0 |
| Personnel at the end of the period | 1 116 | 926 | 858 | 779 | 354 |

* Adjusted operating result = operating result before R & D capitalisation, amortization of this and one-time socts.
** This key figure has been adjusted for all periods presented to reflect the share issue.



# Year in Brief

**February**
Tecnotree announces Enterprise VPN solution ready for deliveries.

**April**
Tecnotree has been awarded USD 24 million coonvergent charging contract in Latin America.

**May**
Tecnotree wins an IVR consolidation contract from a tier-1 operator in Eastern Europe.

Board of Directors of Tecnotree has decided on a rights offering.

**June**
Tecnotree announces the delivery of convergent conferencing service to Vodacom.

Tecnotree to supply convergent self-care solution for a major operator in West Africa.

Tecnotree deploys new voice messaging solution for Tango in Luxemburg.

Tecnotree supports Finnish operator DNA with enhanced customer care service.

Tecnotree's rights offering oversubscribed.

**July**
Tecnotree supplies convergent customer care and billing system for NetOne Cellular in Zimbabwe.

Tecnotree awarded a USD 10.4 million contract for managed services in Latin America.

Tecnotree has signed a revolving credit facility agreement of EUR 5.0 million.

**August**
Tecnotree receives an order to upgrade billing and customer self-care solutions for an operator in Africa.

Tecnotree breakthrough in Europe - the first business IT system order.

**September**
Tecnotree signs a USD 14.6 million expansion contract in Latin America.

Tecnotree strenghtens Management Board.

Tecnotree wins a call completion contract from Digitel in Venezuela.

Tecnotree expands its Managed Services operations with an order from an operator in the Middle East.

**October**
Tecnotree has sold a plot.

Tecnotree launches a co-working campus for startups.

Prospects for 2012 have changed.

**November**
Tecnotree receives a USD 5.4 million expansion order in Latin America.

**December**
Tecnotree receives an order of USD 4.6 million from a new operator customer in Africa.

# Strong business growth

**Americas**

- Experienced significant sales growth from EUR 23,3 million to EUR 38,5 million (65%).
- Significant partnership with América Móvil Group.
- Received a USD 24 million order for a new generation convergent charging solution.
- The year closed with a record high order backlog (EUR 36.7 million.
- Strong cash in-flow from the region.
- Delivered successfully a number of charging, messaging and content delivery solutions.
- Advanced the execution of the new corporate strategy by commencing the delivery of a convergent billing and customer management solution worth USD 30.5 million.
- Business outlook for 2013 is promising based on existing footprint and identified opportunities.

"Net sales
EUR 38.5 million"

# Supporting existing clients

**Asia Pacific**

- Successfully delivered two Tecnotree AgilityTM Call Completion upgrade projects with large Malaysian operators with a subscriber base over 16 million in total.
- Delivered a platform expansion to a large operator.
- Won a two-year maintenance agreement with a large Taiwanese operator.
- Continued scouting for new opportunities in line with the digital marketplace strategy.

"Net sales
EUR 3.3 million"

# Stable customer base, new beginnings

**Europe**

- Stable customer base in Europe with call completion and messaging products and related services.
- Slight decline of sales due to overall business maturity in voice messaging.
- Operators in Europe are cautious about new investments and seek cost reductions.
- Two new projects represent new strategy execution: one around service mediation and another around customer loyalty and campaign management.

"Net sales EUR 6.7 million"

# Expanding our reach in emerging markets

**Middle East and Africa**

- Sales declined 8% from 2011 but demand picked up notably in the last quarter.
- Order book rose more than 30% from 2011.
- Major breakthrough in messaging and call completion with two new operator contracts in Africa and a landmark deal of USD 4.6m.
- Continued growth in convergent billing and subscriber management with MTN Group in Africa.
- Positive outlook with convergent business IT solutions and managed services.

"Net sales
EUR 24.9 million"

# Year of Quality

Tecnotree management declared 2012 as the Year of Quality. The objective was to raise quality awareness and introduce new tools to ultimately improve the quality of our products and services perceived by our customers. Three major initiatives were launched: bi-monthly quality themes, user interaction and reward, and quality training.

**1. Bi-monthly Quality Themes**: A new quality theme was selected bi-monthly, with input from the all unit leaders. This ensured a focus on quality throughout the year with a customised quality message for each unit.

| Month | Theme | Tagline |
|---|---|---|
| January | Ownership | Quality is everybody's responsibility. |
| February | Standardisation | Is to ensure consistency and repeatability of delivery. |
| March/April | Planning | Plan what is going to be done. |
| May/June | Tracking | Track and report against the plan. |
| July/August | Review | If it is not reviewed it is not completed. |
| September/October | Measurability | If it is not measured, it is not fully managed. |
| November/December | Communication | Transparent communication is a key success factor for a global organisation. |

"The Year of Quality has provided a foundation and framework for on-going initiatives to improve quality within Tecnotree."

**2. User Interaction and Reward**: This initiative aimed to engage the maximum number of employees. People were rewarded for quality awareness, using a dedicated quality portal with online quizzes, games and interaction tools.

**3. Quality Training**: This initiative provided quality and tools training courses. These were rolled out extensively throughout the year with over 370 employees receiving training.

Tecnotree management reviewed plans, progress and metrics of the Year of Quality initiative each quarter in the Quality Management Board and provided continuous input and support throughout the year.

New targets have been established for 2013 and will be monitored at individual project level.

The Year of Quality has met the objective of leadership engagement, user interactions and employee education to change people's attitude towards quality. It has provided a foundation and framework for on-going initiatives to improve quality within Tecnotree.

**Declan Lynch**
Head of Quality Assurance

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# CORPORATE GOVERNANCE

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# Board of Directors








**Harri Koponen**, b. 1962, eMBA, Phd. Econ. h.c.
Main duty: Chief Operations Officer, Rovio Entertainment Ltd, 2010-
Chairman of the Board, 2011–
Member of the Board, 2008-
Tecnotree shares 31 Dec 2012: 424,371
Tecnotree stock options 31 Dec 2012: --
Independent of Tecnotree and its significant shareholders

**Ilkka Raiskinen**, b. 1962, MSc. (Tech.)
Main duty: Executive Management Consultant, Aletheia Oy, 2009–
Vice Chairman of the Board, 2011–
Member of the Board 2010–
Tecnotree shares 31 Dec 2012: 241,425
Tecnotree stock options 31 Dec 2012: --
Independent of Tecnotree and its significant shareholders

**Johan Hammarén**, b. 1969, LL.M, MSc (Econ.)
Main Duty: Director and Founding Partner, Fondia Oy, 2006–
Member of the Board, 2007–
Tecnotree shares 31 Dec 2012: 927,238
Tecnotree stock options 31 Dec 2012: --
Independent of Tecnotree and its significant shareholders

**Pentti Heikkinen**, b. 1960, MSc (Econ)
Stanford Graduate School of Business (Stanford Executive Program 2001)
Main duty: Founder and CEO, Gateway Technolabs Finland Oy, 2008-
Member of the Board, 2009–
Tecnotree shares 31 Dec 2012: 199,301
Tecnotree stock options 31 Dec 2012: --
Independent of Tecnotree and its significant shareholders

**Christer Sumelius**, b. 1946, MSc. (Econ.)
Main duty: President, Investsum Oy Ab, 1984–
Member of the Board, 2001–
Tecnotree shares 31 Dec 2012: direct holding 2,176,028 and through Investsum Ab 1,578,500
Tecnotree stock options 31 Dec 2012: --
Independent of Tecnotree and its significant shareholders

**Tuija Soanjärvi**, b. 1955, MSc. (Econ.)
Member of the Board, 28 March 2012
Tecnotree shares 31 Dec 2012: 24,091
Tecnotree stock options 31 Dec 2012: -
Independent of Tecnotree and its significant shareholders

**Hannu Turunen**, b. 1957, MSc (Tech), MBA
Main duty: Managing Partner, Magnolia Ventures Oy, 2001–
Member of the Board, 2008–
Tecnotree shares 31 Dec 2012: through Magnolia Ventures 257,101
Tecnotree stock options 31 Dec 2012: --
Independent of Tecnotree and its significant shareholders

The following person was a member of the Board of Directors 2009 - 28 March 2012:
David White, b. 1950, BSc (eng.)

# Management Board


Kaj Hagros


Timo Ahomäki


Ilkka Aura


Padma Ravichander


Tuomas Wegelius

**Kaj Hagros**, b. 1970, MSc. (Eng.), MBA
Main duty: President and CEO, 2010–
Tecnotree shares 31 Dec 2012: direct holding 300,000, through Hagros & Hagros Oy 166,666
Tecnotree stock options 31 Dec 2012: 184,803

**Timo Ahomäki**, b. 1966, BSc Eng.
Main duty: Chief Technoloogy Officer, 1 Oct 2012-
Tecnotree shares 31 Dec 2012: 25,000
Tecnotree stock options 31 Dec 2012: 25,490

**Ilkka Aura**, b. 1962, M.Sc. (Econ.)
Main duty: Chief Commercial Officer, 1 Oct 2012–
Tecnotree shares 31 Dec 2012: 300,000
Tecnotree stock options 31 Dec 2012: --

**Padma Ravichander,** b. 1959, Computer Science and IT (Dip), Concordia University, Montreal Canada, Graduate of Executive Management School Stanford University, California, USA
Main duty: Chief Delivery Officer, 2011–
Tecnotree shares 31 Dec 2012: 25,000
Tecnotree stock options 31 Dec 2012: 76,470

**Tuomas Wegelius**, b. 1955, MSc (Econ)
Main duty: Chief Financial Officer, 2006–
Tecnotree shares 31 Dec 2012: 48,693
Tecnotree stock options 31 Dec 2012: 74,345

The following person was member of the Management Board: Timo Laaksonen , b. 1961, 2010–1 Oct 2012.

# Corporate governance statement 2012

In 2012, Tecnotree abided by the Finnish Corporate Governance code for companies listed on the NASDAQ OMX Helsinki Ltd. with one exception from recommendation 9 before 28 March 2012. This statement has been prepared separately from the Report of the Board of Directors and in accordance with the Finnish Corporate Governance Code 2010. The Finnish Corporate Code 2010 can be found at www.cgfinland.fi and this statement at www.tecnotree.com.

# Meeting of Shareholders

Tecnotree's Annual General Meeting of Shareholders is the company's highest decision-making body. The responsibilities of the Annual General Meeting are defined in the Finnish Companies Act and the Articles of Association of the company. The most important responsibilities include amending the Articles of Association, approving the financial statements, deciding on the dividend to be paid, discharging the Board members and the President and CEO from liability, appointing Board members and auditors and deciding on their fees.

# Board of Directors

The tasks and responsibilities of Tecnotree's Board of Directors are defined in the Finnish Companies Act and in other applicable legislation, according to which the Board of Directors is responsible for the appropriate organisation of business operations and corporate administration. The Board also ensures that the company's accounting and financial administration is supervised appropriately. Furthermore, the Board is responsible for promoting the interests of the company and all its shareholders by pursuing a business policy that in the long-term ensures the best possible return on capital invested in the company.

Tecnotree's Board of Directors consists of a minimum of three and a maximum of eight members, as outlined in the Articles of Association. The Annual General Meeting elects the Board and confirms the number of Board members. The Board of Directors elects the Chairman and Vice Chairman among its members for a term of one year at a time. The term of office of Board members expires at the end of the first Annual General Meeting following election. The Board of Directors appoints the President and CEO of the company.

The members of Tecnotree's Board have no special duties related to being a member of the Board other than those designated by law. Some Board members are also members of Board Committees.

To support its work, Tecnotree's Board of Directors has confirmed charter that defines the Board's duties and work methods, as well as meeting and decision-making procedures.

In order to carry out its duties, the Board shall:

- decide upon the group strategy and approves the business strategy
- approve the values of the company and its subsidiaries
- approve the annual business plan and investment plan and supervises their realization
- decide upon the central organization structure and leadership system of the company
- discuss and approve the accounts and interim reports
- define the dividend policy of the company and makes a proposal to the annual general meeting as to the amount of dividend paid
- appoint the managing director of the company and the deputy managing director, decide upon their remuneration and conditions of employment
- decide on the appointment of the members of the company's management group and their remuneration
- approve the principles and methods for ensuring the reliability, suitability and competence of the persons trusted with the direction of the company and its subsidiaries
- decide on the remuneration systems of the company's executives and the principles of the remuneration systems for other personnel
- decide on strategically or economically important investments and the purchase and sale of companies or similar arrangements
- approve annually the risk management strategy of the company and the significant principles of risk management
- decide upon the capital structure of the company and approve annually the fund-raising plan of the company
- approve the principles of internal control and internal audit and the audit plan
- approve annually the continuity plan for essential areas of operation and the information technology plan and
- be responsible for the other duties assigned to it under the Finnish Companies Act or other regulation

The charter of the Board of Directors can be found at www.tecnotree.com.

The Annual General meeting of 28 March 2012 confirmed that the Board of Directors will consist of seven (7) members, and the Board members were elected for a period of office expiring at the end of the first Annual General Meeting following the election.

Tecnotree's Board of Directors has assessed the Board members' independence of the company and shareholders in compliance with the Finnish Corporate Governance Code's recommendations. Based on the assessment, all seven Board members are independent on the company and on significant shareholders.

Tecnotree's Board of Directors convened 18 times in 2012. The average attendance of members at Board meetings was about 94 per cent.

**Composition of the Board of Directors**

**Johan Hammaren,** b. 1969. LL.M, MSc (Econ)
Member of the Board, 2007-
Main duty: Founding Partner, Manager, Fondia Oy, 2006–

**Pentti Heikkinen,** b. 1960, MSc (Econ)
Standford Graduate School of Business (Standford Executive Program 2001)
Member of the Board, 2009–
Main duty: Founder and CEO, Gateway Technolabs Finland Oy, 2008-

**Harri Koponen,** b. 1962, eMBA, Phd. Econ. H.c.
Chairman of the Board, 2011-
Member of the Board, 2008–
Main duty: Chief Operations Officer (COO), Rovio Entertainment Ltd, 2010-

**Ilkka Raiskinen,** b. 1962, MSc (Tech)
Vice Chairman of the Board, 2011-
Member of the Board, 2010–
Main duty: Executive Management Consultant, Aletheia Oy, 2009–

**Tuija Soanjärvi,** b. 1955, M.Sc.(Econ.)
Member of the Board, 28 March 2012-

**Christer Sumelius,** b. 1946, MSc. (Econ.)
Member of the Board, 2001–
Main duty: President, Investsum Oy Ab, 1984–

**Hannu Turunen**, b. 1957, MSc (Tech), MBA
Main duty: Managing Partner, Magnolia Ventures Oy, 2001–
Member of the Board, 2008–
Tecnotree shares 31 Dec 2012: through Magnolia Ventures 257,101
Tecnotree stock options 31 Dec 2012: --

The following person was a member of the Board of Directors 2009 - 28 March 2012: David White, b. 1950, BSc.(Eng.)

**Board Committees**

**Audit Committee**
The Audit Committee's task is to assist the company's Board of Directors in ensuring that the company has a sufficient internal control system encompassing all of its operations. In addition, the Committee assists the Board of Directors in ensuring that the monitoring of the company's accounting and asset management has been organised in an appropriate manner.

The responsibilities of the Audit Committee are defined in its charter.

To execute its duties, the Audit Committee shall:

- monitor the reporting process of financial statements
- supervise the financial reporting process
- monitor the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- review the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the company's Corporate Governance Statement
- monitor the statutory audit of the financial statements and consolidated financial statements
- evaluate the independence of the statutory auditing or audit firm, particularly the provision of related services to the company
- prepare the proposal for resolution on the election of the auditor
- monitor the financial position of the company and
- contact with the auditor and revision of the reports that the auditor prepares for the Audit Committee.

The charter of the Audit Committee can be found at www.tecnotree.com.

The Audit Committee comprises four members of the Board: Harri Koponen (Chairman up to 30 Oct 2012), Ilkka Raiskinen (Chairman from 30 Oct 2012), Tuija Soanjärvi and Hannu Turunen. Tecnotree's President and CEO and CFO regularly participate in the Audit Committee's meetings.

The Audit Committee had 5 meetings in 2012, and the average attendance of members at meetings was about 80 per cent.

**Remuneration and Nomination Committee**

The Remuneration and Nomination Committee helps the Board of Directors in the preparations relating to the election of members of the Board of Directors, and in handling matters within its scope of responsibility that relate to the conditions of employment and remuneration of senior management, and to management's and personnel's remuneration and incentive schemes. The responsibilities of the Remuneration and Nomination Committee are defined in its charter.

The duties of the Remuneration and Nomination Committee are as follows:

- the preparation of the proposal for the appointment of directors to be presented to the general meeting
- the preparation of the proposal to the general meeting on matter pertaining to the remuneration of the directors
- looking for prospective successors for the directors
- the presentation of the proposal on the directors to the general meeting
- the preparation of matters pertaining to the appointment of the President and CEO and the other executives as well as the identification of their possible successors
- the preparation of matters pertaining to the remuneration and other financial benefits of the President and CEO and the other executives
- the preparation of matters pertaining to the remuneration schemes of the company
- the evaluation of the remuneration of the President and CEO and the other executives as well as seeing to it that the remuneration schemes are appropriate
- answering questions related to the remuneration statement at the general meeting.

The charter of the Remuneration and Nomination Committee can be found at www.tecnotree.com.

The Remuneration and Nomination Committee comprises four members of Board: Johan Hammarén, Harri Koponen, Ilkka Raiskinen and Christer Sumelius (Chairman).

The Remuneration and Nomination Committee had 5 meetings in 2012, and the average attendance of members at meetings was about 90 per cent.

# President and CEO

The President and Chief Executive Officer is responsible for managing and developing the company's operations as defined in the Finnish Companies Act and in the guidelines and instructions issued by the Board of Directors. The President and CEO may undertake actions that are unusual or far-reaching in view of the scope and quality of the company's operations only if authorised by the Board of Directors.

The President and CEO ensures that the company's accounting complies with legislation and that its assets are managed reliably. The President and CEO is also responsible for investor relations, corporate communication, long-term strategic and financial planning, as well as major operative decisions and the supervision of their implementation. The President and CEO prepares matters to be handled at Board meetings and reports to the Board.

**Kaj Hagros**, b. 1970, MSc. (Eng.), MBA
President and CEO, 2010–

# Composition of the Management Board

At the end of 2012, Tecnotree Group had a five-member Management Board that comprised the President and CEO, Chief Commercial Officer, Chief Delivery Officer, Chief Technology Officer and Chief Financial Officer, The Management Board is chaired by the President and CEO.

The Management Board assists the President and CEO, supervises and develops the company's operations in accordance with the strategies and objectives set, creates group-level procedures, provides support to risk management processes, monitors the global human resources policy and remuneration systems as well as manages stakeholder relations. The Management Board convenes at least once a month.

**Kaj Hagros**, b. 1970, MSc. (Eng.), MBA
Main duty: President and CEO, 2010-

**Timo Ahomäki**, b. 1966, BSc. Eng.
Main duty: Chief Technology Officer, 1 Oct 2012-

**Ilkka Aura**, b. 1962, M.Sc. (Econ.)
Main duty: Chief Commercial Officer, 1 October 2012-

**Padma Ravichander**, b. 1959
Main duty: Chief Delivery Officer, Managing Director of Tecnotree Convergence Ltd., 2011-

**Tuomas Wegelius**, b. 1955, MSc (Econ)
Main duty: Chief Financial Officer, 2006-

The following person was member of the Management Board:
Timo Laaksonen, b. 1961, 2010 - 1 October 2012

# Objectives for internal control and risk management

The objective of the internal control and reporting methods is to ensure that the company's operations are efficient and that information is reliable and that official regulations and internal operating principles are followed. The Group's financial management is responsible for performing and guiding the internal control as instructed by Audit Committee.

The task of risk management is to identify, manage and track the major risks in the Group's business and business environment to enable the Group to achieve its strategic and financial goals in the best possible way. The Group's management board is responsible for risk management.

**Control activities**

The company mainly uses the common finance system for its financial reporting, and the information in this system for the different companies can also be viewed at head office. Similarly, where necessary the parent company accounts can also be examiden at the other offices. Group reporting is perfomed using a separate system on a monthly basis. Actual figures are compared to budget figures, and at the highest level also to the previous forecast. Major deviations are looked into.

The main control activities include preparing up-to-date forecasts, analysing deviations in actual data versus forecast and previous periods, performing transaction and process level controls and internal audits. The company does not have an own internal auditor. The Finance department in HQ is responsible for control activities. An external auditing office has been used as an internal auditor in India during 2012.

Annual budgets are prepared and detailed targets set based on the strategic plans in the October-December period. A preliminary budget is presented to the Board of Directors in November and the final budget is drawn up based on the feedback received, and this is examined at the Board meeting in December. It also includes plans of action. These are then used as the basis for defining individual targets for each person.The budget is revised in May or June and presented to the Board.

The operating result forecast is updated and presented at the monthly Board meeting. Monthly reporting shows the latest forecast for the period that has ended, the actual figure and the forecast for the following period.

Forecast for sales and revenues to be recognised are examined on a monthly basis, region by region in telephone conferences. The forecasts are graded in different categories according to their probability, and this information is used by the management board to decide on the forecast to be presented to the Board.

The Group's financial management together with the relevant levels of management prevents, discovers and corrects deviations and possible errors in the monthly reporting. Line organisation is responsible for budgets and forecasts. The role of Group's financial management is to collect these plans according to accepted timetables and to control their reliability. Substantial deviations and possible errors with corrective actions are reported to the Board of Directors.

The Group's financial department performs controls pertaining to the correctness of external and internal reporting. Due to the nature of business a lot of emphasis is put into controlling revenue recognition and receivables.

Since the end of 2011 teh company has produced a separate weekly short-term cash flow forecast. Collection of trade receivables was enhanced during 2012. Group management held numerous regular regional telephone conferences on collection. This was part of the project to make more efficient use of working capital launched half way through the yeart, which identified key areas in particular for reducing the amouont of money tied up in receivables. Personnel from many different sectors in the company participated in the project. After the investigation phase, the project continued with specific plans of action and follow up reporting. The amount of receivables decreased significantly during the final quarter of the year. The project is continuing in 2013.

**Risk management**

The annual assessment of external risks define the biggest risks, the action to be taken and the persons responsible. The Group's financial management is responsible for managing foreign exchange, interest rate and liquidity risks and for taking out insurance agains operational risks.

The Management Board handles risks and risk management in its meetings on a regular basis and reports the overall risk assessment to the Board of Directors and its Audit Committee.

The methods in financial reporting and control at the group decrease the risks pertaining to the financial reporting: Majority of the sales transactions are at the parent company level, common chart of accounts and IFRS principles applied, common systems with comprehensive database, centralised treasury and financing, and an easy-to access archive for contracts and policies.

The company in India has managed its own sales to customers and has had a separate financial system. During 2012 the parent company took over sales activities and on 1st April 2012 the Indian company introduced the Group's financial system, which makes it possible for Indian's fianncial data to be seen at headquarters as well. As a general rule, Tecnotree's subsidiaries have the role of providing services for the parent company, which is respponsible for sales.

Most of the finance department for the companyin India was located in Gurgaon near Delhi until July 2012. This office was closed down and its functions were transferred to Bangalore, where the company's other operations are located. There were problems with reporting at the Indian company and in monitoring the company during 2012 in consequence of the change in the finance system and changes in personnel. The situation has improved as the new personnel have got to know the company and its business. Controls have been started to develop and improve in financial reporting and especially project accounting. Findings and recommendations of an internal audit performed by an advisor have been utilised.

**Guidelines and Policies**

Corporate governance is implemented through documented policies. The main policies are policy for making sales agreements, credit policy, cash management policy, policy for hedging against currency risks, policy for making purchase agreements and approval policy. The Board of Directors approves Tecnotree’s Group level policies. The subsidiaries and foreign offices of the parent company have issued guidelines and policies for their own specific purposes that are in line with the Group level policies. The company has determined its Code of Conduct in 2012.

**Internal audit**

The internal audits are performed by external consultants, external auditors or by Tecnotree employees having experience, authority and independence over the audit in question. An external audit company has been used in the company in India for the internal audit and to develop controls.

**External audit**

The main task of the statutory audit is to confirm that the financial statements give a true and fair view of the company's financial performance and position for the period ended. The auditor reports regularly to the Audit Committee and audits the correctness of external annual financial reports and, based on them, issues an auditor's statement to shareholders.

Tecnotree's auditor in the financial year 2012 was KPMG Oy Ab, and the principal auditor Toni Aaltonen, Authorised Public Accountant from 28 March 2012. Sixten Nyman, Authorised Public Accountant was the principal auditor up to 28 March 2012.

**Insider management**

Tecnotree complies with the Guidelines for Insiders issued by NASDAQ OMX Helsinki Ltd. The company has also introduced its own insider guidelines, which include instructions for both permanent and project-specific insiders. These guidelines have been distributed to all insiders, and they are available to all Tecnotree employees. The company keeps its insider register in the SIRE system maintained by the Euroclear Finland Ltd. The company has examined insider trading during 2012 using a questionnaire.

**Information and Communication**

All external communication is carried out in accordance with the Group Disclosure Policy, which can be found at www.tecnotree.com.

The deviation from the Corporate Governance recommendations

Tecnotree Corporation deviated from recommendation 9 of the Finnish Corporate Governance Code 2010 in so far as only one gender was represented in the Board of Directors before the Annual General Meeting in 28 March 2012. After the Annual General Meeeting elected board members of the both genders there has not been any deviation.

# Investor information

**Basic Share Information**

| | |
|---|---|
| Listed on: | NASDAQ OMX HELSINKI Oy |
| Trading code: | TEMV1 |
| ISIN Code: | FI 0009010227 |
| Number of shares, Dec 31, 2012: | 122,628,428 |
| Segment: | Small Cap |
| Sector code: | Technology |

The purpose of Tecnotree's Investor relations unit is to provide the capital markets with open and reliable information and increase awareness about the company, facilitate the correct pricing of Tecnotree's share as well as serve Tecnotree's shareholders and other operators on the capital markets. Regulatory communications aims to provide reliable and up-to-date information on an equal basis. Tecnotree has published a Disclosure Policy which can be found on the company website, www.tecnotree.com.

Releases and statements regarding Tecnotree's operations and development are issued by the President and CEO, unless otherwise stated. Concerning financial information, the Chief Financial Officer handles investor relations.

**Financial Reporting and Annual General Meeting 2013**

- Financial Statement 1 January–31 December 2012,
  Wed 6 February 2013, week 6
- Annual General Meeting 2013,
  Mon 25 March 2013, week 13
- Interim Report 1 January–31 March 2013
  Mon 29 April 2013, week 18
- Interim Report 1 January–30 June 2013
  Wed 14 August 2013, week 33
- Interim Report 1 January–30 September 2013
  Wed 30 October 2013, week 44

Tecnotree Interim Reports and the Annual Report, published in English and Finnish, are available on the company website, www.tecnotree.com.

**Briefings and quiet period**

Tecnotree holds briefings for analysts, investors and the media in conjunction with financial reporting. The company observes a three-week quiet period before the publication date of financial statements or interim reports.

**Shareholder change of address**

Shareholders are kindly requested to report any change of address to the bank or brokerage company in which they have their book-entry account. Euroclear Finland Ltd may only update customer information with a book-entry account in its systems. Tecnotree does not maintain an address register.

**Insider register**

Information about the company's public insider register can be found at www.tecnotree.com or requested by contacting Euroclear Finland Ltd, Urho Kekkosen katu 5 C, FI-00100 Helsinki, Finland.

**Corporate Governance**

Information about Corporate Governance at Tecnotree is available on the company website www.tecnotree.com.

**Investor relations contacts**


| | |
|---|---|
| Tuomas Wegelius CFO | Tuija Kerminen, Executive Coordinator |
| Tel. +358 9 8047 8650 | Tel. +358 9 8047 8767 |
| Fax +358 9 8047 8212 | Fax +358 9 8047 8212 |


**Ordering publications**

Orders by email: info (at) tecnotree.com

# Disclosure Policy

**Tecnotree Corporation's Disclosure Policy**

**Purpose**

Tecnotree Corporation is listed on the main list of NASDAQ OMX Helsinki Ltd. In its disclosure policy the company complies with Finnish and European Union legislation and with the instructions and regulations of the stock exchange and the Finnish Financial Supervision Authority.

**The Central Principles**

Tecnotree follows in its communication are openness, integrity, consistency, and clarity. It is the company's objective to give all stakeholder groups correct and up-to-date information about the company's operations, in a balanced and timely manner.

**The Information Disclosed**

Stock exchange releases report on matters and events that are significant in relation to the company's size and scope of operations and that are deemed to have an essential influence on the stock price.

Tecnotree reports such orders it has received from its customers as are worth at least EUR 1.7 million, if the customer authorises this. Tecnotree may report on two or more normal orders in the same release, if these deals are deemed important with regard to the development of the company. In such cases there may be a delay between the orders and the publication.

The company reports corporate acquisitions when a letter of intent has been signed, if an agreement is regarded as probable. In other cases, the company will not publish a release until the final agreement has been signed.

The company releases information about appointments if they relate to changes concerning the Chief Executive Officer or the members of the Board of Directors. A stock exchange release is published about significant changes in the structure or organisation of the Group.

The company issues a profit warning if, in its estimation, the trend in its financial position, the earnings forecast, or its prospects have changed fundamentally from those published previously. The company always publishes a stock exchange release if it issues a profit warning.

**Comments on Market Information**

Tecnotree does not comment on unfinished business, market rumours, stock price trends, the actions of its competitors or customers, or analysts' forecasts, unless doing so is necessary for correction of essential information. However, if a piece of information that has fundamental impact on Tecnotree's stock price has leaked (i.e., become known prematurely), the company issues a stock exchange release addressing the matter.

**Responsibilities and Commentators**

Statements about the operations, development, and published releases of Tecnotree are issued by the President and CEO, unless otherwise stated in such a release. As far as financial information is concerned, the Chief Financial Officer also handles investor relations.

The Chairman of the Board of Directors or the President and CEO, or the person(s) appointed by them, are responsible for crisis communication.

**Language and Channels**

All essential information about Tecnotree is published simultaneously in Finnish and English through the stock exchange; with major media; and on the company's Web site www.tecnotree.com, which also contains an archive of previous releases. Other means of communication used are meetings and press conferences.

**Closed Period**

In its financial reports, Tecnotree observes a three-week closed period before its result is published. During that time, Tecnotree does not discuss its financial position or the development of its business operations with representatives of the capital markets or the media. The dates on which Tecnotree publishes its result are available in the Financial Calendar section of the company's Web site, www.tecnotree.com.

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# FINANCIAL STATEMENTS

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# Board of Directors' Report

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. More detailed key figures are presented as part of the notes to the financial statements.

# The year of growth

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 company's cash and cash equivalents were EUR 11.3 million at year end (EUR 6.7 million on 31 December 2011).

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

| KEY FIGURES | **2012** | 2011 |
|---|---|---|
| Net sales, MEUR | **73.4** | 62.3 |
| Adjusted operating result, MEUR* | **-4.9** | -1.7 |
| Oikaistu liiketulos ilman 2012 alaskirjauksia, Me* | **-1.0** | |
| Operating result, MEUR | **-12.4** | -11.1 |
| Result before taxes, MEUR | **-13.7** | -9.9 |
| Result for the period, MEUR | **-17.0** | -15.6 |
| | | |
| Earnings per share, basic. EUR ** | **-0.16** | -0.18 |
| | | |
| Order book, MEUR | **54.2** | 40.4 |
| | | |
| Cash flow after investments, MEUR | **-0.8** | -18.1 |
| Change in cash and cash equivalents, MEUR | **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.

# Main issues 2012

Net sales rose 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. We consider these signs of strong demand and of the gradual implementation of our change in strategy. During the reporting period Tecnotree received new orders of EUR 87.2 million and in 2011 new orders amounted to EUR 88.5 million.

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 would have been EUR 1.0 million or 1.4 per cent of net sales.

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.

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.

# 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).

| NET SALES BY MARKET AREA | **2012 MEUR** | 2011 MEUR | **2012 %** | 2011 % |
|---|---|---|---|---|
| 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 |

| CONSOLIDATED ORDER BOOK | **2012 MEUR** | 2011 MEUR | **2012 %** | 2011 % |
|---|---|---|---|---|
| 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 | **2012** | 2011 |
|---|---|---|
| Net sales | **73.4** | 62.3 |
| Other operating income | **0.1** | 0.2 |
| Operating costs excluding product development capitalisation and one-time costs | **-78.4** | -64.2 |
| Adjusted operating result, MEUR | **-4.9** | -1.7 |
| Product development capitalisation | | 0.1 |
| Product development amortisation | **-5.4** | -7.1 |
| One-time costs | **-2.1** | -2.4 |
| Operating result | **-12.4** | -11.1 |
| Result before taxes | **-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.

The adjusted opersting result includes an impairment of EUR 2.5 million on receivables from a customer owned by the Libyan state, whereafter the recorded impairment covers 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:

| SPECIFICATION OF ADJUSTED OPERATING RESULT FOR 2012, MEUR | Financials statements | Write-downs ** | Without write-downs |
|---|---|---|---|
| Net Sales | 73.4 | | 73.4 |
| Other operating income | 0.1 | | 0.1 |
| Operating costs exluding product development capitalisation and one-time costs * | -78.4 | -3.9 | -74.5 |
| Adjusted operating result | -4.9 | -3.9 | -1.0 |
| Product development amortisation | -5.4 | | -5.4 |
| One-time costs | -2.1 | | -2.1 |
| Operating result | -12.4 | -3.9 | -8.5 |
| | | | |
| *) Write-downs in operating costs: | | | |
| Impairment of receivables from customer owned by state of Libya | | -2.5 | |
| Impairment of receivables from customer in MEA area | | -1.3 | |
| TOTAL | | -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 | **2012** | 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 | **2012** | 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 INCOME, TOTAL | **-3.2** | -1.3 |
| FINANCIAL ITEMS TOTAL | **-1.3** | 1.2 |

| CHANGE IN WORKING CAPITAL, MEUR (increase - / decrease +) | **2012** | 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 financial situation has been tight at times. The company 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 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.

# 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. Most of the company's expenses are fixed by nature, and therefore considered not appropriate to allocate to the segments.

# 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.

# 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 | **2012** | 2011 | 2010 |
|---|---|---|---|
| Personnel, at end of period | **1,116** | 926 | 858 |
| Finland | **90** | 80 | 70 |
| Ireland | **56** | 58 | 64 |
| Brazil | **40** | 43 | 47 |
| Argentina | **36** | | |
| India | **843** | 690 | 625 |
| Other countries | **51** | 55 | 52 |
| Personnel, average | **1,070** | 922 | 797 |
| Salary expenses before R&D capitalisation (MEUR) | **29.7** | 23.5 | 23.4 |

# 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.

Other key financial indicators and key ratios per share are disclosed under the Key financial indicators caption in the financial statements.

# Tecnotree's shareholders

Tecnotree has a single share series and all shares hold equal voting rights. Tecnotree’s shares are quoted on the NASDAQ OMX Helsinki Ltd. Tecnotree’s trading code is TEM1V. 99.97 per cent of the company's shares are entered in the book entry securities system maintained by Euroclear Finland Ltd.

According to Article 14 of Tecnotree’s Articles of Association, a shareholder whose holding reaches or exceeds 33 1/3 per cent or 50 per cent of all the company’s shares or of the voting rights held by the shares, is obliged, at the request of other shareholders, to redeem their shares and securities entitling holders to shares, on terms specified in more detail in Article 14 of the Articles of Association.

Tecnotree has no knowledge of shareholder agreements relating to the ownership of the company or to the use of voting rights. During 2012 the company has not received any shareholders notifications.

On 31 December 2012 Tecnotree had a total of 6,577 shareholders recorded in the book-entry securities system. Of these were 6,569 in direct ownership and 8 were nominee-registered.

On 31 December 2012 the ten largest shareholders together owned approximately 33.18 per cent of the shares and voting rights. On 31 December 2012, altogether 8.23 per cent of Tecnotree’s shares were in foreign ownership, with 8.17 per cent in direct ownership and 0.06 per cent nominee-registered.

On 31 December 2012 the total number of shares owned by the members of Tecnotree’s Board of Directors and the President and CEO was 6,310,221 which includes the shares owned by these persons themselves, by close family members and by companies in which they hold a controlling interest. Altogether these represent 5.15 per cent of the total amount of shares and voting rights. On 31 December 2012 the total number of shares owned by the members of Tecnotree’s Management Board was 398,639 excluding those owned by the President and CEO.

A total of 184,803 Tecnotree's stock options were held by the President and CEO on 31 December 2012. A total of 176,305 stock options were held by members of Tecnotree’s Management Board, excluding the President and CEO, on 31 December 2012. The members of the Board of Directors did not hold any stock options on 31 December 2012.

**Ownership structure by sector 31 December 2012**

| | No. of shares | % |
|---|---:|---:|
| Companies | 25,330,839 | 20.66% |
| Finance houses and insurance companies | 18,140,055 | 14.80% |
| Public sector | 98,659 | 0.08% |
| Non-profit making assosiations | 538,636 | 0.44% |
| Households and private persons | 68,392,455 | 55.77% |
| Foreign holders | 10,090,184 | 8.23% |
| Total | 122,590,828 | 99.97% |
| Joint account | 37,600 | 0.03% |
| Total number of shares | 122,628,428 | 100.00% |
| Nominee registrations | 5,400,571 | 4.40% |

## Largest shareholders 31 December 2012

| The company´s ten largest shareholders | No. of shares | % of shares and voting rights |
|---|---|---|
| Hammaren Lars-Olof | 8,803,480 | 7.18% |
| The Orange Company Oy | 6,066,666 | 4.95% |
| Keskinäinen Vakuutusyhtiö Kaleva | 6,000,000 | 4.89% |
| Mandatum Henkivakuutusosakeyhtiö | 5,940,000 | 4.84% |
| Sijoitusrahasto Taaleritehdas Arvo Markka Osake | 2,856,013 | 2.33% |
| Erikoissijoitusrahasto Quorum Nordic Special Situations + | 2,285,684 | 1.86% |
| Sumelius Bjarne Henning | 2,220,065 | 1.81% |
| Nasdaq OMXBS/Skandinaviska Enskilda Banken AB * | 2,185,644 | 1.78% |
| Nordea Pankki Suomi Oyj * | 2,176,614 | 1.77% |
| Sumelius Bertil Christer | 2,176,028 | 1.77% |
| | 40,710,194 | 33.18% |

*) nominee-registrated

## Ownership of shares 31 December 2012

| No. of shares | Holders | % | Shares and votes | % |
|---|---|---|---|---|
| 1–500 | 1,946 | 29.59% | 461,144 | 0.38% |
| 501–1 000 | 905 | 13.76% | 734,808 | 0.60% |
| 1 001–5 000 | 1,992 | 30.29% | 5,331,343 | 4.35% |
| 5 001–10 000 | 691 | 10.51% | 5,363,019 | 4.37% |
| 10 001–50 000 | 772 | 11.74% | 17,721,636 | 14.45% |
| 50 001–100 000 | 130 | 1.98% | 9,584,780 | 7.82% |
| 100 001–500 000 | 112 | 1.70% | 22,593,175 | 18.42% |
| 500 000 < | 29 | 0.44% | 60,800,923 | 49.58% |
| Joint account | | | 37,600 | 0.03% |
| Total | 6,577 | 100.00% | 122,628,428 | 100.00% |

# 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 options | 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 | 0.68 |

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 based on the performance targets for the 2012 earning period.

# Risk 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.

# Tecnotree's management, auditors and corporate governance

Tecnotree's Board of Directors comprised the following persons in 2012:

Harri Koponen, Chairman
Ilkka Raiskinen, Vice Chairman
Johan Hammarén
Pentti Heikkinen
Tuija Soanjärvi, as from 28.3.2012
Christer Sumelius
Hannu Turunen
David White, until 28.3.2012

Kaj Hagros is President and CEO of the company.

In 2012 the Company's Management Board comprised Kaj Hagros (President and CEO), Timo Ahomäki (Chief Technology Officer as from 1 October 2012), Ilkka Aura (Chief Commercial Officer as from as from 1 October 2012), Padma Ravichander (Chief Delivery Officer), Tuomas Wegelius (Chief Financial Officer) and Timo Laaksonen (Chief Commercial Officer until 30 September 2012).

Tecnotree's auditor in the financial year 2012 was KPMG Oy Ab, and the principal auditor was Toni Aaltonen, Authorised Public Accountant.

The Board of Directors has approved the Corporate Governance Statement of the Company for the year 2012.

# Events after the end of period

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

# Prospects 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 to be held on 25 March 2013, 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.

Tecnotree Corporation

Board of Directors

# Key financial indicators

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Consolidated income statement** | | | | | |
| Net sales, EUR million | **73,4** | 62,3 | 60,7 | 53,3 | 77,2 |
| change % | **17,9** | 2,6 | 14,0 | -31,0 | 10,1 |
| Adjusted operating result, EUR million | **-4,9** | -1,7 | -2,5 | -8,8 | 8,0 |
| % of net sales | **-6,6** | -2,7 | -4,2 | -16,6 | 10,4 |
| Operating profit, EUR million | **-12,4** | -11,1 | -8,1 | -15,0 | 11,5 |
| % of net sales | **-16,9** | -17,8 | -13,3 | -28,1 | 14,9 |
| Profit before taxes, EUR million | **-13,7** | -9,9 | -9,4 | -15,4 | 13,5 |
| % of net sales | **-18,7** | -15,9 | -15,5 | -29,0 | 17,5 |
| | | | | | |
| **Consolidated balance sheet** | | | | | |
| Non-current assets, EUR million | **28,0** | 39,4 | 49,7 | 53,3 | 27,7 |
| Current assets | | | | | |
| Inventories, EUR million | **0,6** | 0,8 | 1,0 | 1,3 | 1,1 |
| Financial assets, EUR million | **53,1** | 59,7 | 59,0 | 63,8 | 90,0 |
| Shareholders' equity, EUR million | **34,5** | 49,5 | 72,1 | 77,1 | 83,5 |
| Liabilities | | | | | |
| Non-current liabilities, EUR million | **0,4** | 12,6 | 14,9 | 17,0 | 0,0 |
| Current liabilities, EUR million | **44,0** | 33,4 | 19,3 | 20,4 | 30,8 |
| Deferred tax liabilities, EUR million | **2,8** | 4,4 | 3,3 | 4,0 | 4,5 |
| Balance sheet total, EUR million | **81,8** | 99,9 | 109,7 | 118,4 | 118,9 |
| | | | | | |
| **Financial indicators** | | | | | |
| Return on equity (ROE), % | **-40,5** | -25,6 | -14,7 | -20,2 | 12,6 |
| Return on investment (ROI), % | **-15,0** | -10,2 | -7,4 | -13,7 | 16,0 |
| Equity ratio, % | **42,2** | 50,7 | 66,4 | 65,6 | 70,3 |
| Debt/equity ratio (net gearing), % | **47,5** | 43,1 | 3,3 | -10,8 | -37,2 |
| Investments, EUR million | **0,9** | 0,9 | 1,8 | 1,4 | 1,3 |
| % of net sales | **1,2** | 1,4 | 3,0 | 2,7 | 1,7 |
| Research and development, EUR million | **13,0** | 12,1 | 13,1 | 14,5 | 15,5 |
| % of net sales | **17,7** | 19,4 | 21,7 | 27,2 | 20 |
| Order book, EUR million | **54,2** | 40,4 | 14,3 | 11,7 | 9,7 |
| Personnel, average | **1 070** | 922 | 797 | 665 | 358 |
| Personnel at the end of the year | **1 116** | 926 | 858 | 779 | 354 |
| | | | | | |
| **Key ratios per share** | | | | | |
| Earnings per share, EUR (basic) ** | **-0,16** | -0,18 | -0,13 | -0,21 | 0,15 |
| Earnings per share, EUR (diluted) ** | **-0,16** | -0,18 | -0,13 | -0,21 | 0,15 |
| Equity per share, EUR ** | **0,28** | 0,58 | 0,85 | 0,91 | 1,22 |
| Number of shares at the end of the period, 1,000 shares | **122 494** | 73 496 | 73 496 | 73 496 | 59 142 |
| Average number of shares, 1,000 shares | **98 264** | 73 496 | 73 496 | 68 039 | 59 134 |
| Number of own shares on 1 Jan, 1,000 shares | **135** | 135 | 135 | 135 | 135 |
| Numer of disposed own shares, 1,000 shares | **0** | 0 | 0 | 0 | 0 |
| Number of own shares on 31 Dec, 1,000 shares | **135** | 135 | 135 | 135 | 135 |
| Share price, EUR | | | | | |
| Average price | **0,25** | 0,44 | 0,79 | 1,00 | 1,00 |
| Lowest price | **0,12** | 0,33 | 0,58 | 0,78 | 0,75 |
| Highest price | **0,35** | 0,63 | 1,00 | 1,21 | 1,27 |
| Share price at the end of the period, EUR | **0,17** | 0,38 | 0,60 | 0,94 | 0,84 |
| Market value at the end of the period, EUR million | **20,8** | 28,0 | 44,2 | 69,2 | 49,8 |
| Share turnover, million shares | **49,7** | 22,8 | 16,6 | 22,6 | 23,2 |
| Share turnover, % of total number | **40,5** | 31,0 | 22,6 | 30,7 | 39,2 |
| Share turnover, EUR million | **11,7** | 10,0 | 13,2 | 23,2 | 23,2 |
| Dividend per share, EUR * | | | | | 0,07 |

| | | | | | |
|---|---|---|---|---|---|
| Dividend/result, % | | | | | 40,7 |
| Effective dividend yield, % | | | | | 8,3 |
| P/E ratio, % | **-1,0** | -1,8 | -4,0 | -4,0 | 4,9 |

*) The Board has proposed that no dividend be paid for the financial year ended 31 December 2012. For the financial years ended 31 December 2011, 2010 and 2009, no dividend was paid.

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

# Calculation of key indicators

| | | |
|---|---|---|
| Adjusted operating result | = | Operating result before R & D capitalisation, amortisation of this and one-time cost |
| Return on equity (ROE), % | = | $\frac{\text{Resut for the period}}{\text{Shareholders´ equity (average)}} \times 100$ |
| Return on investments (ROI), % | = | $\frac{\text{Results before taxes + financial expenses}}{\text{Shareholders´ equity + interest-bearing financial liabilities (average)}} \times 100$ |
| Equity ratio, % | = | $\frac{\text{Shareholders´ equity}}{\text{Balance sheet total - advances received}} \times 100$ |
| Earnings per share (EPS) | = | $\frac{\text{Profit attributable to equity holders of the parent company}}{\text{Basic average number of shares}}$ |
| Dividend per share | = | $\frac{\text{Dividend}}{\text{Basic number of shares on the reporting date}}$ |
| Dividend/Result, % | = | $\frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}} \times 100$ |
| Equity/Share | = | $\frac{\text{Equity attributable to equity holders of the parent company}}{\text{Basic number of shares on the reporting date}}$ |
| Debt/Equity ratio, % (net gearing) | = | $\frac{\text{Interest-bearing liabilities - cash and cash equivalents - interest-bearing assets}}{\text{Shareholders´ equity}} \times 100$ |
| Market capitalization | = | Basic number of shares on the reporting date x share price on the reporting date |
| P/E ratio, % | = | $\frac{\text{Share price on the reporting date}}{\text{Earnings per share (EPS)}}$ |
| Effective dividend yield, % | = | $\frac{\text{Dividend per share}}{\text{Share price on the reporting date}}$ |

# Consolidated income statement and consolidated statement of comprehensive income

## Consolidated income statement

| EUR 1,000 | Note | 1 Jan–31 Dec 2012 | 1 Jan–31 Dec 2011 |
|---|---|---|---|
| **Net sales** | 1, 2 | **73,426** | 62,286 |
| Other operating income | 3 | **71** | 233 |
| Materials and services | 4 | **-14,415** | -10,789 |
| Employee benefit expenses | 5 | **-35,406** | -30,529 |
| Depreciation, amortisation and impairment losses | 6 | **-8,883** | -9,383 |
| Other operating expenses | 7 | **-27,169** | -22,919 |
| **Operating profit** | | **-12,375** | -11,101 |
| Financial income | 9 | **1,817** | 2,446 |
| Financial expenses | 9 | **-3,144** | -1,278 |
| **Result before taxes** | | **-13,701** | -9,933 |
| Income taxes | 10 | **-3,306** | -5,640 |
| **Result for the period** | | **-17,007** | -15,573 |
| **Result for the period attributable to:** | | | |
| Equity holders of the parent company | | **-17,000** | -15,590 |
| Non-controlling interest | | **-7** | 17 |
| Earnings per share calculated on profit attributable to equity holders: | | | |
| Basic earnings per share, adjusted to reflect share issue, EUR | 11 | **-0.16** | -0.18 |
| Diluted earnings per share, adjusted to reflect share issue, EUR | 11 | **-0.16** | -0.18 |
| Number of shares on average (1000s of shares): | | | |
| Basic | | **98,264** | 73,496 |
| Diluted | | **98,264** | 73,496 |

**Consolidated statement of comprehensive income**

| EUR 1,000 | Note | 1 Jan–31 Dec 2012 | 1 Jan–31 Dec 2011 |
|---|---|---|---|
| **Result for the period** | | **-17,007** | -15,573 |
| | | | |
| Other comprehensive income: | | | |
| Translation differences from foreign operations, before tax | | **-3,389** | -7,322 |
| Tax relating to components of other comprehensive income | | **128** | 265 |
| Other comprehensive income, net of tax | | **-3,261** | -7,057 |
| | | | |
| **Total comprehensive income for the period** | | **-20,268** | -22,630 |
| | | | |
| **Comprehensive income for the period attributable to:** | | | |
| Equity holders of the parent company | | **-20,261** | -22,647 |
| Non-controlling interest | | **-7** | 17 |

# Consolidated balance sheet

| EUR 1,000 | Note | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 12 | **17,420** | 19,192 |
| Other intangible assets | 12 | **3,035** | 9,730 |
| Property, plant and equipment | 13 | **4,671** | 6,092 |
| Deferred tax assets | 14 | **2,515** | 3,078 |
| Non-current receivables | 15 | **402** | 1,299 |
| **Total non-current assets** | | **28,043** | 39,391 |
| **Current assets** | | | |
| Inventories | 16 | **585** | 790 |
| Trade and other receivables | 17 | **39,631** | 52,863 |
| Income tax receivables | | **1,566** | 146 |
| Investments | 18 | **624** | 21 |
| Cash and cash equivalents | 18 | **11,306** | 6,708 |
| **Total current assets** | | **53,712** | 60,529 |
| **Total assets** | | **81,755** | 99,920 |

| EUR 1,000 | Note | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|---|
| **Shareholders' equity and liabilities** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | | **4,720** | 4,720 |
| Share premium fund | | **847** | 847 |
| Own shares | | **-122** | -122 |
| Translation differences | | **-4,241** | -981 |
| Invested unrestricted equity reserve | | **18,007** | 12,634 |
| Other reserves | | **5,171** | 19,043 |
| Retained earnings | | **10,100** | 13,302 |
| **Equity attributable to equity holders of the parent** | 19 | **34,481** | 49,444 |
| Non-controlling interest | | **53** | 64 |
| **Total shareholders' equity** | | **34,534** | 49,507 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 14 | **2,835** | 4,402 |
| Long-term interest-bearing liabilities | 22 | | 12,239 |
| Pension obligations | 21 | **428** | 368 |
| **Total non-current liabilities** | | **3,263** | 17,009 |
| **Current liabilities** | | | |
| Current interest-bearing liabilities | 22 | **28,333** | 15,835 |
| Trade payables and other liabilities | 23 | **15,148** | 17,191 |
| Income tax liabilities | | **477** | 377 |
| **Total current liabilities** | | **43,959** | 33,403 |
| **Total equity and liabilities** | | **81,755** | 99,920 |

# Statement of changes in shareholders' equity

| EUR 1,000 | Equity attributable to equity holders of the parent | | | | | | | | Non-controlling interest | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium fund | Own shares | Translation differences | Invested unrestricted equity reserve | Other reserves | Retained earnings | Total | | |
| **SHAREHOLDERS' EQUITY 1 Jan 2012** | 4 720 | 847 | -122 | -981 | 12 634 | 19 043 | 13 302 | **49 444** | 64 | **49 507** |
| Share issue | | | | | 5 372 | | | **5 372** | | **5 372** |
| Covering of loss | | | | | | -13 872 | 13 872 | | | |
| Share-based payments | | | | | | | 4 | **4** | | **4** |
| Other changes | | | | | | | -78 | **-78** | -4 | **-82** |
| Total comprehensive income for the period | | | | -3 261 | | | -17 000 | **-20 261** | -7 | **-20 268** |
| **TOTAL SHAREHOLDERS' EQUITY 31 DEC 2012** | **4 720** | **847** | **-122** | **-4 241** | **18 007** | **5 171** | **10 100** | **34 481** | **53** | **34 534** |
| SHAREHOLDERS' EQUITY 1 Jan 2011 | 4 720 | 847 | -122 | 6 076 | 12 634 | 29 433 | 18 462 | 72 050 | 56 | 72 106 |
| Covering of loss | | | | | | -10 390 | 10 390 | | | |
| Share-based payments | | | | | | | 29 | 29 | | 29 |
| Other changes | | | | | | | 12 | 12 | -9 | 2 |
| Total comprehensive income for the period | | | | -7 057 | | | -15 590 | -22 647 | 17 | -22 630 |
| TOTAL SHAREHOLDERS' EQUITY 31 DEC 2011 | 4 720 | 847 | -122 | -981 | 12 634 | 19 043 | 13 302 | 49 444 | 64 | 49 507 |

# Consolidated cash flow statement

| EUR 1,000 | Note | 1 Jan–31 Dec 2012 | 1 Jan–31 Dec 2011 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Result for the period | | **-17,007** | -15,573 |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment losses | | **8,883** | 9,383 |
| Option expenses and employee benefits | | **222** | 135 |
| Impairment of trade receivables | | **4,363** | 4,404 |
| Unrealised exchange gains and losses | | **1,823** | -5,710 |
| Other financial income and expenses | | **2,144** | 442 |
| Income taxes | | **3,306** | 5,640 |
| Gains and losses on disposal of intangibles and tangibles | | **-58** | |
| Other adjustments | | **-143** | -90 |
| Changes in working capital: | | | |
| Change in trade and other receivables | | **4,593** | -12,549 |
| Change in inventories | | **205** | 233 |
| Change in trade payables and other liabilities | | **-1,433** | 1,765 |
| Interest paid | | **-3,160** | -730 |
| Interest received | | **86** | 98 |
| Income taxes paid | | **-5,104** | -4,702 |
| **Net cash flow from operating activities** | | **-1,280** | -17,254 |
| | | | |
| **Cash flow from investments** | | | |
| Investments in intangible assets | | **-220** | -298 |
| Investments in property, plant and equipment | | **-679** | -698 |
| Proceeds from disposal of intangible and tangible assets | | **1,037** | 46 |
| Investments in other securities | | | -247 |
| Proceeds from disposal of other securities | | **253** | |
| Interest received from investments | | **43** | 125 |
| Dividends received from investments | | **11** | 196 |
| **Net cash flow from investments** | | **446** | -877 |
| | | | |
| **Cash flow from financing activities** | | | |
| Proceeds from share issue | | **5,372** | |
| Proceeds from borrowings | | **9,800** | 9,500 |
| Repayments of borrowings | | **-9,522** | -1,111 |
| Payments of finance lease liabilities | | **-19** | -65 |
| **Net cash flow from financing activities** | | **5,631** | 8,324 |
| | | | |
| **Change in cash and cash equivalents** | | **4,797** | -9,808 |
| Cash and cash equivalents at beginning of period | | **6,708** | 16,737 |
| Change in foreign exchange rates | | **-200** | -239 |
| Change in fair value of investments | | | 18 |
| Cash and cash equivalents at end of period | 18 | **11,306** | 6,708 |

# Accounting principles for the consolidated financial statements

**Corporate information**

Tecnotree develops and supplies messaging and charging solutions for telecom operators and service providers. The Group has operations in Finland and in 17 countries.

The Group's parent company is Tecnotree Corporation, which is domiciled in Espoo, Finland and its registered address is Finnoonniitynkuja 4, 02770 Espoo. A copy of the consolidated financial statements can be obtained on the Internet at www.tecnotree.com or from the head office of the Group's parent company at Finnoonniitynkuja 7.

**Accounting principles**

**Basis for Preparing Consolidated Financial Statements**

Tecnotree's consolidated financial statements have been prepared in accordance with the international financial reporting standards (IFRS) adopted by the EU, applying the IAS and IFRS standards and SIC and IFRIC interpretations in force on 31 December 2011. International Financial Reporting Standards, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of the Act, refer to the standards and to their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. The notes to the consolidated financial statements also conform to Finnish accounting and corporate legislation.

The consolidated financial statements are prepared on the historical cost basis, apart from the exceptions mentioned later in these accounting principles. The financial statement information is presented in thousands of Euro. The comparable figures presented in text sections are in brackets.

The Group has adopted the following amended standards and new interpretations starting from 1 January 2012:

- Amendments to IFRS 7 Financial instruments: Disclosures (Transfers of Financial Assets)
- Amendments to IAS 12 Deferred Tax (Recovery of Underlying Asset )

These new or revised standards and interpretations did not have a significant impact on the consolidated financial statements.

**Use of estimates**

The preparation of the financial statements in accordance with IFRS requires management to make certain estimates and assumptions concerning the future. Actual results may differ from these estimates. In addition, management has to make judgments in applying the accounting principles. Information about the judgments made by management in the application of the accounting principles followed by the Group and which have the most significant impact on the financial statements is given in the section "Accounting principles requiring management judgments and key sources of estimation uncertainty".

**Accounting principles for the consolidated financial statements**

**Subsidiaries**

Subsidiaries are companies controlled by the Group. Control exists when the Group holds over half of the voting rights or it otherwise has control. Control means the right to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Intra-group holdings are eliminated using the purchase method. The financial statements of subsidiaries are included in the consolidated financial statements from the date that the Group has obtained control and divested subsidiaries until the date that control ceases. Intra-group transactions, unrealized margins, receivables and liabilities, and profit distribution have been eliminated in preparing the consolidated financial statements.

Total comprehensive income for the period attributable to the owners of the parent and non-controlling interests is presented in the income statements and in the statements of comprehensive income. Non-controlling interests are presented as a separate item in the balance sheet within equity of the owners of parent. Non-controlling interests of accrued losses are recognised in the consolidated financial statements up to the maximum amount of their investment.

**Foreign currency items**

Transactions in foreign currencies are translated to the functional currency at the rates of exchange prevailing on the transaction dates or at the rate close to that on the transaction date. Monetary assets and liabilities denominated in foreign currency are retranslated to the functional currency using the rate of exchange on the closing date. Exchange rate gains and losses arising from the translation of foreign currency transactions and of monetary assets and liabilities are recognized in the income statement. Exchange gains and losses relating to business operations are treated as adjustments to net sales or to purchasing and manufacturing. Exchange rate gains and losses related to financing operations are recognized under financial income and expenses.

The consolidated financial statements are presented in euro, which is the functional and presentation currency of the parent company. The income statements of those foreign Group companies whose functional currency is not the euro are translated into euro using the average exchange rate for the period, and balance sheet items, apart from the result for the period, at the exchange rate on the balance sheet date. Translation differences arising from eliminating the acquisition cost of foreign subsidiaries, the translation of the foreign subsidiaries' accumulated equity subsequent to acquisition, of the income statements and the balance sheets are recognized in translation reserve in equity.

Those translation differences accumulated by the date of transition to IFRSs, 1 January 2004 were recorded against retained earnings. Translation differences arising after the transition date are shown in translation reserve in equity. They are recognized in the income statement as part of the gain or loss on sale when a foreign entity is sold.

**Property, plant and equipment**

Property, plant and equipment are measured at historical cost less accumulated depreciation and any impairment losses.

Certain parts of items of property, plant and equipment are accounted for as separate items. When such a part is replaced, the costs relating to the new part are capitalized. Other subsequent expenses are capitalized only if it is probable that they will increase the economic benefits that will flow to the company. All other costs, such as normal repair and maintenance costs, are expensed as incurred.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Buildings and structures 25 years
- Machinery and equipment and furniture 3 –5 years
- Computing hardware and equipment 3 –5 years

The residual value of these assets and their useful lives are reassessed annually when the financial statements are prepared, and if necessary are adjusted accordingly to reflect any changes in the expectation of economic benefits expected.

Gains or losses on sale or disposal of property, plant and equipment are recognized in the income statement.

Depreciation on an item of property, plant and equipment ceases when the item is classified as an asset held for sale, in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

**Intangible assets**

*Goodwill*

After 1 January 2004 goodwill represents the amount of the acquisition cost that exceeds the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of acquiree on the date of acquisition.

In respect of business combinations occurred prior to 1 January 2004 goodwill represents the book value recorded under the previous financial statement standards, and this has been used as the deemed cost under IFRS.

Goodwill is not amortized but it is tested annually for impairment. For this purpose goodwill is allocated to the cash-generating units. Goodwill is measured at cost less any impairment losses.

*Other intangible assets*

Intangible assets that have finite useful lives are recorded in the balance sheet and amortization is recognized in the income statement on a straight-line basis over the useful lives as follows:

- Intangible rights 3-10 years
- Capitalized development expenditure 3-5 years

*Research and development costs*

Research costs are charged to the income statement as incurred. Development costs for new products are capitalized when they meet the requirements of IAS 38 Intangible assets. They are amortized over the useful lives of the related products. In Tecnotree development costs are monitored on a project-by-project basis and management decides on the capitalization separately for each project. In order to qualify for capitalization the following criteria are to be met: the results of a project are of use to several customers, the contents, objectives and timetable of a project are documented and a profitability calculation is prepared. Capitalization of product development costs that fulfil IFRS criteria starts when following requirements are met: a product's functional requirements and the plans for product industrialisation, testing and project are complete and have been approved as well as future economic benefits are expected from the product. The useful life of capitalized development expenditure is 3-5 years depending on the expected commercial life cycle, and they are amortized on a straight-line basis over this period from the start of commercial use.

**Inventories**

Inventories are stated at the lower of acquisition cost and net realisable value. The cost is based on the FIFO principle. The cost of manufactured products and work in progress includes the cost of raw materials, direct labour costs, other direct costs as well as an appropriate share of variable and fixed production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling.

**Leases**

Leases are classified in accordance with the principles of IAS 17 as either finance leases or operating leases. A finance lease is defined as a lease in which the benefits and risks of ownership are substantially transferred to the lessee. A finance lease is recognized in the balance sheet at the lower of the fair value of the leased asset and the present value of the minimum lease payments at inception of the lease. Assets acquired under a finance lease, less accumulated depreciation, are recorded in property, plant and equipment and related obligations in interest-bearing liabilities, respectively. Lease payments are apportioned between the finance expense and the reduction of the outstanding liability. Depreciation on the assets acquired under a finance lease is recognized over the shorter of the depreciation period applied by the Group to comparable owned assets and the lease term.

Leases in which the lessor retains the risks and benefits of ownership are treated as operating leases. Payments made under operating leases are recognized as other operating expenses in the income statement on a straight-line basis over the lease term.

**Impairment**

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. In addition, this is done at any occurence of an indication, that the carrying amount of an asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is also annually estimated for the following assets, irrespective of whether there is any indication of impairment or not: goodwill and intangible assets not yet available for use.

The recoverable amount is determined as the higher of fair value less costs to sell and value in use. At Tecnotree impairment tests are carried out based on the value in use at the cash-generating unit level.

The cash-generating units are the geographical areas, which are Americas (North, Central and South America), Europe, MEA (Middle East and Africa) and APAC (Asia Pasific). The value in use is the present value of the future net cash flows expected to be derived from the asset.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The impairment loss is recognized in the income statement.

An impairment loss is reversed if there are indications that the impairment loss may no longer exist and when conditions have changed and the recoverable amount has changed after the impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. An impairment loss in respect of goodwill is never reversed.

**Employee benefits**

*Pension benefits*

The Group's pension plans conform to the regulations and practices in force in the countries where the Group operates. Statutory and any voluntary pension plans are managed by pension insurance companies.

Pension plans are classified either as defined benefit and defined contribution plans.

In defined contribution plans the Group pays fixed contributions to a separate entity. The Group has not obligation to pay any additional contributions if the insurer is not able to pay the future employee benefits. Defined contribution plan expenses are recognized in the income statement on the accrual basis. The obligation for defined benefit pension plans is calculated using the projected unit credit method. The pension obligation is discounted to determine its present value using interest rates for government bonds that have maturity dates approximating to the terms of the Group's pension obligation. The pension liability or asset in the balance sheet is formed by the difference between the present value of the defined benefit pension obligation less the fair value of plan assets together with unrecognized actuarial gains and losses and unrecognized past service costs.

At the date of transition to IFRS on 1 January 2004 all actuarial gains and losses were recognized against the opening IFRS balance sheet equity. Actuarial gains and losses subsequent to the transition date are recognized in the income statement over the expected average remaining working lives of the employees participating in the plan to the extent that they exceed 10 per cent of the greater of the present value of the pension obligation and the fair value of plan assets.

*Share-based payments*

The fair value of the option rights is measured on grant date and is recognized as an expense on a straight-line basis over the vesting period according to IFRS 2 Share-based Payment. The cost determined at the grant date is based on the Group's estimate of the number of the options which are expected to vest by the end of the vesting period. The fair value is measured based on the Black-Scholes formula. Changes in the estimates for the final number of options are recognized in the income statement.

When the option rights granted prior to the effective date of the new Limited Liability Companies Act (1 September 2006) are exercised, payments for share subscriptions are allocated so that the amount equivalent to the nominal value of a share, adjusted by any transaction costs, is recorded in share capital and any excess in the share premium fund. Payments for share subscriptions made with options after 1 September 2006 are recorded in the reserve for invested unrestricted equity, adjusted by any transaction costs.

Incentive programmes where the payments are made in part as company shares and in part as money, the benefits granted are recognised at current value at the time of payment and recognised in the income statement as a cost arising from employee benefits evenly throughout the accrual and commitment period.

**Provisions**

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the obligation will have to be settled, and the amount of the obligation can be reliably estimated. If it is possible to obtain compensation for some of the obligation from a third party, the compensation is recognized as a separate asset, but only when it is virtually certain that the compensation will be received.

A provision for restructuring is recognized when the Group has drawn up a detailed and formal restructuring plan and the restructuring has either commenced or the plan has been announced publicly. A plan for restructuring shall contain at least the following information: the business concerned, the principal locations affected, the location, function and approximate number of employees who will be compensated for having their services terminated, the type of expenditure that will be incurred, and when the plan will be implemented.

**Income tax**

The income tax expense in the income statement consists of current tax, based on the taxable profit for the period and deferred tax. Current tax is calculated on the taxable profit using the tax rate in force in each country. The resulting tax is adjusted by any tax relating to previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the goodwill which is permanently non-deductible or for the undistributed earnings of foreign subsidiaries to the extent it is probable that the difference will not reverse in the foreseeable future. The principal temporary differences arise from capitalized development expenditure and from investments measured at fair value.

Deferred tax is measured using the tax rates enacted by the balance sheet date. Deferred tax liabilities are recognized in full, but deferred tax assets are only recognized to the extent that it is probable that future taxable income will be available against which they can be utilized

**Revenue recognition**

At Tecnotree, net sales comprise revenue recognized from project deliveries and goods and service deliveries from which indirect taxes, discounts and exchange rate differences have been deducted.

Revenue from project deliveries is recognized in accordance with IAS 11 Construction Contracts. Project revenue and expenses are recognized in the income statement in proportion to the stage of completion on the balance sheet date, once the outcome of the project can be estimated reliably. The outcome can be estimated reliably when the anticipated revenue and costs of the contract and the progress of the project can be estimated reliably and when it is probable that the economic benefits associated with the project will flow to the Group.

The stage of completion of a project is determined for each contract by the proportion of the estimated total contract costs accounted for by the costs incurred for work performed to date (cost-to-cost method). The revenue recognition for a project will start when the outcome of the project can be estimated reliably. Typically this happens when the management has approved the project and the first delivery to the customer has been made.

The stage of completion method of revenue recognition is based on estimates of the expected revenue and expenses associated with the contract and on estimating the progress of the project. The cost estimates for the projects are monitored quarterly in the management's revenue review and the revenue and expenses recognized in the income statement are revised if the estimates of the outcome of the project change. The accumulated effect due to the change in the estimates is recognized in the period when the change is known for the first time and its amount can be estimated.

If the outcome of a project cannot be estimated reliably, revenue is only recognized to the extent of project costs incurred. This method of recognition is typically applied in first delivery projects for new products or when a delivery project contains a significant amount of customisation for individual customers. The margin on the project is recognized on final acceptance. This method of revenue recognition requires evaluation by the management. Situations requiring management judgments are described in a separate chapter below.

Construction work in progress is stated at the aggregate amount of revenue recognized less the invoiced amount. Costs include all costs directly related to the Group's construction contracts and the allocation of fixed and production overheads.

A project is considered onerous if its costs exceed total project revenue. The expected loss is then recognized as an expense immediately.

Revenue from the sale of goods and services is recognized in accordance with IAS 18 Revenue. Revenue from the sale of goods is recognized when the significant risks and benefits of ownership have been transferred to the buyer and when the amount of the revenue can be measured reliably and it is probable that the related economic benefits will flow to the company. Revenue from services is recognized when the service has been rendered. Supplementary deliveries that are often sold separately such as maintenance, licences, training, documentation and spare parts are examples of goods and service deliveries. Revenue from fixed-term maintenance contracts is normally recognized over the contract period on a straight-line basis.

**Definition of operating profit**

IAS 1 Presentation of Financial Statements does not define the term 'operating profit'. Tecnotree Group has defined it as follows: operating profit is the net sum obtained after adding other operating income to net sales and then deducting purchasing costs adjusted by the change in stocks of finished products and work in progress, employee benefit expenses, depreciation, amortization and any impairment losses, and other operating expenses. Changes in the fair values of derivative financial instruments entered into for hedging purposes are included in the operating profit.

All other income statement items are presented below the operating profit. Exchange rate differences are included in operating profit if they arise from items related to business operations otherwise they are recognized in finance items.

**Non-current assets held for sale and discontinued operations**

A non-current asset held for sale is classified as held for sale if its carrying amount will be recovered mainly through a sale transaction rather than through continuing use. Non-current assets held for sale as well as assets classified as held for sale that relate to a discontinued operation are measured at the lower of their carrying amount and fair value less costs to sell. Depreciation on these assets ceases on classification as held for sale.

**Financial assets and liabilities**

*Financial assets*

Financial assets are classified in accordance with IAS 39 in either of the following two categories: financial assets at fair value through profit or loss held for trading as well as loans and receivables. Financial assets are classified when originally acquired based on their purpose of use. All purchases and sales of financial assets are recognized on the transaction date.

The financial assets at fair value through profit and loss comprise assets held for trading that in the Tecnotree Group include liquid and highly liquid mutual fund investments. Also foreign currency derivatives with positive fair values are classified as financial assets at fair value through profit and loss.

Loans and receivables include trade receivables and other receivables measured at amortized cost less any impairment. Bank deposits are also classified as loans and receivables.

Cash and cash equivalents comprise cash in hand and at banks and other short-term bank deposits with maturities less than three months, and highly liquid mutual fund investments.

Recognition of financial assets takes place when the Group has lost the contractual right to cash flows or when it has substantially transferred the risks and rewards outside the Group.

*Financial liabilities*

Foreign currency derivatives with negative fair values are classified as financial liabilities at fair value through profit and loss.

Other financial liabilities are initially recognized at fair value equivalent to the consideration received, adjusted with any transaction costs. Subsequent to initial recognition, these liabilities are stated at amortized cost calculated using the effective interest method. The financial liabilities are classified as current, unless the Group has an unconditional right to postpone the repayments more than 12 months from the reporting date.

Borrowing costs are recorded as an expense in the period in which they incur.

*Derivative financial instruments*

The derivative contracts entered into by the Tecnotree Group are currency forward contracts and options.

The Group does not apply hedge accounting as defined under IAS 39 although the derivatives are used to hedge trade receivables denominated in foreign currencies.

Derivative instruments are classified as financial assets or liabilities held for trading. Derivatives are fair valued. The fair value of the derivative contracts is determined by using market rates of the counterparty for instruments with similar maturity. Gains and losses arising from changes in the fair values are recognized in the income statement.

**Accounting principles requiring management judgments and key sources of estimation uncertainty**

To prepare the consolidated financial statements in accordance with IFRSs management has to make estimates and assumptions concerning the future. Actual results may differ from these estimates and assumptions. In addition management has to make judgments in the application of the accounting principles.

These estimates mainly affect recognition of revenue and expenses, the measurement of trade receivables, goodwill and other assets, the capitalization of development costs and the recognition of deferred tax assets and their utilization against future taxable income.

The projects delivered and services rendered by the Group are often large, complicated and financially significant.

Management has to make judgments concerning the circumstances and conditions related to customer projects that may affect the timing of recognitions of project revenue and profitability of the project in its entirety. Such factors include assignment of sufficient number of skilful employees to each project or for example factors in the functioning of international and especially emerging markets that may partly lie out of control of the company or the customers. The completion of projects often requires new technical solutions that may cause unpredictable problems, delays and additional costs.

The Group tests goodwill annually for impairment and evaluates indications of impairment as stated in the accounting principles above. The recoverable amount from the cash-generating units is determined using calculations that are based on value in use and require the use of estimates. These calculations require use of estimates to a significant extent.

In Tecnotree development costs are monitored on a project-by-project basis and management always decides on the capitalization separately for each project. In order to qualify for capitalization the following criteria are to be met: the results of a project are of use to several customers, the product is technically feasible, it can be utilized commercially, its development costs can be monitored reliably and the contents, objectives and timetable of a project are documented and a profitability calculation is prepared. Amortization of development costs commences once the resulting product is ready for sale and its commercial use has begun.

The amortization period is defined based on the useful life of assets and is generally 3-5 years. Management estimates the depreciation period project-by-project basis taking into consideration asset's' foreseeable demand on the market.

Management monitors the feasibility and life cycle estimates for development projects. If these estimates give indication of possible impairment of the capitalized development costs, an impairment test is made based on value in use.

**Application of new and amended IFRSs**

IASB has issued the following new or revised standards and interpretations, which the Group will adopt as from 1 January 2013:

- IFRS 10 Consolidated Financial Statements – new standard
- IFRS 11 Joint Arrangements – new standard
- IFRS 12 Disclosure of Interests in Other Entities – new standard
- IFRS 13 Fair Value Measurement – new standard
- IAS 28 Investments in Associates and Joint Ventures – revised standard
- IAS 19 Employee Benefits – revised standard
- Presentation of Items of Other Comprehensive Income (amendment to IAS 1)
- Annual Improvements to IFRSs (2009-2011)

The Group estimates, that these new or revised standards and interpretations will not have a significant impact on the consolidated financial statements.

IASB has issued the following new or revised standards and interpretations, which the Group will adopt as from the effective date approved by EU:

- Offsetting financial assets and financial liabilities (amendments to IFRS 7 and IAS 32)
- IFRS 9 Financial Instruments – new standard

These new or revised standards and interpretations have not yet been adopted by EU. The Group is assessing the impact of these on the consolidated financial statements.

# 1. Segment reporting

As from the beginning of 2010, 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.

The result of the operating segment is the net of sum obtained after adding other operating income to the net sales and then deducting purchasing costs adjusted by the change in stocks of finished products and work in progress, and other operating expenses that can be allocated to the segments on a reasonable basis. Other segments include costs of product development and administration as well as other operating expenses that can't be directly allocated to the operating segments according to the IFRS 8 -standard. Most of the company's expenses are fixed by nature, and therefore considered not appropriate to allocate to the segments.

Tecnotree does not allocate its assets to the operating segments for the reporting purposes. For the purpose of impairment testing, the goodwill is allocated to the cash generating units according to how the synergy benefits are expected to arise, and the other balance sheet items according to the approved allocation principles.

**Operatig segments 2012**

| **EUR 1,000** | **Americas** | **Europe** | **MEA** | **APAC** | **Other segments** | **Group total** |
|---|---|---|---|---|---|---|
| Net sales (external) | 38,483 | 6,700 | 24,931 | 3,312 | | **73,426** |
| Segment result | 14,610 | 3,186 | 14,490 | 1,261 | | **33,548** |
| Non-allocated items | | | | | -38,407 | **-38,407** |
| Operating result before R&D capitalisation & amortisation and one-time costs | | | | | | **-4,859** |
| Product development amortisation | | | | | -5,395 | **-5,395** |
| One-time costs | | | | | -2,121 | **-2,121** |
| Operating result | | | | | | **-12,375** |

Operatig segments 2011

| EUR 1,000 | Americas | Europe | MEA | APAC | Other segments | Group total |
|---|---|---|---|---|---|---|
| Net sales (external) | 23,331 | 7,948 | 27,039 | 3,969 | | 62,286 |
| Segment result | 7,294 | 3,939 | 14,910 | 1,903 | | 28,046 |
| Non-allocated items | | | | | -29,750 | -29,750 |
| Operating result before R&D capitalisation & amortisation and one-time costs | | | | | | -1,704 |
| Product development capitalisation | | | | | 134 | 134 |
| Product development amortisation | | | | | -7,107 | -7,107 |
| One-time costs | | | | | -2,423 | -2,423 |
| Operating result | | | | | | -11,101 |

Net sales to Finland during 2012 were EUR 1,689 (2,512) thousand

**Information about major customers**

| EUR 1,000 | | 2012 | | 2011 | |
|---|---|---|---|---|---|
| | | **Net sales** | **% of the Group´s net sales** | Net sales | % of the Group ´s net sales |
| Customer 1, operating segment: | Americas | **34,669** | **47%** | 21,304 | 34% |
| Customer 2, operating segment: | MEA | **17,242** | **23%** | 13,911 | 22% |

# 2. Construction contracts

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Revenue from contract work recognised by stage of completion | 31,839 | 27,689 |
| Revenue from maintenance and support | 26,119 | 17,154 |
| Revenue from goods and services | 15,468 | 17,443 |
| Net sales total | 73,426 | 62,286 |
| | | |
| Order book for contract work | 49,581 | 35,397 |
| Order book for maintenance and support, goods and services | 4,608 | 4,960 |
| Order book total | 54,189 | 40,357 |
| | | |
| Projects in progress: | | |
| Cumulative revenue recognised for projects in progress | 32,738 | 18,401 |
| Cumulative invoicing for projects in progress recognised by stage of completion | 21,289 | 8,990 |
| Accrued income related to construction contracts, work in progress | 11,449 | 9,411 |
| | | |
| Aggregate amount of costs incurred for projects in progress | 13,042 | 7,221 |

On the reporting date, the Group has no retentions held by customers. The Group has not received any advances related to projects in progress.

# 3. Other operating income

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Gains on disposal of non-current assets | **64** | |
| Rental income | **7** | |
| Other operating income | | 233 |
| Other operating income total | **71** | 233 |

# 4. Materials and services

| EUR 1,000 | 2012 | 201 |
|---|---|---|
| Purchases during the period | **-10,390** | -9,778 |
| Increase/decrease in inventories | **-205** | -233 |
| Materials and supplies | **-10,595** | -10,011 |
| External services | **-3,820** | -778 |
| Materials and services total | **-14,415** | -10,789 |

# 5. Employee benefit expenses

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Wages and salaries | -29,758 | -23,495 |
| Pension expenses, defined contribution plans | -1,866 | -1,782 |
| Pension expenses, defined benefit plans (note 21) | -213 | 85 |
| Pension expenses total | -2,079 | -1,697 |
| Share options granted | -9 | -29 |
| Other employee benefits | -3,560 | -5,308 |
| Other employee benefits total | -3,569 | -5,337 |
| Employee benefit expenses total | -35,406 | -30,529 |

Information about management board compensation is presented in note 28 and granted share options in note 20.

| Average number of employees | | |
|---|---|---|
| Finland | 87 | 77 |
| Ireland | 56 | 60 |
| Other Europe | 7 | 8 |
| India | 801 | 695 |
| Other East and Southeast Asia | 15 | 18 |
| Middle East | 32 | 19 |
| Latin America | 72 | 45 |
| Total | 1,070 | 922 |

# 6. Depreciations, amortisations and impairment losses

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Depreciations and amortisations by class of asset: | | |
| Other intangible assets | | |
| Capitalised development costs | **-5,395** | -7,107 |
| Other intangible assets | **-939** | -1,026 |
| Total | **-6,334** | -8,134 |
| | | |
| Property, plant and equipment | | |
| Buildings | **-279** | -279 |
| Machinery and equipment | **-747** | -970 |
| Total | **-1,026** | -1,249 |
| | | |
| Impairment losses by class of asset: | | |
| Goodwill | **-969** | |
| Other intangible assets | | |
| Capitalised development costs | **-376** | |
| Other intangible assets | **-150** | |
| Total | **-527** | |
| | | |
| Property, plant and equipment | | |
| Machinery and equipment | **-27** | |
| Total | **-27** | |
| | | |
| Depreciation, amortisation and impairment losses total | **-8,883** | -9,383 |

# 7. Other operating expenses

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Subcontracting | **-1,576** | -1,212 |
| Office management costs | **-5,175** | -4,640 |
| Travel expenses | **-7,134** | -5,127 |
| Impairment losses on trade receivables | **-4,589** | -4,620 |
| Agent fees | **-1,826** | -1,807 |
| Rents | **-1,630** | -1,632 |
| Professional services | **-4,102** | -3,138 |
| Marketing | **-449** | -299 |
| Other expenses | **-687** | -443 |
| Other operating expenses total | **-27,169** | -22,919 |

Impairment losses on trade reveivables refer mainly to impairments amounting to EUR 2,539 (4,319) thousand recognised on overdue receivables from a customer own by the government of Libya, whereafter the total impairment recorded covers the full receivable amount. The company recorded impairment of EUR 1,336 thousand for receivables from another company in the MEA region, corresponding to the full amount of the receivables.

**Auditors' fees**

| | | |
|---|---|---|
| Audit | **-146** | -103 |
| Tax consulting | **-44** | -27 |
| Other services | **-21** | -26 |
| Auditors' fees total | **-211** | -156 |

# 8. Research and development expenditure

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Research and development expenses incurred during the year, before capitalisation of development costs | **-12,972** | -12,054 |
| Capitalisation of development costs | | 134 |
| Amortisation of capitalised development costs | **-5,395** | -7,107 |
| Research and development expenses recognised in income statement total | **-18,367** | -19,028 |

# 9. Financial income and expenses

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **Financial income** | | |
| Dividend income from financial assets at fair value through income statement | | 196 |
| Financial income from financial assets at fair value through income statement | **184** | 339 |
| Financial income from loans and receivables | **113** | 192 |
| Other financial income | | |
| Foreign exchange gains on loans and receivables and on financial liabilities at amortised cost | **1,518** | 1,720 |
| Unrealized gains from financial assets at fair value through income statement | **3** | |
| Financial income total | **1,817** | 2,446 |
| **Financial expenses** | | |
| Interest expense from financial liabilities at amortised cost | **-1,719** | -631 |
| Financial expense from financial liabilities at amortised cost | **-647** | -392 |
| Other financial expenses | **-77** | -141 |
| Foreign exchange losses on loans and receivables and on financial liabilities at amortised cost | **-700** | -110 |
| Unrealised losses from financial assets at fair value through income statement | | -5 |
| Financial expenses total | **-3,144** | -1,278 |
| Financial income and expenses total | **-1,326** | 1,168 |

The exchange rate gains consist mainly of exchange rate differences from intragroup payables in the parent company. Items above the operating result include foreign exchange rate losses (net) of EUR 2,536 thousand in 2012 (EUR 4,458 thousand exchange rate gains (net) in 2011).

# 10. Income taxes

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Current taxes | **-904** | -3,377 |
| Withholding taxes paid abroad | **-2,968** | -1,559 |
| Taxes for previous accounting periods | **-430** | -216 |
| Change in deferred tax liabilities and deferred tax assets | **996** | -488 |
| Income taxes total | **-3,306** | -5,640 |

**Reconciliation of effective tax rate**

Income tax reconciliation between tax expense computed at statutory rates in Finland (2012: 24.5 per cent and 2011: 26 per cent) and income tax expense.

| | | |
|---|---|---|
| Profit before taxes | **-13,701** | -9,933 |
| Income tax using Finnish tax rates | **3,357** | 2,583 |
| Effect of different tax rates applied to foreign subsidiaries | **-172** | -715 |
| Change of tax rate in Finland 2012, impact on deferred taxes | | 83 |
| Non-deductible expenses and tax-free income | **863** | -1,163 |
| Withholding and income taxes paid abroad | **-3,000** | -1,577 |
| Taxes of prior periods | **-430** | -216 |
| Goodwill impairment losses | **-238** | |
| Utilisation of previously unrecognised tax losses | **557** | 1,203 |
| Unrecognised deferred tax assets on tax losses | | -73 |
| Unrecognised deferred tax assets on research and development costs capitalised in the taxation | **-3,552** | -4,846 |
| Deferred tax liabilities on undistributed profits of a foreign subsidiary | **120** | -1,090 |
| Other capital allowances | **-812** | 172 |
| Taxes in income statement | **-3,306** | -5,640 |

# 11. Earnings per share

| EUR 1,000 | 2012 | 2011 |
|---|---|---|

Basic earnings per share are calculated by dividing the profit atttibutable to the equity holders of the parent company and the weighted average number of ordinary shares outstanding during the year.

| | | |
|---|---|---|
| Profit attributable to equity holders ( EUR 1,000) | **-17,000** | -15,590 |
| Weighted average number of shares during the year, adjusted to reflect the share issue (1,000 shares) | **103,856** | 84,803 |
| Basic earnings per share, (EUR/share) | **-0.16** | -0.18 |

The calculate diluted earnings per share, the weighted average number of shares taken into account the dilutive effect of converting all potential ordinary shares into shares. The Group has share options that have a dilutive effect on the number of ordinary shares. Share options have a dilutive effect whenn the exercise price is lower that the fair value of the share. The amount of the dilution is the number of shares that can be considered as issued for no consideration since the company could not issue the same number of shares at fair value with the funds received from the share subscribtion. The fair value of the shares is based on the average proce of the share during the financial year.

| | | |
|---|---|---|
| Profit attributable to equity holders of the parent company for calculating diluted earnings per share (EUR 1,000) | **-17,000** | -15,590 |
| Weighted average number of shares during the year, adjusted to reflect the share issue (1,000 shares) | **103,856** | 84,803 |
| Effect of share options (1,000 shares) | | |
| Weighted average number of shares for calculating diluted earnings per share (1,000 shares) | **103,856** | 84,803 |
| Diluted earnings per share, (EUR/share) | **-0.16** | -0.18 |

# 12. Intangible assets

**Intangible assets 2012**

| **EUR 1,000** | **Goodwill** | **Product development costs** | **Other intangible assets** | **Total** |
|---|---|---|---|---|
| Acquisition cost 1 Jan | 19,192 | 32,337 | 8,976 | **60,505** |
| Exchange differences | -855 | | -231 | **-1,087** |
| Increase | | | 220 | **220** |
| Decrease | | | -24 | **-24** |
| Acquisition cost 31 Dec | 18,337 | 32,337 | 8,940 | **59,614** |
| Accumulated amortisations and impairment losses 1 Jan | | -24,851 | -6,732 | **-31,583** |
| Exchange differences | 53 | | 177 | **229** |
| Accumulated depreciation for decreases | | | 24 | **24** |
| Amortisation during period | | -5,395 | -939 | **-6,334** |
| Impairment losses during period | -969 | -376 | -150 | **-1,496** |
| Accumulated amortisations and impairment losses 31 Dec | -917 | -30,622 | -7,620 | **-39,159** |
| **Book value 31 Dec 2012** | **17,420** | **1,715** | **1,320** | **20,454** |

Intangible assets 2011

| EUR 1,000 | Goodwill | Product development costs | Other intangible assets | Total |
|---|---|---|---|---|
| Acquisition cost 1 Jan | 21,608 | 32,296 | 9,432 | 63,336 |
| Exchange differences | -2,419 | -93 | -621 | -3,133 |
| Increase | 3 | 134 | 165 | 302 |
| Acquisition cost 31 Dec | 19,192 | 32,337 | 8,976 | 60,505 |
| Accumulated amortisations and impairment losses 1 Jan | | -17,779 | -5,990 | -23,769 |
| Exchange differences | | 35 | 284 | 320 |
| Amortisation during period | | -7,107 | -1,026 | -8,134 |
| Accumulated amortisations and impairment losses 31 Dec | | -24,851 | -6,732 | -31,583 |
| Book value 31 Dec 2011 | 19,192 | 7,486 | 2,244 | 28,922 |

**Goodwill and impairment testing**

The major part of the goodwill arose on the acquisition of the Lifetree company. For the purpose of impairment testing, goodwill has been allocated to the operating segments Europe, Middle-East and Africa, Asia and Pasific and Americas, which constitute cash generating units. The carrying value of goodwill is allocated as follows:

| EUR 1,000 | Europe | Middle-East and Africa | Asia and Pasific | Americas | Total |
|---|---|---|---|---|---|
| **Goodwill 31 Dec 2012** | | **12,836** | | **4,584** | **17,420** |
| Goodwill 31 Dec 2011 | 384 | 13,434 | 576 | 4,798 | 19,192 |

The recoverable amounts of goodwill are determined based on value in use calculations. The cash flow forecasts rely on forecasts approved by the Managements Board. The forecasts cover a five-year period. The key variables in defining cash flows are the company´s adjusted operating result, discount rate and the cash flows subsequent to the forecast period (residual value). The adjusted operating result is based on the budget for 2013 and forecasts for the years 2014-2017 approved by the Board of Directors. The adjusted operating result in relation to revenues during the forecast period is estimated to improve from 7 per cent to 11 per cent (4% - 11%). The post-tax discount rate applied is 9.2 (8.8) per cent and correspondingly the pre-tax rate 11.7 (10.7) per cent, determined by using the weighted average cost of capital (WACC). The increase in the discount rate compared to the previous year is mainly due to increase in the industry and general risk levels as well as increased profit requirement used in the calculations. The residual value growth rate factor is 2.5 (2.5) per cent. The management estimates the development of these factors based on internal and external views of the history and future of the industrial sector.

### Recognition and allocation of impairment losses

As a result of the goodwill impairment testing, impairment losses totalling EUR 1,471 thousand were recorded for the Europe and APAC regions. 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, and the Europe and APAC regions are less affected. Europe experienced a drop in sales in 2012 that will continue also in 2013 due to voice messaging market reaching maturity and new product sales still being in business development phase. APAC was in a similar position as Europe with regard to year 2012, but its sales are expected to reach the 2011 level already during 2013. The impairment losses for Europe and APAC areas are allocated to the following balance sheet items:

| EUR 1,000 | Europe | Middle-East and Africa | Asia and Pasific | Americas | Total |
|---|---|---|---|---|---|
| Goodwill | 367 | | 550 | | 917 |
| Capitalised product development costs | 293 | | 84 | | 376 |
| Other intangible assets | 117 | | 33 | | 150 |
| Tangible assets | | | 27 | | 27 |
| Impaitment losses total | 776 | | 695 | | 1,471 |

After recognition of the impairment losses, intangible assets of EUR 114 thousand and tangible assets of EUR 536 thousand allocate to the Europe and APAC regions, but no goodwill.

### Sensitivity analysis of the impairment tests

In the goodwill impairment test, the sensitivity of the outcome is estimated through changes in key variables. The segment wise sensitivity analysis is presented in the table below. In the analyses, it is presented how many percentage points the used post-tax discounting rate, the terminal period free cash flow and the residual value growth rate factor should change, other variables remaining constant, that the estimated cash flow would match with the carrying amount of the tested assets on 31 Dec 2012. The sensitivity analysis were not made for the Europe and APAC regions due to the realised impairment losses. The amounts by which the recoverable amounts exceed the carrying values for MEA and Americas regions have increased in 2012 compared to 2011. The reason for this is that the sales margin estimate for these regions has improved.

| **31 Dec 2012** | **Europe** | **Middle-East and Africa** | **Asia and Pasific** | **Americas** |
|---|---|---|---|---|
| The change of discount rate (WACC), in percentage points | | **1.8%** | | **2.9%** |
| Change in free cash flow for terminal period, in percentage | | **-28%** | | **-42%** |
| Change in residual value growth rate factor, in percentage points | | **-2.7%** | | **-4.8%** |
| Amount by which the recoverable amount exceeds the carrying value, EUR 1,000 | | **8,579** | | **9,777** |

| 31 Dec 2011 | Europe | Middle-East and Africa | Asia and Pasific | Americas |
|---|---|---|---|---|
| The change of discount rate (WACC), in percentage points | 0.8% | 0.9% | 2.2% | 0.8% |
| Change in free cash flow for terminal period, in percentage | -14% | -18% | -34% | -6% |
| Change in residual value growth rate factor, in percentage points | -1.0% | -1.3% | -3.2% | -1.1% |
| Amount by which the recoverable amount exceeds the carrying value, EUR 1,000 | 988 | 4,752 | 1,506 | 1,726 |

# 13. Property, plant and equipment

**Property, plant and equipment 2012**

| **EUR 1,000** | **Land and water areas** | **Buildings** | **Machinery and equipment** | **Investments in progress** | **Total** |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan | 2,069 | 7,534 | 33,402 | 14 | **43,018** |
| Translation differences | | | -316 | | **-316** |
| Increase | | | 679 | | **679** |
| Decrease | -927 | | -90 | | **-1,017** |
| Regroupings | | | | -14 | **-14** |
| Acquisition cost 31 Dec | 1,142 | 7,534 | 33,674 | | **42,350** |
| | | | | | |
| Accumulated depreciations and impairment losses 1 Jan | | -5,327 | -31,599 | | **-36,926** |
| Translation differences | | | 248 | | **248** |
| Accumulated depreciation for decreases and reclassifications | | | 52 | | **52** |
| Depreciation during period | | -279 | -747 | | **-1,026** |
| Impairment losses during period | | | -27 | | **-27** |
| Accumulated depreciations and impairment losses 31 Dec | | -5,606 | -32,046 | | **-37,679** |
| | | | | | |
| **Book value 31 Dec 2012** | **1,142** | **1,928** | **1,628** | | **4,671** |

Property, plant and equipment 2011

| EUR 1,000 | Land and water areas | Buildings | Machinery and equipment | Investments in progress | Total |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan | 2,069 | 7,534 | 33,272 | 17 | 42,893 |
| Translation differences | | | -381 | | -381 |
| Increase | | | 698 | | 698 |
| Decrease | | | -192 | | -192 |
| Regroupings | | | 4 | -4 | |
| Acquisition cost 31 Dec | 2,069 | 7,534 | 33,402 | 14 | 43,018 |
| | | | | | |
| Accumulated depreciations and impairment losses 1 Jan | | -5,048 | -30,996 | | -36,044 |
| Translation differences | | | 221 | | 221 |
| Accumulated depreciation for decreases and reclassifications | | | 146 | | 146 |
| Depreciation during period | | -279 | -970 | | -1,249 |
| Accumulated depreciations and impairment losses 31 Dec | | -5,327 | -31,599 | | -36,926 |
| | | | | | |
| Book value 31 Dec 2011 | 2,069 | 2,207 | 1,803 | 14 | 6,092 |

# 14. Deferred tax assets and liabilities

**Deferred taxes 2012**

| EUR 1,000 | 1 Jan 2012 | Translation differences | Recognized in income statement | 31 Dec 2012 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Capital allowances in the Ireland subsidiary | 109 | | -41 | **68** |
| Tax losses in the Ireland subsidiary | 15 | | 24 | **38** |
| Capital allowances in the India subsidiary | 2,184 | -72 | -812 | **1,300** |
| Fixed assets in the India subsidiary | 770 | -63 | 401 | **1,109** |
| **Total** | **3,078** | **-134** | **-428** | **2,515** |
| **Deferred tax liabilities** | | | | |
| Capitalised development costs at group level and in taxation of the parent company | 1,164 | | -892 | **273** |
| Undistributed profits of foreign subsidiaries | 2,543 | -128 | -120 | **2,294** |
| Allocations of goodwill on business combination | 500 | -15 | -251 | **234** |
| Accumulated depreciation difference | 194 | | -161 | **34** |
| Total | **4,402** | **-143** | **-1,424** | **2,835** |

Deferred taxes 2011

| EUR 1,000 | 1 Jan 2011 | Translation differences | Recognized in income statement | 31 Dec 2011 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Capital allowances in the Ireland subsidiary | 155 | | -46 | 109 |
| Tax losses in the Ireland subsidiary | | | 15 | 15 |
| Capital allowances in the India subsidiary | 2,333 | -313 | 164 | 2,184 |
| Fixed assets in the India subsidiary | | -46 | 816 | 770 |
| Other items | -3 | 3 | | |
| Total | 2,485 | -356 | 949 | 3,078 |
| Deferred tax liabilities | | | | |
| Capitalised development costs at group level and in taxation of the parent company * | 791 | | 373 | 1,164 |
| Undistributed profits of foreign subsidiaries | 1,453 | -265 | 1,355 | 2,543 |
| Allocations of goodwill on business combination | 861 | -99 | -261 | 500 |
| Net asset in pension plan | 12 | | -12 | |
| Accumulated depreciation difference * | 224 | | -30 | 194 |
| Other items | -12 | | 12 | |
| Total | 3,330 | -365 | 1,437 | 4,402 |

*) The Finnish tax rate was reduced on 1 Jan 2012 from 26 per cent to 24.5 per cent. The impact of the tax rate change on deferred taxes was recognised in the income statement, and it amounts to EUR -71 thousand on capitalised development costs and EUR -12 thousand on accumulated depreciation differences.

**Items for which the Group has not recognised a deferred tax asset**

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Research and development costs | | |
| Tecnotree's research and development costs not deducted in its taxation ** | **55,393** | 42,700 |
| Part of above that have been capitalised in the consolidated balance sheet | **305** | 1,714 |
| Deductible temporary difference for which no deferred asset has been recognised | **55,088** | 40,986 |
| | | |
| Other deductible temporary differences | **1,081** | 1,081 |
| Tax losses in Finland | | 1,288 |
| Tax losses in Brazil | **2,912** | 4,061 |
| Items for which the Group has not recognised a deferred tax asset because of the uncertainty about utilising them, total | **59,082** | 47,416 |
| | | |
| Undistributed profits of foreign subsidiaries, for which no deferred tax liabilities have been recognised since the funds are invested permanently in the counties in questions | **16,097** | 16,149 |

**) Tecnotree Oyj has research and development costs not deducted in its taxation. The amount can be deducted over an indefinite period with amounts that the company may freely decide.

# 15. Non-current receivables

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Bank deposits with maturities of more than 12 months | | 856 |
| Other non-current receivables | **402** | 443 |
| Non-current receivables total | **402** | 1,299 |

# 16. Inventories

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Materials and consumables | **471** | 624 |
| Work in progress | **74** | 99 |
| Finished products/goods | **40** | 67 |
| Inventories total | **585** | 790 |

During the period the write-down of inventories to net realisable value amounted to EUR 238 (153) thousand.

# 17. Trade and other current receivables

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Trade receivables related to construction contracts | **16,064** | 15,249 |
| Other trade receivables | **6,161** | 8,429 |
| Work in progress related to construction contracts | **11,449** | 9,411 |
| Finished work related to construction contracts | **603** | 9,568 |
| Other receivables based on delivery agreements | **1,704** | 7,735 |
| Current prepaid expenses and accrued income | **3,226** | 2,414 |
| Other current receivables | **425** | 58 |
| Trade and other receivables total | **39,631** | 52,863 |

Fair values of receivables are stated in note 25. The retention amount from work in progress related to construction contracts at the end of the year is stated in note 2.

Tecnotree has overdue receivables amounting to EUR 7,590 thousand from a customer owned by the government of Libya, for which full impairment has been recorded. In addition, the company has receivables of EUR 1,336 thousand from another company in the MEA region, for which also a full impairment has been recorded.

**Major items included in current prepaid expenses and accrued income**

| | | |
|---|---|---|
| Valuation of currency derivatives | **259** | 241 |
| Prepaid interest | | 44 |
| Advance payments | **710** | 1,057 |
| Other prepaid expenses and accrued income | **2,257** | 1,072 |
| Total | **3,226** | 2,414 |

# 18. Cash and cash equivalents

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Bank deposits with maturities of more than 3 months | **624** | 21 |
| Investments total | **624** | 21 |
| | | |
| Cash in hand and at bank | **11,306** | 5,741 |
| Bank deposits with maturities of less than 3 months | | 342 |
| Mutual fund investments, highly liquid | | 625 |
| Cash and cash equivalents total | **11,306** | 6,708 |

# 19. Notes to the shareholders' equity

| EUR 1,000 | Number of outstanding shares (1,000 shares) | Share capital | Share premium fund | Own shares | Invested unrestricted equity reserve | Total |
|---|---|---|---|---|---|---|
| 1 Jan 2012 | 73,496 | 4,720 | 847 | -122 | 12,634 | 18,080 |
| Share issue | 48,997 | | | | 5,372 | 5,372 |
| 31 Dec 2012 | 122,494 | 4,720 | 847 | -122 | 18,007 | 23,452 |

Tecnomen Corporation has one share series. The maximum number of shares is 137,661 (98,252) thousand. All the issued shares are fully paid.

**Descriptions of funds in shareholders' equity**

**Share premius fund**
In those cases where rights were granted during the period when the old Companies Act (29 Sept 1978/734) was in force, the payments received for otioin-based share subscriptions, less transaction costs, have been made recorded in the shre capital and share premium fund in accordance with the terms of the arrangement.

**Own shares**
Own shares includes the aquisition cost of company shares held by the Group. On the reporting date, the number of company shares held by the Group was 134,800 (134,800 in 2011). Own shares have been deducted from the number of shares when calculating per share ratios.

**Reserve for invested unrestricted equity**
The reserve for incested unrestricted equity includes ither investments of equity nature and subscription prices for shares to the extent that it is specifically decided not to be credited to the share capital. The payments received for share subscriptions based on the options granted after the entry into force (1 Sept 2006) of the new Limited Liability Companies Act (21 July 2006/624) are fully recognised in the reserve for invested unrestricted equity.
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 such that the shareholders of Tecnotree had a pre-emptive right to subscribe for new shares in proportion to their current shareholding in Tecnotree. In the offering, altogether 48,997,451 new shares were offered for subscription, of which all were subscribed. The subscription price for the offer shares was EUR 0.12 per offer share and the subscription period was from 5 June 2012 to 19 June 2012. The proceeds from the rights offering amounted to EUR 5,880 thousand, which was recorded in the reserve for invested unrestricted equity less transaction costs related to the issue amounting to EUR 508 thousand.

**Other reserves**
Other reserves contains the reserve of the parent company, where funds were transferred when reducing funds from the share premium fund, as well as the difference between fair value and exercise price of the shares issued in 2009.

**Translation differences**
Translation differences include exchange gains and losses arising from the translation of the financial statements of foreign subsidiaries.

**Dividend**
After the reporting date the Board of Directors has proposed that no dividend be paid for the financial year ended 31 December 2012. In 2012 no dividend was paid for the financial year that ended on 31 december 2011.

# 20. Share-based payments

**Share option programmes**

In 2012, Tecnotree Group had two effective option programs that are part of the system to motivate and retain the key personnel. The option programs were approved by the Annual General Meeting in 2006 and 2009. The subtypes of the option programs are valid from two to five years from their issue and the exercise period is two or three years. Option rights are issued to the key personnel of Tecnotree Group or to the subsidiary in Tecnotree Group by the decision of the Board of Directors in accordance with the terms of the option programs. The subsidiary can give the options further to the target group by the decision of the Board of Directors. The options are equity-settled.

If the employment of the share option holder ceases before the options are exercible for some other reason than the employee's death or reaching statutory retirement age in accordance with the terms of employment or if the company has otherwise specified retirement, then the employee shall immediately offer the company or a person designated by the company without consideration any share options for which the subscription period has not begun on the date when employment ceased. In addition to the condition of remaining in employment, the start of the exercise period of the maximum of two thirds of the option rights 2009B and 2009C is conditional upon the revenue and profitability targets determined by the company's Board of Directors. Once options subscription period has started they can be freely transferred, so the employee may sell or subscribe the share options to a third party.

The fair value of the options granted is valued using the Black-Scholes formula at their grant date and those will be recorded as an expense in the income statement during the vesting period. The share subscription price for the option includes a dividend adjustment, so it is not necessary to calculate or take into account future Tecnotree dividends when calculating the fair value.

| | Share options 2006 | | Share options 2009 | | |
|---|---|---|---|---|---|
| **Basic terms of share-based payments programs** | **2006B** | **2006C** | **2009A** | **2009B** | **2009C** |
| Date of the Annual General Meeting | 15.3.2006 | 15.3.2006 | 19.3.2009 | 19.3.2009 | 19.3.2009 |
| Grant dates | 20.11.2007 | 9.3.2011 | 7.5.2009 | 7.5.2009 | 7.5.2009 |
| Maximum numner of share options ** | 667,000 | 667,000 | 1,026,005 | 2,394,013 | 3,732,950 |
| Number of granted options ** | 667,000 | 647,000 | 686,171 | 1,408,206 | 2,203,189 |
| Number of exercisable shares per option | 1 | 1 | 1 | 1 | 1 |
| Original exercise price | 1.56 € | 1.12 € | 0.86 € | 0.86 € | 0.86 € |
| Dividend adjustment | Yes | Yes | Yes | Yes | Yes |
| Exercise price 31 Dec 2010 | 1.32 € | 0.98 € | 0.86 € | 0.86 € | 0.86 € |
| Exercise price 31 Dec 2011 | Expired | 0.98 € | Expired | 0.86 € | 0.86 € |
| Exercise price 31 Dec 2012 ** | Expired | Expired | Expired | Expired | 0.675 € |
| Exercise period starts * | 1.4.2008 | 1.4.2009 | 1.4.2009 | 1.4.2010 | 1.4.2011 |
| Exercise period ends | 30.4.2011 | 30.4.2012 | 31.3.2011 | 31.3.2012 | 31.3.2013 |
| Agreed term of validity, years | 5.1 | 6.1 | 2.0 | 3.0 | 4.0 |
| Term to maturity, years | Expired | Expired | Expired | Expired | 0.2 |

* The start of the exercise period of the maximum of two thirds of the option rights 2009B and 2009C is conditional upon the revenue and profitability targets determined by the company's Board of Directors.

**Changes in options during the period and weighted average exercise prices**

| **2012** | **Share options 2006** **2006B** | **2006C** | **2009A** | **Share options 2009** **2009B** | **2009C** |
|---|---|---|---|---|---|
| Number of options 1 Jan | | **647,000** | | **1,408,206** | **1,917,511** |
| Granted options | | | | | 285,678 |
| Returned options | | | | | |
| Expired options | | 647,000 | | 1,408,206 | |
| Number of options 31 Dec | | | | | **2,203,189** |
| Exercisable number of options 31 Dec | | | | | 2,203,189 |
| The trade-weighted average price during the exercise period, EUR * | | 0,38 | | 0,40 | 0,22 |

* The trade-weighted average price of the Tecnotree Oyj's share for January - April (2006C), January - March (2009B) and the whole year 2012 (2009C).
** Due to the share issue carried out during 2012 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 this increase, altogether 3,732,950 stock options remained on 31 December 2012 of all the company's stock options in circulation.

| 2011 | Share options 2006 2006B | 2006C | 2009A | Share options 2009 2009B | 2009C |
|---|---|---|---|---|---|
| Number of options 1 Jan | 173,000 | | 686,171 | 1,096,206 | 1,555,181 |
| Granted options | | 647,000 | | 312,000 | 429,000 |
| Returned options | | | | | 66,670 |
| Expired options | 173,000 | | 686,171 | | |
| Number of options 31 Dec | | 647,000 | | 1,408,206 | 1,917,511 |
| Exercisable number of options 31 Dec | | 647,000 | | 1,408,206 | 1,917,511 |
| The trade-weighted average price during the exercise period, EUR * | 0,48 | 0,42 | 0,50 | 0,42 | 0,42 |

* The trade-weighted average price of the Tecnotree Oyj's share for January - April 2011 (2006B), the whole year 2011 (2006C and 2006B), January - March (2009B) and April - December 2011 (2009C).

| Changes in options during the period and weighted average exercise prices | Share options 2006 | | | | Share options 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **2012** | | 2011 | | **2012** | | 2011 | |
| | **Number of options** | **Exercise price, EUR** | Number of options | Exercise price, EUR | **Number of options** | **Exercise price, EUR** | Number of options | Exercise price, EUR |
| Number of options 1 Jan | **647,000** | **0.98** | 173,000 | 1.32 | **3,325,717** | **0.86** | 3,337,558 | 0.86 |
| Exercisable number of options 1 Jan | | | 173,000 | 1.32 | **3,325,717** | **0.86** | 1,782,377 | 0.86 |
| Granted options | | | 647,000 | | **285,678** | | 741,000 | |
| Returned/converted options | | | | | | | 66,670 | |
| Expired options | **647,000** | | 173,000 | | **1,408,206** | | 686,171 | |
| Number of options 31 Dec | | | 647,000 | 0.98 | **2,203,189** | **0.675** | 3,325,717 | 0.86 |
| Exercisable number of options 31 Dec | | | 647,000 | 0.98 | **2,203,189** | **0.675** | 3,325,717 | 0.86 |

The payments received for the share subscriptions have been recognised in full in the reserve for invested unrestricted equity. In 2012 and 2011, no options were exercised. In 2012, the options had no impact on the income statement (EUR -29 thousand in 2011).

**Incentive scheme**

At its meeting on 25 October 2011 the Board of Directors decided on an incentive scheme for key personnel. The scheme comprises three earning periods of one calendar year each, the calendar years 2012, 2013 and 2014. The Board decides on the earnings criteria and the targets for these before the start of each earning period. Any bonus in the scheme for the 2012 earning period is based on Tecnotree Group's earnings per share (EPS), adjusted operating result and the Company's volume weighted average share price in December 2012, as well as a requirement to purchase shares. Share purchases under the scheme by members of the Management Board were made during the first quarter of the year, which resulted in an accrual of EUR 9 thousand for 2012 for reward not based on targets and partly to be paid in shares. No reward accrued for the 2012 earning period based on the performance targets.

# 21. Pension obligations

The Group has two defined benefit pension plans in India. The pension plans constitute the obligatory pension and termination benefits for the employees, and the amount of the plan benefit is based on final salary and number of years in service. The 2012 numbers for the Indian plans are based on actuarial calculations as of 31 March 2012, considering changes in personnel amounts in 2012.

The defined benefit plan in Finland was a voluntary pension insurance plan for the management, which was settled in 2011. The new pension scheme for the management is a defined contribution plan.

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **Defined benefit asset in the balance sheet:** | | |
| Present value of funded obligations | **533** | 461 |
| Present value of unfunded obligations | **200** | 307 |
| Fair value of plan assets (-) | **-263** | -290 |
| Surplus (-) / Deficit | **470** | 478 |
| Unrecognized actuarial gains (+) / losses (-) | **-42** | -111 |
| Net liability (+) / asset (-) | **428** | 367 |
| | | |
| Pension obligations in the balance sheet | **428** | **367** |
| Net liability (+) / asset (-) | **428** | 367 |
| | | |
| **Defined benefit expense in the income statement:** | | |
| Current service cost | **123** | 121 |
| Interest cost | **42** | 35 |
| Expected return on plan assets | **-22** | -26 |
| Recognised net actuarial gains (-) / losses (+) | **70** | |
| Effect of settlements | | -45 |
| Pension expense recognised in income statement | **213** | 85 |
| | | |
| **Change in the defined benefit obligation:** | | |
| Defined benefit obligation in the beginning of the year | **768** | 1,912 |
| Translation differences | **-41** | -74 |
| Current service cost | **117** | 114 |
| Interest cost | **39** | 33 |
| Actuarial gains (-) / losses (+) | **66** | 16 |
| Benefits paid | **-216** | -88 |
| Settlements | | -1,145 |
| Defined benefit obligation at the end of the year | **733** | 768 |
| | | |
| **Change in plan assets:** | | |
| Plan assets beginning of the year | **290** | 957 |
| Translation differences | **-15** | -57 |
| Expected return on plan assets | **21** | 25 |
| Actuarial gains (+) / losses (-) | | |
| Contributions paid into the plans | **69** | 22 |
| Benefits paid | **-102** | -88 |
| Settlements | | -568 |
| Plan assets end of the year | **263** | 290 |

Recognised gains on plan assets were EUR 22 (26) thousand. Experience adjustments arising on plan assets were EUR -3 (-7) thousand and on plan obligations EUR 75 (104) thousand. There is no information available on plan assets. Contributions to be paid in year 2013 is expected to be EUR 69 thousand.

| | 2012 | 2011 |
|---|---|---|
| **Actuarial assumptions at reporting date** | **%** | % |
| | | |
| **Finland:** | | |
| Discount rate | | 4.3 |
| Expected return on plan assets | | 4.5 |
| Future salary increases | | 3.5 |
| | | |
| **India:** | | |
| Discount rate | **9.0** | 8.2 |
| Expected return on plan assets | **7.5** | 7.0 |
| Future salary increases | **10.0** | 10.0 |

# 22. Interest-bearing liabilities

| EUR 1,000 | **2012** | 2011 |
|---|---|---|
| Non-current loans from financial institutions | | 12,218 |
| Non-current finance lease liabilities | | 22 |
| Total | | 12,239 |
| Current loans from financial institutions | **28,333** | 15,828 |
| Current finance lease liabilities | | 7 |
| Total | **28,333** | 15,835 |
| Interest-bearing liabilities total | **28,333** | 28,074 |

The loans from financial institutions consist of a loan of EUR 13,333 (15,545) thousand which is raised for financing the acquisition of Tecnotree India, and fully used credit facilities of EUR 15,000 (12,500) thousand.

# 23. Trade payables and other liabilties

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Advances received | | 2,312 |
| Trade payables | **3,734** | 7,192 |
| Accrued liabilities and deferred income | **9,729** | 6,100 |
| Other liabilities | **897** | 1,270 |
| Current provisions * | **787** | 317 |
| Trade payables and other liabilities total | **15,148** | 17,191 |
| | | |
| **Accrued liabilities and deferred income** | | |
| Accrued personnel expenses | **3,465** | 2,076 |
| Accrued agent fees | **1,861** | 1,740 |
| Accrued interest fees | **785** | 68 |
| Valuation of currency derivatives | **233** | 1,185 |
| Valuation of interest rate swap | **279** | 403 |
| Other accrued liabilities and deferred income ** | **3,106** | 627 |
| Total | **9,729** | 6,100 |

* Current provisions include the following items: In the Europe segment, a provision of EUR 135 (317) thousand was recognised for the costs rising on a customer project. Of the provision, EUR 182 thousand was used during the period, and the rest will be used in 2013. Restructuring provision of EUR 652 thousand due to recutions in personnel in Finland and Ireland during 2012. The provision is expected to be used during first half of 2013.

** The other accrued liabilities and deferred income include other expense accruals.

# 24. Financial risk management

**Risk management principles**

The task of risk management is to identify, manage and track the major risks in the Group's business and business environment to enable the Group to achieve its strategic and financial goals in the best possible way. The responsibilities of the Audit Committee include ensuring that the company has adequate internal monitoring system in place. Group's policy for hedging against risks is approved by the Board of Directors and the Group's financial director is responsible for implementing it in practice.

The objective of the Group's financial risk management is to minimise the effects of volatility for recognised major market risks on the Group's result and balance sheet. Tecnotree Group does not apply hedge accounting as defined under IAS 39.

**Risk management organisation**

The risk management process is supported by the Management Board. The Management Board reports the major risks to the Audit Committee.

The Group's financial management is responsible for managing foreign exchange, interest rate and liquidity risks and for taking out insurance against operational risks.

**Market risks**

***Currency risk***

The financial risk to which the Group is exposed in its operations is mainly currency risk. Tecnotree Group uses derivatives in order to eliminate the financial uncertainty caused by the fluctuations of the exchange rates. Changes in exchange rates create risks especially in receivables and order backlog. Tecnotree Group's reporting and presentation currency is Euro, but significant part of Group's revenue is in US dollars. The Group's open translation risk comes from the investments in three foreign subsidiaries, India (Rupees, INR), Brazil (Real, BRL), Argentina (Peso, ARS) and Malaysia (Ringgit, MYR).

**Transaction risk**

The Group's open currency position comprises foreign currency denominated, sales related balance sheet items, cash and cash equivalents balance, currency denominated order backlog and binding currency denominated purchase and sales contracts. On the reporting date, the open US dollar position was EUR 68,929 (62,017) thousand.

In the policy for approval of sales contracts, it is required that only the Euros or the US dollar can be used as the sales currency. There shall not be any clauses tying the payments into any other currencies. Sales offices, when selling within their own country, use their own local currency. If any other currencies than Euro, US dollar or sales offices' local currency are used in sales contracts, it requires a prior written approval from the group CFO.

In 2012, 14 per cent of invoicing was in Euros, 79 per cent in US dollars, 3 per cent in BRL, and 4 per cent in other currencies. The Group is hedging the open US dollar currency position. The Group does not hedge the open BRL currency position, partly because of local currency restrictions and high cost of hedging. Sales in BRL and purchases related to them form adequate operative hedging and therefore hedging instruments are not used. The open INR currency position is hedged when it is seen necessary. On the reporting date, such hedges didn't exist. The Group does not hedge the other currency positions, since they are not significant.

All decisions about hedging are made in Group's finance department, which assesses the hedging needs on a monthly basis. The hedging actions and hedging position are reported to the Audit Committee on a quarterly basis.

The Group is hedging the US dollar currency denominated cash flow position for a maximum period of 12 months for 50-100 per cent of the net position. Hedging is carried into effect with foreign exchange forwards and options. On the reporting date, 49 per cent (49%) of the open currency position was hedged.

US dollar denominated cash inflow is mainly converted into Euros and in India into Rupees. Some cash reserves are held in US dollar in order to manage forthcoming US dollar payments. If such US dollar cash position occurs, it is accounted for as part of total currency exposure, which is hedged against currency risk as described above.

### Sensitivity analysis for market risks

The functional currency of the parent company is Euro. Financial assets and liabilities nominated in US dollars are presented in the table below. Figures are translated to Euros at the year-end exchange rate.

| EUR 1,000 | Note | **2012 USD** | 2011 USD |
|---|---|---|---|
| **Current assets** | | | |
| Trade and other receivables | 17 | **17,115** | 19,195 |
| Other receivables related to construction contracts | 17 | **13,047** | 21,331 |
| Cash and cash equivalents | 18 | **4,343** | 300 |
| Currency derivatives | 17 | **259** | 241 |
| Total current assets | | **34,765** | 41,067 |
| **Current liablities** | | | |
| Trade payables and other liablities | 23 | **1,327** | 563 |
| Currency derivatives | 23 | **162** | 1,185 |
| Total current liabilities | | **1,489** | 1,748 |

In the sensitivity analysis below, the effect of strengthening and weakening of the USD exchange rate against EUR is presented with all other factors remaining unchanged. Analysis is performed only for the assets and liabilities denominated in USD as the transaction risk inherent to financial assets and liabilities in other currencies is insignificant. The analysed change in the exchange rate represents a possible volatility of the currency during a 12-month period. The resulted effect in the analysis stems largely from the USD denominated trade receivables and from cash and cash equivalents. Fluctuation in exchange rates has no direct effect on equity as the Group does not apply hedge accounting.

| | **2012** | | 2011 | |
|---|---|---|---|---|
| **EUR 1,000** | **USD** | **USD** | USD | USD |
| Change in percentage | **-10%** | **10%** | -10% | +10% |
| Effect on the result after taxes | **-1,226** | **-195** | -566 | 1,195 |

### Translation risk

Tecnotree India and its subsidiaries are consolidated into Tecnotree Group as from 6 May 2009, and the Group is therefore exposed to the risks incurred when the net investments denominated in INR are translated into Euro, the functional currency of the parent company. On the reporting date, the open translation risk for the Indian subgroup was EUR 45,932 (51,785) thousand. This net investment is not hedged, mainly because of local currency restrictions and high cost of hedging. The sensitivity for translation risk was analysed by determining the effects of 10 percent strengthening and weakening of the INR exchange rate against EUR, all other factors remaining unchanged.

| | **2012** | | 2011 | |
|---|---|---|---|---|
| **EUR 1,000** | **INR** | **INR** | INR | INR |
| Change in percentage | **-10%** | **+10%** | -10% | +10% |
| Effect on the result after taxes | **209** | **-256** | -778 | 951 |
| Effect on equity | **-4,176** | **5,104** | -4,708 | 5,754 |

The exposure for translation risk related to net investments in other foreign subsidiaries is not significant and is therefore neither hedged nor analysed for sensitivity. On the reporting date, the open translation risk position for the Brazilian subsidiary was EUR 7,601 (7,133) thousand, for the Argentine subsidiary EUR 562 (49) and correspondingly for the Malaysian subsidiary EUR 2,640 (2,869). The change in translation difference in equity caused by fluctuations in exchange rates for these subsidiaries was EUR -870 (-581) thousand.

***Interest rate risk***

The Group's interest rate risk management focuses on the optimal management of liquid funds in sense of profitability and safety and interest rate risk management of bank loans. The majority of liquid funds are invested in short-term bank deposits and short-term interest funds in which the maturity is not more than three months. On the reporting date, the Group held such investments amounting to EUR 624 (1,844) thousand.

On the reporting date, bank loans totalled EUR 28,333 (28,045) thousand consisting of EUR 13,333 (15,545) thousand bank loan and EUR 15,000 (12,500) thousand fully used credit facilities. On the reporting date, bank loans, except for the credit line, were hedged against currency risk. The interest rate risk of the hedged portion is limited to the fair value adjustments of the hedging instruments.

Interest rate sensitivity was analysed by determining the effects of one percentage unit's change in the interest rates on the Group's interest-bearing financial instruments on an annual level. The analysis included all the significant interest-bearing financial instruments of the Group totalling EUR 16,404 (20,460) thousand debt.

On the reporting date, an increase / a decrease of one percentage unit in the interest rates would have decreased / increased the net income after tax by EUR -86 / 86 (-70 / 70) thousand. Changes in interest rates would not have had a direct effect on equity. The effect of an increase and a decrease in the interest rates is presented with all other factors remaining unchanged.

***Price risk***

Tecnotree Group does not own any equity or other financial instruments with values tied to other market prices than interest or currency rates.

**Liquidity risk**

The Group seeks to constantly assess and monitor the amount of liquid funds to ensure the sufficient amount of funding needed in daily business.

Liquid funds are invested, avoiding credit and liquidity risks, in objects with a good credit rating, making sure of sufficient liquidity for capital expenditure and purchases. According to the Group's cash management policy, investments are made in fixed-term bank deposits with maturities less than 3 months, mutual interest funds or debt instruments of the state of Finland or of legal entities owned over 50% by the state. Equity instruments are not used.

On the reporting date, the Group's cash in hand and at bank were EUR 11,306 (5,741) thousand, cash equivalents were zero (EUR 967 thousand), and bank deposits with maturities over 3 months were EUR 624 (877) thousand. To improve the Company's liquidity, the company carried out a rights offering. The proceeds from the offering amounted to EUR 5,880 thousand before deduction of related transaction costs.

The company's current finance arrangement with the bank ends in December 2013. Under this arrangement, on the reporting date, the company had a loan of EUR 13,333 (15,545) thousand and credit facilities of EUR 10,000 (12,500) thousand. In addition the company had a separate credit facility of EUR 5,000 thousand raised in 2012 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 facilities that mature in December. The company's financial situation was tight at times in 2012. During the year Tecnotree repaid EUR 2,222 thousand of its long-term loans and paid off the EUR 2,500 thousand loan that it had at the end of the previous year. The company reached agreement with its creditor on the postponement of repayment instalments on the company's loan, so that instalments of EUR 1,111 thousand 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 loan agreement includes a financial covenant. A breach of the covenant will give the bank the right to demand the entire loan to be repaid. The covenant is based on interest-bearing net liabilities in proportion to adjusted operating result before depreciations and amortisations (EBITDA). On the reporting date, the covenant requirements were not met. In the end of 2012, the company entered into an agreement with the bank that the bank does not use its right to demand the entire loan to be repaid due to a breach of the covenant. At the same time it was agreed to raise the interest margin paid by the company. The company has to arrange replacement financing during 2013 for the loan that mature in December.

Maturity analysis of financial liabilities is presented in the table below. The figures are presented in gross amounts.

| **2012** | **Balance sheet value** | **Cash flow** | **Less than 3 month** | **3-12 months** | **1-3 years** | **Over 3 years** |
|---|---|---|---|---|---|---|
| Loans from financial institutions | **13,333** | **13,333** | **1,111** | **12,222** | | |
| Interest payments on the loans | | **1,073** | **103** | **971** | | |
| Credit facilities in use | **15,000** | **15,000** | | **15,000** | | |
| Interest payments on the credit facilities | | **499** | | **499** | | |
| Trade payables | **3,734** | **3,734** | **3,734** | | | |
| Derivative liabilities | **513** | **513** | **513** | | | |

| 2011 | Balance sheet value | Cash flow | Less than 3 month | 3-12 months | 1-3 years | Over 3 years |
|---|---|---|---|---|---|---|
| Loans from financial institutions | 15,545 | 15,556 | | 3,333 | 12,222 | |
| Interest payments on the loans | | 875 | 132 | 348 | 395 | |
| Credit facilities in use | 12,500 | 12,500 | 2,500 | 10,000 | | |
| Interest payments on the credit facilities | | 316 | 8 | 308 | | |
| Trade payables | 7,192 | 7,192 | 7,192 | | | |
| Derivative liabilities | 1,588 | 1,588 | 1,588 | | | |

**Credit risk**

Credit risk arises from the potential failure of counterparty to meet its contractual payment obligations. The amount of risk depends on the creditworthiness of the counterparty. The total amount of credit risk inherent to financial instruments, i.e. the total carrying amount of financial assets on the reporting date, was EUR 34,414 (30,648) thousand. The financial assets are specified in note 25. The most significant separate item of credit risk is the trade receivables.

Responsibility for sales-related credit risks lies primarily with the local sales company. The credit quality of customers is regularly monitored by the finance department together with sales management, using data on payment history and reports from external sources. Credit rating checks are made on new customers before confirming an offer.

The procedure for granting of credit for new customers or customers from countries with high risk rating requires always the acceptance of Group CFO. Tecnotree has not arranged financing for customers with third parties.

Tecnotree's largest customers are much bigger businesses than the Group itself. The relationship between the Group and its major customers is one of interdependence, which poses a potential risk but also offers significant new business opportunities. Information about major customers is disclosed in note 1.

The credit quality of financial institutions is monitored by the finance department. The parent company's counterparties are restricted to financial institutions with legal entities in Finland specified in the Group's cash management policy. The subsidiary in India has its own finance function and their counterparties are also restricted in the Group's cash management policy. The amount of cash reserves in other subsidiaries is minimized.

**Analysis of trade receivables by age**

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Undue trade receivables | **3,859** | 8,913 |
| Trade receivables 1-90 days overdue | **7,575** | 7,446 |
| Trade receivables 91-360 days overdue | **9,742** | 4,939 |
| Trade receivables more than 360 days overdue | **1,050** | 2,380 |
| Total | **22,225** | 23,678 |

Project deliveries result in large accounts receivable. Most of Tecnotree's net sales comes 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. The payment record of customers and the situation concerning trade receivables are actively monitored and credit rating checks are made on new customers before confirming an offer. The company has overdue receivables amounting to EUR 7,590 thousand from a customer owned by the government of Libya, for which full impairment has been recorded. In addition, the company has receivables of EUR 1,336 thousand from another company in the MEA region, for which also a full impairment has been recorded.

**Capital management**

Tecnotree's objective for capital management is to support Group's target for growth and ensure the capability for dividend distribution. Additionally, with capital management the Group is ensuring the operational precondition in capital markets during all conditions irrespective of industry's market volatility. The Board of Directors monitors and assesses the Group's capital structure on a regular basis. The key ratio in monitoring the development of Group's capital structure is net gearing, which is calculated by dividing net interest-bearing liabilities with total shareholders' equity. Net liabilities include interest-bearing liabilities less interest-bearing assets and cash and cash equivalents.

The company's current finance arrangement with the bank ends in December 2013. Under this arrangement, on the reporting date, the company had a loan of EUR 13,333 (15,545) thousand and credit facilities of EUR 10,000 (12,500) thousand. In addition the company had a separate credit facility of EUR 5,000 thousand raised in 2012 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 facilities that mature in December. The company's financial situation was tight at times in 2012.

**Components of gearing ratio**

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Interest-bearing financial liabilities | **28,333** | 28,074 |
| Interest-bearing financial assets | **-624** | -21 |
| Cash and cash equivalents | **-11,306** | -6,708 |
| Net interest-bearing liabilities | **16,404** | 21,345 |
| Total shareholders' equity | **34,534** | 49,507 |
| **Gearing ratio** | **47.5%** | 43.1% |

# 25. Carrying amounts of financial assets and liabilities by measurement categories

| 2012 | Note | Financial assets/ liabilities at fair value through income statement | Loans and receivables | Financial liabilities measured at amortised cost | Carrying amounts by balance sheet item | Fair value |
|---|---|---|---|---|---|---|
| **Current financial assets** | | | | | | |
| Trade and other receivables | 17 | | 22,225 | | **22,225** | **22,225** |
| Derivative assets | 17 | 259 | | | **259** | **259** |
| Investments | 18 | | 624 | | **624** | **624** |
| Cash and cash equivalents | 18 | | 11,306 | | **11,306** | **11,306** |
| Carrying amount by category | | **259** | **34,155** | | **34,414** | **34,414** |
| **Non-current financial liabilities** | | | | | | |
| Non-current interest-bearing liabilities | 22 | | | | | |
| Carrying amount by category | | | | | | |
| **Current financial liabilities** | | | | | | |
| Current interest-bearing liabilities | 22 | | | 28,333 | **28,333** | **28,333** |
| Trade and other payables | 23 | | | 3,734 | **3,734** | **3,734** |
| Derivative liabilities | 23 | 513 | | | **513** | **513** |
| Carrying amount by category | | **513** | | **32,068** | **32,580** | **32,580** |

| 2011 | Note | Financial assets/ liabilities at fair value through income statement | Loans and receivables | Financial liabilities measured at amortised cost | Carrying amounts by balance sheet item | Fair value |
|---|---|---|---|---|---|---|
| Current financial assets | | | | | | |
| Trade and other receivables | 17 | | 23,678 | | 23,678 | 23,678 |
| Derivative assets | 17 | 241 | | | 241 | 241 |
| Investments | 18 | | 21 | | 21 | 21 |
| Cash and cash equivalents | 18 | 625 | 6,083 | | 6,708 | 6,708 |
| Carrying amount by category | | 867 | 29,782 | | 30,648 | 30,648 |
| Non-current financial liabilities | | | | | | |
| Non-current interest-bearing liabilities | 22 | | | 12,218 | 12,218 | 12,218 |
| Carrying amount by category | | | | 12,218 | 12,218 | 12,218 |
| Current financial liabilities | | | | | | |
| Current interest-bearing liabilities | 22 | | | 15,828 | 15,828 | 15,828 |
| Trade and other payables | 23 | | | 7,192 | 7,192 | 7,192 |
| Derivative liabilities | 23 | 1,588 | | | 1,588 | 1,588 |
| Carrying amount by category | | 1,588 | | 23,020 | 24,609 | 24,609 |

The fair value of the currency derivatives is determined by using market rates of the counterparty for instruments with similar maturity. The fair value of the short term investments is determined based on the price quotation of the counterparty. The carrtying amounts of the other financial assets and liabilities correspond to their fair value, since the impact of discounting being not material considering their maturity.

**Fair value hierarchy**

The items measured at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy includes the levels 1-3. Level 1: Quoted prices in active markets for identical assets or liabilities. Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. Level 3: Inputs for the asset or liability that are not based on observable market data.

All items measured at fair value are categorised into hierarchy level 2, except for the currency options amounting to EUR 26 (-944) thousand that are categorised into hierarchy level 3. The fair values of the currency options are based on the valuations prepared by the counterparty. During the reporting period, there were no significant transfers between the hierarchy levels.

**Values of underlying instruments of derivative contracts**

| | | **2012** | | 2011 | |
|---|---|---|---|---|---|
| **EUR 1,000** | Note | **Value of underlying instruments** | **Fair value** | Value of underlying instruments | Fair value |
| **Derivative assets** | | | | | |
| Currency derivatives | 17 | **29,453** | **259** | 23,429 | 241 |
| Derivative assets total | | | **259** | | 241 |
| **Derivative liabilities** | | | | | |
| Currency derivatives | 23 | **35,897** | **233** | 21,631 | 1,185 |
| Interest rate swaps | 23 | **13,333** | **279** | 15,545 | 403 |
| Derivative liabilities total | | | **513** | | 1,588 |

# 26. Operating leases

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Group as lessee | | |
| Minimum lease payments of the non-cancellable operating leases are as follows: | | |
| **Muut vuokrasopimukset** | | |
| Less than one year | **461** | 913 |
| Between one and five years | **221** | 928 |
| Total | **682** | 1,841 |

The Group has leased office equipment, office facilities and company cars. The leases typically run for one to three years and normally they include an option to continue the lease agreement after the original ending date. The index, terms of renewal and other conditions in different agreements may vary. EUR 1,630 (1,632) thousand was recognised as an expense in the income statement in respect of operating leases.

# 27. Contingent liabilities

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **On own behalf** | | |
| Real estate mortgages | **4,400** | 7,661 |
| Corporate mortgages | **42,336** | 36,572 |
| Pledged deposits | | 23 |
| Guarantees | **519** | 810 |
| Total | **47,255** | 45,066 |
| | | |
| **Other contingent liabilities** | | |
| Desputed income tax liabilities in India | **682** | |
| Restriction related to real estate in Ireland | | 387 |
| Total | **682** | 387 |

In addition, the parent company's shares in the Indian subsidiaries are pledged. These shares have a book value of EUR 35,418 thousand in the parent company. The net assets of the Indian subsidiary in the consolidated balance sheet are estimated at EUR 45,577 thousand.

**Legal claims**

During the beginning of the year, the company had funds of EUR 1,612 thousand 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.

# 28. Related party transactions

The relationships between the Group's parent company and subsidiaries are as follows:

| | Domicile | Group's ownership % | Group's share of voting rights % |
|---|---|---|---|
| Tecnotree Oyj (parent) | Finland | | |
| Tecnotree Services Oy | Finland | 100 | 100 |
| Tecnotree Ltd | Ireland | 100 | 100 |
| Tecnotree GmbH | Germany | 100 | 100 |
| Tecnotree Spain SL | Spain | 100 | 100 |
| Tecnotree Sistemas de Telecommunicacao Ltda | Brazil | 100 | 100 |
| Tecnotree Argentina SRL | Argentina | 100 | 100 |
| Tecnotree (M) Sdn Bhd | Malaysia | 100 | 100 |
| Lifetree Cyberworks Pvt. Ltd | India | 100 | 100 |
| Tecnotree Convergence Ltd | India | 99.83 | 99.83 |
| Quill Publishers Pvt. Ltd | India | 99.83 | 99.83 |
| Lifetree Convergence Pty Ltd | South-Africa | 99.83 | 99.83 |
| Lifetree Convergence (Nigeria) Ltd | Nigeria | 94.84 | 94.84 |
| Lifetree UK Ltd | Great-Britain | 99.83 | 99.83 |
| Tecnotree UK Ltd | Great-Britain | 99.83 | 99.83 |

The parent company has branch offices in Singapore and in Taiwan. In addition, the parent company has offices in Ecuador, Mexico, the United Arab Emirates and Austria.

The Group's related parties include the subsidiaries, the members of the Board of Directors and the Management Board, the CEO and the close family members of the preceding persons, as well as those entities in which these people have control. In 2012, Tecnotree raised a variable-interest short-term working capital finance loan with market-based conditions of EUR 350 thousand from certain shareholders of the company included under related parties. The loans were entirely repaid in June. Except for these loans and ordinary intra-group transactions, the Group has not entered any significant transactions with, granted any loans to or made any other comparable arrangements with related parties during 2012.

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **Compensation to related parties** | | |
| Salaries and other short-term employee benefits | **-1,164** | -1,222 |
| Other fees | **-293** | -143 |
| Compensation to related parties total | **-1,457** | -1,365 |

**Salaries and fees**

| | | |
|---|---|---|
| Kaj Hagros, President and CEO of the parent company | **-418** | -304 |
| Members of the Board of Directors: | | |
| Harri Koponen, Chairman of the Board as from 23 Mar 2011 | **-51** | -60 |
| Hannu Turunen, Chairman of the Board until 23 Mar 2011 | **-24** | -48 |
| Ilkka Raiskinen, Vice Chairman of the Board as from 23 Mar 2011 | **-31** | -43 |
| Johan Hammarén, Vice Chairman of the Board until 23 Mar 2011 | **-25** | -42 |
| Christer Sumelius | **-25** | -38 |
| Pentti Heikkinen | **-23** | -32 |
| Tuija Soanjärvi, as from 28 March 2012 | **-17** | |
| David K. White, former member of the Board | **-8** | -32 |
| Atul Chopra, former member of the Board | | -21 |

In addition, the related party transactions for 2011 include compensation for settlement of employment terms of EUR 359 thousand and other compensation of EUR 1,676 thousand to Atul Chopra.

68 (65) per cent of the fees to the Board of Directors has beed settled in shares of Tecnotree Oyj.

The retirement age for the President is 60 years.

The members of the Management Board were granted 77 775 2009C share options in June 2012 based on the share issue (1,000,000 2006C, 2009B and 2009C share options were granted in 2011). On the reporting date, the members of the Management Board held a total of 361,108 granted 2009C (1,226,666 2006C, 2009B and 2009C) share options. The members of the Board of Directors did not hold any share options on 31 Dec 2012 and nor on 31 Dec 2011.

# 29. Events after the end of period

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

# Parent company's income statement

| EUR 1,000 | Note | 1 Jan - 31 Dec, 2012 | 1 Jan - 31 Dec, 2011 |
|---|---|---|---|
| Net sales | 1 | **47,400** | 36,800 |
| Other operating income | 2 | **60** | |
| Materials and services | 3 | **-11,900** | -8,599 |
| Personnel expenses | 4 | **-13,148** | -11,864 |
| Depreciation, amortisation and impairment losses | 5 | **-1,891** | -1,499 |
| Other operating expenses | 6 | **-31,273** | -24,774 |
| Operating result | | **-10,751** | -9,936 |
| Financial income and expenses | 7 | **-2,327** | -135 |
| Result before extraordinary items | | **-13,078** | -10,070 |
| Result before appropriations and taxes | | **-13,078** | -10,070 |
| Appropriations | 8 | **655** | 69 |
| Direct taxes | 9 | **-3,023** | -3,871 |
| Result for the financial year | | **-15,446** | -13,872 |

# Parent company's balance sheet

| EUR 1,000 | Note | 31 Dec, 2012 | 31 Dec, 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 10 | **2,262** | 3,668 |
| Tangible assets | 11 | **2,596** | 3,673 |
| Shares in Group companies | 12 | **36,875** | 36,875 |
| Receivables from Group companies | 12 | **299** | 299 |
| Total non-current assets | | **42,033** | 44,515 |
| **Current assets** | | | |
| Inventories | 13 | **532** | 717 |
| Non-current receivables | 14 | **26** | 15 |
| Current receivables | 15 | **34,120** | 39,813 |
| Cash and cash equivalents | 16 | **5,827** | 2,556 |
| Total current assets | | **40,504** | 43,102 |
| Total assets | | **82,537** | 87,617 |
| **Equity and liabilities** | | | |
| **Shareholders' equity** | 17 | | |
| Share capital | | **4,720** | 4,720 |
| Share premium fund | | **847** | 847 |
| Own shares | | **-122** | -122 |
| Invested unrestricted equity reserve | | **18,514** | 12,634 |
| Other reserves | | **2,891** | 16,764 |
| Retained earnings | | **122** | 122 |
| Result for the financial year | | **-15,446** | -13,872 |
| Total shareholders' equity | | **11,527** | 21,093 |
| Accumulated appropriations | 18 | **138** | 794 |
| Provisions | 19 | **135** | 317 |
| **Liabilities** | | | |
| Non-current liabilities | 20 | | 12,222 |
| Current liabilities | 20 | **70,736** | 53,190 |
| Total liabilities | | **70,736** | 65,413 |
| Total equity and liabilities | | **82,537** | 87,617 |

# Parent company's cash flow statement

| EUR 1,000 | 1 Jan - 31 Dec, 2012 | 1 Jan - 31 Dec, 2011 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Result before extraordinary items | **-13,078** | -10,070 |
| Adjustments for: | | |
| Planned depreciation | **1,891** | 1,499 |
| Impairment of trade receivables | **489** | |
| Unrealised exchange rate gains and losses | **181** | -133 |
| Financial income and expenses | **2,690** | 686 |
| Other adjustments | **-39** | |
| Changes in working capital: | | |
| Current receivables, increase (-) /decrease (+) | **5,135** | -8,411 |
| Inventories, increase (-) /decrease (+) | **186** | 228 |
| Current liabilities, increase (+) /decrease (-) | **3,681** | 11,472 |
| Interest paid | **-2,136** | -583 |
| Interest received | **7** | 331 |
| Income taxes paid | **-3,023** | -1,595 |
| Net cash flow from operating activities | **-4,017** | -6,578 |
| | | |
| **Cash flow from investments** | | |
| Investments in intangible assets | **-55** | -4,106 |
| Investments in tangible assets | **-294** | -197 |
| Proceeds from disposal of tangible assets | **980** | |
| Investments in subsidiaries' shares | | -260 |
| Cash flow from investments | **631** | -4,564 |
| | | |
| **Cash flow from financiang activities** | | |
| Proceeds from share issue | **5,880** | |
| Proceeds from borrowings from Group companies | **1,500** | |
| Repayments of borrowings to Group companies | **-1,000** | |
| Proceeds from borrowings | **9,800** | 9,500 |
| Repayments of borrowings | **-9,522** | -1,111 |
| Cash flow from financiang activities | **6,657** | 8,389 |
| | | |
| **Change in cash and cash equivalents** | **3,271** | -2,753 |
| Cash and cash equivalents on 1 Jan | **2,556** | 5,309 |
| Cash and cash equivalents on 31 Dec | **5,827** | 2,556 |

# Parent company accounting principles

The financial statements of Tecnotree Oyj are prepared in accordance with the Finnish Accounting Act (1997/1336) and Ordinance (1997/1339) and with other legislation and regulations concerning financial statements.

**Items denominated in foreign currencies**

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction dates. Foreign currency receivables and liabilities in the financial statements, including those hedged with derivative contracts, are translated into euros at the average exchange rate quoted by the European Central Bank on the closing date.

Exchange rate gains and losses relating to business operations are treated as adjustments to net sales or purchasing and manufacturing. Exchange rate gains and losses relating to financing operations are entered under financing income and expenses. Exchange rate gains and losses arising from the translation of balance sheet items are charged to the income statement.

Derivatives entered into by the company comprise currency forward contracts to hedge against changes in the cash flows from purchase and sales agreements denominated in foreign currencies. The company policy is to hedge the net foreign currency exposure over the following 12 months at a maximum.

Those derivatives entered into for hedging purposes are initially recognized at cost equivalent to their fair value. Subsequently derivatives are measured at fair value based on the forward rates quoted at the balance sheet date.

Exchange rate differences on derivative contracts made for hedging purposes are charged to the income statement under other operating income and expenses.

**Net sales**

At Tecnotree net sales comprise revenue recognized from project deliveries and goods and service deliveries from which indirect taxes, discounts and exchange rate differences have been deducted.

Revenue from project deliveries is mainly recognized according to the stage of completion. Project revenue and expenses are recognized in the income statement in proportion to the stage of completion on the balance sheet date, once the outcome of the project can be estimated reliably. The outcome of a project can be reliably estimated when the anticipated revenue and costs from the contract and the progress of the project can be estimated reliably and when it is probable that the economic benefits associated with the project will flow to the company.

The stage of completion of a project is determined for each contract by the proportion of the estimated total contract costs accounted for by the costs incurred for work performed to date (cost-to-cost method). The revenue recognition for the project will start when the outcome of the project can be estimated reliably. Typically this happens when the management has approved the project and the first delivery to the customer has been made. The stage of completion method of revenue recognition is based on estimates of the expected revenue and expenses associated with the contract and on estimating the progress of the project. The cost estimates for the projects are monitored quarterly in the management's revenue review and the revenue and expenses recognized in the income statement are revised in the estimates of the outcome of the project change. The accumulated effect due to the change in the estimates is recognized in the period when the change is known for the first time and its amount can be estimated.

If the outcome of the project cannot be estimated reliably, revenue is only recognized to the extent of project costs incurred. This method of recognition is typically applied in first delivery projects for new products or when a delivery project contains a significant amount of customisation for individual customers. The margin on the project is recognized on final acceptance.

A project is considered onerous if its costs exceed total project revenue. The expected loss is recognized as an expense immediately.

Revenue from the sale of products and services is recognized when the significant risks and benefits of ownership have been transferred to the buyer and when the amount of the revenue can be measured reliably and it is probable that the economic benefits will flow to the enterprise. The revenue from services is recognized when the service has been rendered. Supplementary deliveries such as maintenance, licences, training, documentation and spare parts are examples of goods and service deliveries. Revenue from fixed-term maintenance contracts is normally recognized over the contract period on a straight-line basis.

**Pension plans**

Statutory pension and supplementary pension obligations in Finland are covered through payments to pension insurance organisations. Expenses related to pension arrangements are recognized in the income statement in the period on the accrual basis.

**Leasing**

Leasing payments have been entered as rentals. Contractual leasing fees remaining on the balance sheet date are presented in the financial statements under contingent liabilities.

**Research and development expenses**

Research and development expenses are expensed as incurred, apart from machinery purchases, which are depreciated over three years on a straight-line basis.

**Valuation of inventories**

Inventories are valued using the FIFO principle at the lowest of acquisition cost, repurchase price and probable selling price.

**Valuation of non-current assets**

Non-current assets have been capitalised at the acquisition cost. Planned depreciation and amortization is calculated on a straight-line basis over the useful life of the fixed assets.

The periods for planned depreciation and amortization are as follows:

- Intangible rights 3-10 years
- Other long-term expenditure 5 years
- Buildings and structures 25 years
- Machinery and equipment 3-5 years
- Computing hardware and software 3-5 years

**Purchase and disposal of company's own shares**

The total purchase cost for the shares is recorded so that it reduces unrestricted shareholders' equity.

**Derivative financial instruments**

The derivative contracts entered into by the Company are currency forward contracts and options. The derivative contracts are fair valued. The fair value is determined by using market rates of the counterparty for instruments with similar maturity. Gains and losses arising from changes in the fair values are recognized in the income statement in the period in which they arise.

# 1. Net sales

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| | | |
| Net sales by market area | | |
| Europe, Middle East and Africa | **12,074** | 12,123 |
| Asia Pacific | **1,288** | 2,220 |
| Americas | **34,038** | 22,457 |
| Net sales total | **47,400** | 36,800 |
| | | |
| Net sales by type of income | | |
| Revenue from contract work recognised by stage of completion | **25,378** | 16,618 |
| Revenue from maintenance and support | **12,268** | 11,688 |
| Revenue from goods and services, external sales | **9,376** | 7,386 |
| Revenue from goods and services, intra-group sales | **377** | 1,108 |
| Net sales total | **47,400** | 36,800 |
| | | |
| Order book for contract work | **35,271** | 27,113 |
| Order book for maintenance and support, goods and services | **11,805** | 3,391 |
| Order book total | **47,076** | 30,504 |

Projects in progress:

| | | |
|---|---|---|
| Cumulative revenue recognised for projects in progress | **23,251** | 11,601 |
| Cumulative invoicing for projects in progress recognised by stage of completion | **16,937** | 5,034 |
| Accrued income related to construction contracts, work in progress | **6,314** | 6,567 |
| | | |
| Aggregate amount of costs incurred for projects in progress | **8,812** | 5,645 |

On the reporting date, the company has no retentions held by customers. The Group has not received any advances related to projects in progress.

# 2. Other operating income

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Gains on sales of non-current assets | 53 | |
| Rental income | 7 | |
| Other operating income total | 60 | |

# 3. Materials and services

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Purchases during financial year | -10,310 | -7,597 |
| Changes in inventories | -186 | -245 |
| Total | -10,496 | -7,842 |
| | | |
| External services | -1,403 | -757 |
| Materials and services total | -11,900 | -8,599 |

# 4. Personnel expenses

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Wages and salaries | **-11,003** | -8,266 |
| Pension expenses | **-1,360** | -1,052 |
| Other personnel expenses | **-784** | -2,546 |
| Personnel expenses total | **-13,148** | -11,864 |
| | | |
| Average number of employees | **87** | 77 |
| | | |
| **Salaries, fees and remunerations to the management** | | |
| Kaj Hagros, President and CEO as from 1 Nov 2010 | **-418** | -304 |
| Members of the Board of Directors: | | |
| Harri Koponen, Chairman of the Board as from 23 Mar 2011 | **-51** | -60 |
| Hannu Turunen, Chairman of the Board until 23 Mar 2011 | **-24** | -48 |
| Ilkka Raiskinen, Vice Chairman of the Board as from 23 Mar 2011 | **-31** | -43 |
| Johan Hammarén, Vice Chairman of the Board until 23 Mar 2011 | **-25** | -42 |
| Christer Sumelius | **-25** | -38 |
| Pentti Heikkinen | **-23** | -32 |
| Tuija Soanjärvi, as from 28 March 2012 | **-17** | |
| David K. White, former member of the Board | **-8** | -32 |
| Atul Chopra, former member of the Board | | -21 |
| Total | **-622** | -620 |

68 per cent of the fees to the Board of Directors has beed settled in shares of Tecnotree Oyj.
There is a voluntary pension insurance plan for the President. The retirement age is 60 years.

# 5. Depreciations and amortisations

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Depreciations and amortisations according to plan | | |
| Intangible assets | | |
| Intangible rights | **-1,447** | -936 |
| Tangible assets | | |
| Buildings | **-220** | -220 |
| Machinery and equipment | **-223** | -342 |
| Depreciations and amortisations according to plan total | **-1,891** | -1,499 |

# 6. Other operating expenses

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Subcontracting | -1,047 | -843 |
| Office management costs | -2,676 | -2,054 |
| Travel expenses | -1,345 | -1,039 |
| Agent fees | -2,960 | -1,491 |
| Impairment losses on trade receivables | -489 | |
| Rents | -906 | -609 |
| Professional services | -1,658 | -1,570 |
| Marketing | -417 | -251 |
| Other operataing expenses to Group companaies | -19,683 | -16,853 |
| Other expenses | -92 | -64 |
| Other operating expenses total | -31,273 | -24,774 |

| **Auditors' fees** | | |
|---|---|---|
| Audit | 69 | -38 |
| Tax consulting | 27 | -22 |
| Other services | 21 | -26 |
| Auditors' fees total | 118 | -86 |

# 7. Financial income and expenses

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **Financial income** | | |
| Interest income from Group companies | **5** | 5 |
| Interest income from others | **1** | 14 |
| Other financial income from Group companies | **414** | 244 |
| Other financial income from others | **361** | 721 |
| Interest and financial income total | **781** | 984 |
| **Financial expenses** | | |
| Interest expenses to others | **-1,719** | -631 |
| Other financial expenses to Group companies | **-244** | |
| Financial expenses to others | **-1,145** | -488 |
| Interest and financial expenses total | **-3,108** | -1,119 |
| Financial income and expenses total | **-2,327** | -135 |
| Other financial income and expenses including: | | |
| Foreign exchange gains | **759** | 653 |
| Foreign exchange losses | **-396** | -102 |
| Foreign exchange gains and losses total | **363** | 551 |

# 8. Appropriations

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Difference between depreciation according to plan and depreciation made in taxation | **655** | 69 |
| Appropriations total | **655** | 69 |

# 9. Income taxes

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Income taxes from business operations | **-32** | -18 |
| Taxes for previous accounting periods | **-223** | -18 |
| Withholding taxes paid abroad | **-2,768** | -1,559 |
| Change in deferred tax assets | | -2,275 |
| Income taxes total | **-3,023** | -3,871 |

The company has not deducted research and development costs amounting to EUR 55,393 (42,700) thousand in its taxation. The amount can be deducted over an indefinite period with amounts that the company may freely decide. The company has no tax losses on 31 Dec 2012 (EUR 1,288 thousand on 31 Dec 2011). Other deductible temporary differences amount to EUR 1,081 (1,081) thousand. No deferred tax assets have been recognised on these capitalisations because of the uncertainty about utilising them.

# 10. Intangible assets

**Intangible assets 2012**

| **EUR 1,000** | **Intangible rights** | **Other long-term expenditure** | **Total** |
|---|---|---|---|
| Acquisition cost 1 Jan | 8,201 | 1,065 | **9,266** |
| Increase | 55 | | **55** |
| Decrease | -14 | | **-14** |
| Acquisition cost 31 Dec | **8,243** | **1,065** | **9,308** |
| | | | |
| Accumulated amortization 1 Jan | -4,533 | -1,065 | **-5,598** |
| Amortization during the period | -1,447 | | **-1,447** |
| Accumulated amortization 31 Dec | **-5,980** | **-1,065** | **-7,046** |
| | | | |
| **Book value 31 Dec, 2012** | **2,262** | | **2,262** |

Intangible assets 2011

| EUR 1,000 | Intangible rights | Other long-term expenditure | Total |
|---|---|---|---|
| Acquisition cost 1 Jan | 4,081 | 1,065 | 5,146 |
| Increase | 4,120 | | 4,120 |
| Acquisition cost 31 Dec | 8,201 | 1,065 | 9,266 |
| | | | |
| Accumulated amortization 1 Jan | -3,597 | -1,065 | -4,662 |
| Amortization during the period | -936 | | -936 |
| Accumulated amortization 31 Dec | -4,533 | -1,065 | -5,598 |
| | | | |
| Book value 31 Dec, 2011 | 3,668 | | 3,668 |

# 11. Tangible assets

**Tangible assets 2012**

| **EUR 1,000** | **Land areas** | **Buildings** | **Machinery and equipment** | **Investments in progress** | **Total** |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan | 1,666 | 6,045 | 18,284 | | **25,995** |
| Increase | | | 294 | 24 | **318** |
| Decrease | -927 | | -10 | -24 | **-960** |
| Acquisition cost 31 Dec | **739** | **6,045** | **18,568** | | **25,352** |
| | | | | | |
| Accumulated depreciation 1 Jan | | -4,390 | -17,932 | | **-22,322** |
| Accumulated depreciation for decreases and reclassifications | | | 9 | | **9** |
| Depreciation during the period | | -220 | -223 | | **-443** |
| Accumulated depreciation 31 Dec | | **-4,610** | **-18,146** | | **-22,756** |
| | | | | | |
| **Book value 31 Dec, 2012** | **739** | **1,435** | **423** | | **2,596** |

Tangible assets 2011

| EUR 1,000 | Land areas | Buildings | Machinery and equipment | Investments in progress | Total |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan | 1,666 | 6,045 | 18,139 | 14 | 25,864 |
| Increase | | | 183 | 150 | 333 |
| Decrease | | | -38 | -150 | -188 |
| Acquisition cost 31 Dec | 1,666 | 6,045 | 18,284 | 14 | 26,009 |
| | | | | | |
| Accumulated depreciation 1 Jan | | -4,170 | -17,628 | | -21,797 |
| Accumulated depreciation for decreases and reclassifications | | | 38 | | 38 |
| Depreciation during the period | | -220 | -342 | | -562 |
| Accumulated depreciation 31 Dec | | -4,390 | -17,932 | | -22,322 |
| | | | | | |
| Book value 31 Dec, 2011 | 1,666 | 1,655 | 352 | 14 | 3,687 |

# 12. Investments

**Investments 2012**

| EUR 1,000 | Shares in Group companies | Other investments in group companies | Total |
|---|---|---|---|
| Acquisition cost 1 Jan | 36,875 | 299 | 37,174 |
| Acquisition cost 31 Dec | 36,875 | 299 | 37,174 |
| **Book value 31 Dec, 2012** | **36,875** | **299** | **37,174** |

Investments 2011

| EUR 1,000 | Shares in Group companies | Other investments in group companies | Total |
|---|---|---|---|
| Acquisition cost 1 Jan | 36,614 | 299 | 36,914 |
| Increase | 260 | | 260 |
| Acquisition cost 31 Dec | 36,875 | 299 | 37,174 |
| Book value 31 Dec, 2011 | 36,875 | 299 | 37,174 |

**Shares in subsidiaries held by the parent company**

| | Domicile | Parent company ownership, % | Carrying value EUR 1,000 |
|---|---|---|---|
| Tecnotree Ltd. | County Clare, Ireland | 100 | 124 |
| Tecnotree GmbH | Dreieich, Germany | 100 | 92 |
| Tecnotree Spain SL | Madrid, Spain | 100 | 31 |
| Tecnotree Sistemas de Telecommunicacao Ltda | Sao Paulo, Brazil | 100 | 902 |
| Tecnotree (M) Sdn Bhd | Kuala Lumpur, Malaysia | 100 | 42 |
| Tecnotree Services Oy | Espoo, Finland | 100 | 8 |
| Tecnotree Argentina SRL | Cordoba, Argentina | 100 | 257 |
| Lifetree Cyberworks Pvt. Ltd | Gurgaon, India | 100 | 1,189 |
| Tecnotree Convergence Ltd | Gurgaon, India | 46.08 | 34,229 |
| Total | | | 36,875 |

# 13. Inventories

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Materials and consumables | **418** | 552 |
| Work in progress | **74** | 99 |
| Finished products/goods | **40** | 67 |
| Inventories total | **532** | 717 |

# 14. Non-current receivables

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Rent guarantees | **26** | 15 |
| Non-current receivables total | **26** | 15 |

# 15. Current receivables

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Trade receivables related to construction contracts | **10,622** | 4,753 |
| Other trade receivables | **5,128** | 4,828 |
| Work in progress related to construction contracts | **6,314** | 6,567 |
| Finished work related to construction contracts | **270** | 8,368 |
| Other receivables based on delivery agreements | **1,704** | 5,996 |
| Current prepaid expenses and accrued income | **1,707** | 937 |
| Other current receivables | **367** | 23 |
| Current receivables total | **26,112** | 31,472 |
| | | |
| **Receivables from the Group companies:** | | |
| Trade receivables | **8,008** | 8,336 |
| Other receivables | | 5 |
| Total | **8,008** | 8,341 |
| | | |
| Current receivables total | **34,120** | 39,813 |
| | | |
| | | |
| **Major items included in prepaid expenses and accrued income** | | |
| Valuation of currency derivatives | **259** | 241 |
| VAT receivables | **541** | 56 |
| Other prepaid expenses and accrued income | **907** | 640 |
| Total | **1,707** | 937 |

# 16. Cash and cash equivalents

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Cash in hand and at bank | **5,827** | 2,556 |
| Cash and cash equivalents total | **5,827** | 2,556 |

# 17. Shareholders' equity

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **Restricted equity** | | |
| Share capital 1 Jan | **4,720** | 4,720 |
| Share capital 31 Dec | **4,720** | 4,720 |
| Share premium fund 1 Jan | **847** | 847 |
| Share premium fund 31 Dec | **847** | 847 |
| Restricted equity total | **5,567** | 5,567 |
| **Unrestricted equity** | | |
| Own shares 1 Jan | **-122** | -122 |
| Own shares 31 Dec | **-122** | -122 |
| Invested unrestricted equity reserve 1 Jan | **12,634** | 12,634 |
| Share issue | **5,880** | |
| Invested unrestricted equity reserve 31 Dec | **18,514** | 12,634 |
| Other reserves 1 Jan | **16,764** | 27,154 |
| Covering of loss | **-13,872** | -10,390 |
| Other reserves 31 Dec | **2,891** | 16,764 |
| Retained earnings 1 Jan | **-13,750** | -10,268 |
| Covering of loss | **13,872** | 10,390 |
| Retained earnings 31 Dec | **122** | 122 |
| Result for the period | **-15,446** | -13,872 |
| Unrestricted equity total | **5,960** | 15,526 |
| Total shareholders' equity | **11,527** | 21,093 |

| **Calculation of distributable equity** | | |
|---|---|---|
| Retained earnings 31 Dec | **-15,324** | -13,750 |
| Own shares | **-122** | -122 |
| Invested unrestricted equity reserve | **18,514** | 12,634 |
| Other reserves | **2,891** | 16,764 |
| Total | **5,960** | 15,526 |

After the reporting date the Board of Directors has proposed that no dividend be paid for the financial year ended 31 December 2012. In 2012 no dividend was paid for the financial year that ended on 31 december 2011.

# 18. Accumulated appropriations

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Accumulated depreciation difference at 1 Jan. | **794** | 863 |
| Increase (+), decrease (-) | **-655** | -69 |
| Accumulated appropriations at 31 Dec. | **138** | 794 |

# 19. Provisions

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| Other provisions | **135** | 317 |
| Provisions total | **135** | 317 |

Provisions include a provision of EUR 135 (317) thousand that was recognised for the cost rising on a customer project. Of the provision, EUR 182 thousand has been used during 2012 and the rest will be used during 2013.

# 20. Non-current and current liabilities

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **Non-current liabilities** | | |
| Loans from financial institutions | | 12,222 |
| Non-current liabilities total | | 12,222 |
| | | |
| **Current liabilities** | | |
| Loans from financial institutions | **28,333** | 15,833 |
| Trade payables | **2,370** | 2,733 |
| Accrued liabilities and deferred income | **5,754** | 5,286 |
| Other liabilities | **192** | 186 |
| Total | **36,650** | 24,039 |
| | | |
| **Liabilities from the Group companies:** | | |
| Loans | **500** | |
| Trade payables | **32,780** | 26,858 |
| Other liabilities | **806** | 2,293 |
| Total | **34,086** | 29,151 |
| | | |
| Current liabilities total | **70,736** | 53,190 |
| | | |
| **Major items included in accrued liabilities and deferred income** | | |
| Other accrued personnel expenses | **2,385** | 1,396 |
| Accrued interest expenses | **785** | 68 |
| Accrued agent fees | **1,204** | 1,740 |
| Valuation of currency derivatives | **233** | 1,185 |
| Valuation of interest rate swap | **279** | 403 |
| Other accrued liabilities and deferred income | **869** | 496 |
| Total | **5,754** | 5,288 |

# 21. Contingent liabilities

| EUR 1,000 | 2012 | 2011 |
|---|---|---|
| **On own behalf** | | |
| Real estate mortgages | **4,400** | 7,661 |
| Corporate mortgages | **42,336** | 36,572 |
| Pledged deposits | | 23 |
| Guarantees | **484** | 810 |
| Total | **47,220** | 45,066 |
| | | |
| **Leasing liabilities:** | | |
| With due date in the next financial year | **179** | 210 |
| With later due date | **60** | 131 |
| Total | **239** | 341 |
| | | |
| Total contingent liabilities | **47,459** | 45,407 |

In addition, the company's shares in the Indian subsidiaries are pledged. These shares have a bookvalue of EUR 35,418 thousand.
The liabilities, for which the mortgages have been given, consist of the company's loans from financial institutions totalling EUR 28,333 thousand.

**Values of underlying instruments of derivative contracts**

| | | |
|---|---|---|
| Currency call options and termines | | |
| Fair value (negative) | **-233** | -1,185 |
| Value of underlying instruments | **35,897** | 21,631 |
| | | |
| Currency put options and termines | | |
| Fair value (positive) | **259** | 241 |
| Value of underlying instruments | **29,453** | 23,429 |
| | | |
| Interest rate swap | | |
| Fair value (positive) | **-279** | -403 |
| Value of underlying instruments | **13,333** | 15,545 |

# Signatures of the report of the Board of Directors and the financial statements

Espoo, 1 March 2013

Kaj Hagros
President and CEO

Harri Koponen
Chairman of the Board

Ilkka Raiskinen
Vice Chairman of the Board

Johan Hammarén

Pentti Heikkinen

Tuija Soanjärvi

Christer Sumelius

Hannu Turunen

**Auditor's note**

Our auditor's report has been issued today.

Helsinki, 1 March 2013

KPMG OY AB

Toni Aaltonen
Authorised Public Accountant

# Auditor's report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

**To the Annual General Meeting of Tecnotree Corporation**

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Tecnotree Corporation for the year ended 31 December 2012. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

*Responsibility of the Board of Directors and the Managing Director*

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion on the consolidated financial statements*

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

*Opinion on the company's financial statements and the report of the Board of Directors*

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

*Emphasizing of certain matters*

We want to draw attention to the note 24 liquidity risk in the financial statements and to the risk section in the report of the Board of Directors. Company's liquidity situation has been tight during the financial year and Company needs to renegotiate interest bearing liabilities during 2013.

Further in the risk section in the report of the Board of Directors it is disclosed that there are risks relating to goodwill and to the growth assumptions used in the goodwill impairment tests.

As Company has disclosed in the year end interim report published on the 6th February 2013, formerly reported interim information relating to subsidiary in India has been reversed.

Helsinki, 1 March 2013

KPMG OY AB

Toni Aaltonen
Authorised Public Accountant