TECNOTREE
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# Q4
2013

***Tecnotree***
*Financial review*

# TECNOTREE CORPORATION FINANCIAL REVIEW 1 JANUARY – 31 DECEMBER 2013 (UNAUDITED)

5 February 2014 at 8:30 am

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

## SIGNIFICANT IMPROVEMENT IN PROFITABILITY IN 2013

**Fourth quarter**

- Fourth quarter net sales were EUR 20.0 (22.4) million.
- The adjusted operating result for the quarter was EUR 3.6 (-0.3) million and the result was EUR 0.5 (-6.3) million.
- The order book at the end of the period stood at EUR 45.0 (31 December 2012: 54.2) million.
- Fourth quarter cash flow after investments was EUR -0.3 (5.5) million.
- Earnings per share were EUR 0.00 (-0.05).
- Tecnotree announced new EUR 7.7 million orders received in the Middle East region.

**Full year 2013**

- Net sales for the review period increased 0.7 per cent from the corresponding period in the previous year to EUR 73.9 (73.4) million.
- The adjusted operating result improved EUR 8.2 million from the previous year to EUR 3.3 (-4.9) million. The operating result was EUR 1.6 (-12.4) million and the result for the period EUR -2.5 (-17.0) million.
- Cash flow after investments for the review period was EUR -7.3 (-0.8) million and the company's cash and cash equivalents were EUR 6.6 (31 December 2012: 11.3) million.
- Earnings per share were EUR -0.02 (-0.16).
- On 30 August 2013 Tecnotree reached agreement with its bank on renewing its loan financing and on additional financing of EUR 5 million. The agreement is in force until 2018.

| KEY FIGURES | **10-12/ 2013** | 10-12/ 2012 | **1-12/ 2013** | 1-12/ 2012 |
|---|---|---|---|---|
| Net sales, MEUR | **20.0** | 22.4 | **73.9** | 73.4 |
| Adjusted operating result, MEUR [1] | **3.6** | -0.3 | **3.3** | -4.9 |
| Operating result, MEUR | **3.6** | -3.7 | **1.6** | -12.4 |
| Result before taxes, MEUR | **3.7** | -3.1 | **4.1** | -13.7 |
| Result for the period | **0.5** | -6.3 | **-2.5** | -17.0 |
| | | | | |
| Earnings per share, basic, EUR [2] | **0.00** | -0.05 | **-0.02** | -0.16 |
| | | | | |
| Order book, MEUR | | | **45.0** | 54.2 |
| | | | | |
| Cash flow after investments, MEUR | **-0.3** | 5.5 | **-7.3** | -0.8 |
| Change in cash and cash equivalents, MEUR | **-0.3** | 7.8 | **-3.8** | 4.8 |
| Cash and cash equivalents, MEUR | | | **6.6** | 11.3 |
| | | | | |
| Equity ratio % [3] | | | **30.3** | 40.2 |
| Net gearing % [3] | | | **113.4** | 50.0 |
| | | | | |
| Personnel at end of period | | | **1,059** | 1,116 |

[1] 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”.
[2] This key figure has been adjusted for the comparative periods to reflect the share issue.
[3] This key figure has been corrected for the comparative periods, see note 4.

Unless otherwise stated, all figures presented below are for the review period 1-12/2013 and the figures for comparison are for the corresponding period 1-12/2012.

## CEO Ilkka Raiskinen:

“The fourth quarter operating result improved considerably from the previous year to EUR 3.6 (-3.7) million. This is evidence of the increasing efficiency of the company’s operating activities as planned. The company’s dependence on long-term projects has declined significantly: in 2012 this revenue was EUR 31.8 million and in 2013 EUR 23.9 million. This means that ongoing service agreements and licence sales are playing an increasingly important role in net sales, which in turn improves profitability and reduces the amount of working capital tied up.

We expect net sales to continue to increase in 2014 and the profitability of operations to improve. A clear goal for 2014 is to improve the cash flow. This will be achieved by reducing working capital and raising operating efficiency.

The developing markets in Africa, South America and the Middle East continue to grow and remain the geographical focus for our growth.“

## SALES AND NET SALES

Tecnotree's net sales in the review period increased 0.7 per cent to EUR 73.9 (73.4) million.

EUR 23.9 million of sales in the review period have been recognised by stage of completion (IAS 11 Construction Contracts) and EUR 50.0 million on delivery (IAS 18 Revenues).

| NET SALES BY MARKET AREA | **1-12/2013 MEUR** | 1-12/2012 MEUR | **1-12/2013 %** | 1-12/2012 % |
|---|---|---|---|---|
| Americas (North, Central and South America) | **38.6** | 38.5 | **52.2** | 52.4 |
| Europe | **4.6** | 6.7 | **6.2** | 9.1 |
| MEA (Middle East and Africa) | **28.6** | 24.9 | **38.7** | 34.0 |
| APAC (Asia and Pacific) | **2.2** | 3.3 | **2.9** | 4.5 |
| TOTAL | **73.9** | 73.4 | **100.0** | 100.0 |

| CONSOLIDATED ORDER BOOK | **31.12.2013 MEUR** | 31.12.2012 MEUR | **31.12.2013 %** | 31.12.2012 % |
|---|---|---|---|---|
| Americas (North, Central and South America) | **20.7** | 36.7 | **46.0** | 67.6 |
| Europe | **1.6** | 2.9 | **3.6** | 5.4 |
| MEA (Middle East and Africa) | **20.3** | 14.5 | **45.2** | 26.7 |
| APAC (Asia and Pacific) | **2.3** | 0.1 | **5.2** | 0.2 |
| TOTAL | **45.0** | 54.2 | **100.0** | 100.0 |

Maintenance and service sales totalled EUR 29.6 (26.1) million or 40.1 per cent (35.6 %) 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 | **1-12/2013** | 1-12/2012 |
|---|---|---|
| Net sales | **73.9** | 73.4 |
| Other operating income | **0.1** | 0.1 |
| Operating costs excluding product development capitalisation and one-time costs | **-70.6** | -78.4 |
| Adjusted operating result | **3.3** | -4.9 |
| Product development capitalisation | | |
| Product development amortisation | **-1.7** | -5.4 |
| One-time costs | | -2.1 |
| Operating result | **1.6** | -12.4 |

The adjusted operating result for the full year improved EUR 8.2 million from the previous year. Material and service costs fell EUR 3.8 million. This reduction was because projects included less equipment, and as a result the sales margin improved. Other operating costs declined EUR 3.6 million, and a particular factor in this was that in 2012 these costs included write-downs of EUR 3.9 million on customer receivables. The average exchange rate for the Indian rupee was 12 % lower than in the previous year, which compensated for inflation of more than 10 %. The fourth quarter adjusted operating result was a profit of EUR 3.6 million, compared to a loss of EUR 0.3 million in the previous year.

Other factors in the improvement of EUR 14.0 million in the operating result for the year, in addition to the improvement in the adjusted operating result, were a reduction of EUR 3.7 million in amortisation of capitalised product development costs and the fact that Tecnotree recorded no one-time costs in 2013, where in 2012 these amounted to EUR 2.1 million. Tecnotree has no capitalised product development costs remaining in its balance sheet.

After receiving payments from LapGreenN, a company owned by the Libyan government, EUR 1.1 million of the credit loss provision was reversed in the review period.

Financial income and expenses (net) during the review period totalled a net gain of EUR 2.5 million (net loss of EUR 1.3 million). The exchange rate gains and losses consist mainly of exchange rate differences from intragroup payables in the parent company.

| FINANCIAL INCOME AND EXPENSES, MEUR | **1-12/2013** | 1-12/2012 |
|---|---|---|
| Interest income | **0.1** | 0.1 |
| Exchange rate gains | **5.1** | 1.5 |
| Other financial income | **0.1** | 0.2 |
| FINANCIAL INCOME, TOTAL | **5.2** | 1.8 |
| Interest expenses | **-1.4** | -2.0 |
| Exchange rate losses | **-0.6** | -0.7 |
| Other financial expenses | **-0.7** | -0.5 |
| FINANCIAL EXPENSES, TOTAL | **-2.7** | -3.1 |
| FINANCIAL ITEMS, TOTAL | **2.5** | -1.3 |

Taxes for the period totalled EUR 6.6 (3.3) million, including the following items:

| TAXES IN INCOME STATEMENT, MEUR | **1-12/2013** | 1-12/2012 |
|---|---|---|
| Withholding tax expenses in parent company | **-2,8** | -3,0 |
| Change in withholding tax provision | **-0,1** | |
| Income taxes on the results of Group companies | **-2,3** | -0,9 |
| Prior year taxes | **0,0** | -0,4 |
| Change in deferred tax asset in India | **-0,7** | -0,4 |
| Change in deferred tax liability based on: | | |
| - capitalisation of product development costs | **0,3** | 0,9 |
| - dividend tax in India | **-1,2** | 0,1 |
| Other items | **0,2** | 0,4 |
| TAXES IN INCOME STATEMENT, TOTAL | **-6,6** | -3,3 |

The company has changed its accounting practice for withholding taxes. Previously the company was credited in Finnish taxation with the withholding tax deducted at source from customer payments. Since the company has a large reserve of costs from previous years to be used in taxation, utilising withholding taxes in Finland has been put off to the future. For this reason, it was decided to record a provision for withholding taxes in the parent company's receivables, and this provision is included in accrued expenses and prepaid income. This provision stood at EUR 1.8 million at the end of 2013 and at EUR 1.7 million at the beginning and end of 2012. The situation concerning the withholding taxes occurred already prior to the 2013 period, so consequently the company has retroactively adjusted the figures for retained earnings and accrued expenses and prepaid income in the 2012 balance sheet by EUR 1.7 million.

Earnings per share were EUR -0.02 (-0.16 adjusted to reflect the share issue). Equity per share at the end of the period was EUR 0.18 (31 December 2012: EUR 0.27 adjusted to reflect the share issue and corrected).

## FINANCING AND INVESTMENTS

On 30 August 2013 Tecnotree reached agreement with its bank on the renewal of the company's loan financing. The financing is in force until 30 June 2018 and it comprises a long-term loan of EUR 21.8 million and a credit facility of EUR 10.0 million to finance working capital. In addition, the company received a EUR 2.0 million bank guarantee limit.

The semi-annual amortisations of the long-term loan are EUR 1.1 million, starting on 31 December 2014 and the balance, EUR 14.1 million, is due on 30 June 2018. The credit facility is in force until 30 June 2018. This arrangement gave Tecnotree additional financing of EUR 5.0 million, as the credit facility for financing working capital went up from EUR 5.0 million to EUR 10.0 million. The company has not had a separate bank guarantee limit.

The covenants for the financing agreement involve testing semi-annually Tecnotree's key figures for EBITDA, cash flow, capital expenditure, equity and overdue receivables (which are tested on a monthly basis). To compensate for seasonal fluctuation, many key figures are calculated using 12 month cumulative figures. The covenants are also considered under section "Risks and uncertainty factors".

The financing agreement includes typical conditions for this kind of arrangement.

Tecnotree's working capital grew during the period by EUR 5.4 million:

| CHANGE IN WORKING CAPITAL, MEUR (increase - / decrease +) | **1-12/2013** | 1-12/2012 |
|---|---|---|
| Change in trade receivables | **5,0** | -4,5 |
| Change in other receivables | **-7,7** | 9,1 |
| Change in inventories | **0,0** | 0,2 |
| Change in trade payables | **-1,2** | -3,4 |
| Change in other liabilities | **-1,6** | 2,0 |
| CHANGE IN WORKING CAPITAL, TOTAL | **-5,4** | 3,4 |

Project revenue is recognised in other receivables. When the agreement allows the customer to be invoiced, the receivables are regrouped in trade receivables. Trade and other receivables should be treated as one item when assessing changes in Tecnotree's working capital.

Tecnotree's liquid funds totalled EUR 6.6 (31 December 2012: 11.3) million. The change in cash and cash equivalents for the review period was EUR -3.8 million. The company had no unused credit facilities at the end of the review period (31.12.2012: 0.0).

The balance sheet total on 31 December 2013 stood at EUR 71.6 (31 December 2012: 81.8) million. Interest-bearing liabilities were EUR 31.8 (31 December 2012: 28.3) million. The net debt to equity ratio (net gearing) was 113.4 per cent (31 December 2012: 50.0 % corrected) and the equity ratio was 30.3 per cent (31 December 2012: 40.2 % corrected). During the period, total equity has been reduced by negative translation differences of EUR 8.7 million, of which

EUR 6.7 million is due to the devaluation of the Indian rupee. Net gearing has gone up due to the reduction in equity and the increase in interest-bearing liabilities.

Tecnotree's gross capital expenditure during the review period, excluding the capitalisation of development costs, was EUR 0.6 (0.9) million or 0.8 per cent (1.2 %) of net sales.

## BUSINESS DESCRIPTION

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

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

## SEGMENT INFORMATION

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

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

## GEOGRAPHICAL AREAS

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

### Americas (North, Central and South America)

Net sales in the Americas remained the highest of all the Group's geographical areas and totalled EUR 38.6 million. The increase from the previous year was EUR 0.1 million. The order book for major deliveries turned into net sales, which contributed to a fall of just under 44 per cent in the order book. The order book remained high, at EUR 20.7 million. The proportion of the region's sales provided by the service business has developed positively. Demand in the region for replacing business support systems has remained active. 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 business support systems and services that are part of its strategic core business. The area offers the company growth potential.

### Europe

Net sales in Europe declined 31 per cent from the same period in 2012. The decline in sales was due to the fall in sales of the company's established messaging solutions, while the company's efforts to sell the business support system products contained in the new strategy have not brought results yet. The order book in the region declined 45 per cent. In Europe Tecnotree has supplied completely new systems and expansions of existing systems, mainly to existing customers.

### MEA (Middle East and Africa)

The strong growth in sales that began towards the end of 2012 continued in the Middle East and Africa. Sales increased by EUR 3.7 million, or 15 per cent, from the same period in 2012 and the order book rose 40 per cent to EUR 20.3 million. Tecnotree has an extremely broad customer base in the MEA region and this expanded even more in 2013. In addition, the business of its customers is growing, which offers considerable growth potential for Tecnotree's business operations 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 Asia and Pacific region fell 33 per cent from the previous year. At the end of the year Tecnotree signed its first delivery contract outside the telecommunications sector, with a satellite television operator. The order book in the region increased by EUR 2.2 million, and was more than twenty times as high as in the corresponding period in the previous year. The decline in sales in the area was due to the fall in sales of the company's established messaging solutions, but the contract signed in the final quarter will move the focus for net sales to products covered by the company's new strategy. At the end of the year the order book was evenly split between messaging solution products and the business support system products included in the new strategy. The area offers growth potential for the company.

## PERSONNEL

At the end of December 2013 Tecnotree employed 1,059 (31 December 2012: 1,116) persons, of whom 89 (31 December 2012: 90) worked in Finland and 970 (31 December 2012: 1,026) elsewhere. The company employed on average 1,067 (1,070) people during the review period. Personnel by country were as follows:

| PERSONNEL | 1-12/2013 | 1-12/2012 |
|---|---|---|
| Personnel, at end of period | **1,059** | 1,116 |
| Finland | **89** | 90 |
| Ireland | **49** | 56 |
| Brazil | **34** | 40 |
| Argentina | **31** | 36 |
| India | **809** | 843 |
| Other countries | **47** | 51 |
| Personnel, average | **1,067** | 1,070 |
| Personnel expenses (MEUR) | **34.6** | 35.4 |

## TECNOTREE SHARES AND SHARE CAPITAL

At the end of December 2013 the shareholders' equity of Tecnotree Corporation stood at EUR 21.7 (31 December 2012: 32.8 corrected) million and the share capital was EUR 4.7 million. The total number of shares was 122,628,428.

At the end of the period, the company held 64,704 (31 December 2012: 134,800) of these shares, which represents 0.05 per cent of the company's total number of shares and votes. During the period 70,096 own shares were used for management rewards. Equity per share was EUR 0.18 (31 December 2012: 0.27 adjusted to reflect the share issue and corrected).

A total of 72,385,456 Tecnotree shares (EUR 15,522,238) were traded on the Helsinki Exchanges during the period 1 January – 31 December 2013, representing 59.0 per cent of the total number of shares.

The highest share price quoted in the period was EUR 0.29 and the lowest EUR 0.15. The average quoted price was EUR 0.21 and the closing price on 31 December 2013 was EUR 0.21. The market capitalisation of the share stock at the end of the period was EUR 25.8 million.

## CURRENT AUTHORISATIONS

The Annual General Meeting of Tecnotree Corporation held on 25 March 2013 authorised the Board of Directors in accordance with the proposal of the Board of Directors to decide on the acquisition of a maximum of 12,262,842 of the Company's own shares. Own shares shall 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 will be 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.

In addition, 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 60,000,000 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 authorization, authorized 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 authorisations will be 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.

## STOCK OPTION PROGRAMMES AND INCENTIVE SCHEME

During the review period the company had in force one option series 2009C of the 2009 stock option programme. The exercise period for the 2009C options ended on 31 March 2013. This means that the company now has no stock option programmes.

During the review period the company had a current share-based incentive scheme that the Board of Directors had established on 25 October 2011. Any reward in the scheme for the 2013 earning period was based on Tecnotree Group's operating profit and the company's trade weighted average share price in December 2013. No reward accrued based on the 2013 targets.

## PRESIDENT AND CEO; DUTIES OF BOARD OF DIRECTORS

Tecnotree made a change in its management and appointed the deputy chairman of its Board of Directors, Ilkka Raiskinen, as president and CEO as from 28 May 2013. Ilkka Raiskinen remained a member of the Board of Directors.

After the appointment of Ilkka Raiskinen as Tecnotree president and CEO, the Board decided on the following changes in the duties of Board members: Pentti Heikkinen was elected deputy chairman of the Board. Ilkka Raiskinen resigned from the Board committees. Tuija Soanjärvi was elected chairman of the Audit Committee and Pentti Heikkinen was elected a new member of the committee.

## LEGAL PROCEEDINGS

An action was brought against Tecnotree at the start of the year by Atul Chopra and Aparna, a company close to him, in a court of arbitration in Singapore, claiming that Tecnotree has failed to honour the Settlement Agreement dated 21 February 2011 reached with Atul Chopra. Atul Chopra and Aparna are claiming indemnity of about EUR 1.1 million.

In October 2011 Atul Chopra brought an action relating to the same matter in the High Court of Delhi. According to the decision of the High Court of Delhi in July 2012, all disputes relating to the Settlement Agreement shall be resolved in arbitration in Singapore, as pleaded by

Tecnotree. In September 2012 the Division Bench of the High Court of Delhi dismissed the appeal made by Atul Chopra regarding the High Court of Delhi's decision in July.

Tecnotree denies the claims presented by Atul Chopra and is initiating legal action in order to protect its rights. The proceedings are in progress in the court of arbitration.

The company is not involved in any other major legal proceedings.

## RISKS AND UNCERTAINTY FACTORS

**Dependence on key customers**

Tecnotree's largest customers are much bigger businesses than the company itself and the two largest customers accounted for 77 % of net sales in 2013. The relationship between the company and its major customers is one of interdependence, which offers business opportunities but also poses risks.

**Carrying out customer projects, profitability, forecasting**

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 commitments 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 in accordance with the insurance agreement.

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.

**Risks relating to international operations, receivables and developing markets**

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. Regulation by the authorities of foreign payment transactions and international sanctions hamper operations in certain countries. Various regulations can change frequently and may be ambiguous. In many countries it is common practice to delay payment of invoices. For these reasons forecasting customer payments is often unreliable and delays occur.

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.

**Technology**

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. Products in Tecnotree's sector have a fairly short life span, and the company has changed course several times during its history to new product areas.

High tech products require skilled people, and personnel turnover is quite high for example in India. Copyright issues can result in disputes and loss of income.

**Company acquisition and goodwill**

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.

**Taxation**

Operating in developing markets often involves problems relating to taxation. Local tax legislation can change rapidly and may be subject to conflicting interpretations. It is possible for the tax authorities in different countries to demand taxation of the same revenue. Tax deducted at source is often imposed on sales of systems and services, and obtaining credit for this in the country receiving the revenue is not a clear case. In Finland Tecnotree has a large amount of tax-deductible costs from previous fiscal periods, so it is difficult to obtain credit for tax deducted at source.

As a rule Tecnotree applies the cost plus method in its transfer pricing. This clarifies the taxable result recorded in different countries. When the Group makes a loss, however, the consequence is that it has to pay tax in countries where it has subsidiaries. It also often has to pay tax deducted at source on dividends.

**Risks and uncertainties in the near future**

Tecnotree's risks and uncertainties in the near future relate to projects, to their timing, to receivables, to changes in foreign exchange rates and to financing.

The company had all its credit facilities in use at the end of 2013. The cash flow varies considerably from one quarter to another, which at times makes the cash supply tight. The risk exists that the company will have to postpone payment of expenses. The financing agreement made by Tecnotree in August 2013 that is in force until 2018 contains six different covenants. One of these is tested monthly, four at half year intervals, and one annually. The terms of three covenants become tighter as the loan period progresses. If a condition for a covenant is not met, the financier is entitled to demand payment of the loans taken. Previously in similar situations the company has succeeded in negotiating an agreement with its financier under which it has not needed to repay the loans. In the 2013 accounts, two covenants were very close to breach.

## EVENTS AFTER THE END OF PERIOD

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

## PROSPECTS IN 2014

Tecnotree estimates that its net sales and operating result will improve from 2013. Variations in the quarterly figures will be considerable.

## PROPOSAL CONCERNING THE RESULT

The Board of Directors proposes to the Annual General Meeting, that no dividend be paid for the financial year ended 31 December 2013, and that the parent company's loss for the financial year, EUR 2,138,056.64, be covered by non-restricted equity reserves. In addition, losses for previous periods are proposed to be covered by EUR 1,690,237.98 of the non-restricted equity reserves.

## FINANCIAL INFORMATION

Tecnotree is holding a conference for analysts, investors and the media to announce its fourth quarter and full year results on 5 February 2014 at 10.00 am in the Bulsa conference room at the Scandic Hotel Simonkenttä, Simonkatu 9, Helsinki. The financial review will be presented by CEO Ilkka Raiskinen and the conference will be held in Finnish. The material to be presented at the press conference will be available at www.tecnotree.com.

Tecnotree's financial statements and report of the Board of Directors will become publically available during week 10 at www.tecnotree.com.

## TECNOTREE CORPORATION

### Board of Directors

## FURTHER INFORMATION

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## DISTRIBUTION

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# TABLE SECTION

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

| CONSOLIDATED INCOME STATEMENT, MEUR | Note | **10-12/ 2013** | 10-12/ 2012 | **1-12/ 2013** | 1-12/ 2012 |
|---|---|---|---|---|---|
| NET SALES | 2 | **20.0** | 22.4 | **73.9** | 73.4 |
| Other operating income | | **0.0** | 0.1 | **0.1** | 0.1 |
| Materials and services | | **-1.1** | -4.0 | **-10.6** | -14.4 |
| Employee benefit expenses | | **-8.9** | -11.0 | **-34.6** | -35.4 |
| Depreciation, amortisation and impairment charges | | **-0.4** | -3.4 | **-3.5** | -8.9 |
| Other operating expenses | | **-6.1** | -7.8 | **-23.6** | -27.2 |
| OPERATING RESULT | 2 | **3.6** | -3.7 | **1.6** | -12.4 |
| Financial income | | **0.9** | 0.5 | **5.2** | 1.8 |
| Financial expenses | | **-0.8** | 0.1 | **-2.7** | -3.1 |
| RESULT BEFORE TAXES | | **3.7** | -3.1 | **4.1** | -13.7 |
| Income taxes | | **-3.2** | -3.3 | **-6.6** | -3.3 |
| RESULT FOR THE PERIOD | | **0.5** | -6.3 | **-2.5** | -17.0 |
| | | | | | |
| Allocated to: | | | | | |
| Equity holders of parent company | | **0.5** | -6.3 | **-2.5** | -17.0 |
| Non-controlling interest | | **-0.0** | -0.0 | **0.0** | -0.0 |
| | | | | | |
| Earnings per share calculated from the profit attributable to equity holders of parent company: | | | | | |
| Earnings per share, basic, EUR * | | **0.00** | -0.05 | **-0.02** | -0.16 |
| Earnings per share, diluted, EUR * | | **0.00** | -0.05 | **-0.02** | -0.16 |

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

| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, MEUR | **10-12/ 2013** | 10-12/ 2012 | **1-12/ 2013** | 1-12/ 2012 |
|---|---|---|---|---|
| RESULT FOR THE PERIOD | **0.5** | -6.3 | **-2.5** | -17.0 |
| Other comprehensive income | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Translation differences from foreign operations | **-0.8** | -3.1 | **-9.1** | -3.4 |
| Tax relating to components of other comprehensive income | **-0.0** | 0.1 | **0.5** | 0.1 |
| Other comprehensive income, net of tax | **-0.8** | -3.0 | **-8.7** | -3.3 |
| | | | | |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | **-0.4** | -9.3 | **-11.1** | -20.3 |
| | | | | |
| Allocated to: | | | | |
| Equity holders of parent company | **-0.4** | -9.3 | **-11.2** | -20.3 |
| Non-controlling interest | **-0.0** | -0.0 | **0.0** | -0.0 |

| CONSOLIDATED BALANCE SHEET | Note | **31.12.2013** | 31.12.2012 |
|---|---|---|---|
| Assets | | | |
| Goodwill | | **15.3** | 17.4 |
| Other intangible assets | | **0.4** | 3.0 |
| Tangible assets | | **4.0** | 4.7 |
| Deferred tax assets | | **1.5** | 2.5 |
| Other non-current trade and other receivables | | **0.8** | 0.4 |
| Current assets | | | |
| Inventories | | **0.6** | 0.6 |
| Trade receivables | | **17.5** | 22.2 |
| Other receivables | | **24.4** | 19.0 |
| Investments | | **0.6** | 0.6 |
| Cash and cash equivalents | | **6.6** | 11.3 |
| TOTAL ASSETS | | **71.6** | 81.8 |
| | | | |
| Shareholders' equity | | **21.7** | 32.8 |
| | | | |
| Non-current liabilities | | | |
| Deferred tax liabilities | | **3.0** | 2.8 |
| Non-current interest-bearing liabilities | 3 | **20.7** | 0.0 |
| Other non-current liabilities | | **0.9** | 0.4 |
| Current liabilities | | | |
| Current interest-bearing liabilities | 3 | **11.1** | 28.3 |
| Trade payables and other liabilities | 4 | **14.2** | 17.3 |
| EQUITY AND LIABILITIES, TOTAL | | **71.6** | 81.8 |

CALCULATION OF CHANGES IN
SHAREHOLDERS' EQUITY, MEUR

| MEUR | A | B | C | D | E | F | G | H | I | J |
|---|---|---|---|---|---|---|---|---|---|---|
| SHAREHOLDERS' EQUITY 1 JAN 2013 | 4.7 | 0.8 | -0.1 | -4.2 | 18.0 | 5.2 | 8.4 | 32.8 | 0.1 | 32.8 |
| | | | | | | | | | | |
| Result for the period | | | | | | | -2.5 | -2.5 | 0.0 | -2.5 |
| Other comprehensive income: | | | | | | | | | | |
| Translation differences, net of tax | | | | -8.7 | | | | -8.7 | | -8.7 |
| Total comprehensive income for the period | | | | -8.7 | | | -2.5 | -11.2 | 0.0 | -11.1 |
| | | | | | | | | | | |
| Disposal of own shares | | | 0.1 | | | | -0.1 | 0.0 | | 0.0 |
| Sharebased payments | | | | | | | 0.0 | 0.0 | | 0.0 |
| Transactions with shareholders, total | | | 0.1 | | | | -0.0 | 0.0 | | 0.0 |
| | | | | | | | | | | |
| Covering of loss | | | | | -12.6 | -2.9 | 15.4 | 0.0 | | 0.0 |
| Other changes | | | | | | | 0.0 | 0.0 | -0.0 | 0.0 |
| | | | | | | | | | | |
| **SHAREHOLDERS' EQUITY 31 DEC 2013** | **4.7** | **0.8** | **-0.1** | **-12.9** | **5.5** | **2.3** | **21.3** | **21.7** | **0.1** | **21.7** |

| Me | A | B | C | D | E | F | G | H | I | J |
|---|---|---|---|---|---|---|---|---|---|---|
| SHAREHOLDERS' EQUITY 1 JAN 2012 | 4.7 | 0.8 | -0.1 | -1.0 | 12.6 | 19.0 | 13.3 | 49.4 | 0.1 | 49.5 |
| | | | | | | | | | | |
| Result for the period | | | | | | | -17.0 | -17.0 | -0.0 | -17.0 |
| Other comprehensive income: | | | | | | | | | | |
| Translation differences, net of tax | | | | -3.3 | | | | -3.3 | | -3.3 |
| Total comprehensive income for the period | | | | -3.3 | | | -17.0 | -20.3 | -0.0 | -20.3 |
| | | | | | | | | | | |
| Share issue | | | | | 5.4 | | | 5.4 | | 5.4 |
| Sharebased payments | | | | | | | 0.0 | 0.0 | | 0.0 |
| Transactions with shareholders, total | | | | | 5.4 | | 0.0 | 5.4 | | 5.4 |
| | | | | | | | | | | |
| Covering of loss | | | | | | -13.9 | 13.9 | 0.0 | | 0.0 |
| Correction of error (note 4) | | | | | | | -1.7 | -1.7 | | -1.7 |
| Other changes | | | | | | | -0.1 | -0.1 | -0.0 | -0.1 |
| | | | | | | | | | | |
| SHAREHOLDERS' EQUITY 31 DEC 2012 | 4.7 | 0.8 | -0.1 | -4.2 | 18.0 | 5.2 | 8.4 | 32.8 | 0.1 | 32.8 |

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

| CONSOLIDATED CONDENSED CASH FLOW STATEMENT, MEUR | **1-12/2013** | 1-12/2012 |
|---|---|---|
| Cash flow from operating activities | | |
| Result for the period | **-2.5** | -17.0 |
| Adjustments of the result | **8.0** | 20.5 |
| Changes in working capital | **-5.4** | 3.4 |
| Interest paid | **-2.7** | -3.2 |
| Interest received | **0.1** | 0.1 |
| Income taxes paid | **-4.3** | -5.1 |
| Net cash flow from operating activities | **-6.8** | -1.3 |
| | | |
| Cash flow from investing activities | | |
| Investments in intangible assets | **-0.1** | -0.2 |
| Investments in tangible assets | **-0.5** | -0.7 |
| Proceeds from disposal of intangible and tangible assets | **0.0** | 1.0 |
| Investments in other securities | | |
| Proceeds from disposal of other securities | **0.0** | 0.3 |
| Interest received from other securities | **0.0** | 0.0 |
| Dividends received from other securities | **0.0** | 0.0 |
| Net cash flow from investing activities | **-0.4** | 0.4 |
| | | |
| Cash flow from financing activities | | |
| Proceeds from share issue | | 5.4 |
| Borrowings received | **28.8** | 9.8 |
| Repayments of borrowings | **-25.3** | -9.5 |
| Repayments of finance lease liabilities | | -0.0 |
| Net cash flow from financing activities | **3.4** | 5.6 |
| | | |
| Increase (+) and decrease (-) in cash and cash equivalents | **-3.8** | 4.8 |
| | | |
| Cash and cash equivalents at beg. of period | **11.3** | 6.7 |
| Impact of changes in exchange rates | **-0.9** | -0.2 |
| | | |
| Cash and cash equivalents at end of period | **6.6** | 11.3 |

# 1. ACCOUNTING PRINCIPLES FOR THE FINANCIAL REVIEW

This financial review has been prepared in accordance with the international financial reporting standard IAS 34 Interim Financial Reporting. The formulas for calculating the key figures presented and the accounting principles for the financial review are the same as the principles published in the 2012 Annual Report. The new and revised IFRS regulations that came into force on 1 January 2013 have not had a significant impact on the accounting principles and basis for preparing the interim report. A statement of the withholding tax provision is disclosed in note 4 below.

# 2. SEGMENT INFORMATION

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

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

| OPERATING SEGMENTS | **1-12/2013** | 1-12/2012 |
|---|---|---|
| | | |
| NET SALES, MEUR | | |
| Americas (North, Central and South America) | **38.6** | 38.5 |
| Europe | **4.6** | 6.7 |
| MEA (Middle East and Africa) | **28.6** | 24.9 |
| APAC (Asia Pacific) | **2.2** | 3.3 |
| TOTAL | **73.9** | 73.4 |
| | | |
| RESULT, MEUR | | |
| Americas (North, Central and South America) | **20.0** | 14.6 |
| Europe | **1.8** | 3.2 |
| MEA (Middle East and Africa) | **19.6** | 14.5 |
| APAC (Asia Pacific) | **0.4** | 1.3 |
| TOTAL | **41.8** | 33.5 |
| | | |
| Non-allocated items | **-38.4** | -38.4 |
| OPERATING RESULT BEFORE R&D CAPITALISATION & AMORTISATION AND ONE-TIME COSTS | **3.3** | -4.9 |
| Product development capitalisation | **0.0** | 0.0 |
| Product development amortisation | **-1.7** | -5.4 |
| One-time costs | **0.0** | -2.1 |
| OPERATING RESULT | **1.6** | -12.4 |
| Financial items | **2.5** | -1.3 |
| RESULT BEFORE TAXES | **4.1** | -13.7 |

## 3. INTEREST-BEARING LIABILITIES

At the end of the review period, Tecnotree had a new long-term loan of EUR 21.8 million as well as a fully used credit facility of EUR 10.0 million to finance working capital. The credit facility is long-term in nature and in force until 30 June 2018, but is based on financing individual customer receivables. Financing taken under the credit facility falls due on payment of the receivables for which they were taken, but is renewed by financing new receivables.

At the end of 2012, the previous financial arrangement with the bank was ending during 2013, so the EUR 13.3 million loan and the EUR 15.0 million credit facility in use were current liabilities.

| INTEREST-BEARING LIABILITIES, MEUR | **31.12.2013** | 31.12.2012 |
|---|---|---|
| Loans from financial institutions, 1 Jan | **28.3** | 28.0 |
| Raised loans | **28.8** | 9.8 |
| Repayments of loans | **-25.3** | -9.5 |
| Loans from financial institutions, end of period | **31.8** | 28.3 |
| Interest-bearing liabilities total | **31.8** | 28.3 |

## 4. WITHHOLDING TAX PROVISION

The company has changed its accounting practice for withholding taxes. Previously the company was credited in Finnish taxation with the withholding tax deducted at source from customer payments. Since the company has a large reserve of costs from previous years to be used in taxation, utilising withholding taxes in Finland has been put off to the future. For this reason, it was decided to record a provision for withholding taxes in the parent company's receivables, and this provision is included in accrued expenses and prepaid income. This provision stood at EUR 1.8 million at the end of 2013. The provision being EUR 1.7 million at the beginning and end of 2012, it has no impact on 2012 income statement. The situation around the withholding taxes occurred already prior to the 2013 period, so consequently the company has retroactively adjusted the figures for retained earnings and accrued expenses and prepaid income in the 2012 balance sheet by EUR 1.7 million as an IAS 8 error.

## 5. RELATED PARTY TRANSACTIONS

Tecnotree's CEO changed during the year. In accordance with the employment agreement, the former CEO Kaj Hagros was paid a lump-sum compensation of EUR 319 thousand at the end of service.

Tecnotree'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, and those entities in which these people have control. Except for the compensation mentioned above, regularly paid salaries and fees as well as ordinary intra-group transactions, Tecnotree has not entered any significant transactions with related parties during the year.

## 6. CONSOLIDATED CONTINGENT LIABILITIES

| CONSOLIDATED CONTINGENT LIABILITIES, MEUR | **31.12.2013** | 31.12.2012 |
|---|---|---|
| On own behalf | | |
| Real estate mortgages | **4.4** | 4.4 |
| Corporate mortgages | **45.3** | 42.3 |
| Pledged deposits | | |
| Guarantees | **0.3** | 0.5 |
| Other liabilities | | |
| Desputed income tax liabilities in India | **0.4** | 0.7 |

| OTHER OPERATING LEASES, MEUR | **31.12.2013** | 31.12.2012 |
|---|---|---|
| Minimum rents payable based on other leases that cannot be cancelled: | | |
| Other operating leases | | |
| Less than one year | **0.4** | 0.5 |
| Between one and five years | **0.3** | 0.2 |

In addition, the shares of the Indian subsidiary held by the parent company are pledged. These shares have a book value of EUR 35.4 million in the parent company. The net assets of the Indian subsidiary in the consolidated balance sheet are EUR 44.1 million.

## 7. CONSOLIDATED KEY FIGURES

| CONSOLIDATED KEY FINANCIAL FIGURES | **1-12/2013** | 1-12/2012 |
|---|---|---|
| Return on investment, % [3] | **11.9** | -15.2 |
| Return on equity, % [3] | **-9.1** | -41.3 |
| Equity ratio, % [3] | **30.3** | 40.2 |
| Net gearing, % [3] | **113.4** | 50.0 |
| Investments, MEUR | **0.6** | 0.9 |
| % of net sales | **0.8** | 1.2 |
| Research and development, MEUR | **14.0** | 13.0 |
| % of net sales | **19.0** | 17.7 |
| Order book, MEUR | **45.0** | 54.2 |
| Personnel, average | **1,067** | 1,070 |
| Personnel, at end of period | **1,059** | 1,116 |

| CONSOLIDATED KEY FIGURES PER SHARE | **1-12/2013** | 1-12/2012 |
|---|---|---|
| Earnings per share, basic, EUR [2] | **-0.02** | -0.16 |
| Earnings per share, diluted, EUR [2] | **-0.02** | -0.16 |
| Equity per share, EUR [2, 3] | **0.18** | 0.27 |
| Number of shares at end of period, x 1,000 | **122,564** | 122,494 |
| Number of shares on average, x 1,000 | **122,551** | 98,264 |
| Share price, EUR | | |
| Average | **0.21** | 0.25 |
| Lowest | **0.15** | 0.12 |
| Highest | **0.29** | 0.35 |
| Share price at end of period, EUR | **0.21** | 0.17 |
| Market capitalisation of issued stock at end of period, MEUR | **25.8** | 20.8 |
| Share turnover, million shares | **72.4** | 49.7 |
| Share turnover, % of total | **59.0** | 40.5 |
| Share turnover, MEUR | **15.5** | 11.7 |
| Price/earnings ratio (P/E) | **-10.3** | -1.0 |

[2] This key figure has been adjusted for the comparative periods to reflect the share issue.
[3] This key figure has been corrected for the comparative periods, see note 4.

| QUARTERLY KEY FIGURES | **4Q/13** | 3Q/13 | 2Q/13 | 1Q/13 | 4Q/12 | 3Q/12 |
|---|---|---|---|---|---|---|
| Net sales, MEUR | **20.0** | 17.4 | 22.5 | 13.9 | 22.4 | 19.7 |
| Net sales, change % | **-10.6** | -11.5 | 5.6 | 39.3 | 39.5 | 14.9 |
| Adjusted operating result [1] | **3.6** | 1.0 | 2.7 | -4.0 | -0.3 | -0.8 |
| % of net sales | **17.8** | 5.8 | 12.2 | -28.8 | -1.1 | -4.0 |
| Operating result, MEUR | **3.6** | 0.5 | 2.2 | -4.6 | -3.7 | -2.1 |
| % of net sales | **17.7** | 2.7 | 9.7 | -32.9 | -16.3 | -10.4 |
| Result before taxes, MEUR | **3.7** | 1.9 | 4.2 | -5.6 | -3.1 | -3.0 |
| | | | | | | |
| Personnel at end of period | **1,059** | 1,053 | 1,068 | 1,073 | 1,116 | 1,131 |
| | | | | | | |
| Earnings per share, basic, EUR [2] | **0.00** | 0.00 | 0.02 | -0.04 | -0.05 | -0.02 |
| Earnings per share, diluted, EUR [2] | **0.00** | 0.00 | 0.02 | -0.04 | -0.05 | -0.02 |
| Equity per share, EUR [2, 3] | **0.18** | 0.18 | 0.21 | 0.24 | 0.27 | 0.36 |
| Net interest-bearing liabilities, MEUR | **24.6** | 24.2 | 21.5 | 14.6 | 16.4 | 22.3 |
| | | | | | | |
| Order book, MEUR | **45.0** | 48.0 | 53.3 | 55.3 | 54.2 | 59.2 |

[1] Adjusted result = operating result before R&D capitalisation, amortization of this and one-time costs. Details of these are given in the section “Result analysis”.
[2] This key figure has been adjusted for the comparative periods to reflect the share issue.
[3] This key figure has been corrected for the comparative periods, see note 4.