TECNOTREE

Annual Report 2016

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CEO's Review

Overview:

For Tecnotree, the year 2016 was one of change and new beginnings.

We significantly progressed in our transformation journey into a full-fledged product company under a new leadership team, and aggressively consolidated our operations across the globe to reduce overall cost of operations. While endeavoring to do this, we actively won new customers throughout the year and also renewed the relationships with our leading customers in LATAM and Middle-East & Africa. In addition, we successfully received the approval for our debt restructuring program, reached a settlement on a long-accrued receivable with our LATAM customer.


Padma Ravichander

> "We have aggressively consolidated and reduced our cost of operations."

In addition we continued to complete several of our long-standing customer projects, and won a number of important new deals with our new open source based BSS offering. These events , further confirmed that our product strategy and roadmap are on the right track. We also further consolidated and harmonized our BSS product offerings in order to align our products to our vision of enabling a digital market-place for our customers and to an eco-system of our partners.

However, the company continued to experience an extremely tight cash position and liquidity. The company took several measures throughout 2016 to improve this situation including a one- time cost savings program, aggressive collection of receivables from its customers and seeking external funding and investments. The financial situation continues still to be critical.

CEO's adjusted consolidated key figures:

	IFRS	One-time costs	CEO report	Adjusted
CONSOLIDATED INCOME STATEMENT Me	**2016**	**2016**	**2016**	2015
NET SALES	**60.1**		**60.1**	76.4
Other operating income and costs	**-70.2**	**13.2** [1]	**-57.0**	-64.4
EBIT	**-10.1**	**13.2**	**3.1**	12.0
Financial items and taxes	**3.8**	**-5.5** [2]	**-1.7**	-11.4
Result for the period	**-6.3**	**7.7**	**1.4**	0.6

[1] Write offs of previous years LATAM settlement (9.2), prior year receivable write offs (1.7) and one-time cost related cost savings programme (2.3).
[2] Positive impact of debt restructuring gains (6.6) and interest accruals (2.7), taxes (-3.8).

In order to review the performance of 2016 without the impact of prior year issues and one-time costs related to the 5 million EUR cost saving program, I would like the share the table above that can help truly assess our performance of 2016:

During the year, the revenues from the LATAM region were lower and some revenues in MEA were deferred to 2017, due to delayed customer deliveries and acceptance. Hence, our revenues for the year were lower than target at 60.1 million euros (76.4).

As a part of driving towards profitable growth and further optimization of costs, we announced in August 2016 a company-wide cost saving program with the target to reduce personnel costs by EUR 5.0 million on an annual level, representing 100 man years. In conjunction with the cost saving program we announced the plans to reduce our personnel globally, including Finland, India, Brazil, APAC and other locations. As the result of the consultation process, Tecnotree's personnel was decreased by 116 globally. By the end of 2016 the gains from the cost saving program were EUR 2.3 million.

After elimination of the exceptional one time issue of the LATAM settlement costs and prior year write-offs, our earnings before interest and tax (EBIT) for 2016 is EUR 3.1 million (12.0). With the debt restructuring plan approved by the Espoo District court in 2016, our actual net income is a positive 1.4 million euros (0.6).

Along with the confirmation of the payment program, the group recorded a one-off positive income effect of approximately 6.6 million euros as result of debt rearrangement. In addition, the company cancelled provisions for interest expenses to the total of 2.7 million euros.

2016 Overall Performance:

Tecnotree had a record year in 2016 in terms of the acquisition of new clients for our new BSS suite of products based on open source technologies:

* Ukkoverkot in Finland chose Tecnotree's BSS Express solution for its cloud based on BSS platform delivered in a SaaS mode, and we also signed a deal to supply a Convergent Billing Platform to a West African operator with 60 million customers
* Nepal Telecom – a South Asian operator – chose Tecnotree's AgilityTM Mediation and Interconnect system to replace their existing systems for USD 3 million, and EMTEL Mauritius – part of the Airtel Group – chose Tecnotree solutions for expanding its reachability and content management platforms
* We won a USD 8 million contract for a full BSS transformation project with a South East African operator for its omni-channel, quad play offerings on GSM, FXL, ISP and IPTV. The deliveries are expected to be completed in 2017.

During Q4, Tecnotree reached a settlement of 6.0 million euros with a Latin American customer on a long-accrued receivable. Following the outcome of these negotiations, Tecnotree took an impairment charge of approximately 9 million euros, booked in Q4 2016.

Tecnotree reduced its overall operating expenses to 50.9 million euros (53.2) (difference 2.3) working across the geographical centers and looking to optimize and consolidate its operations in LATAM, Europe, MEA and APAC. In 2016, we also significantly rationalized our portfolio of products to ensure that we maintain a relevant set of products that will complete our BSS offering and significantly reduce time-to-market.

Our risk of working in countries where there are severe foreign exchange constraints that affect our cash in-flow, and also countries where withholding taxes are varied and high, continued in 2016.

2017 Outlook

In 2017 we are committed to continuing our internal transformation journey to simplify our portfolio of products, and go-to-market with improved execution, quality and agility and innovative business models.

Given the current critical financial situation of the company, Tecnotree will plan further to reduce operating expenses in 2017 to the tune of an additional 5 million EUR. We will plan to achieve this goal through further reductions in real estate rentals, travel and accommodation cost, consolidation of branch operations, reduction of outsourced services and additional savings in personnel costs.

We will continue to minimize currency exchange risks and withholding taxes by initiating actions to further improve our current structures and processes.

We will continue increased focus on ensuring timely collections of receivables by further improving the quality and timeliness of our deliveries.

Going forward, in 2017 and beyond we continue with our vision as a product company. We will compound our deep telecom experience with creating a delightful customer experience on our BSS platform engaged with signature Finnish design and quality excellence. Our cloud enabled micro-services based interoperable products help us create a ‘digital marketplace’ with our own products and an ecosystem of partner products and services that fosters true business value for our customers.

Padma Ravichander, Chief Executive Officer

Key figures

YEAR 2016

• Net sales for the financial period were EUR 60.1 (76.5) million.
• The adjusted operating result was EUR 1.2 (12.0) and the operating result -10.1 (11.7) million.
• The adjusted result for the period was EUR -4.2 (0.6) million and the result EUR -6.3 (0.2) million.
• Cash flow after investments for the financial period was EUR -0.9 million (6.3) and the company's cash and cash equivalents were EUR 3.5 (31 December 2015: 6.4) million. Financial situation remains tight.
• Earnings per share were EUR -0.05 (0.00).

	2016	2015	2014	2013	2012
Net sales, MEUR	60.1	76.5	74.0	73.9	73.4
Net sales, change %	-21.4	3.4	0.1	0.7	17.9
Adjusted operating result, MEUR [1]	1.2	12.0	3.7	3.3	-4.9
Operating result, MEUR	-10.1	11.7	3.3	1.6	-12.4
as % of net sales	-16.8	15.2	4.4	2.2	-16.9
Profit before taxes, MEUR	-5.6	7.8	-2.4	4.1	-13.7
Adjusted result for the period, MEUR [2]	-4.2	0.6	-8.9	-0.8	-9.5
Result for the period, MEUR	-6.3	0.2	-9.3	-2.5	-17.0
Earnings per share, basic, EUR	-0.05	0.00	-0.08	-0.02	-0.16
Order book, MEUR	24.9	26.8	38.9	45.0	54.2
Cash flow after investments, MEUR	-0.9	6.3	-1.8	-4.6	1.3
Change in cash and cash equivalents, MEUR	-3.0	4.2	-4.2	-3.8	4.8
Cash and cash equivalents, MEUR	3.5	6.4	2.5	6.6	11.3
Equity ratio %	17.9	23.9	22.5	30.3	40.2
Net gearing %	195.6	145.2	172.7	113.4	50.0
Personnel at the end of the period	818	934	993	1,059	1,116

1 Adjusted operating result = operating result before one-time costs.
2 Adjusted result for the period = result for the period without restructuring gains in financial items and other one-time costs.
The adjusted results from the comparison periods have been adjusted to be equivalent with the financial year 2016.

With reference to the new guidelines on alternative performance measures issued by the European Securities and Markets Authority (ESMA), Tecnotree uses the alternative performance measures "adjusted operating result" and "adjusted result for the period". These measures are defined in the footnote to the above table, and in the table "Income statement, Key figures" under the section "Result analysis".

Board of Directors


Harri Koponen


Pentti Heikkinen


Matti Jaakola


Pirjo Pakkanen


Christer Sumelius

Harri Koponen, b. 1962, eMBA, Phd. Econ. h.c.
Chairman of the Board, 2011–
Member of the Board, 2008–
Main duty: CEO, Oy Osaka Ltd, 2010-,
Tecnotree shares 31 Dec 2016: 658,352
Independent of Tecnotree and its significant shareholders.

Pentti Heikkinen, b. 1960, M.Sc. (Econ.)
Stanford Graduate School of Business (Stanford Executive Program 2001)
Vice Chairman of the Board, 2013–
Member of the Board, 2009–
Main duty: Founder and Chairman, Solidabis Oy, 2016-
Tecnotree shares 31 Dec 2016: 398,019
Independent of Tecnotree and its significant shareholders.

Matti Jaakola, b. 1955, M.Sc. (Econ.)
Member of the Board, 14 April 2015
Main duty: CEO, CapWell Oy, 2006–
Tecnotree shares 31 Dec 2016: - , holding of interest parties 36,000
Independent of Tecnotree and its significant shareholders.

Pirjo Pakkanen, b. 1954, BBA (Econ.), eMBA
Member of the Board, 9 May 2016-
Independent of Tecnotree and its significant shareholders.

Christer Sumelius, b. 1946, M.Sc. (Econ.)
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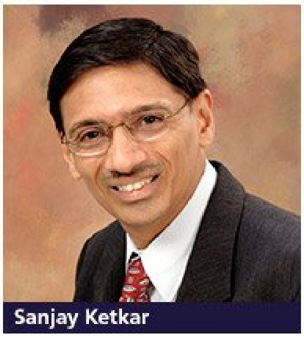
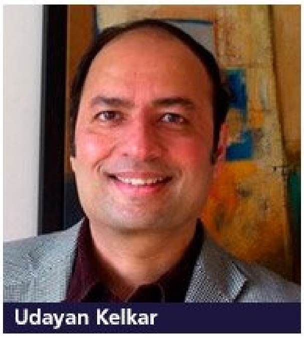
Management Board





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 Executive Officer, CEO, 9 May 2016 -
Tecnotree shares: 197,303

Kirsti Parvi, b. 1958, Executive Master of Business Administration, EMBA
Main duty: Chief Financial Officer, CFO, 1 Oct 2016 –

Reija Virrankoski, b. 1965, M.Sc. (International Communication)
Main duty: Vice President, Human Resources, 1 April 2014-
Tecnotree shares: -
Holding of interest parties: 10,000

Indrajit Chaudhuri, b. 1970, Master of Computer Science and Eng.
Main duty: Senior Vice President, Product Creation and Consulting, 1 June 2016 -

Sanjay Ketkar, b. 1956, Master of Engineering (Automation), Indian Institute of Science
Main duty: Vice President, Product Engineering, India, 1 June 2016-

Mike Keegan, b. 1965, B.Eng.
Main duty: Vice President, Sales, Latin America, 1 June 2016-

Udayan Kelkar, b. 1963, Bachelor degree in Engineering from India's premier Indian Institute of Technology
Main duty: Senior Director, Sales, Europe, MEA and APAC, 1 June 2016 -

Corporate governance statement 2016

Tecnotree Corporation is a Finnish Public Limited Company. The responsibilities and oblications of the Corporate management are based on the Finnish legislation. Tecnotree Group comprises Tecnotree Corporation and its subsidiaries. The company is registered and domiciled in Espoo Finland.

In 2016, Tecnotree abided by the Finnish Corporate Governance code for companies listed on the NASDAQ Helsinki Ltd..This statement has been prepared separately from the Report of the Board of Directors and in accordance with the Finnish Corporate Governance Code 2015. The Finnish Corporate Code 2015, can be found at www.cgfinland.fi and this statement at Tecnotree's web site www.tecnotree.com .

Description of the composition and operations of the meeting of shareholders, board and board committees and other controlling bodies

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 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 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. 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 supervises the realisation
- decide upon the central organisation 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
- 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 the significant principles of risk management
- decide upon the capital structure of the company
- approve the principles of internal control
- annually assess its activities and working methods
- be responsible for the other duties assigned to it under the Finnish Companies Act or other regulation
- may establish an audit, a remuneration and/or nomination committee, or another committee.

Majority of Board Members have to be independent of the company. In addition to that at least two members of mentioned majority have to be independent of the company and significant shareholders.

The principles of Board diversity:

In proposing and deciding the number of the members and the composition of the Board, the diversity of the board, the requirements of the company's operations and the development phase of the company shall be taken into account, with the aim of ensuring an efficient management of the Board tasks. The persons elected as members of the Board shall have the competencies required in this duty and the possibility to devote sufficient time to attend to their duties. When preparing its proposal concerning the composition of the Board, the Board shall consider the age, gender, education and experience of the members to ensure the diversity of the Board.

The objective of the company is that expertise from various industries and markets, varied professional and educational backgrounds, a diverse age distribution as well as both sexes are all diversely represented in the Board.

The Board evaluates its operations and working methods once a year through self-assessment. Ages of the Board members are between 55 and 71 years, there is a woman member in the Board, and other above objectives are met. In the current situation of the company, continuity is deemed important, but the Board will strive to improve diversity further.

The charter of the Board of Directors is available at www.tecnotree.com

The Annual General Meeting of 9 May 2016 confirmed that the Board of Directors will consist of five (5) 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 five Board members are independent of the company and of significant shareholders.

Composition of the Board

Harri Koponen,b. 1962, eMBA, Phd. Econ. h.c.
Chairman of the Board, 2011–
Member of the Board, 2008–
Main duty: CEO, Oy Osaka Ltd, 2010-,
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Independent of Tecnotree and its significant shareholders.

Pirjo Pakkanen, b. 1954, BBA (Econ.), eMBA
Member of the Board, 9 May 2016-
Independent of Tecnotree and its significant shareholders

Tecnotree’ s Board of Directors convened twenty times in 2016. The average attendance was 97 per cent.

Board attendance to meetings and remuneration 2016:

Board Member	Attendance	Remuneration (euro)
Harri Koponen	19/20	57 033
Pentti Heikkinen	20/20	36 000
Matti Jaakola	20/20	30 133
Christer Sumelius	18/20	29 633
Pirjo Pakkanen	11/11	12 599

Board Committees

Audit Committee, appointed 9 May 2016

• 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 Audit Committee comprised four members of the Board: Pirjo Pakkanen (Chairman), Harri Koponen, Matti Jaakola and Pentti Heikkinen. Tecnotree's CEO and CFO regularly participated in the Audit Committee's meetings.

The Audit Committee convened five times in 2016. The average attendance was 85 per cent.

Board has confirmed an official written procedure to Audit Committee.

Audit Committee attendance to meetings 2016:

Pirjo Pakkanen	5/5
Harri Koponen	3/5
Matti Jaakola	4/5
Pentti Heikkinen	5/5

Remuneration and Nomination Committee, appointed 9 May 2016

Duties of the Remuneration and Nomination Committee include:

• preparing a proposal of the Board members for the Annual General Meeting
• preparing a proposal of the remuneration of the Board members for the Annual General Meeting
• finding successor candidates for the members of the Board
• presenting the proposal of the Board members to the Annual General Meeting
• preparing the nomination of the CEO and other executives and identifying potential successors
• preparing the remuneration and other financial benefits of the CEO and other executives
• preparing matters related to the remuneration systems in the Company
• evaluating the remuneration of the CEO and other executives and ensuring
• the appropriateness of remuneration systems
• answering questions related to the Salary and Remuneration Report in the Annual General Meeting.

The Remuneration and Nomination Committee comprised three members of Board: Harri Koponen, Matti Jaakola and Christer Sumelius (Chairman).

The Remuneration and Nomination Committee convened three times. The average attendance was 67 per cent.

Board has confirmed an official written procedure to Remuneration and Nomination Committee.

Remuneration and Nomination Committee attendance to meetings 2016:

Christer Sumelius	3/3
Harri Koponen	1/3
Matti Jaakola	2/3

CEO

The 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 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 CEO ensures that the company's accounting complies with legislation and that its assets are managed reliably. The 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 CEO prepares matters to be handled at Board meetings and reports to the Board.

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 Executive Officer, CEO, 9 May 2016 –(executive CEO 18.4 – 8.5.2016)

Ilkka Raiskinen, b.1962, M. Sc. (Eng.), acted Chief Executive Office until 17 April 2016.

Management Board

At the end of 2016 Tecnotree Group Management Board had seven (7) members, which were CEO, two Sales Directors, VP Product Engineering, SVP Product Creation and Consulting, Chief Financial Officer, and VP Human Resources. CEO acted as Chairman of the Management Board**.**

Management Boards main duty is to assist CEO, monitor and develop business activities according to strategy and targets, create group level policies, support risk management procedures, follow solid human resources policy and remuneration as well as manage stakeholder relations. Management Board convened at least once a month.

Management Board

Composition of the Management Board

Management team members, responsibilities and period of membership:

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 Executive Officer, 2011 -
Tecnotree shares 31 Dec 2016: 197,303

Kirsti Parvi, b. 1958, Executive Master of Business Administration, eMBA
Main duty: Chief Financial Officer, CFO, 1 Oct 2016 –
Tecnotree shares 31 Dec 2016: -

Reija Virrankoski, b. 1965, M.Sc. (International Communication)
Main duty: Vice President, Human Resources, 2014-
Tecnotree shares 31 Dec 2016: -;Holding of interest parties: 10,000

Indrajit Chaudhuri, b. 1970, Master of Computer Science and Eng.
Main duty: Senior Vice President, Product Creation and Consulting, 1 June 2016 –
Tecnotree shares 31 Dec 2016: -

Sanjay Ketkar, b. 1956, Master of Engineering (Automation), Indian Institute of Science
Main duty: Vice President, Product Engineering, India, 1 June 2016-
Tecnotree shares 31 Dec 2016: -

Mike Keegan, b. 1965, B.Eng.
Main duty: Vice President, Sales, Latin America, 1 June 2016-
Tecnotree shares 31 Dec 2016: -

Udayan Kelkar, b. 1963, Bachelor degree in Engineering from India's premier Indian Institute of Technology
Main duty: Senior Director, Sales, Europe, MEA and APAC, 1 June 2016 –
Tecnotree shares 31 Dec 2016: -

The following persons were members of the Management Board:
Ilkka Aura, Area Manager, Europe and America, until 31 July 2016
Timo Ahomäki, CTO, until 31 May 2016
Tuomas Wegelius, CFO, until 30 September 2016

Remuneration statement

Decision making

According to the Tecnotree Corporation's Articles of Association, the Annual General Meeting decides on the remuneration to be paid to the Members of the Board. The Board makes a decision on the salary and other financial benefits of the Group executives according to grandfathering principle.

Key principles

The variable compensation system in the Tecnotree Group is designed to promote competitiveness and the company's long-term financial success and to contribute to a positive development of shareholder value. Compensation plans are based on predetermined and measurable performance and result criteria. Currently, Tecnotree does not have long-term compensation plans, but short-term compensation plans are in place.

Compensation report

Annual remuneration of Board members

The Annual General Meeting 2016 decided to maintain the following existing Board member remuneration:

- Chairman of the Board: EUR 50,000 a year
- Vice-chairman of the Board: EUR 30,000 a year
- Members of the Board: EUR 23,000 a year
- the Chairman and members shall receive an attendance fee of EUR 800 and EUR 500 per meeting, respectively
- the members of committees shall receive an attendance fee of EUR 500 per meeting.

In accordance with the decision of the Annual General Meeting, reasonable travel expenses shall also be reimbursed to Board members.

Compensation for the CEO and other executives

Management remuneration system

The purpose of the remuneration system is competitive remuneration in order to acquire and commit key resources. The current remuneration system of the CEO and other executives consists of a fixed monthly salary and a performance-related bonus based on short-term financial targets. Potential returns from the performance-related bonus system is tied to the achievement of Group's targets of net sales and operating profit development. The managers of divisions have an additional target related to the development of received orders. The targets are determined annually.

Compensation of the CEO

The variable compensation of the CEO, the annual short-term incentive scheme (STI), is 50% at the target level and, at the maximum, 100% of the annual basic salary. The annual bonus is based on net sales, the quality index and net sales cash inflow. CEO's annual bonus requires a valid employment contract at the end of the year. The period of notice of the CEO is six months if the company terminates his or her contract, and six months if the contract is terminated by the CEO. If the company terminates the CEO's contract, the CEO will be paid a sum equivalent to 12 months' salary as compensation. Retirement age is determined by the employee pension law.

In 2016, CEO Padma Ravichander was paid, from 18 April, a total of EUR 478,438 as salaries and other compensation.

CEO Ilkka Raiskinen was paid EUR 439,480 as salary in 2016.

Other executives

The variable compensation of the members of the Management Board, the annual short-term incentive scheme (STI), has a target and a maximum level depending on the role of the Member. The Management Board member's annual bonus requires a valid employment contract at the end of the year. The retirement ages of the Management Board members are based on applicable local legislation. The period of notice for Management Board members varies between two and six months if the Company terminates the member's contract, and between two and six months if the member terminates the contract.

In 2016, the Management Board, not including CEO, was paid EUR 1 044 175 in salaries and other employee benefits, of which fixed salaries accounted for 85%.

Description of the main features of the internal control and risk management systems pertaining to the financial reporting process

Company's general 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 management is responsible for performing and guiding the internal control.
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 a 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 examined at the other offices. Group reporting is performed using a separate system on a monthly basis.

Actual figures are compared to the budget, 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 audit function. The Finance department in HQ is responsible for control activities.

Annual budgets are prepared and detailed targets set based on the strategic plans in the October-December period. A preliminary budget proposal 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 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.

Forecasts for sales, revenues to be recognised and cash flow are examined on a monthly basis or more often, if needed, 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. Tecnotree has a separate policy for revenue recognition. 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.

Risk management

Tecnotree’s general annual assessments of external risks assessed by the Management Board define the biggest risks. These assessments are made by evaluating the probability and the impact of the different risks, and based on this a risk map is comprised. Actions and a person in charge are defined for each significant risk. The most significant risks have been described in the Board of Directors’ Report. The Board approves the significant principles of risk management.

Sufficiency of funds has been one of the significant risks in the company. The Espoo District Court confirmed 15 November 2016 the amended restructuring programme and along with the confirmation of the payment programme the restructuring programme ended. The reimbursements of payment plan will end 20 June 2025.

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.

A big part of the risks is related to sales. These risks can be mitigated by reviewing offers systematically. Tecnotree has uniform principles and practices in bid reviews.

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 defined its Code of Conduct.
The Group’s financial management is responsible for managing foreign exchange, interest rate and liquidity risks and for taking out insurance against operational risks.

The Management Board handles risks and risk management in its meetings on a regular basis. The CEO reports these to the Board of Directors.

The risks pertaining to the financial reporting are mitigated by the methods in financial reporting and control of the group. 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.

Related party transactions

Tecnotree monitors and assesses any transactions with its related parties and ensures that potential conflicts of interest are appropriately considered in the company's decision-making. The company maintains a list of its related parties. The company is responsible for determining and identifying the parties and transactions included in related party transactions.

Certain related party transactions shall be published as required by stock exchange rules.

In 2016, Tecnotree Corporation did not have material related party transactions that were not in line with its regular business operations or market conditions.

Insider issues

Tecnotree Group complies with the currently valid insider dealing regulations and the Nasdaq Helsinki Guidelines for Insiders. The Group also has its own Insider Guidelines complementing Nasdaq Helsinki Guidelines for Insiders. The Insider Guidelines are updated as necessary. The Insider Guidelines are available on the company's intranet site.

The person in charge of insider issues (insider issues officer) in Tecnotree is the CFO. The duties of the insider issues officer include internal communication and training and the monitoring of insider issues (including the whistleblowing system). The insider issue officer is also responsible for managing the closed periods and ensuring that executives and their related parties meet their obligations related to the notification and publication of related party transactions. The company also has an appointed insider register manager.

Tecnotree has opted to maintain a separate list of permanent insiders who, on the basis of their position or duties, have permanent access to all inside information concerning the company. Tecnotree has defined the following persons as permanent insiders:

- members of the Tecnotree Board of Directors, the CEO and the CFO, and
- the secretary of the Board of Directors.

A project-specific insider list is maintained of all insider projects in line with the stock exchange's Guidelines for Insiders.

In accordance with the applicable legislation, persons in managerial positions in Tecnotree Corporation (the Board of Directors, the CEO and the Management Board) and their related parties report any transactions conducted on their own account to the company and to the Finnish Financial Supervisory Authority within three days of the completion of such transactions. According to the company's Insider Guidelines, executives shall, however, notify the transactions on the following working day. The company publishes a stock exchange release of the transactions of the executives and their related parties in accordance with the applicable legislation.

Tecnotree executives shall schedule their transactions with Tecnotree's financial instruments to avoid the transactions undermining confidence in the securities market. Tecnotree executives shall not trade in Tecnotree's financial instruments during the period starting 30 days before the publication of each financial statements bulletin, half year financial report or three- or nine-month financial report and ending on the day following the publication of such data. The closed period also covers the persons participating in the preparation, drafting and publication of Tecnotree's financial reports, the so-called Extended Management Board and the secretary of the Board of Directors.

Auditing of accounts

The principal purpose of auditing is to verify that the financial statements provide correct and sufficient information on the company's result and financial position. In addition, the auditor verifies the legality of the company's administration.

The auditor is appointed annually in the Annual General Meeting for a term ending at the end of the following Annual General Meeting. A proposal of the auditor made by the Board of Directors or any shareholder holding at least 10% of the voting rights shall be published in the invitation to the Annual General Meeting, provided that the candidate has given his or her consent to be appointed and that the company has been informed of the proposal sufficiently early for it to be included in the invitation. If the auditor candidate is not known by the Board of Directors at the time of submitting the invitation, the name of the candidate, who has been presented in this manner, shall be published separately.

The fees of the auditor and any remuneration for services not related to the audit for the financial period shall be published in the annual report and on the company's website.

The Annual General Meeting 2016 appointed the auditing firm KPMG Oy to continue as the auditor. The principal auditor was Toni Aaltonen. In 2016, the auditor was paid EUR 97,963 for the audit and EUR 45,258 for other services.

The Board of Directors

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Remuneration Statement

In 2016, CEO Padma Ravichander was paid, from 18 April, a total of EUR 478,438 as salary.

The period of notice of the CEO is six months if the company terminates his or her contract, and six months if the contract is terminated by the CEO. If the company terminates the CEO´s contract, the CEO will be paid a sum equivalent to 12 month´s salary as compensation.

Retirement age is determined by the employee pension law.

In addition, CEO Ilkka Raiskinen was paid EUR 439,480 as salary in 2016.

In 2016, the Management Board, not including CEO, was paid EUR 1,044,175 in salaries and other employee benefits, of which fixed salaries accounted for 85 %.

Key financial indicators and key figures per share

	2016	2015	2014	2013	2012
Consolidated income statement					
Net sales, EUR million	**60.1**	76.5	74.0	73.9	73.4
change %	**-21.4**	3.4	0.1	0.7	17.9
Adjusted operating result, EUR million [1]	**1.2**	12.0	3.7	3.3	-4.9
% of net sales	**2.1**	15.7	5.0	4.5	-6.6
Operating profit, EUR million	**-10.1**	11.7	3.3	1.6	-12.4
% of net sales	**-16.8**	15.2	4.4	2.2	-16.9
Profit before taxes, EUR million	**-5.6**	7.8	-2.4	4.1	-13.7
% of net sales	**-9.4**	10.2	-3.2	5.6	-18.7
Adjusted result for the period [2]	**-4.2**	0.6	-8.9	-0.8	-9.5
% of net sales	**-7.0**	0.7	-12.0	-1.1	-12.9
Profit for the period, EUR million	**-6.3**	0.2	-9.3	-2.5	-17.0
% of net sales	**-10.5**	0.3	-12.6	-3.4	-23.2
Consolidated balance sheet					
Non-current assets, EUR million	**22.4**	23.7	22.8	22.0	28.0
Current assets					
Inventories, EUR million	**0.9**	0.5	0.5	0.6	0.6
Trade and other receivables, EUR million	**33.0**	43.9	49.0	41.9	41.2
Investments and cash equivalents, EUR million	**3.5**	6.4	2.6	7.2	11.9
Shareholders' equity, EUR million	**10.7**	17.8	16.9	21.7	32.8
Liabilities					
Non-current liabilities, EUR million	**32.8**	2.2	1.2	21.6	0.4
Current liabilities, EUR million	**16.3**	54.6	53.5	25.3	45.7
Deferred tax liabilities, EUR million			3.4	3.0	2.8
Balance sheet total, EUR million	**59.8**	74.6	75.0	71.6	81.8
Financial indicators					
Return on equity (ROE), %	**-43.9**	1.4	-48.2	-9.1	-41.3
Return on investment (ROI), %	**-7.6**	24.7	7.1	11.9	-15.2
Equity ratio, %	**17.9**	23.9	22.5	30.3	40.2
Debt/equity ratio (net gearing), %	**195.6**	145.2	172.7	113.4	50.0
Investments, EUR million	**0.3**	1.2	0.7	0.6	0.9
% of net sales	**0.5**	1.5	1.0	0.8	1.2
Research and development, EUR million	**6.5**	13.0	12.0	14.0	10.4
% of net sales	**10.8**	17.0	16.2	19.0	14.2
% total expenses (above operating result)	**9.2**	20.0	16.9	19.3	12.1
Order book, EUR million	**24.9**	26.8	38.9	45.0	54.2
Personnel, average	**895**	950	1,038	1,067	1070
Personnel at the end of the year	**818**	934	993	1,059	1116

	2016	2015	2014	2013	2012
Key ratios per share					
Earnings per share, EUR (basic)	**-0.05**	0.00	-0.08	-0.02	-0.16
Earnings per share, EUR (diluted)	**-0.05**	0.00	-0.08	-0.02	-0.16
Equity per share, EUR	**0.09**	0.14	0.14	0.18	0.27
Number of shares at the end of the period, 1,000 shares	**122,628**	122,628	122,628	122,564	122,494
Average number of shares, 1,000 shares	**122,628**	122,628	122,605	122,551	98,264
Number of own shares on 1 Jan, 1,000 shares	**0**	0	65	135	135
Numer of disposed own shares, 1,000 shares	**0**	0	65	70	0
Number of own shares on 31 Dec, 1,000 shares	**0**	0	0	65	135
Share price, EUR					
Average price	**0.11**	0.11	0.19	0.21	0.25
Lowest price	**0.09**	0.07	0.13	0.15	0.12
Highest price	**0.17**	0.20	0.26	0.29	0.35
Share price at the end of the period, EUR	**0.10**	0.10	0.14	0.21	0.17
Market value at the end of the period, EUR million	**12.2**	12.5	17.0	25.8	20.8
Share turnover, million shares	**29.7**	69.1	44.6	72.4	49.7
Share turnover, % of total number	**24.3**	56.4	36.3	59.0	40.5
Share turnover, EUR million	**3.5**	7.5	8.7	15.5	11.7
Dividend per share, EUR [3]					
Dividend/result, %					
Effective dividend yield, %					
P/E ratio, %	**-2.0**	51.7	-1.8	-10.3	-1.0

[1] Adjusted operating result = operating result before one-time costs.
[2] Adjusted result for the period = result for the period without restructuring gains in financial items and one-time costs in operating costs. The adjusted result for the previous years have been changed so they are equivalent with the financial period.
[3] The Board of Directors proposes, that no dividend be paid for the financial year ended 31 December 2016. No dividend was paid either for the financial years ended 31 December 2015, 31 December 2014, 31 December 2013 and 31 December 2012.

Calculation of key indicators

Adjusted operating result	=	Operating result before R & D capitalisation, amortisation of this and one-time cost	
Return on equity (ROE), %	=	$\frac{\text{Resut for the period}}{\text{Shareholders´ equity (average)}}$	x 100
Return on investments (ROI), %	=	$\frac{\text{Results before taxes + financial expenses}}{\text{Shareholders´ equity + interest-bearing financial liabilities (average)}}$	x 100
Equity ratio, %	=	$\frac{\text{Shareholders´ equity}}{\text{Balance sheet total - advances received}}$	x 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, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}}$	x 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)	=	$\frac{\text{Interest-bearing liabilities - cash and cash equivalents - interest-bearing assets}}{\text{Shareholders´ equity}}$	x 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, %	=	$\frac{\text{Dividend per share}}{\text{Share price on the reporting date}}$	

Board of Directors' Report

Unless otherwise stated, all consolidated figures presented below are for the financial year 2016 and the figures for comparison are for the corresponding period 2015. Key figures are presented in a separate section in the group financial statements.

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.

Going forward in 2017 and beyond, we continue on our vision as a product company, with deep telecom experience, Tecnotree is engaged on creating a continuous customer experience on our BSS platform with signature Finnish design and quality excellence.

Our cloud enabled micro-services based interoperable products helps us create a “digital marketplace” with our own, and an ecosystem of partner products and services that fosters true business value for our customers.

Tecnotree's cutting-edge products enable communication service providers to expand their footprint and transform their business into that of a digital service provider, thus helping expand and increase their value to their large customer base.

Tecnotree's business is based on our product licenses, professional services for customization of our products, and maintenance and support services on our products to a global customer base. Tecnotree has an especially strong footprint in developing markets such as LATAM, Africa and the Middle East, serving more than 700 million subscribers worldwide and supporting more than 65 operators/CSPs worldwide.

Sales and net sales

Tecnotree's net sales for the financial period were EUR 60.1 (76.5) million, 21.4 % lower than a year ago. Revenue from goods and services declined by EUR 10.2 million, revenue from contract work recognized by stage of completion declined by EUR 3.8 million and revenue from maintenance and support declined EUR 2.2 million. The net sales for 2016 include recorded EUR 0.4 million of positive exchange rate difference mainly due to the fluctuations of the US dollar against the euro. Net sales in Europe and Africa decreased by EUR 10.1 million and net sales in MEA and APAC decreased by EUR 6.3 million.

Further information about sales and net sales is given below in the section "Geographical areas".

SPECIFICATION OF NET SALES	**2016 MEUR**	2015 MEUR	**2016 %**	2015 %
Revenue from contract work recognised by stage of completion (IAS 11)	**19.7**	23.5	**32.7**	30.7
Revenue from maintenance and support (IAS 18)	**28.9**	31.1	**48.2**	40.7
Revenue from goods and services (IAS 18)	**11.1**	19.4	**18.4**	25.4
Currency exchange gains and losses	**0.4**	2.4	**0.7**	3.1
TOTAL	**60.1**	76.5	**100.0**	100.0

NET SALES BY MARKET AREA	**2016 Me**	2015 Me	**2016 %**	2015 %
Europe & Americas	**25.0**	35.0	**41.6**	45.8
MEA & APAC	**35.1**	41.4	**58.4**	54.2
TOTAL	**60.1**	76.5	**100.0**	100.0

CONSOLIDATED ORDER BOOK	**2016 Me**	2015 Me	**2016 %**	2015 %
Europe & Americas	**7.5**	7.0	**30.1**	26.2
MEA & APAC	**17.4**	19.8	**69.9**	73.8
TOTAL	**24.9**	26.8	**100.0**	100.0

Result analysis

Tecnotree reports its result as follows:

INCOME STATEMENT, KEY FIGURES, MEUR	2016	2015
Net sales	**60.1**	76.5
Other operating income	**0.3**	0.1
Operating costs excluding one-time costs	**-59.1**	-64.6
Adjusted operating result, MEUR [1]	**1.2**	12.0
One-time costs	**-11.3**	-0.3
OPERATING RESULT	**-10.1**	11.7
Financial items without foreign currency differences	**-4.2**	-3.5
Exchange rates gains and losses	**-0.7**	-0.3
Income taxes	**-0.6**	-7.6
Adjusted result for the period [2]	**-4.2**	0.6
Foreign currency differences included in financial items	**9.3**	0.0
RESULT FOR THE PERIOD	**-6.3**	0.2

1 Adjusted operating result = operating result before one-time costs.

2 Adjusted result for the period = result for the period without restructuring gains in financial items and one-time costs in operational costs.

With reference to the new guidelines on alternative performance measures issued by the European Securities and Markets Authority (ESMA), Tecnotree uses the alternative performance measures “adjusted operating result” and “adjusted result for the period”. These measures are defined in the footnote to the above table, and in the table “Income statement, Key figures” under the section “Result analysis”.

Tecnotree’s net sales for the financial period were EUR 60.1 (76.5) million and the operating result EUR -10.1 (11.7) million. The operating result included one-time costs of EUR 11.3 million (0.3) and the adjusted operating result was EUR 1.2 million (12.0). The one-time costs, having an impact on net sales, include EUR 9.0 million related to the delivery of a USD 24 million convergent online charging solution, announced in April 2012, as well as EUR 2.3 million (0.3) one-time costs related to redundancies. The adjusted result for the period was EUR -4.2 million (0.6), including one-time revenue of EUR 9.3 million due to the company restructuring. Negative exchange rate differences recorded in financial items of EUR 0.7 million (-0.3).

In the financial items, negative exchange differences were EUR 0.7 million. It is important to examine Tecnotree’s operative result without the impact of exchange rates, which is why this is shown separately in the table above. It has no direct impact on the Group’s cash flow.

Financial income and expenses (net) during the financial period totalled a net profit of EUR 4.5 million (net loss of EUR 3.8 million). Here is a breakdown of these

FINANCIAL INCOME AND EXPENSES, MEUR	**2016**	2015
Interest income	**0.1**	0.0
Exchange rate gains	**0.1**	0.3
Other financial income	**6.7**	0.3
FINANCIAL INCOME, TOTAL	**6.9**	0.6
Interest expenses	**0.3**	-1.9
Exchange rate losses	**-0.7**	-0.6
Other financial expenses	**-2.0**	-2.0
FINANCIAL INCOME, TOTAL	**-2.4**	-4.4
FINANCIAL ITEMS TOTAL	**4.5**	-3.8

Taxes for the period totalled EUR 0.6 (7.6) million, including the following items:

TAXES IN INCOME STATEMENT, MEUR	**2016**	2015
Withholding taxes paid abroad	**-4.5**	-6.3
Change in withholding tax accrual	**4.3**	-2.4
Income taxes on the results of Group companies	**-0.4**	-0.8
Prior year taxes	**0.0**	-1.4
Change in Indian deferred tax assets	**0.0**	-0.4
Change in deferred tax liability:		
- dividend tax in India	**0.0**	3.7
Other items	**0.0**	0.0
TAXES IN INCOME STATEMENT, TOTAL	**-0.6**	-7.6

Earnings per share were EUR -0.05 (0.00). Equity per share at the end of the period was EUR 0.09 (EUR 0.14).

Financing, cash flow and balance sheet

The company's cash situation remained tight during the financial period. The company applied for restructuring proceedings on March 5, 2015, which the District Court of Espoo confirmed on November 15, 2016, in accordance with the amended restructuring programme.

Tecnotree's working capital decreased during the period by EUR 3.5 million:

CHANGE IN WORKING CAPITAL, MEUR (increase - / decrease +)	**2016**	2015
Change in trade receivables	**-1.7**	2.1
Change in other short-term receivables	**2.2**	4.2
Change in inventories	**-0.3**	0.0
Change in trade payables	**3.6**	-1.4
Change in other current liabilities	**-0.2**	-1.9
CHANGE IN WORKING CAPITAL, TOTAL	**3.5**	2.9

Project revenue is recognized in other receivables. When the agreement allows the customer to be invoiced, the receivables are regrouped in trade receivables.

In other receivables in the company's balance sheet was EUR 6.0 million unbilled revenue from the remaining large project in Latin America, to be repatriated during 2017.

Tecnotree's cash and cash equivalents totalled EUR 3.5 (6.4) million. Cash flow after investments for the financial period ended up EUR 0.9 million negative. The change in cash and cash equivalents for the financial period was EUR 3.0 million negative. The company received EUR 0.5 million short-term loan from the bank, which it amortized by EUR 0.1 million in October.

The balance sheet total on 31 December 2016 stood at EUR 59.8 (74.6) million. Tecnotree's gross capital expenditure during the financial period was EUR 0.3 (1.2) million or 0.5% (1.5%) of net sales. Interest-bearing liabilities were EUR 24.4 (32.3) million. The net debt to equity ratio (net gearing) was 195.6% (145.2%) and the equity ratio was 17.9% (23.9%). During the period, total equity was affected by negative translation differences of EUR 0.7 million, mainly from Indian rupees (INR).

The financing agreement signed by Tecnotree in August 2013 included covenants, but they expired after the District Court of Espoo confirmed the restructuring programme on 15 November 2016.

Shareholders' equity of parent company

After the interim financial statements of Tecnotree Group for the first half of 2015 were completed, it was noticed that while the Group shareholders equity value was positive the shareholders’ equity of the Group’s parent company Tecnotree Corporation was negative. The company’s Board of Directors has recognised the loss of shareholders’ equity and submitted a statement on this matter to the Trade Register. The parent company’s shareholders’ equity was EUR 1.2 million negative on 31 December 2016.

Segment information

The operating segments under IFRS 8 reported by Tecnotree are the geographical areas, which are Europe & Americas (Europe and North, Central and South America) and MEA & APAC (Middle East and Africa, 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, being costs of sales and marketing, customer service and delivery functions as well as product development. Costs for product management and administration, depreciations, taxes and financial items are not allocated to the segments.

Geographical areas

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

Europe & Americas

The business operations in the market area continued to be challenging in 2016. Net sales in the area decreased 28.7% from the previous year to EUR 25.0 (35.0) million.

Net sales decreased primarily in the expansion and upgrade of old solutions deliveries. Net sales of the services business were EUR 16.9 million EUR (17.4) and a decrease of 2.9% compared to the previous year. The number of new orders decreased and was EUR 27.3 million (34.8). The order backlog of the area increased from the previous year and it was EUR 7.4 million (7.0).

During the financial period, Tecnotree reached a settlement of 6.0 million EUR with a Latin American customer on a long-accrued overdue receivable, concerning the delivery of a USD 24 million convergent online charging solution, announced in April 2012. The company created an impairment charge of approx. EUR 9.0 million for the remaining amount.

MEA & APAC

The company was able to win new orders amounting to EUR 31.7 million, an increase from the previous year (29.1).

Net sales decreased 15.2% from the previous year, to EUR 35.1 (41.4) million. The sales for the financial period consisted of the extension and update of the solutions carried out to current customers, the renewal of annual maintenance agreements, as well as the partial implementation of new deals. At the end of 2016, the order book stood at EUR 17.4 million (19.8.).

During the period, Tecnotree signed agreements with two significant new customers. The total value of the contracts was EUR 10.5 million. These new businesses, together with the company’s other long-term customer relationships, offer a solid foundation for business operations in the region.

Personnel

At the end of December 2016 Tecnotree employed 818 (934) persons, of whom 88 (105) worked in Finland and 730 (829) elsewhere. The company employed on average 895 (950) people during the financial period. Personnel by country were as follows:

PERSONNEL	**2016**	2015
Personnel, at end of period	**818**	934
Finland	**88**	105
Ireland	**24**	46
Brazil	**11**	22
Argentina	**41**	37
India	**567**	648
United Arab Emirates	**25**	33
Other countries	**62**	43
Personnel, average	**895**	950
Salary expenses (MEUR)	**33.6**	33.5

Salary expences include one-time costs 2016 EUR 2.3 million (EUR 0.3 million).

Share and price analysis

At the end of December 2016 the shareholders' equity of Tecnotree Group stood at EUR 10.7 million (17.8) and the share capital was EUR 1.3 (1.3) million. The total number of shares was 122,628,428. At the end of the period, the company did not hold any own shares. Equity per share was EUR 0.09 (EUR 0.14).

A total of 29,741,652 Tecnotree shares (EUR 3,491,481) were traded on the Helsinki Exchanges during the period 1 January – 31 December 2016, representing 24.25% of the total number of shares.

The highest share price quoted in the period was EUR 0.17 and the lowest EUR 0.09. The average quoted price was EUR 0.11 and the closing price on 31 December 2016 was EUR 0.10. The market capitalisation of the share stock at the end of the period was EUR 12.2 million.

Shareholders

Tecnotree has a single share series and all shares hold equal voting rights. Tecnotree's share is 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. In Tecnotree Corporate Extraordinary General Meeting 9 November 2016, the General Meeting resolved to remove Article 14 in its entirety.

On 31 December 2016 Tecnotree had a total of 5,410 shareholders recorded in the book-entry securities system. Of these were 5,402 in direct ownership.

The ten largest shareholders together owned approximately 38.79 per cent of the shares and voting rights on 31 December 2016.

On 31 December 2016, altogether 3.88 per cent of Tecnotree's shares were in foreign ownership, with 0.10 per cent nominee-registered.

On 31 December 2016, the total number of shares owned by the members of Tecnotree's Board of Directors and the CEO was 5,070,407 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 4.17 per cent of the total amount of shares and voting rights. On 31 December 2016 the total number of shares owned by the members of Tecnotree's Management Board was 10,000 excluding those owned by the CEO.

Ownership structure by sector 31 December 2016

	No. of shares	%
Companies	24,999,345	20.39%
Finance houses and insurance companies	11,635,675	9.49%
Public sector	98,659	0.08%
Non-profit making assosiations	6,350	0.01%
Households and private persons	78,500,213	64.01%
Foreign holders	7,350,586	5.99%
Total	122,590,828	99.97%
Joint account	37,600	0.03%
Total number of shares	122,628,428	100.00%
Nominee registrations	2,537,677	2.22%

Largest shareholders 31 December 2016

The company´s ten largest shareholders	No. of shares	% of shares and voting rights
Hammaren & Co Oy Ab	8,803,480	7.18%
Wilenius Markku Johannes	7,127,000	5.81%
The Orange Company Oy	6,000,000	4.89%
Mandatum Henkivakuutusosakeyhtiö	5,740,000	4.68%
Keskinäinen Vakuutusyhtiö Kaleva	5,500,000	4.49%
Rakshit Tommi	4,667,479	3.81%
Kettunen Risto Juhani	2,870,000	2.34%
Puurtinen Jukka	2,610,047	2.13%
Sumelius Christer	2,147,937	1.75%
Anner Merja Satu Leena	2,100,000	1.71%
Total	47,565,943	38.79%

Ownership of shares 31 December 2016

No. of shares	Holders	%	Shares and votes	%
1–500	1,780	32.93%	405,871	0.33%
501–1 000	759	14.00%	622,066	0.51%
1 001–5 000	1,516	28.02%	4,085,148	3.33%
5 001–10 000	520	9.61%	4,154,395	3.29%
10 001–50 000	600	11.09%	13,831,874	11.30%
50 001–100 000	96	1.77%	6,950,583	5.70%
100 001–500 000	108	2.00%	20,938,266	17.10%
> 500 000	31	0.57%	71,602,625	58.41%
Joint account			37,600	0.03%
Total	5,410	100.00%	122,628,428	100.00%

Current authorisations

The Annual General Meeting of Tecnotree Corporation held on 9 May 2016 authorized 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 100,000,000 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 limits of the authorization, authorized to grant 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.

Restructuring proceedings

The District Court of Espoo confirmed by a decision on 15 November 2016 the amended restructuring programme drafted by the supervisor Jari Salminen as the payment programme of the company. Along with the decision, the restructuring proceedings of Tecnotree Oyj came to an end. The proposal for Tecnotree's restructuring programme was approved before the resolution of the District Court in the extraordinary general meeting on November 9, 2016.

In the voting procedure preceding the confirmation, all the creditors who participated in it voted in favor of confirming the payment programme.

The total amount of the restructuring debts taken into account in the payment programme was approximately 73.9 million euros. The amount of intragroup restructuring debts that were fully cut was approximately 36.7 million euros. The amount of normal unsecured restructuring debts was approximately 13.2 million euros. The amount of the secured restructuring debts was approximately 23.8 million euros out of which approximately 7.9 million euros was secured by business mortgage. The capital of the unsecured restructuring debts was cut by 50 percent. Payments under the payment programme will end on 30 June 2025.

The restructuring programme includes a provision regarding a duty to make supplementary payments on the unsecured restructuring debts if the actual cash flow of Tecnotree Oyj exceeds the projected cash flow during the payment programme.

Along with the confirmation of the payment programme, the group recorded a one-off positive income effect of approximately 6.6 million euros as a result of debt rearrangement. In addition, the company cancelled provisions for interest expenses in total of 2.7 million euros.

As stated in the restructuring programme, Tecnotree Oyj has committed itself to sell its real estate used as its office premises by 31.12.2019. The sales price shall be paid to the collateral holder Nordea Pankki Suomi Oyj. The company has a right not to sell the real estate in the given time only if approved by the supervisor and Nordea Pankki Suomi Oyj.

The District Court has appointed Attorney-at-Law Jari Salminen to supervise the implementation of the restructuring programme. The supervisor monitors the progress of the payment programme and gives reports to the committee of creditors and to the creditors.

Risks and uncertainty factors

Risks and uncertainty factors relating to business operations

As part of its strategic change and the streamlining of its business, Tecnotree is in the process of shifting the focus of its operations from services to product-based solutions. This change may involve risks, such as the time to develop new products, the timely market introduction of products, the competitive situation as well as the company's ability to respond to customer and market demand.

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 2016 (80%). 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.

Exchange rate risks
Changes in exchange rates create risks especially in sales activities, but also in other income statement and balance sheet items and in cash flow. A significant part of the company's net sales is in US dollars. The exchange rate fluctuations of Indian Rupies also have a significant impact on the Group's net result because of the costs for the large number of employees in India and other costs denominated in rupees. Intra-group receivables and liabilities result exchange rate differences in the consolidated income statement, since the Group companies usually have different functional currencies. In conjunction with the debt restructuring programme, the parent company's intra-group liabilities to subsidiaries were written off.

Financing and liquidity risks
The cash position of the company remains critical. Long-term projects generate receivables through revenue recognition, but there may be a long delay in invoicing for these and receiving payment. This delay increases the risk for the payment.

Grounds for observing the going concern principle
The consolidated financial statements of Tecnotree Corporation have been prepared in accordance with the going concern principle.

Because the liquidity of the company continues to be extremely tight, its financial situation and liquidity remain critical. The amount of overdue trade payables has continued to increase and, according to the estimated cash flow, will be negative in Q2 2017.

At the time of publication of the financial statements, there is limited certainty about the 12-month sufficiency of long-term, short-term and working capital financing.

The company's management and the Board of Directors have assessed the difficult financial situation and the company's ability to continue operating. Based on their assessment, the management and Board of Directors consider it appropriate to prepare financial statements with regard to the continuity of the company's operations. The assessment is based on an ongoing debt structuring payment plan and the streamlining of operations. Furthermore, the company is negotiating with financiers on short term additional funding to secure liquidity and is aggressively collecting its receivables. It is also seeking long-term external financing, which could be implemented through company or restructuring arrangements.

The continuation of Tecnotree's operations depends on the success of the above-described measures and the company's ability to continue complying with the payment program established in connection with the debt restructuring process. The continuation of the business thus involves substantial uncertainty.

The company has sales in several countries where the country's central bank has a shortage of foreign currencies. This may cause extra delays in payments, costs and even risks of not receiving payment at all. The cash flow varies considerably from one quarter to another, and this places strain on the money situation at times.

The company had all its credit facilities in use at the end of 2016. Payments received relating to receivables pledged for working capital credit facilities go into a pledged blocked account. The agreement is based on the financing of individual customer receivables.

The financing agreement signed by Tecnotree in August 2013 included covenants, but they expired after the District Court of Espoo confirmed the restructuring programme on 15 November 2016.

The parent company's shareholders' equity was EUR 1.2 million negative on 31 December 2016 (3.0 negative). Further information about significant uncertainty factors related to going concern is given in the Accounting principles for the consolidated financial statements under "Going concern basis".

Goodwill
The goodwill of EUR 17.6 million resulting from company acquisitions involve risks. The Group's shareholders' equity was EUR 10.7 million at the end of 2016. The goodwill impairment tests are based on management's financial expectations and assumptions, which contain uncertainty factors.

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. Withholding taxes are 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, which can be capitalized in taxation.

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. In many cases, withholding taxes have to be paid for dividends, too.

Risks and uncertainties in the near future
Tecnotree's risks and uncertainties in the near future relate to financing, projects, to their timing, to trade receivables and receivables from construction contracts and to changes in foreign exchange rates. Having sufficient cash funds and the development of net sales are the most significant single risks.

The stringent financial situation and uncertainty of sufficient funding create uncertainly about obtaining new customers.

Management, auditors and corporate governance

Tecnotree’s Board of Directors comprised the following persons in 2016:

Harri Koponen, Chairman
Pentti Heikkinen, Vice Chairman
Christer Sumelius
Matti Jaakola
Pirjo Pakkanen, as from 9 May 2016

Ilkka Raiskinen, the CEO of the company until 17 April 2016 and Padma Ravichander from 18 April 2016.

In 2016 the Group’s Management Board comprised Padma Ravichander CEO, Kirsti Parvi CFO, Indrajit Chaudhuri Senior Vice President, Sanjay Ketkar Vice President, Mike Keegan Vice President, Udayan Kelkar Senior Director and Reija Virrankoski Vice President.

Tecnotree’s auditor in the financial year 2016 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 2016.

According to the Articles of Association the 3-8 members of the Board of Directors are elected at the yearly Shareholders' meeting. The members are appointed for the period ending at the end of the following ordinary Shareholders' meeting. The Board of Directors appoints the CEO.

Items presented in the notes to the consolidated financial statements

Financial key figures and key figures per share as well as figures describing the product development activities are presented in the section "Key financial indicators and key figures per share" in the consolidated financial statements. Total amount of product development costs recognised in profit and loss is also presented in note 8 in the consolidated financial statements. The Group's subsidiaries and branch offices are presented in note 28.

Significant agreements, which validity can end if there is a change in control of the company, are disclosed in note 22 of the consolidated financial statements. The terms of the agreement between the company and the CEO concerning compensations in connection with termination of the employment are disclosed in note 28.

Events after the end of period

In the first quarter of 2017, Tecnotree repatriated EUR 6.0 million receivables from its customer in Latin America. Tecnotree used total amount for repaying its long-term debts.

Prospects in 2017

The company continues to be financially constrained and the liquidity will remain tight in 2017.

Tecnotree cost savings plan is to reduce personnel costs by 5.0 million euros, representing 100 man years was commenced in 2016 and the full impact will be realized in 2017.

Given the current critical financial situation of the company, Tecnotree will plan to further reduce operating expenses in 2017 to the tune of an additional 5 million EUR. We will plan to achieve this goal through further reductions in real estate rentals, travel and accommodation cost, consolidation of branch operations, reduction of outsourced services and additional savings in personnel costs.

We will continue to minimize currency exchange risks and withholding taxes by initiating actions to further improve our current structures and processes.
We will continue increased focus on ensuring timely collections of receivables by further improving the quality and timeliness of our deliveries.

Results are subject to quarterly variations and seasonality.

Tecnotree will continue its debt payment program according to the debt restructuring plan. Given the above uncertainties, Tecnotree does not provide an annual outlook.

Proposal concerning the result

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial period ended 31 December 2016, and that the parent company's profit for the financial period, EUR 1 816 403.05, be in retained earnings.

Tecnotree Corporation

Board of Directors

Consolidated income statement and statement of comprehensive income

Consolidated income statement, EUR 1,000	Note	1.1.-31.12.2016	1.1.-31.12.2015
Net sales	1, 2	**60,075**	76,462
Other operating income	3	**270**	107
Materials and services	4	**-4,697**	-7,887
Employee benefit expenses	5	**-33,629**	-33,488
Depreciation, amortisation and impairment losses	6	**-895**	-991
Other operating expenses	7	**-31,214**	-22,548
Operating profit		**-10,090**	11,654
Financial income	9	**6,852**	561
Financial expenses	9	**-2,384**	-4,404
Result before taxes		**-5,621**	7,811
Income taxes	10	**-635**	-7,574
Result for the period		**-6,256**	237
Result for the period attributable to:			
Equity holders of the parent company		**-6,290**	211
Non-controlling interest		**34**	26
Number of shares on average (1000s of shares):			
Basic		**122,628**	122,628
Diluted		**122,628**	122,628

Consolidated statement of comprehensive income, EUR 1,000	Note	1.1.-31.12.2016	1.1.-31.12.2015
Result for the period		**-6,256**	237
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement items on net defined benefit liability	21	**-59**	-107
Tax on items that will not be reclassified subsequently to profit or loss		**12**	36
Items that may be reclassified subsequently to profit or loss:			
Translation differences from foreign operations, before tax	24	**-1,127**	1,154
Tax relating to translation differences		**375**	-437
Other comprehensive income, net of tax		**-799**	646
Total comprehensive income for the period		**-7,055**	883
Comprehensive income for the period attributable to:			
Equity holders of the parent company		**-7,089**	857
Non-controlling interest		**34**	26

Consolidated balance sheet

EUR 1,000	Note	31.12.2016	31.12.2015
Assets			
Non-current assets			
Goodwill	12, 13	**17,612**	17,525
Other intangible assets	12	**426**	647
Property, plant and equipment	14	**2,497**	3,649
Deferred tax assets	15	**568**	593
Non-current receivables	16	**1,262**	1,310
Total non-current assets		**22,364**	23,725
Current assets			
Inventories	17	**869**	530
Trade and other receivables	18	**30,773**	41,830
Income tax receivables		**2,253**	2,103
Investments	19		
Cash and cash equivalents	19	**3,503**	6,433
Total current assets		**37,399**	50,895
Total assets		**59,763**	74,620
Shareholders' equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital		**1,346**	1,346
Share premium fund		**847**	847
Translation differences		**-8,510**	-7,764
Invested unrestricted equity reserve		0.0	
Other reserves		**2,028**	2,033
Retained earnings		**14,857**	21,254
Equity attributable to equity holders of the parent	20	**10,568**	17,717
Non-controlling interest		**116**	81
Total shareholders' equity		**10,684**	17,797
Non-current liabilities			
Non-current interest-bearing liabilities	22	**23,956**	451
Other non-current non interest-bearing liabilities	23	**7,902**	1,019
Pension obligations	21	**930**	735
Total non-current liabilities		**32,789**	2,205
Current liabilities			
Current interest-bearing liabilities	22	**440**	31,830
Trade payables, provisions and other liabilities	23	**15,031**	22,188
Income tax liabilities		**819**	599
Total current liabilities		**16,290**	54,617
Total equity and liabilities		**59,763**	74,620

Statement of changes in shareholders' equity

EUR 1,000	Equity attributable to equity holders of the parent								Non-controll-ing interest	Total share-holders' equity
	Share cap-ital	Share pre-mium fund	Own shares	In-vested unre-stricted equity reserve	Other re-serves	Trans-lation diffe-rences	Re-tained earn-ings	Total		
Shareholders' equity 1 Jan 2016	1,346	847			2,033	-7,764	21,254	**17,717**	81	**17,797**
Result for the period							-6,290	**-6,290**	34	**-6,256**
Other comprehensive income, net of tax					-6	-746	-47	**-799**		**-799**
Total comprehensive income for the period					-6	-746	-6,337	**-7,089**	34	**-7,055**
Other changes							-60	**-60**	2	**-58**
Total shareholders' equity 31 Dec 2016	**1,346**	**847**			**2,028**	**-8,510**	**14,857**	**10,568**	**116**	**10,684**

Additional details are presented in note 20. Notes to the shareholders' equity.

EUR 1,000	Equity attributable to equity holders of the parent								Non-controll-ing interest	Total share-holders' equity
	Share cap-ital	Share pre-mium fund	Own shares	In-vested unre-stricted equity reserve	Other re-serves	Trans-lation diffe-rences	Re-tained earn-ings	Total		
Shareholders' equity 1 Jan 2015	4,720	847		1,624	2,308	-8,489	15,829	16,839	52	16,892
Result for the period							211	211	26	237
Other comprehensive income:					-8	725	-71	646		646
Total comprehensive income for the period					-8	725	140	857	26	883
Sharebased payments							7	7		7
Transactions with shareholders, total							7	7		7
Covering of loss	-3,374			-2,131			5,505			
Other transfers				508	-267		-241			
Other changes							14	14	2	15
Total shareholders' equity 31 Dec 2015	1,346	847			2,033	-7,764	21,254	17,717	81	17,797

Consolidated cash flow statement

EUR 1,000	Note	31.12.2016	31.12.2015
Cash flow from operating activities			
Result for the period		**-6,256**	237
Adjustments for:			
Depreciation, amortisation and impairment losses		**895**	991
Employee benefits		**195**	476
Impairment of receivables	7	**11,143**	1,779
Unrealised exchange gains and losses		**-1,115**	-2,491
Other financial income and expenses		**-5,212**	3,518
Income taxes		**635**	7,574
Gains and losses on disposal of intangibles and tangibles		**-77**	18
Changes in working capital:			
Change in trade and other receivables		**452**	6,278
Change in inventories		**-340**	-7
Change in trade payables and other liabilities		**3,404**	-3,334
Interest paid		**-27**	-414
Interest received		**125**	33
Income taxes paid		**-5,017**	-7,797
Net cash flow from operating activities		**-1,194**	6,862
Cash flow from investments			
Investments intangible assets		**-16**	-399
Investments in property, plant and equipment		**-281**	-232
Proceeds from disposal of intangible and tangible assets		**588**	5
Proceeds from disposal of other securities			76
Interest received from investments			
Net cash flow from investments		**292**	-549
Cash flow from financing activities			
Proceeds from borrowings		**2,140**	2,900
Repayments of borrowings		**-1,740**	-2,900
Finance lease liabilities, repayments and interest			-22
Changes in credit facilities in use		**-215**	-821
The other financing expenses		**-2,240**	-1,256
Net cash flow from financing activities		**-2,054**	-2,099
Change in cash and cash equivalents		**-2,957**	4,214
Cash and cash equivalents at beginning of period		**6,433**	2,536
Change in foreign exchange rates		**27**	-317
Cash and cash equivalents at end of period	19	**3,503**	6,433

Accounting principles for the consolidated financial statements

Corporate information

Tecnotree is a global supplier of telecom IT solutions, providing products and services for charging, billing, customer care, and messaging and content services. Tecnotree has subsidiaries and branch offices in 12 countries.

The Group's parent company is Tecnotree Corporation, which is domiciled in Espoo, Finland and its registered address is Finnoonniitynkuja 7, 02770 Espoo. Tecnotree Corporation is listed on the NASDAQ OMX Helsinki (TEM1V). 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.

The Board of Directors of Tecnotree Corporation has approved the publishing of these financial statements. According to the Finnish Limited Liability Companies Act, shareholders have the right to approve or reject the financial statements in the Annual General Meeting held after the publication of the financial statements. The Annual General Meeting also has the right to make a decision to amend the financial statements.

Basis for preparation for the 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 2015. 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 consolidated financial statements are presented in Euros, which is the functional and presentation currency of the parent company. Unless otherwise stated, the financial statement information is presented in thousands of Euro. All figures presented are rounded, so the total of separate figures might differ from the total presented. Key indicators are calculated using exact values. The comparable figures presented in text sections are in brackets.

Going concern basis

Uncertainty factors

Tecnotree has significant uncertainty factors relating to the continuity of its operations. The company's risks and uncertainties in the near future relate to financing, projects, to their timing, to trade receivables and receivables from construction contracts and to changes in foreign exchange rates. Having sufficient cash funds is the biggest single risk. The financing agreement contains covenants that create risk.

The company has sales in several countries where the country's central bank has a shortage of foreign currency. This causes additional delays in payments, costs and even the risk of not receiving payment at all.

In addition Tecnotree has a risk affected by the negative shareholders' equity of the parent company.

The uncertainty factors relating to Tecnotree's operations are explained in more detail in section "Risks and uncertainty factors" in the Board of Directors' report. Financial risk management is described in note 24 of the consolidated financial statements. Information about the restructuring proceedings is disclosed in note 29.

Basis for applying the going concern principle

The consolidated financial statements of Tecnotree Corporation have been prepared in accordance with the going concern principle. This is justified on the following grounds:

Tecnotree's business operations have been loss-making for several years. One key reason for this has been the decline in sales of old products, for which sales of new products have not fully managed to compensate. In 2017, Tecnotree will continue to focus on stringent control of operating expenses while launching its new open source products.

The company's financial situation has been tight for the past couple of years. One contributing factor has been two exceptionally large customer projects obtained in 2011 and 2012 that originally had a combined value of USD 54.6 million. It had been agreed that the payments for these projects would mainly take place towards the end of the projects. The first project was completed in an agreement made with the client in January 2015. At the end of 2016 the company still had recognised receivables of EUR 6,0 million from the other project in its balance sheet. The company estimates that it will bring this project to a conclusion in 2017. The company does not intend in future to undertake projects of such a large scale. Instead it will make customer agreements in which the projects consist of smaller elements, for which payment is received more quickly and that are easier to manage.The company recognized no income for the two projects mentioned above during 2016 apart from exchange rate differences on receivables for the projects. The cost savings programme, started during the fourth quarter 2016, and other one-time items decreased the results.

The company's financial situation continues to be very tight. As a result of this, its cash position and liquidity are critical. The amount of overdue trade payables has continued to increase, and the company expects its cash flow to be negative in Q2 2017.

At the time of publication of the financial statements, there is limited certainty about the sufficiency of long-term, short-term and working capital financing over the next 12 months.

Tecnotree's management and the Board of Directors have assessed the company's difficult financial situation and ability to continue operations. Based on this assessment, the management and the Board of Directors are of the opinion that it was appropriate to prepare the financial statements on a going concern basis. This assessment is based on the company's ongoing restructuring programme as well as measures enhancing its operational efficiency. Furthermore, Tecnotree is negotiating with financiers on additional short-term financing in order to secure its liquidity, and taking determined measures to repatriate its receivables. The company is also negotiating on long-term external funding, which could be effected through a business transaction and restructuring.
The continuation of Tecnotree's operations depends on the success of the aforementioned measures and the company's ability to continue to implement its restructuring programme. Thus, the continuity of operations involves significant uncertainties.

Tecnotree has progressed well in its transformation from a service-based company into a genuinely product-based company. The advantage of a product-based company is that it attracts exceptional talent and is able to sell licenses, which increases net sales and cash flow. Product companies have a shorter revenue turnaround time, which also increases net sales and cash flow. In addition to attracting top talent, the company must continuously allocate its resources so that it is able to provide its customers with tailored projects worldwide without additional risks and expenses.

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".

Subsidiaries

The consolidated financial statements include the parent company Tecnotree Corporation as well as its all directly or indirectly owned subsidiaries (over 50 % of the voting rights) or companies otherwise under its control. Tecnotree is considered to control an entity when Tecnotree is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Generally, control exists when the Group holds directly or indirectly over half of the voting rights.

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, dividend distribution, receivables, liabilities and unrealised margins on intra-group transactions are eliminated in preparing the consolidated financial statements.

Net result and total other comprehensive income for the period attributable to the owners of the parent and non-controlling interests is presented in the statement of comprehensive income. Net result attributable to non-controlling interests is presented within equity in the consolidated balance sheet separately from equity attributable to the owners of the parent. Non-controlling interests of accrued losses are recognised in the consolidated financial statements up to the maximum amount of their investment.

There are no joint arrangements or associated companies in the Group.

Foreign currency items

Group companes report their operations in their financial statements using the currency of the economic environment in which the entity primarily operates (functional currency). Transactions in foreign currencies are translated 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 valuated 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 recognised in the income statement. Exchange gains and losses relating to business operations are treated as adjustments to net sales or to materials and services. Exchange rate gains and losses related to financing operations are recognised 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 and expenses for income statements and comprehensive income statements as well as items in cash flow 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 in non-euro-area, the translation of the foreign subsidiaries' accumulated equity subsequent to acquisition, of the income statements and the balance sheets are recognised in other comprehensive income and presented as a change in equity. They are recognised in the income statement as part of the gain or loss on sale on the disposal of all or part of a foreign subsidiary.

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 capitalised. Other subsequent expenses are capitalised only if it is probable that they will increase the economic benefits that will flow to the Group. 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 disposal of property, plant and equipment are recognised 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

Goodwill arising on a business combination is recognised as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and any previously held equity interests in the acquiree, over the Group's share of the fair value of the identifiable net assets acquired.

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

Other intangible assets

An intangible asset is recognised only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. Intangible assets that have finite useful lives are recorded in the balance sheet and amortisation is recognised in the income statement on a straight-line basis over the useful lives. The estimated useful life for intangible rights is 3-10 years.

Research and development costs

Research costs are charged to the income statement as incurred. Development costs for new products are capitalised when they meet the requirements of IAS 38 Intangible assets. They are amortised over the useful lives of the related products. In Tecnotree development costs are monitored on a project-by-project basis and the Group's management decides on the capitalisation separately for each project. In order to qualify for capitalisation 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. Capitalisation 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 capitalised development expenditure is 3-5 years depending on the expected commercial life cycle, and they are amortised on a straight-line basis over this period from the start of commercial use. The consolidated balance sheet of 31 December 2016 and 31 December 2015 did not include any capitalised product development costs.

Inventories

Inventories are stated at the lower of acquisition cost and net realisable value. The valuation 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. An asset acquired under a finance lease agreement is recognised 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 financial 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 recognised 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 recognised as other operating expenses in the income statement on a straight-line basis over the lease term.

Impairments of tangible and intangible assets

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. In practice this determination is done separately for each group of asset. 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 either present value of the future net cash flows (value in use) or fair value less costs of disposal. Impairment tests of Tecnotree are carried out based on the value in use at the cash-generating unit level.

The Group's cash-generating units are the following: Americas (North, Central and South America), Europe, MEA (Middle East and Africa) and APAC (Asia Pacific).

An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The impairment loss is recognised in the income statement. When recognising an impairment loss, the useful life of the asset group subject to the impairment is re-evaluated.

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 recognised. 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 recognised. 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 recognised in the income statement on an accrual basis.

The obligation for defined benefit pension plans is calculated using the projected unit credit method. The pension costs are recognised as expense during the period of service based on calculations prepared by authorised actuaries. 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 present value of the pension obligation is reduced by the fair value of the plan assets as of the end of the reporting period. The net defined pension liability (or asset) is recorded in the balance sheet.

Current service costs and net interest income or expense of the defined net liability is recorded in the income statement and presented as part of the employee benefit expenses. The remeasurement items of the defined net liability (or asset) are recorded in other comprehensive income in the period they occurred.

Past service costs are recorded as expense in the income statement at the earlier of the following dates: when the plan amendment or curtailment occurs, or when the entity recognises related restructuring costs or termination benefits.

Other long-term employee benefits

In addition to defined benefit plans, Tecnotree has other long-term employee benefits. They are presented separately from the defined benefit plans. The related benefits are such that personnel in certain subsidiaries or branch offices are entitled to receive cash compensation when employment ends. The related liability is recognised in the balance sheet.

Provisions and contingent liabilities

A provision is recognised 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 recognised as a separate asset, but only when it is virtually certain that the compensation will be received.

A provision for restructuring is recognised 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.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not wholly within the control of the entity. Such present obligation that probably does not require settlement of a payment obligation and the amount of which cannot be reliably measured is also considered to be a contingent liability. Contingent liabilities are disclosed in the notes to the financial statements.

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 and based on the tax legislation in force in each country. The resulting tax is adjusted by any tax relating to previous years. Tax effects related to transactions recognised in the income statement or other events are recognised in the income statement. If the taxes are related to items of other comprehensive income or to transactions or other events recognised directly in equity, income taxes are recognised within the respective items.

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 recognised 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.

Deferred tax is measured using the tax rates enacted by the balance sheet date or substantially enacted tax rates. Deferred tax liabilities are mainly recognised in full, but deferred tax assets are only recognised to the extent that it is probable that future taxable income will be available against which they can be utilised. The conditions for recognition of any deferred tax asset are evaluated at the end of each reporting period.

Revenue recognition

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

Construction Contracts

Revenue from project deliveries is recognised in accordance with IAS 11 Construction Contracts. Project revenue and expenses are recognised 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. The progress of a project is regularly monitored and is based on several factors including deliveries made or likely to be made, completion of customer obligations etc. Costs may include those that maybe incurred before receipt of formal customer order.

The stage of completion method of revenue recognition is based on estimates of the expected revenue and costs associated with the contract and on estimating the progress of the project. The cost estimates for the projects are monitored regularly in the management's revenue review and the revenue and expenses recognised 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 recognised 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 recognised only 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 recognised on final acceptance. This method of revenue recognition requires management estimates and judgment. Issues related to these are described later in the accounting principles section "Accounting principles requiring management judgments and key sources of estimation uncertainty".

Construction work in progress is stated at the aggregate amount of revenue recognised less the invoiced amount. Project costs recognised in income statement 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 recognised as an expense immediately.

Sale of products and services

Revenue from the sale of goods and services is recognised in accordance with IAS 18 Revenue. Revenue from the sale of goods is recognised when the significant risks and benefits of ownership have been transferred to the buyer and the amount of revenue can be measured reliably and it is probable that the related economic benefits will flow to the Group. Revenue from services is recognised when the services have been rendered and when a flow of economic benefits associated with the service is probable. 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 recognised over the contract period on a straight-line basis.

Definition of operating result, adjusted operating result and adjusted profit for the period

IAS 1 Presentation of Financial Statements does not define the term ‘operating result’. Tecnotree Group has defined it as follows: operating result 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, amortisation 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 result (Tecnotree does not apply hedge accounting). All other income statement items are presented below the operating result. Exchange rate differences are included in operating result if they arise from items related to business operations otherwise they are recognised in finance items.

The Group’s adjusted operating result and the result for the period are one-time costs. Events that occur only once or very seldom are recorded as one-time costs. These events can be for example business disposals, restructurings, impairment losses or costs for legal proceedings.

Non-current assets held for sale and discontinued operations

Non-current assets or a disposal group as well as assets and liabilities related to discontinued operations are 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

The Group´s financial assets are classified in 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 recognised on the transaction date. 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.

The financial assets at fair value through profit and loss comprise assets held for trading that in the Tecnotree Group include the positive fair value of the currency derivatives and interest rate swaps.

Loans and receivables include trade receivables and other receivables measured at amortised cost less any impairment. The Group records impairment on trade receivables when there is objective evidence that the receivable will not be fully recoverable. Financial difficulties, probable bankruptcy and default or significant delays in payments of the debtor are evidence of the receivables being impaired. An impairment loss or its possible reversal is recorded in the income statement.

Bank deposits with maturities of more than 3 months are also classified as loans and receivables.

Cash and cash equivalents comprise cash in hand and at bank and other short-term bank deposits with maturities less than three months.

Financial liabilities

The Group’s financial liabilities are categorised into financial liabilities at fair value through profit and loss (foreign currency derivatives with negative fair values) and other financial liabilities (financial liabilities at amortised cost). Other financial liabilities comprise for example bank loans and trade payables of the Group. The financial liabilities are classified as current unless the Group has an unconditional right to postpone the payments more than 12 months from the reporting date. A financial liability (or part of the liability) is not derecognised until the liability has ceased to exist, that is, when the obligation identified in a contract has been fulfilled or cancelled or is no longer effective. Bank overdrafts are included within borrowings in current financial liabilities in the balance sheet.

Financial liabilities at fair value through profit or loss are recognised initially at fair value and subsequently at fair value at the end of each reporting period. Other financial liabilities are initially recognised at fair value adjusted by major transaction costs. Subsequent to initial recognition, these liabilities are stated at amortised cost calculated using the effective interest method.

Borrowing costs (mainly interest costs) directly attributable to the acquisition or construction of a qualifying asset are capitalised in the balance sheet as part of the carrying amount of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recorded as 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 and interest rate swaps.

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

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 realised and unrealised fair values are recognised in the income statement in the period they incur.

Accounting principles requiring management judgments and key sources of estimation uncertainty

To prepare the consolidated financial statements in accordance with IFRSs the Group 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 relate to revenue recognition and the valuation of trade receivables and goodwill.

The projects delivered and services rendered by the Group are often large, complicated and financially significant. The Group 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 Group or the customers. The completion of projects often requires new technical solutions that may cause unpredictable problems, delays and additional costs.

Trade receivables are measured at amortised cost less any impairment. The Group records impairment on trade receivables when there is objective evidence that the receivable will not be fully recoverable. This evaluation is done at the end of each reporting period. Additional information on impairment losses are disclosed in note 7 to the consolidated financial statements.

The Group tests goodwill at least yearly 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. Additional information on impairment tests are disclosed in note 13 to the consolidated financial statements.

As of 1 January 2016, the Tecnotree Group has applied the following new and amended standards:

• Annual Improvements to IFRSs, collection of amendments 2012–2014 (effective for financial periods beginning on or after 1 January 2016): In the Annual Improvements procedure, all the minor and less urgent changes to the standards are gathered together and carried out once a year. Changes apply to four standards. The effects of the amendments vary depending on the standard but are not material.

• Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative (effective for financial periods beginning on or after 1 January 2016). The amendments clarify the IAS 1 guidance with respect to materiality, the aggregation of items in the income statement and balance sheet, the presentation of headings, the structure of the financial statements and the accounting principles. Minor changes have been made to the presentation of Tecnotree's consolidated financial statements.

• Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial periods beginning on or after 1 January 2016): The amendments prohibit the depreciation of intangible assets on the basis of sales revenue. Exceptionally, assets can be depreciated on the basis of sales revenue only if revenue and consumption of the intangible asset are highly correlated. Sales income-based depreciation methods are not applicable to property, plant and equipment. The amendments had no effect on Tecnotree's consolidated financial statements

Other new or amended standards and interpretations have no effect on the consolidated financial statements.

The preparation of financial statements under IFRS means that Group management must necessarily make certain estimates and judgements concerning the application of the accounting principles. Information about such considerations made by the management when applying the corporate accounting principles with the greatest influence on the figures presented in the financial statements are explained under the item 'Accounting policies requiring consideration by management and crucial factors of uncertainty associated with estimates'.

New and amended standards and interpretations to be applied in future financial periods

The Tecnotree Group has not yet applied the following new or revised standards and interpretations published by the IASB. The Group will introduce each standard and interpretation as of its effective date or, if the effective date is some other date than the first day of the fiscal period, as of the beginning of the fiscal period following the effective date.

* The regulation has not been approved for application within the EU on 31 December 2016.

• IFRS 15 Revenue from Contracts with Customers (effective for financial periods beginning on or after 1 January 2018): The new standard replaces the current IAS 18 and IAS 11 standards and their related interpretations. IFRS 15 includes a five-step model for the recognition of revenue with respect to the timing and amount. Revenue is recognised as control is passed, either over time or at a point in time. The standard also increases the amount of disclosures in the notes to the financial statements. The effects of IFRS 15 on Tecnotree's consolidated financial statements have been assessed as follows:

- The key concepts of IFRS 15 have been analysed with respect to different revenue flows. These include own licences and their maintenance, third-party licences and their maintenance, and the sale of work and services.
- The standard will be adopted at the beginning of 2018, using a partly retroactive approach and practical tools. The company will apply this standard to each previous reporting period presented.
- The IFRS 15 project has been launched.

• Clarifications to IFRS 15 Revenue from Contracts with Customers* (effective for financial periods beginning on or after 1 January 2018): The clarifications have been included in the evaluation of the effects of IFRS 15 described above.
• IFRS 9 Financial Instruments and its amendments (effective for financial periods beginning on or after 1 January 2018): IFRS 9 replaces the current IAS 39. The new standard includes revised guidance on the recognition and measurement of financial instruments. It also incorporates a new expected loss impairment model to be used for specifying impairment recognised on financial assets. The general provisions regarding hedge accounting have also been revised. The provisions included in IAS 39 concerning the recognition and derecognition of financial instruments remain unchanged. Assessments indicate that the impacts of IFRS 9 on Tecnotree's consolidated financial

statements will be slight.

• IFRS 16 Leases* (effective for financial periods beginning on or after 1 January 2019): The new standard replaces IAS 17 and related interpretations. IFRS 16 requires lessees to recognise leases as lease payment obligations and related asset items in the balance sheet. Balance sheet entry is very similar to the accounting treatment of finance leases under IAS 17. There are two concessions with regard to recognition of leases in the balance sheet, relating to leases with a short term of less than 12 months and leases in respect of assets valued at no more than USD 5,000. For lessors, accounting treatment will largely remain the same as under the current IAS 17. The Group has started the preliminary assessment of the effects of the standard. Based on that, it is estimated Tecnotree's lease payment obligation in the consolidated financial statements and balance sheet.

• Amendment to IAS 7 Statement of Cash Flows – Disclosure Initiative* (effective for financial periods beginning on or after 1 January 2017). The amendments seek to enable users of financial statements to evaluate changes in liabilities – both those and those without an effect on cash flow – arising from financing activities. The amendment affects the notes to Tecnotree's consolidated financial statements.

• Amendment to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses* (effective for financial periods beginning on or after 1 January 2017). The amendments clarify that the existence of deductible temporary differences depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or how an amount equivalent to said carrying amount will be accrued in the future. The amendment has no effect on Tecnotree's consolidated financial statements.

• Amendments to IFRS 2 Share-based Payment -Clarification and Measurement of Share-based Payment Transactions* (effective for financial periods beginning on or after 1 January 2018). The amendments clarify the accounting treatment of certain kinds of arrangements. They concern three subareas: measurement of cash-settled payment transactions; share-based payment transactions net of withholding tax; and modification of share-based payment transactions from cash-settled to equity-settled.

• Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration* (effective for financial periods beginning on or after 1 January 2018). When advance consideration denominated in foreign currency is paid or received for the related asset, income or expense, IAS 21 The Effects of Changes in Foreign Exchange Rates does not express an opinion on how the date of transaction should be determined for the purpose of translating said item. The interpretation clarifies that the date of transaction is the date of initial recognition of the advance payment or deferred income. If there are multiple payments or receipts in advance, a date of transaction is established for each. The amendment has no effect on Tecnotree's consolidated financial statements.

• Annual Improvements to IFRSs, collection of amendments 2014–2016* (for IFRS 12, effective for financial periods beginning on or after 1 January 2017, and for IFRS 1 and IAS 28 for financial periods beginning on or after 1 January 2018): In the Annual Improvements procedure, all the minor and less urgent changes to the standards are gathered together and carried out once a year. Changes apply to three standards. The effects of the amendments vary depending on the standard but are not material.

Other new or amended standards and interpretations have no effect on the consolidated financial statements.

1. Segment reporting

The operating segments under IFRS 8 reported by Tecnotree are the geographical areas, which are Europe & Americas (Europe, North, Central and South America), MEA & APAC (Middle East and Africa & Asia Pacific). This is because their results are monitored separately in the company's internal financial reporting. Tecnotree's ultimate 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, being costs of sales and marketing, customer service and delivery functions as well as product development. Costs for product management and administration, depreciations, taxes and financial items are not allocated to the segments.

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. These are costs of sales and marketing, customer service and delivery functions as well as product development costs. Other segments item include depreciations as well as such administration and other operating expenses that can't be allocated to the segments on a reasonable basis.

Tecnotree does not allocate its assets to the operating segments for the reporting purposes.

Operatig segments 2016

EUR 1,000		**Americas & Europe**	**MEA & APAC**	**Other segments**	**Group total**
Net sales (external)		24,975	35,100		**60,075**
Segment result		-11,394	2,013		**-9,381**
Non-allocated items				10,616	**10,616**
Operating result before one-time costs	*)				**1,235**
One-time costs	**)				**-11,325**
Operating result					**-10,090**

Operatig segments 2015

EUR 1,000		Americas & Europe	MEA & APAC	Other segments	Group total
Net sales (external)		35,047	41,416		76,462
Segment result		7,832	16,994		24,826
Non-allocated items				-12,859	-12,859
Operating result before one-time costs	*)				11,967
One-time costs	**)				-312
Operating result					11,654

Net sales from Finnish customers were EUR 839 (1,338) thousand and the total of all other countries EUR 59,236 (75,124) thousand. Non-current assets located in Finland at the balance sheet date were EUR 1,845 (2,140) thousand, and in other countries a total of EUR 18,688 (19,892) thousand.
*) Operating result before one-time costs = Adjusted operating result
**) One-time costs 2016 = include EUR 9.0 million write-down related to delivery on convergent online charging solution and EUR 2.3 million (EUR 0.3 million 2015)) one-time costs related to redundancies.

Information about major customers

EUR 1,000		**2016**		2015	
		Net sales	**% of the Group's net sales**	Net sales	% of the Group's net sales
Customer 1, operating segment:	Americas & Europe	**21,772**	**36%**	28,128	37%
Customer 2, operating segment:	MEA & APAC	**23,864**	**40%**	33,348	44%

2. Net sales

EUR 1,000	2016	2015
Revenue from contract work recognised by stage of completion (IAS 11)	**19,667**	23,496
Revenue from maintenance and support (IAS 18)	**28,947**	31,138
Revenue from goods and services (IAS 18)	**11,060**	19,433
Currency exchange gains and losses	**402**	2,395
Net sales total	**60,075**	76,462
Order book for contract work	**12,742**	15,361
Order book for maintenance and support, goods and services	**12,112**	11,422
Order book total	**24,854**	26,783
Projects in progress:		
Cumulative revenue recognised for projects in progress	**15,050**	38,389
Cumulative invoicing for projects in progress recognised by stage of completion	**14,651**	21,720
Accrued income related to construction contracts, work in progress	**399**	16,669
Aggregate amount of costs incurred for projects in progress	**4,372**	21,072

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	2016	2015
Rental income	79	79
Gains on disposal of tangible and intangible assets	82	25
Compensatory damages	108	
Other income items	1	2
Other operating income total	270	107

4. Materials and services

EUR 1,000	2016	2015
Purchases during the period	**-2,518**	-6,767
Increase/decrease in inventories	**340**	7
Materials and supplies	**-2,179**	-6,760
External services	**-2,518**	-1,127
Materials and services total	**-4,697**	-7,887

5. Employee benefit expenses

EUR 1,000	2016	2015
Wages and salaries	**-27,874**	-27,552
Pension expenses, defined contribution plans	**-1,835**	-1,768
Pension expenses, defined benefit plans (note 21)	**-199**	-187
Share based compensation (incentive scheme)		-7
Other long-term employee benefit expenses (note 23)	**-375**	-581
Other employee benefits	**-3,345**	-3,393
Employee benefit expenses total *)	**-33,629**	-33,488

*) Employee benefit expenses include one-time costs 2016 EUR 2.3 million (EUR 0.3 million 2015)

Information about management compensation is presented in note 28.

Average number of employees		
Finland	**108**	95
Ireland	**37**	48
Other Europe	**1**	3
India	**617**	688
Other East and Southeast Asia	**4**	3
Middle-East	**72**	51
Latin America	**57**	62
Total	**895**	950

The group has no effective option series anymore at the end of 2016. In the income statement for 2015, expenses of EUR 7 thousand were recorded for earning period 2013.

6. Depreciations, amortisations and impairment losses

EUR 1,000	2016	2015
Depreciations and amortisations by class of asset:		
Other intangible assets	**-132**	-113
Property, plant and equipment		
Buildings	**-264**	-279
Machinery and equipment	**-398**	-547
Machinery and equipment, finance lease	**-101**	-53
Depreciations total	**-895**	-991

7. Other operating expenses

EUR 1,000	2016	2015
Subcontracting	**-3,175**	-5,018
Office management costs	**-4,372**	-3,870
Travel expenses	**-6,563**	-5,392
Impairment losses on receivables	**-10,897**	-1,779
Agent fees	**-84**	-787
Rents	**-2,248**	-2,390
Professional services	**-3,229**	-2,703
Marketing	**-488**	-543
Other expenses	**-153**	-21
Other operating expenses total	**-31,209**	-22,504

Impairment losses were recognised on trade receivables totalling EUR 64 (1,052) thousand and on receivables related to construction contracts totalling EUR 11,143 (727) thousand.

Auditors' fees		
Audit KPMG	**-149**	-187
Tax consulting KPMG	**-28**	-45
Other services KPMG	**-86**	-40
Other services, others	**-15**	-14
Audotrs' fees total	**-278**	-286

8. Research and development expenditure

EUR 1,000	2016	2015
Product development expenses recognised in income statement total	**-6,514**	-12,985
Product development expenses in relation to net sales	**10.8%**	17.0%
Product development expenses in relation to total expenses	**9.2%**	20.0%

Product development expenses in relation to net sales and total expenses are disclosed in the Key figures section for five years.

9. Financial income and expenses

EUR 1,000	2016	2015
Financial income		
Change in value of interest rate swaps at fair value through income statement	**58**	5
Financial income from loans and receivables	**75**	33
Other financial income	**19**	264
Foreign exchange gains on loans and receivables and on financial liabilities at amortised cost	**63**	259
Restructuring income, write-down of the debts	**6,636**	
Financial income total	**6,852**	561
Financial expenses		
Interest expenses from financial liabilities at amortised cost	**292**	-1,981
Other financial expenses	**-1,958**	-1,839
Foreign exchange losses on loans and receivables and on financial liabilities at amortised cost	**-717**	-584
Financial expenses total	**-2,384**	-4,404
Financial income and expenses total	**4,468**	-3,843

The District Court of Espoo confirmed by a decision on 15 November 2016 the amended restructuring programme drafted by the administrator Jari Salminen as the payment program of the company. Along with the confirmation of the payment program, the group recorded a one-off positive income effect of approximately 6.6 million euros as a result of debt rearrangement. Details can be found in the payment programme for the company in Annex 15, which is published in the Tecnotree Corporation's stock exchange release of 30 September 2016 under the title The Restructuring Programme proposal.

The exchange rate gains and losses consist mainly of exchange rate differences from intragroup payables in the parent company. Items above the operating result include foreign exchange rate gains (net) of EUR 402 thousand in 2016 (EUR 2,395 thousand exchange rate gains (net) in 2015).

Other financial expenses in 2016 include EUR 1,727 (EUR 1,425 thousand in 2015) thousand of additional costs for using an exceptional procedure to repatriate funds from a country that has a lack of foreign currency.

10. Income taxes

EUR 1,000	2016	2015
Current taxes	**-413**	-802
Withholding taxes paid abroad	**-4,456**	-6,334
Change in withholding tax accrual (note 23)	**4,278**	-2,359
Taxes for previous accounting periods	**-11**	-1,363
Change in deferred tax assets (note 15)	**-33**	-371
Change in deferred tax liabilities (note 15)		3,827
Dividend tax paid on intra-group dividends		-172
Income taxes total	**-635**	-7,574

Reconciliation of effective tax rate

Income tax reconciliation between tax expense computed at statutory rates in Finland (2016 and 2015: 20.0 per cent) and income tax expense is presented below.

Profit before taxes	**-5,621**	7,811
Income tax using Finnish tax rates	**1,124**	-1,562
Effect of different tax rates applied to foreign subsidiaries	**3,981**	-908
Non-deductible expenses and tax-free income	**-5,551**	546
Withholding taxes	**-178**	-6,735
Taxes of prior periods	**-11**	-1,363
Utilisation of previously unrecognised tax losses		10
Unrecognised deferred tax assets on research and development costs not deducted for tax purposes		-1,733
Deferred tax liabilities on undistributed profits of a foreign subsidiary		3,655
Other capital allowances		516
Taxes in income statement	**-635**	-7,574

11. Earnings per share

EUR 1,000	**2016**	2015

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

Result attributable to equity holders (EUR 1,000)	**-6,290**	211
Weighted average number of shares during the year, adjusted to reflect the share issue for the comparative period (1,000 shares)	**122,628**	122,628
Basic earnings per share, (EUR/share)	**-0.05**	0.00

In the calculation of diluted earnings per share, the weighted average number of shares is adjusted by the dilutive effect of converting all potential ordinary shares into shares. At end of years 2016 and 2015, the Group had no share option series anymore.

12. Intangible assets

Intangible assets 2016

EUR 1,000	**Goodwill**	**Product development costs**	**Other intangible assets**	**Total**
Acquisition cost 1 Jan	18,449	14,406	7,553	**40,408**
Exchange differences	92		37	**129**
Additions			16	**16**
Disposals			-105	**-105**
Acquisition cost 31 Dec	18,541	14,406	7,501	**40,448**
Accumulated amortisations and impairment losses 1 Jan	-924	-14,406	-6,905	**-22,235**
Exchange differences	-6		-39	**-44**
Accumulated amortisations on disposals				
Amortisation during period			-132	**-132**
Accumulated amortisations and impairment losses 31 Dec	-929	-14,406	-7,075	**-22,411**
Book value 31 Dec 2016	**17,612**		**426**	**18,038**

Intangible assets 2015

EUR 1,000	Goodwill	Product development costs	Other intangible assets	Total
Acquisition cost 1 Jan	17,509	32,036	6,877	56,422
Exchange differences	941		277	1,217
Additions			399	399
Disposals		-17,630		-17,630
Acquisition cost 31 Dec	18,449	14,406	7,553	40,408
Accumulated amortisations and impairment losses 1 Jan	-867	-32,036	-6,519	-39,423
Exchange differences	-57		-273	-329
Accumulated amortisations on disposals		17,630		17,630
Amortisation during period			-113	-113
Accumulated amortisations and impairment losses 31 Dec	-924	-14,406	-6,905	-22,235
Book value 31 Dec 2015	17,525		647	18,173

13. Goodwill impairment testing

Allocation of goodwill

The major part of the goodwill arose on the acquisition of the Lifetree company in 2009. 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. After recognition of goodwill impairment losses in 2012, no goodwill is allocated to Europe and APAC regions. 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 2016		**12,977**		**4,635**	**17,612**
Goodwill 31 Dec 2015		12,914		4,612	17,525

Impairment testing

Goodwill impairment is tested at least at each balance sheet date and at any occurence of an indication that the goodwill or another asset may be impaired. The recoverable amounts of goodwill are determined based on value in use calculations. The cash flow forecasts rely on forecasts of revenue and cost development approved by the management. The forecasts cover a five-year period. The key variables in defining cash flows are the following:

	Middle-East and Africa 2016	**Americas 2016**	Middle-East and Africa 2015	Americas 2015
Discount rate (WACC), post-tax	**11.8%**	**12.4%**	11.8%	12.5%
Discount rate (WACC), pre-tax	**14.8%**	**15.4%**	14.7%	15.0%
Adjusted operating result in relation to revenue for the forecast period 2017 - 2021 (2016 - 2020), per cent	**5,2 % - 11,5 %**	**10,5 % - 12,7 %**	10.0 % - 25.0 %	7.0 % - 14.4 %
Adjusted operating result for the foercast period 2017 - 2021 (2016 - 2020), EUR million	**2,2 - 4,4**	**2,4 - 2,7**	4.6 - 9.5	2.2 - 2.8
Residual value growth rate factor	**2.5%**	**2.3%**	2.5%	2.5%

Discount rate: The discount rate applied in the calculations is 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 the change in the market risk premiums.

Adjusted operating result: The adjusted operating result is based on the budget for 2017 (2015: on the budget for 2016) and forecasts for the years 2018 - 2021 (2015: for the years 2017 - 2020) approved by the Board of Directors. The adjusted operating result in relation to revenues during the forecast period is estimated to improve to a level of 7.1 - 10.5 per cent being EUR 5.2 - 6.9 million (2015: a level of 9.4 - 13.8 per cent being EUR 7.9 - 10.7 million) and a typical level for the industrial sector.

Residual value growth rate factor: The management estimates the development of these factors based on internal and external views of the history and future of the industrial sector.

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 adjusted operating result 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 December 2016.

	Middle-East and Africa 2016	**Americas 2016**	Middle-East and Africa 2015	Americas 2015
The change of discount rate (WACC), in percentage points	**1.0%**	**3.7%**	8.0%	6.6%
Change in adjusted operating result for terminal period, in percentage	**-17%**	**-45%**	-73%	-61%
Change in residual value growth rate factor, in percentage points	**-1.9%**	**-7.9%**	-25.7%	-22.3%
Amount by which the recoverable amount exceeds the carrying value, EUR 1,000	**1,786**	**4,376**	16,377	8,640

14. Property, plant and equipment

Property, plant and equipment 2016

EUR 1,000	Land and water areas	*) Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan	1,142	7,534	20,022	**28,698**
Translation differences			112	**112**
Additions			281	**281**
Disposals	-404	-911	-3	**-1,317**
Acquisition cost 31 Dec	739	6,623	20,413	**27,774**
Accumulated depreciations and impairment losses 1 Jan		-6,442	-18,607	**-25,049**
Translation differences			-49	**-49**
Accumulated depreciation on disposals		637	-53	**584**
Depreciation during period		-264	-500	**-764**
Accumulated depreciations and impairment losses 31 Dec		-6,069	-19,208	**-25,277**
Book value 31 Dec 2016	**739**	**553**	**1,205**	**2,497**

Property, plant and equipment 2015

EUR 1,000	Land and water areas	Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan	1,142	7,534	20,262	28,938
Translation differences			-287	-287
Additions			753	753
Disposals			-705	-705
Acquisition cost 31 Dec	1,142	7,534	20,022	28,698
Accumulated depreciations and impairment losses 1 Jan		-6,163	-18,961	-25,125
Translation differences			272	272
Accumulated depreciation on disposals			682	682
Depreciation during period		-279	-599	-878
Accumulated depreciations and impairment losses 31 Dec		-6,442	-18,607	-25,049
Book value 31 Dec 2015	1,142	1,092	1,415	3,649

*) As stated in the restructuring programme, Tecnotree Oyj has committed itself to sell its real estate used as its office premises by 31.12.2019. The sale price shall be paid to the collateral holder Nordea Pankki Suomi Oyj. The company has a right not to sell the real estate in the given time only if approved by the supervisor and Nordea Pankki Suomi Oyj.

15. Deferred tax assets and liabilities

Deferred taxes 2016

EUR 1,000	**1.1.2016**	**Translation differences**	**Recognised in income statement**	**31.12.2016**
Deferred tax assets				
Capital allowances in the Ireland subsidiary				
Tax losses in the Ireland subsidiary	55		-55	
Capital allowances in the India subsidiary	537	54	-23	**568**
Pension obligations and impairment losses in the India subsidiary				
Total	**593**	**54**	**-78**	**568**
Deferred tax liabilities				
Undistributed profits of foreign subsidiaries				
Total				

Deferred taxes 2015

EUR 1,000	1.1.2015	Translation differences	Recognised in income statement	31.12.2015
Deferred tax assets				
Capital allowances in the Ireland subsidiary	28		-27	
Tax losses in the Ireland subsidiary	47		8	55
Capital allowances in the India subsidiary		-6	543	537
Pension obligations and impairment losses in the India subsidiary	831	65	-896	
Total	905	58	-371	593
Deferred tax liabilities				
Undistributed profits of foreign subsidiaries	3,390	437	-3,827	
Total	3,390	437	-3,827	

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

EUR 1,000	**2016**	2015
Deductible temporary difference for which no deferred asset has been recognised		
Tecnotree's product development costs not deducted in its taxation *	**76,986**	73,003
*) 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.		
Other deductible temporary differences	**2,322**	2,241
Tax losses in Brazil	**408**	358
Items for which the Group has not recognised a deferred tax asset because of the uncertainty about utilising them, total	**79,716**	75,601
Undistributed profits of foreign subsidiaries, for which no deferred tax liabilities have been recognised since distribution is not likely in the forseeable future		294

16. Non-current receivables

EUR 1,000	2016	2015
Rent guarantees	**952**	1,009
Pledged cash and cash equivalents	**288**	288
Other non-current receivables	**21**	13
Non-current receivables total	**1,262**	1,310

17. Inventories

EUR 1,000	2016	2015
Materials and consumables	**827**	495
Work in progress	**30**	29
Finished products/goods	**12**	6
Inventories total	**869**	530

During the period the write-down of inventories to net realisable value amounted to EUR 285 (251) thousand.

18. Trade and other current receivables

EUR 1,000	2016	2015
Trade receivables related to construction contracts	**8,112**	5,871
Other trade receivables	**5,663**	6,182
Trade receivables total	**13,775**	12,053
Work in progress related to construction contracts	**399**	16,669
Finished work related to construction contracts	**8,356**	2,736
Other receivables based on delivery agreements	**4,377**	6,268
Other receivables related to construction contracts total	**13,131**	25,673
Current prepaid expenses and accrued income	**2,449**	3,348
Other current receivables	**1,417**	756
Trade and other receivables total	**30,773**	41,830

A large part of the trade receivables are from two major customers, which are disclosed in note 1 and under Credit risk in note 24. Impairment losses recorded during the period on trade receivables and other receivables related to construction contracts are disclosed in note 7.

EUR 0 (0) thousand of the trade receivables and EUR 5,982 (14,979) thousand of other receivables related to construction contracts are related to such long-term projects for which total income is pledged under the working capital credit facility agreement.

Fair values of receivables are disclosed in note 25.

1 000 €	2016	2015
Major items included in current prepaid expenses and accrued income:		
Valuation of currency derivatives		
VAT receivables	**41**	261
Service Tax receivables in india	**790**	1,289
Advance payments	**518**	739
Other prepaid expenses and accrued income	**1,100**	1,059
Total	**2,449**	3,348

19. Cash and cash equivalents

EUR 1,000	**2016**	2015
Bank deposits with maturities of less than 3 months		565
Cash in hand and at bank	**3,503**	5,868
Cash and cash equivalents total	**3,503**	6,433

Some of the funds, EUR 329 (1,040) thousand, are located in Nigeria, from where they cannot be freely transferred to other countries without a notable delay caused by the country's central bank. In financial year 2016, the Group repatriated funds from Nigeria in an unusual manner. Because the central bank was lacking in foreign exchange reserves, currency was exchanged through local companies that had foreign exchange earnings.

20. Notes to the shareholders' equity

EUR 1,000	Number of outstanding shares (1,000 shares)	Share capital	Share premium fund	Other reserves	Translation differences	Invested unrestricted equity reserve	Total
1 Jan 2015	122,564	4,720	847	2,307	-8,489	1,624	1,010
Covering of loss		-3,374				-1,624	-4,998
Changes				-274	725		451
31 Dec 2015	122,564	1,346	847	2,033	-7,764		-3,537
Covering of loss							
Changes				-6	-746		-752
31 Dec 2016	122,564	1,346	847	2,028	-8,510		-4,289

Tecnotree Corporation has one single share series. The maximum number of shares is 122,628 (122,628) thousand. All the issued shares are fully paid.

In August 2015, the company's Board of Directors recognised the loss of shareholders’ equity of the Group’s parent company Tecnotree Corporation and delivered a statement concerning the matter to the Trade Register. The parent company’s shareholders’ equity was EUR 1,204 thousand negative on 31 December 2016 (EUR 3,020 thousand negative).

In its decision on 9 March 2015, the district court of Espoo ordered the corporate restructuring proceedings as prescribed in law to be started for Tecnotree Corporation. The District Court of Espoo confirmed by the decision on 15 November 2016 the amended restructuring programme as the payment programme of the company. Along with the decision, the restructuring proceedings of Tecnotree Oyj came to an end.

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.

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. Reserve for invested unrestricted equity was used completely to cover the loss.

Other reserves

Other reserves contain the difference between fair value and exercise price of the new shares issued in 2009 and reserve fund of Argentina.

Translation differences

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

Dividend and treatment of the result
After the reporting date the Board of Directors has proposed that no dividend be paid for the financial year ended 31 December 2016 and that the parent company’s profit for the financial year, EUR 1,816 thousand, be remained in retained earnings.

In 2016 no dividend was paid for the financial year that ended on 31 december 2015. Instead, based on the decision of the Annual General Meeting, the parent company's accumulated loss of EUR 5,213 thousand was remained in retained earnings.

21. Pension obligations

The Group has one defined benefit pension plan in India, including the whole personnel of the Indian subsidiary. The pension plan 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.

EUR 1,000	2016	2015
Defined benefit liability in the balance sheet:		
Present value of funded obligations	**988**	877
Fair value of plan assets (-)	**-58**	-142
Net liability (+) / net asset (-) in the balance sheet	**930**	735
Recociliation of the changes in balance sheet		
Net liability (+) / net asset (-) in the balance sheet in the beginning of the period	**735**	482
Pension expense recognised in profit and loss	**199**	187
Remeasurement items recognised in other comprehensive income	**59**	107
Translation differences	**-63**	-41
Net liability (+) / net asset (-) in the balance sheet at the end of the period	**930**	735
Defined benefit expense in profit and loss		
Current service cost	**146**	147
Interest income (-) and expense (+), net	**53**	40
Pension expense recognised in profit and loss (note 5)	**199**	187
Change in the defined benefit obligation:		
Defined benefit obligation in the beginning of the period	**877**	678
Current service cost	**146**	146
Interest cost	**65**	56
Remeasurement items:		
Gains (-) / losses (+) arising from changes in demographical assumptions		102
Actuarial gains (-) / losses (+) arising from changes in financial assumptions	**61**	23
Gains (-) / losses (+) arising from experience adjustments	**5**	-22
Translation differences	**5**	44
Benefits paid (-)	**-172**	-150
Defined benefit obligation at the end of the period	**988**	877
Change in plan assets:		
Plan assets in the beginning of the period	**142**	195
Interest income	**11**	17
Remeasurement items:		
Return on plan assets excluding amounts included in interest income (+/-)	**5**	-2
Translation differences	**1**	13
Payments from the plan:	**70**	69
Benefits paid (-)	**-172**	-150
Plan assets at the end of the period	**57**	142

	2016	2015
Actuarial assumptions at the reporting date	%	%
Discount rate	**6.6**	8.0
Future salary increases, first year	**8.0**	8.0
Future salary increases, thereafter	**8.0**	8.0

Assumed normal retirement age is 60 years. The turnover of the employees is assumed to decline evenly in line with the growing age, being 1 % for over 55 year olds and 15 % for under 30 year olds. Assumptions concerning mortality are made in accordance with the actuary's instructions and they are based on statistics and experience.

There is no information available on plan assets because they are commonly invested by the incurance company.

Contributions to be paid in year 2017 are expected to be EUR 167 thousand. The duration is five years.

Sensitivity analysis

The sensitivity analysed below is calculated all other factors remaining unchanged.

2016		
Change in discount rate, percentage points	**+1%**	**-1%**
Impact on the defined benefit obligation, EUR 1,000	**-43**	**47**
Change in future salary increases, percentage points	**+1%**	**-1%**
Impact on the defined benefit obligation, EUR 1,000	**36**	**33**

2015		
Change in discount rate, percentage points	+1%	-1%
Impact on the defined benefit obligation, EUR 1,000	-37	40
Change in future salary increases, percentage points	+1%	-1%
Impact on the defined benefit obligation, EUR 1,000	33	-32

22. Interest-bearing liabilities

EUR 1,000	2016	2015
Finance lease liabilities, non-current	435	451
Loans from financial institutions, non-current	23,521	
Non-current interest-bearing liabilities total	23,956	451
Finance lease liabilities, current	40	48
Loans from financial institutions, current	400	21,781
Credit facility to financing working capital, current		10,000
Current interest-bearing liabilities total	440	31,830
Interest-bearing liabilities total	24,396	32,281
Maturity of the finance lease liabilities		
Total of minimum lease less than one year	123	122
Total of minimum lease between one and five years	647	610
Total of minimum lease over five years		61
Total	770	793
Future financial expenses	-295	-294
Present value of finance lease liabilities	475	499
Present value of minimum lease less than one year	40	48
Present value of minimum lease between one and five years	435	392
Present value of minimum lease over five years		58
Finance lease liabilities, total	475	499

At the end of the financial year, the company had a payment program related long-term debt EUR 27.9 million (0.0), which consisted of interest-bearing EUR 23.5 million and EUR 4.4 million non-interest bearing liabilities to financial institutions.

Interest-bearing liabilities

The company had in accordance with the payment program of secured interest-bearing liabilities to financial institutions EUR 23.5 million. EUR. At the end of the financial year, the company had in full use EUR 0.4 million short-term loan and finance lease liabilities of EUR 0.4 million.

Non-interest bearing liabilities

The company had according with the amended restructuring programme proposal 30 September 2016, the ordinary restructuring non-interest bearing liabilities to financial institutions EUR 8.8 million and the other external restructuring debts EUR 4.7 million. Half of these debts were write down. After write down, there were the ordinary restructuring non-interest bearing liabilities to financial institutions, EUR 4.4 million and other liabilities to the other creditors of EUR 2.5 million. In accordance with the restructuring program, the parent company had a debt to Group companies EUR 36.7 million, which was written down in full.

The financing agreement signed by Tecnotree in August 2013 included covenants, but they expired after the District Court of Espoo confirmed the restructuring programme on 15 November 2016.

23. Trade payables and other liabilities

EUR 1,000	2016	2015
Non-current non-interest bearing liabilities		
Non-current liabilities to financial institutions - ordinary restructuring debts	**2,423**	
Non-current liabilities to others - ordinary restructuring debts	**4,396**	
Other long-term employee benefits (note 5)	**1,083**	1,019
Non-current non-interest bearing liabilities, total	**7,902**	1,019
Trade payables, provisions and other liabilities		
Trade payables	**4,917**	6,060
Accrued liabilities and deferred income	**7,832**	15,045
Other liabilities	**1,954**	1,083
Current provisions *	**495**	
Trade payables, provisions and other liabilities total	**15,197**	22,188
Accrued liabilities and deferred income		
Accrued personnel expenses	**2,400**	3,305
Accrued agent fees	**574**	1,121
Withholding tax provision (note 10)	**1,203**	5,481
Accrued interest fees	**794**	1,923
Valuation of interest rate swap	**314**	424
Other accrued expenses related to customer projects	**1,250**	1,696
Other accrued liabilities and deferred income **	**1,296**	1,095
Total	**7,832**	15,045

* Current provisions includes a provision of EUR 495 thousand due to reductions in personnel in Finland during 2016

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

In its decision on 9 March 2015, the district court of Espoo ordered the corporate restructuring proceedings as prescribed in law to be started for Tecnotree Corporation. The District Court of Espoo confirmed by a decision on 15 November 2016 the amended restructuring programme drafted by the supervisor Jari Salminen as the payment programme of the company. Along with the decision, the restructuring proceedings of Tecnotree Oyj came to an end. The proposal for Tecnotree's restructuring programme was approved before the resolution of the District Court in the extraordinary general meeting on November 9, 2016.
The District Court has appointed Attorney-at-Law Jari Salminen to supervise the implementation of the restructuring programme. The supervisor monitors the progress of the payment programme and gives reports to the committee of creditors and to the creditors
More details can be found in the notes 29 “Risks and uncertainties” and 22 "Interest bearing liabilities".

EUR 1,000	2016	2015
Loans from financial institutions, current (note 22)		21,781
Credit facility to financing working capital, current (note 22)		10,000
Restructuring debt included in trade payables	**2,423**	4,780
Restructuring debt included in accrued liabilities		650
Guaranteed restructuring debts from financial institutions, interest-bearing	**15,640**	
Corporate mortgage debts from financial institutions, interest-bearing	**7,881**	
Ordinary restructuring debts from financial institutions, non-interest bearing	**4,396**	

24. Financial risk management

Financial risk management principles

The task of financial risk management is to identify, manage and track the major financial 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 Board of Directors include ensuring that the Group 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 CFO 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.

Financial risk management organisation

The financial risk management process is supported by the Management Board, who handles risks and risk management in its meetings on a regular basis. CEO reports the major risks to the Board of Directors. The Group's financial management is responsible for managing foreign exchange, interest rate and liquidity risks according to the guidelines set by the Board.

Capital management

Tecnotree's objective for capital management is to ensure cash sufficiency and support Group's growth targets. Additionally, with capital management the Group is ensuring the operational precondition in capital markets during all conditions irrespective of industry's market volatility. The key ratio in monitoring the development of Group's capital structure is equity ratio, which is calculated by dividing equity with total balance sheet less advances reveiced.

In August 2015, the company's Board of Directors recognised the loss of shareholders' equity of the Group's parent company Tecnotree Corporation and delivered a statement concerning the matter to the Trade Register. The parent company's shareholders' equity was EUR 1,204 thousand negative on 31 December 2016 (EUR 3,020 thousand negative), but the Group's shareholders' equity was EUR 10,684 million positive (EUR 17,797 million positive).

At the end of the period, Tecnotree had a bank loan of EUR 28,317 thousand (EUR 21,781 thousand) as well as a fully used credit facility of EUR 0 (EUR 10,000 thousand). The financing agreement with the bank signed in August 2013 included covenants, but they expired after the District Court of Espoo confirmed the restructuring programme on 15 November 2016.

Components of equity ratio

EUR 1,000	**2016**	2015
Equity at the end of period	**10,684**	17,797
Balance sheet total	**59,763**	74,620
Advances received		
Total balance sheet less advances reveiced	**59,763**	74,620
Equity ratio	**17.9%**	23.9%

Liquidity risk

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

On the reporting date, the Group's cash and cash equivalents were EUR 3,503 (6,433) thousand. Part of the investments and cash and cash equivalents are located in countries from where the money cannot be freely transferred to other contries. These are disclosed in note 19.

At the end of the financial year, the company had a short-term loan of EUR 400 thousand. The company had in accordance to the payment program secured interest-bearing liabilities to financial institutions EUR 15,640 thousand, business mortgage debts EUR 7,881 thousand as well as restruturing debts EUR 4,396 thousand.
The cash flow situation of the company has continued to be critical. In long-term projects. The billing of the receivablen can take place with a long delay. This delay increases the risk associated with payments.
The volume of outstanding debts has continued to grow.
The cash flow varies considerably from one quarter to another, and this in turn places strain on the money situation.

2016	**Balance sheet value**	**Cash flow**	**Less than 3 months**	**3-12 months**	**1-3 years**	**Over 3 years**
Guaranteed restructuring debts from financial institutions, interest-bearing	**23,521**	**23,521**	725	818	2,799	19,179
Interest payments on the loans		**1,279**	122	1,157		
Trade payables	**7,340**	**7,340**	4,915	222	2,202	
Non-interest bearing liabilities	**4,396**	**4,396**		150	793	3,453
Derivative liabilities	**314**	**314**	38	76	200	
Total	**35,571**	**36,850**	**5,800**	**2,424**	**5,995**	**22,631**

2015	Balance sheet value	Cash flow	Less than 3 months	3-12 months	1-3 years	over 3 years
Loans from financial institutions	21,781	21,781			21,781	
Interest payments on the loans		2,418	1,290	898	230	
Credit facilities in use	10,000	10,000			10,000	
Interest payments on the credit facilities		1,229	565	394	269	
Trade payables	6,060	6,060	1,280		4,780	
Derivative liabilities	424	424	391		33	
Total	38,265	41,912	3,526	1,293	37,093	

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 amount of credit risk inherent to financial instruments is the carrying value of the financial assets, which was EUR 17,278 (18,486) thousand at the reporting date. The financial assets are specified in note 25. The most significant separate item of credit risk is the trade receivables.

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. The two largest customers accounted for 77 % of net sales in 2016 (2015: 80 %) and for 80 % of the trade receivables at the end of 2016 (2015: 86 %). Parent companies of these customers are large listed companies which credit ratings in February 2017 were A3 and Baa3 respectively according to Moody's rating. In addition, the customers of Tecnotree are mainly in developing markets, with consequenses such as currency transfer regulations and limitations, exchange rate fluctuations and other politic and financial challanges.

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	2016	2015
Undue trade receivables	**6,592**	6,220
Trade receivables 1-90 days overdue	**4,288**	4,552
Trade receivables 91-360 days overdue	**2,428**	633
Trade receivables more than 360 days overdue	**467**	648
Total	**13,775**	12,053

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. During the period, new impairment losses of EUR 64 (1,052) thousand were recorded for over one year overdue trade receivables. The above analysis of trade receivables by age shows net trade receivables, thus after recognition of impairment losses.

Market risks

Currency risk

The financial risk to which the Group is exposed in its operations is mainly currency risk. 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 six foreign subsidiaries, India (Rupees, INR), Brazil (Real, BRL), Argentina (Peso, ARS), Malaysia (Ringgit, MYR), The United Arab Emirates (Dirham, AED) and Nigeria (Naira, NGN).

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.

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 2016, 17 per cent of external invoicing was in Euros, 64 per cent in US dollars, 5 per cent in Argentinian Pesos, 10 per cent in Nigerian Nairas, 1 per cent in Brazil Reals, and 3 per cent in other currencies. The Group is hedging the open US dollar currency position. The Group does not hedge the open ARS, NGN and BRL currency positions, 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, the Group had no such INR hedges. The Group does not hedge the other currency positions, since they are not significant.

Currency risks can also arise on intra-group currency positions. The Indian subsidiary has intragroup receivables denominated in EUR, on which exchange rate losses amounting to EUR 1,043 thousand arose due to rate changes of Indian Rupies (2015: exchange rate losses of EUR 1,491 thousand). Also the intra-group liabilities denominated in BRL held by the parent company gave rise to exchange rate losses of EUR 904 thousand in 2016 (2015: exchange rate gains of EUR 1,451 thousand). Intra-group currency positions are not hedged.

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 not more than 100 per cent of the net position. Hedging is carried into effect with foreign exchange forwards and options. On the reporting date, 0 per cent (0 %) of the open currency position was hedged. The general sentiment of the markets for the US dollar to strengthen against the Euro affected the decline in the hedging rate compared to last years.

US dollar denominated cash inflow is mainly converted into Euros. Some cash reserves are held in US dollar in order to manage forthcoming US dollar payments.

Sensitivity analysis for market risks

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

EUR 1,000	Note	**2016 INR**	2015 INR	**2016 USD**	2015 USD
Current assets					
Trade and other receivables	17	**4,532**	30,236	**7,193**	11,077
Other receivables related to construction contracts	17			**9,745**	18,202
Cash and cash equivalents	18			**2,098**	2,892
Trade and other payables	23	**-121**	-208	**-2,851**	-1,123
Total current assets		**4,411**	30,028	**16,184**	31,049
Nominal value of currency derivatives	17, 23				
Total current liabilities				**16,184**	31,049

In the sensitivity analysis below, the effect of weakening and strengthening of the INR and USD exchange rate against EUR is presented with all other factors remaining unchanged. The analysed change in the exchange rate represents a possible volatility of the currency during a 12-month period. Fluctuation in exchange rates has no direct effect on equity as the Group does not apply hedge accounting.

EUR 1,000	**2016**		2015	
Change in percentage, INR	**-10%**	**+10%**	-10%	+10%
Effect on the result after taxes	**280**	**-280**	2,006	-2,006
Change in percentage, USD	**-10%**	**+10%**	-10%	+10%
Effect on the result after taxes	**-1,471**	**1,798**	-2,823	3,450

Translation risk

Tecnotree India and its subsidiaries are consolidated into Tecnotree Group as from 6 May 2009, hence the Group is 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 21,948 (50,653) 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.

	2016		2015	
EUR 1,000	**INR**	**INR**	INR	INR
Change in percentage	**-10%**	**+10%**	-10%	+10%
Effect on the result after taxes	**2,653**	**-3,242**	-309	378
Effect on equity	**-1,995**	**2,439**	-4,605	5,628

During 2016 Indian Rupie strenghtened 1 per cent compared to Euro, INR/EUR rate being 71.5935 at the end of 2016 and 72.0215 at the end of 2015. This gave rise to a negative translation difference in the Group's equity amounting to EUR 779 thousand.

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. However, during 2015, Brazilian Real (BRL) and Argentinian Peso (ARS) changed exceptionally compared to Euro. The BRL/EUR rate strengthened 20 per cent being 3.4305 at the end of 2016 and 4.3117 at the end of 2015, which caused a positive translation difference of EUR 111 thousand in Group's equity. The ARS/EUR rate weakened 18 per cent being 16.6814 at the end of 2016 and 14.1367 at the end of 2015, which caused a negative translation difference EUR 84 thousand in Group's equity. On the reporting date, the open translation risk position for the Brazilian subsidiary was EUR -2,089 (2,961) thousand, for the Argentine subsidiary EUR 789 (1,218) thousand.

On the reporting date, the open translation risk position for the Malaysian subsidiary was EUR 133 (149) thousand, for the Nigeria subsidiary EUR -280 (30) thousand and correspondingly for the subsidiary in the United Arab Emirates EUR -403 (319) thousand. The change in translation difference in equity caused by fluctuations in exchange rates for these subsidiaries was EUR 6 (-18) 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.

At the end of the financial year, the company had a payment program related long-term debt EUR 27.9 million (0.0), which consisted of interest-bearing EUR 23.5 million and EUR 4.4 million non-interest bearing liabilities to financial institutions.

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 25,114 (25,348) 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 -117 / 117 (-174 / 174) 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.

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

2016	**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	18		13,775		**13,775**	**13,775**
Cash and cash equivalents	19		3,503		**3,503**	**3,503**
Carrying amount by category			**17,278**		**17,278**	**17,278**
Current financial liabilities						
Current interest-bearing liabilities	22			440	**440**	**440**
Trade and other payables	23			4,917	**4,917**	**4,917**
Derivative liabilities	23	314			**314**	**314**
Carrying amount by category		**314**		**5,357**	**5,671**	**5,671**

2015	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	18		12,053		12,053	12,053
Cash and cash equivalents	19		6,433		6,433	6,433
Carrying amount by category			18,486		18,486	18,486
Current financial liabilities						
Current interest-bearing liabilities	22			31,781	31,781	31,781
Trade and other payables	23			6,060	6,060	6,060
Derivative liabilities	23	424			424	424
Carrying amount by category		424		37,841	38,265	38,265

The fair value of interest rate swap 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

Items measured at fair value or for which fair value is disclosed in the financial statements, are categorised 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.

Items measured at fair value or for which fair value is disclosed in the financial statements, are categorised into hierarchy level 2. During the reporting period, there were no transfers between the hierarchy levels.

Values of underlying instruments of derivative contracts

		2016		2015	
EUR 1,000	Note	**Value of underlying instruments**	**Fair value**	Value of underlying instruments	Fair value
Derivative liabilities					
Currency derivatives	23				
Interest rate swaps	23	**11,588**	**314**	13,054	424
Derivative liabilities total			**314**		424

26. Operating leases

EUR 1,000	2016	2015

Group as lessee

Minimum lease payments of the non-cancellable operating leases are as follows:

Operating leases

Less than one year	**898**	1,079
Between one and five years	**1,712**	2,253
Total	**2,610**	3,333

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 2,248 (2,390) thousand was recognised as an expense in the income statement in respect of operating leases.

27. Contingent liabilities

EUR 1,000	2016	2015
On own behalf		
Real estate mortgages	**4,400**	4,400
Corporate mortgages	**45,336**	45,336
Pledged deposits	**1,221**	808
Guarantees	**474**	197
Pledged trade receivables and accrued income related to construction contracts *	**5,982**	14,979
Total	**57,414**	65,721
Other contingent liabilities		
Desputed income tax liabilities in India	**3,988**	1,345
Total	**3,988**	1,345

* In addition to these trade and other receivables recognised in the balance sheet, EUR 0 (2,210) thousand of the order book are related to such long-term projects for which total income is pledged under the working capital credit facility agreement.

In addition, the parent company's shares in the Indian subsidiries are pledged. These shares have a book value of EUR 7,418 thousand in the parent company.

Due to the uncertainty related to the income tax dispute the Group has not recognised a provision.

28. Related party transactions

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. According to the Finnish Securities Markets Act, a controlled entity is an entity in which a shareholder, a member or another person exercises the control referred to in the Act. The company considers the management to include members of the Boars of Directors, the CEO and the other members of the Management Board.

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 2016 and 2015.

The company considers the management to include members of the Boars of Directors, the CEO and the other members of the Management Board.

EUR 1,000	**2016**	2015
Compensation to management		
Salaries, fees and other short-term employee benefits	**-2,116**	-1,553
Share based compensations		-7
Compensation to management total	**-2,116**	-1,560
Salaries and fees		
Padma Ravichander, CEO as from 18 April 2016	**-479**	
Ilkka Raiskinen, CEO until 17 April 2016	**-428**	-324
Members of the Board of Directors:		
Harri Koponen, Chairman of the Board	**-57**	-67
Pentti Heikkinen, Vice Chairman of the Board	**-36**	-39
Johan Hammarén, member of the Board until 5 March 2015		-15
Matti Jaakola, member of the Board as from 14 April 2015	**-30**	-15
Tuija Soanjärvi, member of the Board until 14 April 2015		-18
Christer Sumelius	**-30**	-32
Pirjo Pakkanen, as from 9 May 2016	**-13**	

0 (23%) per cent of the fees to the Board of Directors has beed settled in shares of Tecnotree Oyj. The Group had no effective option series anymore at the end of 2016.

The pension benefits of the CEO and members of Board of Directors are determined by the Finnish Employees Pensions Act (TyEl). The obligatory pension expenses for the CEO were EUR 12 (60) thousand and for the mebers of the Board of Directors totally EUR 26 (42) thousand. The pension expenses are presented per person in note 4 of the parent company. The retiment age of the CEO is determined by the employee pension law. CEO or the other members of the Management Board and the Board of Directors have no additional pension arrangements.

The period of notice of the CEO's contract is 6 months from the time of resignation and from 0 to 6 months' period of notice from the company, at the company's discretion. Salary is paid for the period of notice and, in the case of notice given by the company, an additional compensation equal to 12 months' salary will be paid. The company can terminate the contract of the CEO with immediate effect, without a separate compensation, if the CEO has materially breached his CEO contract, convicted guilty to a crime or otherwise caused substantial damage to the company.

The relationships between the Group's parent company and subsidiaries on 31 December 2016:

Company name	Nature of company activities	Domicile	Group's ownership %	Group's share of voting rights %
Tecnotree Oyj (parent)	Operative parent company	Finland		
Tecnotree Services Oy	Dormant company	Finland	100	100
Tecnotree Convergence (Middle East) FZ-LLC	Sales company	The United Arab Emirates	100	100
Tecnotree Ltd	Product development and managment	Ireland	100	100
Tecnotree Spain SL	Sales company	Spain	100	100
Tecnotree Sistemas de Telecommunicacao Ltda	Sales company	Brazil	100	100
Tecnotree Argentina SRL *	Sales company	Argentina	100	100
Tecnotree (M) Sdn Bhd	Sales company	Malaysia	100	100
Tecnotree Nigeria Ltd	Sales company	Nigeria	100	100
Lifetree Cyberworks Pvt. Ltd	Product development, management and sales company	India	100	100
Lifetree Convergence Pty Ltd	Dormant company	South-Africa	99.83	99.83
Lifetree Convergence (Nigeria) Ltd	Dormant company	Nigeria	94.84	94.84

The parent company has branch offices in Taiwan, in the United Arab Emirates and in Peru.

29. Restructuring proceedings

The District Court of Espoo confirmed by a decision on 15 November 2016 the amended restructuring programme drafted by the supervisor Jari Salminen as the payment programme of the company. Along with the decision, the restructuring proceedings of Tecnotree Oyj came to an end. The proposal for Tecnotree's restructuring programme was approved before the resolution of the District Court in the extraordinary general meeting on November 9, 2016

In the voting procedure preceding the confirmation, all the creditors who participated in it voted in favor of confirming the payment program.

The total amount of the restructuring debts taken into account in the payment program was approximately 73.9 million euros. The amount of intragroup restructuring debts that were fully cut was approximately 36.7 million euros. The amount of normal unsecured restructuring debts was approximately 13.2 million euros. The amount of the secured restructuring debts was approximately 23.8 million euros out of which approximately 7.9 million euros was secured by business mortgage. The capital of the unsecured restructuring debts was cut by 50 percent. Payments under the payment program will end on 30 June 2025.

The restructuring programme includes a provision regarding a duty to make supplementary payments on the unsecured restructuring debts if the actual cash flow of Tecnotree Oyj exceeds the projected cash flow during the payment program.

Along with the confirmation of the payment program, the group recorded a one-off positive income effect of approximately 6.6 million euros as a result of debt rearrangement. In addition, the company cancelled provisions for interest expenses in total of 2.7 million euros.

As stated in the restructuring programme, Tecnotree Oyj has committed itself to sell its real estate used as its office premises by 31.12.2019. The sale price shall be paid to the collateral holder Nordea Pankki Suomi Oyj. The company has a right not to sell the real estate in the given time only if approved by the supervisor and Nordea Pankki Suomi Oyj.

The District Court has appointed Attorney-at-Law Jari Salminen to supervise the implementation of the restructuring programme. The supervisor monitors the progress of the payment program and gives reports to the committee of creditors and to the creditors.

30. Events after the end of period

In the first quarter of 2017, Tecnotree repatriated EUR 6.0 million receivables from its customer in Latin America. Tecnotree used total amount for repaying its long-term debts.

Parent company's income statement

EUR 1,000	Note	1.1-31.12.2016	1.1.-31.12.2015
Net sales	1	**46,977**	62,477
Other operating income	2	**278**	79
Materials and services	3	**-2,194**	-6,889
Personnel expenses	4	**-14,094**	-13,327
Depreciation, amortisation and impairment losses	5	**-411**	-474
Other operating expenses	6	**-44,442**	-39,764
Operating result		**-13,887**	2,102
Financial income and expenses	7	**15,219**	**1,102**
Result before appropriations and taxes		**1,332**	3,204
Direct taxes	8	**484**	-8,417
Result for the financial year		**1,816**	-5,213

Parent company's balance sheet

EUR 1,000	Note	1.1.-31.12.2016	1.1.-31.12.2015
Assets			
Non-current assets			
Intangible assets	9	**271**	318
Tangible assets	10	**1,574**	1,822
Shares in Group companies	11	**8,825**	36,939
Receivables from Group companies	11	**299**	299
Total non-current assets		**10,970**	39,378
Current assets			
Inventories	12	**869**	530
Non-current receivables	13	**318**	338
Current receivables	14	**32,446**	43,628
Cash and cash equivalents	15	**770**	2,671
Total current assets		**34,404**	47,166
Total assets		**45,374**	86,545
Equity and liabilities			
Shareholders' equity	16		
Share capital		**1,346**	1,346
Share premium fund		**847**	847
Retained earnings		**-5,213**	
Result for the financial year		**1,816**	-5,213
Total shareholders' equity		**-1,204**	-3,020
Accumulated appropriations	17	**495**	
Liabilities			
Non-current liabilities	18	**31,170**	799
Current liabilities	18	**14,913**	88,766
Total liabilities		**46,083**	89,565
Total equity and liabilities		**45,374**	86,545

Parent company's cash flow statement

EUR 1,000	1.1.-31.12.2016	1.1.-31.12.2015
Cash flow from operating activities		
Result before extraordinary items	**1,332**	3,204
Adjustments for:		
Depreciations according to plan	**411**	474
Impairment of receivables	**11,175**	1,253
Unrealised exchange rate gains and losses	**-502**	-4,530
Financial income and expenses	**-14,717**	734
Other adjustments		116
Changes in working capital:		
Current receivables, increase (-) /decrease (+)	**681**	4,191
Inventories, increase (-) /decrease (+)	**-340**	-54
Current liabilities, increase (+) /decrease (-)	**3,629**	3,821
Interest paid	**-429**	-41
Dividends received from operating activities	**678**	1,410
Interest received	**58**	1
Income taxes paid	**-3,794**	-6,058
Net cash flow from operating activities	**-1,817**	4,522
Cash flow from investments		
Investments in intangible assets		-78
Investments in tangible assets	**-117**	-87
Investments in subsidiaries' shares		-45
Cash flow from investments	**-117**	-210
Cash flow from financiang activities		
Borrowings received from financial institutions	**1,400**	2,900
Repayments of borrowings from financial institutions	**-1,000**	-2,900
Borrowings received from Group companies	**44**	407
Changes in pledged cash deposits	**-215**	-821
Interest and other financial items paid	**-196**	-1,351
Cash flow from financiang activities	**33**	-1,765
Change in cash and cash equivalents	**-1,901**	2,547
Cash and cash equivalents on 1 Jan	**2,671**	125
Cash and cash equivalents on 31 Dec	**770**	2,671

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. The financial statements are also prepared on a going concern basis. On 5 March 2015 Tecnotree Corporation filed an application for restructuring proceedings with the district court of Espoo, which the District Court confirmed the amended restructuring programme proposal on 15 November 2016. Additional information about the restructurng proceedings is given in note 20, and the basis for applying the going concern principle is disclosed in the accounting principles of the Group.

The consolidated financial statements of Tecnotree Corporation have been prepared in accordance with the going concern principle. This is justified on the following grounds:

Tecnotree's business operations have been loss-making for several years. One key reason for this has been the decline in sales of old products and no corresponding decrease in operating expenses. In 2017 Tecnotree will continue to focus on stringent control of operating expenses while launching its new open source products.

Because the liquidity of the company continues to be extremely tight, its financial situation and liquidity remain critical. The amount of overdue trade payables has continued to increase and, according to the estimated cash flow, will be negative in Q2 2017.

At the time of publication of the financial statements, there is limited certainty about the 12-month sufficiency of long-term, short-term and working capital financing.

The company's management and the Board of Directors have assessed the difficult financial situation and the company's ability to continue operating. Based on their assessment, the management and Board of Directors consider it appropriate to prepare financial statements with regard to the continuity of the company's operations. The assessment is based on an ongoing debt structuring payment plan and the streamlining of operations. Furthermore, the company is negotiating with financiers on short term additional funding to secure liquidity and is aggressively collecting its receivables. It is also seeking long-term external financing, which could be implemented through company or restructuring arrangements.

The continuation of Tecnotree's operations depends on the success of the above-described measures and the company's ability to continue complying with the payment program established in connection with the debt restructuring process. The continuation of the business thus involves substantial uncertainty.

The company is well underway in its own internal transformation journey of moving from a services company to a fully-fledged digital services product company. The advantage of a product company is that they attract exceptional talent, being able to sell license, which increases the revenue and enhances the cash inflows. Product companies have shorter revenue turnaround time which increases the revenue and cash flow. In addition to garnering top talent the necessary to continuously scale resources to deliver customized projects across the globe so that increased risk and costs are further eliminated.

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

Derivative financial instruments

The derivative contracts entered into by the Company are currency forward contracts and options as well as interest rate swaps. 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 recognised in the income statement in the period in which they arise.

1. Net sales

EUR 1,000	2016	2015
Net sales by market area		
Europe, Middle East and Africa	**31,875**	34,980
Asia Pacific	**962**	1,366
Americas	**14,140**	26,131
Net sales total	**46,977**	62,477
Net sales by type of income		
Revenue from contract work recognised by stage of completion	**6,470**	15,616
Revenue from maintenance and support	**16,694**	20,769
Revenue from goods and services, external sales	**9,250**	16,393
Currency exchange gains and losses related to external sales	**610**	3,111
Revenue from goods and services, intra-group sales	**13,953**	6,588
Net sales total	**46,977**	62,477
Order book for contract work	**4,961**	10,357
Order book for maintenance and support, goods and services	**7,417**	7,842
Order book total	**12,378**	18,199
Projects in progress:		
Cumulative revenue recognised for projects in progress	**8,157**	30,417
Cumulative invoicing for projects in progress recognised by stage of completion	**6,806**	14,619
Accrued income related to construction contracts, work in progress	**1,351**	15,798
Aggregate amount of costs incurred for projects in progress	**432**	7,307

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	2016	2015
Rental income	**79**	79
Other operating income	**199**	
Other operating income total	**278**	79

3. Materials and services

EUR 1,000	**2016**	2015
Purchases during financial year	**-2,502**	-6,841
Changes in inventories	**340**	54
Total	**-2,162**	-6,788
External services	**-32**	-101
Materials and services total	**-2,194**	-6,889

4. Personnel expenses

EUR 1,000	2016	2015
Wages and salaries	**-11,396**	-10,753
Pension expenses	**-1,268**	-1,368
Other personnel expenses	**-1,431**	-1,207
Personnel expenses total	**-14,094**	-13,327

Average number of employees during the period	2016	2015
Management and administration	**27**	**32**
Other personnel	**80**	**101**
Total average number of employees	**107**	133

Salaries, fees, remunerations and pensions to the management

1 000 €	Salaries, fees, remunerations 2016	Obligatory pension expenses 2016	Salaries, fees, remunerations 2015	Obligatory pension expenses 2015
Padma Ravichander, CEO as from 18 April 2016	**-479**			
Ilkka Raiskinen, CEO until 17 April 2016	**-428**	**-12**	-324	-60
Members of the Board of Directors:				
Harri Koponen, Chairman of the Board	**-57**	**-10**	-67	-15
Pentti Heikkinen, Vice Chairman	**-36**	**-7**	-39	-9
Johan Hammarén, member of the Board until 5 March 2015			-15	-3
Matti Jaakola, member of the Board as from 14 April 2015	**-30**	**-6**	-15	-4
Tuija Soanjärvi, member of the Board until 14 April 2015			-18	-3
Christer Sumelius	**-30**		-32	-7
Pirjo Pakkanen, as from 9 May 2016	**-13**	**-3**		
Yhteensä	**-1,072**	**-37**	-509	-101

0 (23 %) per cent of the fees to the Board of Directors has beed settled in shares of Tecnotree Oyj.

The pension benefits of the members of Board of Directors are determined by the Finnish Employees Pensions Act (Tyel). The members of Board of Directors have no additional pension arrangements.

The CEO has a CEO contract, which is made according to Finnish law. The CEO is responsible for tax and other compulsory payments.

5. Depreciations and amortisations

EUR 1,000	2016	2015
Depreciations and amortisations according to plan		
Intangible assets		
Intangible rights	**-46**	-56
Tangible assets		
Buildings	**-220**	-220
Machinery and equipment	**-144**	-197
Depreciations and amortisations according to plan total	**-411**	-474

6. Other operating expenses

EUR 1,000	2016	2015
Subcontracting	**-2,282**	-3,558
Office management costs	**-2,256**	-2,188
Travel expenses	**-1,367**	-1,117
Agent fees	**-114**	-772
Impairment losses on receivables	**-11,223**	-1,253
Rents	**-1,048**	-1,175
Professional services	**-2,036**	-1,548
Marketing	**-476**	-511
Other operataing expenses to Group companies	**-23,572**	-27,425
Other expenses	**-70**	-216
Other operating expenses total	**-44,442**	-39,764

Impairment losses were recognised on trade receivables totalling EUR 96 (526) thousand and on receivables related to construction contracts totalling EUR 11,223 (1,253) thousand.

Auditors' fees		
Audit KPMG	**-98**	-102
Tax consulting KPMG	**-19**	-20
Other services KPMG	**-12**	
Other services, others	**-15**	-14
Audotrs' fees total	**-143**	-136

7. Financial income and expenses

EUR 1,000	2016	2015
Financial income		
Dividend income from Group companies	**678**	2,565
Interest income from Group companies		1
Other financial income from Group companies		2,024
Other financial income from others	**160**	76
Other financial income in Group companies	**36,211**	
Other financial income in other companies	**6,636**	
Interest and financial income total	**43,686**	4,666
Financial expenses		
Impairments of Group shares	**-28,088**	
Interest expenses to Group companies	**-70**	-28
Other financial expenses to Group companies	**444**	
Interest expenses to others	**-352**	-1,783
Financial expenses to others	**-400**	-1,754
Interest and financial expenses total	**-28,466**	-3,565
Financial income and expenses total	**15,219**	1,102
Other financial income and expenses including:		
Foreign exchange gains	**101**	2,095
Foreign exchange losses	**-689**	-260
Foreign exchange gains and losses total	**-587**	1,835

Other financial income in Group companies and in other companies are related to debt write-off entries under the debt restructuring program.

8. Income taxes

EUR 1,000	2016	2015
Income taxes from business operations	-8	-2
Taxes for previous accounting periods	-3	2
Withholding taxes paid abroad	-3,783	-6,058
Change in withholding tax accrual	4,278	-2,359
Income taxes total	484	-8,417

The company has not deducted research and development costs amounting to EUR 76,986 (73 003) 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 at the end of 2015 and 2016. Other deductible temporary differences amount to EUR 2,322 (2,241) thousand. No deferred tax assets have been recognised on these capitalisations because of the uncertainty about utilising them.

9. Intangible assets

Intangible assets 2016

EUR 1,000	**Intangible rights**	**Other long-term expenditure**	**Total**
Acquisition cost 1 Jan	6,146	275	**6,422**
Additions			
Acquisition cost 31 Dec	**6,146**	**275**	**6,422**
Accumulated amortisation 1 Jan	-5,829	-275	**-6,104**
Amortisation during the period	-46		**-46**
Accumulated amortisation 31 Dec	**-5,875**	**-275**	**-6,150**
Book value 31 Dec, 2016	**271**		**271**

Intangible assets 2015

EUR 1,000	Intangible rights	Other long-term expenditure	Total
Acquisition cost 1 Jan	6,068	275	6,344
Additions	78		78
Acquisition cost 31 Dec	6,146	275	6,422
Accumulated amortization 1 Jan	-5,772	-275	-6,048
Amortisation during the period	-56		-56
Accumulated amortization 31 Dec	-5,829	-275	-6,104
Book value 31 Dec, 2015	318		318

10. Tangible assets

Tangible assets 2016

EUR 1,000	**Land areas**	***) Buildings**	**Machinery and equipment**	**Total**
Acquisition cost 1 Jan	739	6,045	5,299	**12,083**
Additions			117	**117**
Acquisition cost 31 Dec	**739**	**6,045**	**5,416**	**12,200**
Accumulated depreciation 1 Jan		-5,272	-4,990	**-10,261**
Depreciation during the period		-220	-144	**-365**
Accumulated depreciation 31 Dec		**-5,492**	**-5,134**	**-10,626**
Book value 31 Dec, 2016	**739**	**553**	**282**	**1,574**

Tangible assets 2015

EUR 1,000	Land areas	Buildings	Machinery and equipment	Total
Acquisition cost 1 Jan	739	6,045	5,212	11,996
Additions			87	87
Acquisition cost 31 Dec	739	6,045	5,299	12,083
Accumulated depreciation 1 Jan		-5,051	-4,793	-9,844
Depreciation during the period		-220	-197	-417
Accumulated depreciation 31 Dec		-5,272	-4,990	-10,261
Book value 31 Dec, 2015	739	774	310	1,822

*) As stated in the restructuring programme, Tecnotree Oyj has committed itself to sell its real estate used as its office premises by 31.12.2019. The sales price shall be paid to the collateral holder Nordea Pankki Suomi Oyj. The company has a right not to sell the real estate in the given time only if approved by the supervisor and Nordea Pankki Suomi Oyj.

11. Investments

Investments 2016

EUR 1,000	Shares in Group companies	Other investments in group companies	Total
Acquisition cost 1 Jan	36,939	299	37,239
Reclassifications between items	-28,092		-28,092
Additions	-22		-22
Acquisition cost 31 Dec	8,825	299	9,124
Book value 31 Dec, 2016	**8,825**	**299**	**9,124**

Investments 2015

EUR 1,000	Shares in Group companies	Other investments in group companies	Total
Acquisition cost 1 Jan	36,894	299	37,194
Additions	45		45
Acquisition cost 31 Dec	36,939	299	37,239
Book value 31 Dec, 2015	36,939	299	37,239

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 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	Bangalore, India	100	1,189
Tecnotree Convergence Ltd	Bangalore, India	46	6,229
Tecnotree Convergence (Middle East) FZ-LLC	Dubai, United Arab Emirates	100	20
Tecnotree Nigeria Limited	Lagos, Nigeria	100	23
Total			8,825

12. Inventories

EUR 1,000	2016	2015
Materials and consumables	**827**	495
Work in progress	**30**	29
Finished products/goods	**12**	6
Inventories total	**869**	530

13. Non-current receivables

EUR 1,000	2016	2015
Rent guarantees	30	49
Pledged cash deposits	288	288
Non-current receivables total	318	338

14. Current receivables

EUR 1,000	2016	2015
Trade receivables related to construction contracts	**2,666**	4,146
Other trade receivables	**5,039**	6,816
Trade receivables total	**7,705**	10,963
Work in progress related to construction contracts	**1,351**	15,798
Finished work related to construction contracts	**8,356**	2,736
Other receivables based on delivery agreements	**574**	2,008
Receivables related to construction contracts total	**10,282**	20,542
Current prepaid expenses and accrued income	**755**	1,462
Other current receivables	**932**	713
Current receivables total	**19,673**	33,680
Receivables from the Group companies:		
Trade receivables	**9,746**	6,506
Other receivables	**3,027**	3,443
Total	**12,773**	9,948
Current receivables total	**32,446**	43,628

Major items included in prepaid expenses and accrued income

VAT receivables	**41**	261
Advance payments to vendors	**134**	425
Other prepaid expenses and accrued income	**579**	775
Total	**755**	1,462

EUR 0 (0) thousand of the trade receivables and EUR 5,982 (14,979) thousand of other receivables related to construction contracts are related to such long-term projects for which total income is pledged under the working capital credit facility agreement.

15. Cash and cash equivalents

EUR 1,000	2016	2015
Cash in hand and at bank	770	2,671
Cash and cash equivalents total	770	2,671

16. Shareholders' equity

EUR 1,000	2016	2015
Share capital 1 Jan	**1,346**	4,720
Reduction of share capital		-3,374
Share capital 31 Dec	**1,346**	1,346
Share premium fund 1 Jan	**847**	847
Share premium fund 31 Dec	**847**	847
Restricted equity total	**2,193**	2,193
Invested unrestricted equity reserve 1 Jan		2,131
Covering of loss		-2,131
Invested unrestricted equity reserve 31 Dec		
Retained earnings 1 Jan	**-5,213**	-5,505
Covering of loss		5,505
Retained earnings 31 Dec	**-5,213**	
Result for the period	**1,816**	-5,213
Unrestricted equity total	**-3,397**	-5,213
Total shareholders' equity	**-1,204**	-3,020

In August 2015 the company’s Board of Directors recognised the loss of shareholders’ equity and delivered a statement concerning the matter to the Trade Register. At the end of 2016 the company's shareholders' equity was EUR 1,204 million negative (EUR 3,020 million negative).

In its decision on 9 March 2015, the district court of Espoo ordered the corporate restructuring proceedings as prescribed in law to be started for Tecnotree Corporation. The District Court of Espoo confirmed by the decision on 15 November 2016 the amended restructuring programme as the payment programme of the company. Along with the decision, the restructuring proceedings of Tecnotree Oyj came to an end.

The company had no distributable equity at the end of 2016 nor at the end of 2015. After the reporting date the Board of Directors has proposed that no dividend be paid for the financial year ended 31 December 2016, and that the company’s profit for the financial year, EUR 1,816 thousand, be remained in retained earnings. In 2016 no dividend was paid for the financial year that ended on 31 december 2015. Instead, based on the decision of the Annual General Meeting, the company's accumulated loss of EUR 5,213 thousand was remained in retained earnings.

17. Provisions

1 000 €	2016	2015
Other provisions	495	
Provisions total	495	

Provision for 2016 included a provision of EUR 495 thousand due to personnel reductions in Finland.

18. Non-current and current liabilities

EUR 1,000	2016	2015
Non-current liabilities		
Restructuring debts from financial institutions, interest-bearing	**23,521**	
Loans from Group companies	**425**	407
Restructuring debts from financial institutions, non-interest bearing	**4,396**	
Other restructuring debts, non-interest bearing	**2,423**	
Termination benefits	**404**	392
Non-current liabilities total	**31,170**	799
Current liabilities		
Loans from financial institutions *	**400**	31,781
Trade payables	**2,851**	5,329
Accrued liabilities and deferred income	**6,296**	13,704
Other liabilities	**174**	297
Total	**9,721**	51,111
Liabilities from Group companies:		
Trade payables	**5,352**	36,246
Other liabilities	**6**	1,409
Total	**5,358**	37,655
Current liabilities total	**15,079**	88,766
Major items included in accrued liabilities and deferred income		
Other accrued personnel expenses	**1,594**	2,217
Withholding tax accrual (note 8)	**1,203**	5,481
Accrued interest expenses	**794**	1,923
Accrued agent fees	**500**	1,121
Valuation of interest rate swap	**314**	424
Other accruals related to customer contracts	**1,250**	1,696
Other accrued liabilities and deferred income	**640**	841
Total	**6,296**	13,704

At the end of the financial period, the company had a payment programme related long-term debt EUR 27.9 million (0.0), which consisted of interest-bearing EUR 23.5 million and EUR 4.4 million non-interest bearing liabilities to financial institutions.

The company had in accordance with the payment programme of secured interest-bearing liabilities to financial institutions EUR 23.5 million. EUR. At the end of the financial period, the company had in full use EUR 0.4 million short-term loan.

The company had according with the amended restructuring programme proposal 30 September 2016, the ordinary restructuring non-interest bearing liabilities to financial institutions EUR 8.8 million and the other external restructuring debts EUR 4.7 million. Half of these debts were write down. After write down, there were the ordinary restructuring non-interest bearing liabilities to financial institutions, EUR 4.4 million and other liabilities to the other creditors of EUR 2.5 million. In accordance with the restructuring programme, the parent company had a debt to Group companies EUR 36.7 million, which was written down in full.

The company performed at the end of December, the first payments in accordance with the payment programme to the other creditors. Ordinary restructuring debts or secured debts to financial institutions were not repaid in the fiscal year 2016.

Payments will be due in payment semi-annually at the end of June and December and the final installments will be paid in June 2025. Details can be found in the payment programme for the company in Annex 15, which is published in the Tecnotree Corporation's stock exchange release of 30 September 2016 under the title The Restructuring Programme proposal.

In its decision on 9 March 2015, the district court of Espoo ordered the corporate restructuring proceedings as prescribed in law to be started for Tecnotree Corporation. The administrator delivered his proposed restructuring program to the district court of Espoo on 30 March 2016. The liabilities above include restructuring debt as follows:

EUR 1,000	2016	2015
Restructuring debt, short-term loans from financial institutions		31,781
Restructuring debt included in trade payables		4,780
Restructuring debt included in accrued liabilities		650
Restructuring debt included in liabilities from Group companies		36,674
Short-term loans from financial institutions	**400**	
Guaranteed restructuring debts from financial institutions, interest bearing	**15,640**	
Corporate mortgage debts from financial institutions, interest bearing	**7,881**	
Ordinary restructuring debts from financial institutions, interest-free	**4,396**	

19. Contingent liabilities

EUR 1,000	2016	2015
On own behalf		
Real estate mortgages	**4,400**	4,400
Corporate mortgages	**45,336**	45,336
Pledged deposits	**1,221**	808
Guarantees	**474**	188
Pledged trade and other receivables related to construction contracts *	**5,982**	14,979
Total	**57,414**	65,712
Leasing liabilities:		
With due date in the next financial year	**16**	39
With later due date	**1**	16
Total	**16**	56
Other liabilities		
With due date in the next financial year	**150**	133
With later due date		81
Total	**150**	214
Total contingent liabilities	**57,580**	65,981

* In addition to these trade and other receivables recognised in the balance sheet, EUR 0 (2,210) thousand of the order book are related to such long-term projects for which total income is pledged under the working capital credit facility agreement.

In addition, the company's shares in the Indian subsidiaries are pledged. These shares have a book value of EUR 7,418 thousand.

Values of underlying instruments of derivative contracts

Interest rate swap		
Fair value (positive)	**-314**	-424
Value of underlying instruments	**11,568**	13,054

20. Restructuring proceedings

The District Court of Espoo confirmed by a decision on 15 November 2016 the amended restructuring programme drafted by the administrator Jari Salminen as the payment program of the company. Along with the decision, the restructuring proceedings of Tecnotree Oyj ended.

In the voting procedure preceding the confirmation, all the creditors who participated in it voted in favor of confirming the payment program.

The total amount of the restructuring debts taken into account in the payment program was approximately 73.9 million euros. The amount of intragroup restructuring debts that were fully cut was approximately 36.7 million euros. The amount of normal unsecured restructuring debts was approximately 13.2 million euros. The amount of the secured restructuring debts was approximately 23.8 million euros out of which approximately 7.9 million euros was secured by business mortgage. The capital of the unsecured restructuring debts was cut by 50 percent. Payments under the payment program will end on 30 June 2025.

The restructuring programme includes a provision regarding a duty to make supplementary payments on the unsecured restructuring debts if the actual cash flow of Tecnotree Oyj exceeds the projected cash flow during the payment program.

Along with the confirmation of the payment program, the group recorded a one-off positive income effect of approximately 6.6 million euros as a result of debt rearrangement. In addition, the company cancelled provisions for interest expenses in total of 2.3 million euros.

As stated in the restructuring programme, Tecnotree Oyj has committed itself to sell its real estate used as its office premises by 31.12.2019. The sale price shall be paid to the collateral holder Nordea Pankki Suomi Oyj. The company has a right not to sell the real estate in the given time only if approved by the supervisor and Nordea Pankki Suomi Oyj.

The District Court has appointed Attorney-at-Law Jari Salminen to supervise the implementation of the restructuring programme. The supervisor monitors the progress of the payment program and gives reports to the committee of creditors and to the creditors.

21. Events after the end of period

In the first quarter of 2017, Tecnotree repatriated EUR 6.0 million receivables from its customer in Latin America. Tecnotree used total amount for repaying its long-term debts.

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

Espoo, 27 April 2017

Padma Ravichander
CEO

Harri Koponen
Chairman of the Board

Pentti Heikkinen
Vice Chairman of the Board

Matti Jaakola

Christer Sumelius

Pirjo Pakkanen

The Auditor's note

A report on the audit performed has been issued today.

Helsinki, 27 April 2017

KPMG OY AB

Toni Aaltonen
Authorised Public Accountant, KHT

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.

Auditor’s Report

To the Annual General Meeting of Tecnotree Corporation

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Tecnotree Corporation (business identity code 1651577-0) for the year ended 31 December 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders’ equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company’s balance sheet, income statement, cash flow statement and notes.

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

— the financial statements give a true and fair view of the parent company’s financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion
We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material uncertainty related to going concern basis
We would like to draw attention to the accounting principles for the consolidated financial statements and parent company accounting principles where it is stated that because the liquidity of the company continues to be extremely tight, its financial situation and liquidity remain critical. The amount of overdue trade payables has continued to increase and, according to the estimated cash flow, will be negative in Q2 2017.

At the time of publication of the financial statements, there is no certainty about the 12-month sufficiency of long-term, short-term and working capital financing.

The company’s management and the Board of Directors have considered the difficult financial situation and made an assessment of the company’s ability to continue as a going concern. Based on their assessment, the management and Board of Directors consider it appropriate to prepare the financial statements on a going concern basis. The assessment is based on an ongoing debt structuring payment plan and the streamlining of operations. Furthermore, the company is negotiating with financiers on short term additional funding to secure liquidity and is aggressively collecting its receivables. It is also seeking long-term external financing, which could be implemented through company or restructuring arrangements.

The continuation of Tecnotree Corporation's operations depends on the successful execution of the above-described measures and the company's ability to continue complying with the payment program established in connection with the debt restructuring process. The continuation of the business thus involves material uncertainty. In our opinion, the completion of the abovementioned measures involves material uncertainty that may cast significant doubt upon Tecnotree Corporation and its subsidiaries to continue as a going concern.

Furthermore, we would like to draw attention to the fact that the goodwill balance in the consolidated balance sheet amounts to EUR 17.6 million. As described in the previous chapter there is uncertainty related to the Group's ability to continue as a going concern and thus the carrying value of goodwill may not be supported.

Our opinion has not been qualified by this matter.

Other matters
We were unable to express an opinion on the financial statements and the report of the Board of Directors for the financial year ended 31 December 2015, thus we will not comment on the comparative information regarding the year 2015.

Materiality
The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of goodwill, EUR 17.6 million (refer to the consolidated balance sheet and note 13) Valuation of shares in subsidiaries, EUR 8.8 million (refer to the parent company's balance sheet and note 11)	
— The consolidated balance sheet includes a significant amount of goodwill (EUR 17.6 million) resulting from business combinations made, and at the financial year-end the consolidated equity totaled EUR 10.7 million.	— We considered the company's estimation process and analyzed the assumptions used in the impairment tests for 2015 by comparing to performance in 2016, especially in respect of net sales and profitability. In addition, we assessed the reasonableness of and grounds for the assumptions underlying the goodwill impairment tests, and the technical accuracy of the impairment model.
— The recoverable amounts for the cash-generating units (segments) are determined based on value in use. Those calculations use discounted future cash flow forecasts in which management makes judgments over certain key assumptions, for example net sales growth rate, discount rate, long-term growth rate and inflation rates.	— Furthermore, we considered the Group's notes in respect of goodwill and impairment testing.
— Due to the high level of judgement related to the forecasts used, estimation uncertainty and the significant carrying amounts involved, valuation of goodwill and shares in subsidiaries is considered a key audit matter.	— We involved our own valuation specialists when assessing the technical accuracy of the calculations and comparing the assumptions used to market and industry information
Revenue recognition principles, project accounting and valuation of receivables (refer to Accounting principles for the consolidated financial statements and note 18)	
— The company's order book includes projects with deliveries of over a year, some deliveries even several years. Revenue recognition for fixed-price projects requires management to use judgement and make assumptions, especially in respect of future costs and work load estimates to complete a project.	— We assessed controls over the sales process and the accuracy of invoicing practices. Our audit procedures focused on testing the key controls over sales.
— The majority of the Group's net sales are generated from developing countries and many of these have political and economic challenges.	— In respect of most significant long-term projects accounted for using the percentage-of-completion method, we analysed the revenue recognition principles applied by comparing to IFRS standards, the company's accounting practices and terms of sale in the contracts. We assessed the Group's monitoring procedures in place for provision of client work and projects accounted using the percentage-of-completion method, and tested the key controls. Furthermore, we analyzed current projects and work load estimates
— The two largest customers accounted for 76 per cent of net sales in 2016.	We evaluated monitoring routines for trade receivables and tested the effectiveness of the key controls, analyzed open trade receivables and assessed the payments received after the financial year-end to identify any receivables potentially impaired.
— The Group's trade receivables and receivables from construction contracts comprise 45 per cent of the	

consolidated assets and receivables involve a valuation risk.

Responsibilities of the Board of Directors and the Chief Executive Officer for the Financial Statements
The Board of Directors and the Chief Executive Officer 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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Chief Executive Officer are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Chief Executive Officer are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
— Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
— Conclude on the appropriateness of the Board of Directors' and the Chief Executive Officer s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements
Other Information

The Board of Directors and the Chief Executive Officer are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Interim report for the period 1 January – 30 June 2016

We refer to the Securities Market Act, Chapter 7, section 8, subsection 2 and state that during the financial year ended Tecnotree Oyj reached a settlement of EUR 6.0 million EUR with a Latin American customer on a long-accrued overdue receivable, concerning the delivery of a USD 24 million convergent online charging solution, announced in April 2012. The company created an impairment charge of approx. EUR 9.0 million for the remaining amount. This matter is to be considered when assessing the compliance of the consolidated interim report for the period 1 January – 30 June 2016 with the related rules and regulations.

Helsinki, 27 April 2017

KPMG OY AB

(signed)
Toni Aaltonen
Authorised Public Accountant, KHT