

# TECNOTREE

*Powering the digital marketplace*

## Financial Report Q4 2017 and Full Year 2017



# TECNOTREE CORPORATION FINANCIAL REPORT 1 JAN – 31 DEC 2017 (UNAUDITED)

## **COST RATIONALISING SHOWS IN RESULT – SIGNIFICANT IMPROVEMENT IN ADJUSTED OPERATING PROFITABILITY**

### **Fourth quarter 2017**

- Fourth quarter net sales were EUR 15.6 (14.7) million.
- The adjusted operating result for the quarter was EUR 4.4(0.8) million and the operating result -12.2 (-9.6) million.
- The adjusted result for the quarter was EUR 2.6 (3.0) million and the result EUR -14.1 (2.0) million
- The order book at the end of the period stood at EUR 26.2 (24.9) million.
- Fourth quarter cash flow after investments was EUR 0.0 (3.8) million.
- Earnings per share were EUR -0.11 (0.02).
- One-time goodwill write down EUR 16.7 million that had no impact on cash flow.

### **Jan-Dec 2017**

- Net sales for the financial period were EUR 55.1 (60.1) million.
- The adjusted operating result was EUR 9.8 (1.2) and the operating result -8.0 (-10.1) million.
- The adjusted result for the period was EUR 2.3 (-4.2) million and the result EUR -15.5 (-6.3) million.
- Cash flow after investments for the financial period was EUR 4.8 million (-0.9) and the company's cash and cash equivalents were EUR 2.3 (3.5) million.
- Earnings per share were EUR -0.13 (-0.05).
- Financial situation remains tight due to delay in financial arrangements as explained in the sections "Risks and short-term uncertainty factors".
- One-time goodwill write down EUR 16.7 million and EUR 1.1 million related to redundancies.

KEY FIGURES	10-12/ 2017	10-12/ 2016	1-12/ 2017	1-12/ 2016
Net sales, MEUR	<b>15.6</b>	14.7	<b>55.1</b>	60.1
Adjusted operating result, MEUR <sup>1</sup>	<b>4.4</b>	0.8	<b>9.8</b>	1.2
Operating result, MEUR	<b>-12.2</b>	-9.6	<b>-8.0</b>	-10.1
Result before taxes, MEUR	<b>-12.6</b>	-0.2	<b>-10.5</b>	-5.6
Adjusted result for the period, MEUR <sup>2</sup>	<b>2.6</b>	3.0	<b>2.3</b>	-4.2
Result for the period, MEUR	<b>-14.1</b>	2.0	<b>-15.5</b>	-6.3
Earnings per share, basic, EUR	<b>-0.11</b>	0.02	<b>-0.13</b>	-0.05
Order book, MEUR			<b>26.2</b>	24.9
Cash flow after investments, MEUR	<b>-0.0</b>	3.8	<b>4.8</b>	-0.9
Change in cash and cash equivalents, MEUR	<b>0.1</b>	2.3	<b>-0.9</b>	-3.0
Cash and cash equivalents, MEUR			<b>2.3</b>	3.5
Equity ratio %			<b>-19.1</b>	17.9
Net gearing %			<b>-261.2</b>	195.6
Personnel at end of period			<b>666</b>	818

<sup>1</sup> Adjusted operating result = operating result before one-time items.

<sup>2</sup> Adjusted result for the period = result before one-time items.

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”.

Significant transactions that are not part of the normal course of business, infrequently occurring events or valuation items that do not affect cash flow are treated as adjustment items affecting comparability between reporting periods. According to Tecnotree’s definition, such items include, for example, impairment of assets and the remeasurement to fair value, the costs of closing down offices, restructuring measure and personnel related redundancy costs. Adjusted operating result included write-down of goodwill of EUR 16.7 million and personnel-related redundancies of EUR 1.1 million (EUR 9.0 million related to a large project delivery and EUR 2.3 million to personnel reductions). Adjusted result included one-time items in operating result (income in financial items from debt restructuring EUR 9.3 million in addition to one-time items in operating result). For more details, see table income statement key figures on page 6.

Unless otherwise stated, all figures presented below are for the financial period 1-12/2017 and the figures for comparison are for the corresponding period in 2016.

## CEO comments:

“For Tecnotree, 2017 was a year of consolidation and stabilization. The journey we commenced in 2016 towards transforming the company into a full-fledged product company continued in 2017. We attained greater velocity and are clearly in the right path to reaching our goals.

We delivered successfully our full digital BSS stack and our BSS suite products to many of our customers and renewed contracts towards support and maintenance services for 2018. Even though we did not add new customers, we made complete significant deliveries successfully from our order backlog of prior years to our key customers, and we expect these deliveries to help initiate new orders in 2018.

The overall revenue for 2017 was EUR 55.1 million being 8% less than in 2016. The decrease of USD by more than 15% had a negative impact on the revenue. The revenue in Latin America region amounted to about EUR 22 million, staying at the same level as in 2016. The European region witnessed a small increase of revenue with its EUR 2.6 million compared to EUR 1.9 million in 2016. Lower revenue figures were seen in both MEA (from EUR 32 million to EUR 30 million in 2017) and APAC region (from EUR 3 million to EUR 1 million in 2017).

The order backlog showed a positive trend year-on-year and stood at the end of 2017 at EUR 26.2 million compared with EUR 24.8 million a year before.

The company was included in the Magic Quadrant for “Integrated Revenue and Customer Management for CSPs” published by Gartner, and Tecnotree was placed among the Niche Players quadrant.

In 2017, we continued to consolidate our operations across regions, optimized our headcounts and minimized overall costs and other expenses.

We successfully achieved the cost reductions of EUR 5 million, in accordance with our promise given in March of 2017. All these actions along with enhanced cash collections resulted in the company delivering a strong adjusted operating result of EUR 9.8 million compared with the EUR 1.2 million in 2016. While achieving this we at the same time successfully ensured that all delivery commitments to our customers were met and that our overall customer satisfaction remained excellent.

Our liquidity and cash position remained extremely challenging and we did not succeed in realizing the needed financing arrangement.

## Focus and outlook in 2018

In 2018, we will focus on profitable growth and realization of financing arrangement.

We continue to emphasize our role as a product company, driving the digital transformation of our customers with our enriched and differentiated BSS product portfolio. We will go to market with improved execution, quality and agility and innovative business models.

We continue with cost optimization and other measures for increased efficiency. We develop our current structures and processes further to minimize currency exchange risks and withholding taxes. We continue with increased focus on ensuring timely collections of receivables by further improving the quality and timeliness of our deliveries.

One of our most important tasks is to realize a financing arrangement so that we can ensure the company's stable operations and further development. We continue investigating and evaluating different options to find a durable solution for financing."

Padma Ravichander  
CEO of Tecnotree Corporation

## NET SALES

Tecnotree's net sales for the financial period were EUR 55.1 (60.1) million, 8.3 % lower than a year ago. Revenue from goods and services increased by EUR 2.7 million, revenue from contract work recognized by stage of completion declined by EUR 8.4 million and revenue from maintenance and support increased EUR 2.3 million. The net sales for 2017 was impacted by EUR 1.3 million of negative exchange rate differences, mainly due to the fluctuations of the US dollar against the euro (EUR 0.4 million positive).

Order book in end of the financial period stood at EUR 26.2 million having increase of EUR 1.3 million.

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

SPECIFICATION OF NET SALES, MEUR	10-12/ 2017	10-12/ 2016	1-12/ 2017	1-12/ 2016
Revenue from contract work recognised by stage of completion (IAS 11)	2.0	3.2	11.3	19.7
Revenue from maintenance and support (IAS 18)	7.4	7.3	31.2	28.9
Revenue from goods and services (AS 18)	6.5	3.0	13.8	11.1
Currency exchange gains and losses	-0.2	1.1	-1.3	0.4
<b>TOTAL</b>	<b>15.6</b>	<b>14.7</b>	<b>55.1</b>	<b>60.1</b>

NET SALES BY MARKET AREA, MEUR	10-12/ 2017	10-12/ 2016	1-12/ 2017	1-12/ 2016
Europe & Americas	8.3	6.3	24.2	25.0
MEA & APAC	7.3	8.4	30.9	35.1
<b>TOTAL</b>	<b>15.6</b>	<b>14.7</b>	<b>55.1</b>	<b>60.1</b>

CONSOLIDATED ORDER BOOK, MEUR	2017	2016
Europe & Americas	10.7	7.5
MEA & APAC	15.5	17.4
<b>TOTAL</b>	<b>26.2</b>	<b>24.9</b>

## RESULT ANALYSIS

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

Tecnotree reports its result as follows:

INCOME STATEMENT, KEY FIGURES, MEUR	Adjustments		Adjusted operating result and result for the period 2017	Adjustments		Adjusted operating result and result for the period 2016
	1-12/2017	1-12/2017		1-12/2016	1-12/2016	
Net sales	55.1			60.1		
Other operating income	0.2			0.3		
Operating costs	-63.3	17.8		-70.4	11.3	
<b>OPERATING RESULT</b>	<b>-8.0</b>	<b>17.8</b>	<b>9.8</b>	<b>-10.1</b>	<b>11.3</b>	<b>1.2</b>
Financial items exclusive exchange rate items and adjustments	-0.8			5.1	-9.3	
Exchange rate gains and costs	-1.8			-0.7		
Income taxes	-5.0			-0.6		
<b>RESULT FOR THE PERIOD</b>	<b>-15.5</b>	<b>17.8</b>	<b>2.3</b>	<b>-6.3</b>	<b>2.0</b>	<b>-4.2</b>

Tecnotree's net sales for the financial period were EUR 55.1 (60.1). The adjusted operating result was 9.8 (1.2) million and the operating result EUR -8.0 (-10.1) million. The adjusted result for the period was EUR 2.3 million (-4.2) and the result for the financial period was EUR -15.5 million (-6.3)

Tecnotree's fourth quarter net sales were EUR 15.6 (14.7) million. The adjusted operating result was 4.4 (0.8) million and the operating result EUR -12.2 (-9.6) million. The adjusted result was EUR 2.6 (3.0) and the result for the fourth quarter was EUR -14.1 million (2.0).

In the fourth quarter, exchange rate differences were EUR -0.4 (0.6) million and in the financial period EUR -1.8 (-0.7) million in the financial items. It is important to examine Tecnotree's result without the impact of exchange rates, which is why this is shown separately in the table above. Exchange rate differences in financial items include mainly exchange rate differences in group items that have no direct impact on the Group's cash flow.

Financial income and expenses (net) during the financial period totalled a net loss of EUR 2.5 million (net profit of EUR 4.5 million). Here is a breakdown of these:

	10-12/ 2017	10-12/ 2016	1-12/ 2017	10-12/ 2016
FINANCIAL INCOME AND EXPENSES, MEUR				
Interest income	0.1	-0.0	0.2	0.1
Exchange rate gains	0.0	0.0	0.1	0.1
Other financial income	0.0	6.6	0.0	6.7
FINANCIAL INCOME, TOTAL	0.1	6.6	0.4	6.9
Interest expenses	-0.0	2.3	-0.6	0.3
Exchange rate losses	-0.4	0.5	-1.9	-0.7
Other financial expenses	-0.0	-0.1	-0.4	-2.0
FINANCIAL EXPENSES, TOTAL	-0.5	2.7	-2.9	-2.4
FINANCIAL ITEMS, TOTAL	-0.4	9.3	-2.5	4.5

Other financial expenses, excluding interest expenses and exchange rate losses, were EUR 0.0 (0.1) million during the fourth quarter and to EUR 0.4 (EUR 2.0 of which EUR 1.8 million was related to additional cost for using an exceptional procedure to repatriate funds from a country that has a lack of foreign currency ) million during the financial period.

Taxes for the period totalled EUR 5.0 including the following items:

	10-12/ 2017	10-12/ 2016	1-12/ 2017	1-12/ 2016
TAXES IN INCOME STATEMENT, MEUR				
Withholding taxes paid abroad	-1.2	-1.5	-4.6	-4.5
Change in withholding tax accrual	-0.2	3.8	0.2	4.3
Income taxes on the results of Group companies	-0.0	-0.0	-0.5	-0.4
Prior year taxes	0.0	0.0	0.0	-0.0
Change in deferred tax asset and liability in India	-0.0	-0.1	-0.0	-0.0
TAXES IN INCOME STATEMENT, TOTAL	-1.5	6.1	-5.0	-0.6

Earnings per share were EUR -0.13 (-0.05). Equity per share at the end of the period was EUR -0.05 (EUR 0.09).

## FINANCING, CASH FLOW AND BALANCE SHEET

The company's cash situation remained tight during the financial period.

Tecnotree's working capital increased during the period by EUR 0.9 (decreased EUR 3.5) million:

	10-12/ 2017	10-12/ 2016	1-12/ 2017	1-12/ 2016
CHANGE IN WORKING CAPITAL, MEUR (increase - / decrease +)				
Change in trade receivables	-2.8	1.3	-2.2	-1.7
Change in other receivables	-1.3	3.9	5.0	2.2
Change in inventories	0.6	-0.2	0.4	-0.3
Change in trade payables	-2.2	1.2	-0.5	3.6
Change in other liabilities	0.2	-1.1	-3.7	-0.2
CHANGE IN WORKING CAPITAL, TOTAL	-5.5	5.1	-0.9	3.5

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

Tecnotree's cash and cash equivalents totalled EUR 2.3 (3.5) million. Cash flow after investments for the financial period ended up EUR 4.8 million positive. The change in cash and cash equivalents for the financial period was EUR 0.9 million negative. At the end of the year company had EUR 0.2 million short-term credit limit from the bank in use.

The balance sheet total on 31 December 2017 stood at EUR 31.8 (59.8) million. Tecnotree's investments during the financial period was EUR 0.2 (0.3) million or 0.5% (0.5%) of net sales. Interest-bearing liabilities were EUR 18.2 (24.4). The net debt to equity ratio (net gearing) was -261.2% (195.6%) and the equity ratio was -19.1% (17.9%). During the period, total equity was affected by negative translation differences of EUR 1.2 million, mainly from Indian rupees (INR).

## 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 3.1 million negative on 31 December 2017.

## RISKS AND SHORT-TERM UNCERTAINTY FACTORS

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.

### 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 88% of net sales in 2017 (77%). The relationship between the company and its major customers is one of interdependence, which offers business opportunities but also poses risks.



Critical financial situation causes uncertainty in acquiring new customers and receiving new orders coming from the existing customers.

### **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. Tecnotree has a credit insurance in place from a well-known global credit insurance company.

### **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.

### **Financing and liquidity risks**

The cash position of the company remains critical. However, the company managed to reduce its debt under debt restructuring payment programme by EUR 6.3 million during the period.

LIQUIDITY RISK 2017, Me	Balance sheet value	Cash flow	Overdue	0 - 3 months	3-12 months	1-3 years	Over 3 years
Guaranteed restructuring debts from financial institutions, interest-bearing	17,9	17,9	0,0	0,0	0,3	8,6	8,9
Interest payments on the loans	1,2	2,1	0,0	1,2	0,2	0,3	0,4
Trade payables	5,5	5,5	2,9	0,6	0,3	1,6	0,0
Non-interest bearing liabilities	4,4	4,4	0,0	0,0	0,4	1,2	2,8
Derivative liabilities	0,1	0,1	0,0	0,0	0,1	0,0	0,0
Total	29,1	29,9	2,9	4,8	1,3	11,7	12,1

Overdue trade payables included EUR 1,5 million over 90 days overdue.

### Grounds for observing the going concern principle

The consolidated financial statements of Tecnotree Corporation for 2017 have been prepared in accordance with the going concern principle. The liquidity of the company has been tight for a long period and the amount of overdue trade payables (EUR 2.9 million) is significant. The company's ability as going concern is dependent on the successful completion of getting new financing. The company is currently negotiating with financiers for new financing. Negotiations are on-going and will be continued.

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.

### 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.

## BUSINESS DESCRIPTION

Tecnotree is a global supplier of telecom IT software products and solutions, for charging, billing, customer care, messaging and content management services. The company's product portfolio comprises virtually the full range (order-to-cash) business management solutions 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 2018 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 Americas, Africa and the Middle East, serving more than 700 million subscribers worldwide and supporting more than 65 operators/CSPs worldwide.

## 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 stabilized after the 29% decline in net sales in year 2016. Year 2017 net sales in the area was EUR 24.2 (25.0) million. Decline in year 2017 came from Europe area for the most part. The order book in the area grew compared to the previous year and stood at EUR 10.7 million (7.4).

The Latin America business was flat for 2017. The legacy business remains solid but the acquisition of new accounts proved elusive. During this period Tecnotree delivered the first

solution into a customer's private cloud, building confidence in the technologies and deployment model that underpin the new product portfolio.

In Europe year 2017 had virtualization of VAS platforms with multiple customers and Nokia sale co-operation started introducing hot new sales opportunities for early 2018.

## MEA & APAC

Net sales decreased 12.0% from the previous year, to EUR 30.9 (35.1) 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 2017, the order book stood at EUR 15.5 million (17.4).

In MEA company made substantial progress in modernising the legacy base with upgrades to the latest products in the portfolio. CLM and MyLife Dashboard (MLD) were successfully deployed across a number of important operators in the region. In year 2018 this roll-out is expected to continue.

APAC saw continuing business with the customers acquired in recent years, but a number of new logo opportunities were delayed and will be pursued in 2018.

## PERSONNEL

At the end of December 2017 Tecnotree employed 666 (818) persons, of whom 67 (88) worked in Finland and 599 (730) elsewhere. The company employed on average 727 (895) people during the financial period. Personnel by country were as follows:

PERSONNEL	1-12/2017	1-12/2016
Personnel, at end of period	666	818
Finland	67	88
Ireland	0	24
Brazil	10	11
Argentina	46	41
India	453	567
United Arab Emirates	18	25
Other countries	72	62
Personnel, average	727	895
Personnel expenses (MEUR)	-25.2	-33.6

## SHARE AND PRICE ANALYSIS

At the end of December 2017 the shareholders' equity of Tecnotree Group stood at negative EUR 6.1 million (10.7) 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 -0.05 (EUR 0.09).

A total of 63,291 thousand Tecnotree shares (EUR 5,517 thousand) were traded on the Helsinki Exchanges during the period 1 January – 31 December 2017, representing 51.6 % of the total number of shares.

The highest share price quoted in the period was EUR 0.13 and the lowest EUR 0.07. The average quoted price was EUR 0.09 and the closing price on 31 December 2017 was EUR 0.07. The market capitalisation of the share stock at the end of the period was EUR 8.6 million.

## CURRENT AUTHORISATIONS

The Board of Directors has two valid mandates.

The Annual General Meeting held on 29 May 2017 authorized 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. The authorization is valid for one year from the decision of the Annual General Meeting, i.e. until 29 May 2018.

The Extraordinary General Meeting held 14 September 2017 authorized the Board of Directors to decide to issue and/or convey a maximum of 900,000,000 new shares and/or the company's own shares either against payment or for free. The authorization is valid no longer than five years, i.e. until 14 September 2022. The authorization did not revoke the previous authorizations and it may also be used as part of the company's incentive schemes.

The Board of Directors may also decide on a free share issue to the Company itself, so that the number of shares to be issued to the Company may not exceed 1/10 of all the Company's shares.

The Board of Directors is authorized, within the limits of the authorization, to grant also 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 (convertible loan).

The subscription price of the new shares and the consideration payable for the company's own shares may be recorded partially or fully in the reserve for invested non-restricted equity or in the share capital to the extent and in the manner decided by the Board of Directors.

The Board of Directors decides on the other terms and conditions related to the share issues and granting of the special rights. The Board of Directors has not exercised this authorisation during the financial period.

## RESTRUCTURING PROCEEDINGS

The District Court of Espoo has 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.

The Company has followed the provisions of the payment program and has paid the payments to the creditors as stated in 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.

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.

## EVENTS AFTER THE END OF THE PERIOD

In January 2018, Tecnotree repatriated net EUR 9.3 million of receivables from its customer in Latin America, out of which EUR 4.2 million related to maintenance and support services for second and third quarters of 2018.

Tecnotree announced on 26 February 2018 that it will in the financial statements for 2017 write down the goodwill of approximately EUR 16.7 million in its consolidated balance sheet. The goodwill in the balance sheet was mainly related to the business transaction implemented in 2009, and a write-down of EUR 1.2 million was already made in 2012. The write-down is made now, because the business development in Middle East, Africa and Americas has not met with expectations. The delay of financial arrangements has also contributed to hindering the growth of business volumes. The write-down has been recorded as a one-time item having no impact on cash flow.

In the same announcement, based on the preliminary financial statements, the company estimated that the Group's revenue for 2017 will be approximately EUR 55 million and the operating result without the write-down described amounts to approximately EUR 7.5 – 8.5 million.

## OUTLOOK FOR 2018

The company strengthened and stabilised its operations in 2017 and will in 2018 focus on profitable growth. The company continues with the efforts to improve its financial position and with the search for new financing.

The company estimates that its revenue in 2018 will be at the same level than in 2017 and that the operational profitability (Operating result) will be better than the adjusted operating result in 2017. In 2017 the company's revenue amounted to EUR 55.1 million and the adjusted operating result to EUR 9.8 million.

## 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 2017, and that the parent company's profit for the financial period, EUR 1,862,707.61, be in retained earnings.

**ESPOO 5 March 2018**  
**TECNOTREE CORPORATION**  
**Board of Directors**

### FURTHER INFORMATION

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## TABLE SECTION (UNAUDITED)

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

CONSOLIDATED INCOME STATEMENT, MEUR	10-12/ 2017	10-12/ 2016	1-12/ 2017	1-12/ 2016
NET SALES	15,6	14,7	55,1	60,1
Other operating income	0,0	0,2	0,2	0,3
Materials and services	-0,7	-0,8	-1,8	-4,7
Employee benefit expenses	-5,1	-8,7	-25,2	-33,6
Depreciation, amortisation and impairment	-16,8	-0,2	-17,4	-0,9
Other operating expenses	-5,3	-14,7	-18,9	-31,2
OPERATING RESULT	-12,2	-9,6	-8,0	-10,1
Financial income	0,1	6,6	0,4	6,9
Financial expenses	-0,5	2,7	-2,9	-2,4
RESULT BEFORE TAXES	-12,6	-0,2	-10,5	-5,6
Income taxes	-1,5	2,2	-5,0	-0,6
RESULT FOR THE PERIOD	-14,1	2,0	-15,5	-6,3
Allocated to:				
Equity holders of parent company	-14,1	2,0	-15,5	-6,3
Non-controlling interest	-0,0	0,0	0,1	0,0
EPS calculated on the profit attributable to equity holders of parent company:				
Earnings per share, basic, EUR	-0,11	0,02	-0,13	-0,05
Earnings per share, diluted, EUR	-0,11	0,02	-0,13	-0,05
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, MEUR	10-12/ 2017	10-12/ 2016	1-12/ 2017	1-12/ 2016
RESULT FOR THE PERIOD	-14,1	2,0	-15,5	-6,3
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement items on net defined benefit liability	0,1	-0,1	0,1	-0,1
Tax on items that will not be reclassified subsequently to profit or loss	-0,0	-0,0	-0,0	0,0
Items that may be reclassified subsequently to profit or loss:				
Translation differences from foreign oper.	0,8	1,0	-1,8	-1,1
Tax relating to translation differences	-0,3	-0,3	0,6	0,4
Other comprehensive income, net of tax	0,6	0,6	-1,1	-0,8
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-13,5	2,6	-16,6	-7,1
Allocated to:				
Equity holders of parent company	-13,5	2,6	-16,6	-7,1
Non-controlling interest	0,0	0,0	0,0	0,0



CONSOLIDATED BALANCE SHEET	31.12.2017	31.12.2016
<b>Assets</b>		
Goodwill	0.0	17.6
Other intangible assets	0.3	0.4
Tangible assets	2.1	2.5
Deferred tax assets	0.6	0.6
Other non-current trade and other receivables	0.7	1.3
<b>Current assets</b>		
Inventories	0.5	0.9
Trade receivables	15.3	13.8
Other receivables	10.2	19.3
Investments	0.0	0.0
Cash and cash equivalents	2.3	3.5
<b>TOTAL ASSETS</b>	<b>31.8</b>	<b>59.8</b>
<b>Shareholders' equity</b>		
	-6.1	10.7
<b>Non-current liabilities</b>		
Deferred tax liabilities	0.0	0.0
Non-current interest-bearing liabilities	17.0	24.0
Other non-current liabilities	7.3	8.8
<b>Current liabilities</b>		
Current interest-bearing liabilities	1.2	0.4
Trade payables and other liabilities	12.5	15.8
<b>EQUITY AND LIABILITIES, TOTAL</b>	<b>31.8</b>	<b>59.8</b>

A = Share capital

B = Share premium fund

C = Translation differences

D = Invested non-restricted equity reserve

E = Other reserves

F = Retained earnings

G = Total equity attributable to equity holders of parent company

H = Non-controlling interest

I = Total shareholders' equity

	10-12/ 2017	10-12/ 2016	1-12/ 2017	1-12/ 2016
<b>CONSOLIDATED CONDENSED CASH FLOW STATEMENT, MEUR</b>				
<b>Cash flow from operating activities</b>				
Result for the period	<b>-14.1</b>	2.0	<b>-15.5</b>	-6.3
Adjustments of the result	<b>20.6</b>	-2.2	<b>26.7</b>	6.5
Changes in working capital	<b>-5.5</b>	5.1	<b>-0.9</b>	3.5
Interest paid	<b>-0.0</b>	0.1	<b>-0.1</b>	-0.0
Interest received	<b>0.2</b>	0.1	<b>0.2</b>	0.1
Income taxes paid	<b>-1.1</b>	-1.6	<b>-5.4</b>	-5.0
Net cash flow from operating activities	<b>0.1</b>	3.4	<b>5.0</b>	-1.2
<b>Cash flow from investing activities</b>				
Investments in intangible assets	<b>-0.1</b>	-0.0	<b>-0.1</b>	-0.0
Investments in tangible assets	<b>-0.0</b>	-0.1	<b>-0.1</b>	-0.3
Proceeds from disposal of intangible and tangible assets	<b>0.0</b>	0.5	<b>0.0</b>	0.6
Changes in other securities	<b>0.0</b>	0.0	<b>0.0</b>	0.0
Interest received from other securities	<b>0.0</b>	0.0	<b>0.0</b>	0.0
Net cash flow from investing activities	<b>-0.1</b>	0.5	<b>-0.2</b>	0.3
<b>Cash flow from financing activities</b>				
Borrowings received	<b>0.1</b>	0.0	<b>0.1</b>	2.1
Repayments of borrowings	<b>-0.1</b>	-0.8	<b>-6.3</b>	-1.7
Changes in credit facilities in use				
Finance lease liabilities, repayments and interest	<b>0.0</b>		<b>-0.1</b>	
Changes in pledged cash deposits	<b>0.2</b>		<b>1.0</b>	
Interest paid	<b>-0.1</b>	-0.4	<b>-0.5</b>	-2.2
Net cash flow from financing activities	<b>0.2</b>	-1.3	<b>-5.7</b>	-1.8
Increase (+) and decrease (-) in cash and cash equiva	<b>0.1</b>	2.3	<b>-0.9</b>	-3.0
Cash and cash equivalents at beg. of period	<b>2.1</b>	1.0	<b>3.5</b>	6.4
Impact of changes in exchange rates	<b>-0.0</b>	0.2	<b>-0.3</b>	0.0
Cash and cash equivalents at end of period	<b>2.3</b>	3.5	<b>2.3</b>	3.5

## 1. ACCOUNTING PRINCIPLES FOR THE FINANCIAL REPORT

This financial report has been prepared in accordance with the international financial reporting standard IAS 34 Interim Financial Reporting. The formulas for calculating the key figures presented and the accounting principles for the financial report are the same as the principles published in the 2016 Annual Report.

### Going concern basis

#### Uncertainty factors

The uncertainty factors relating to Tecnotree's operations are explained in the section "Risks and uncertainty factors" above. The company has significant uncertainty factors relating to the continuity of its operations. In practice, these risks are related to financing and they are described in the section mentioned above under the heading "Financing".

This financial report has been prepared in accordance with the international financial reporting standard IAS 34 Interim Financial Reporting. The formulas for calculating the key figures presented and the accounting principles for the financial report are the same as the principles published in the 2016 Annual Report.

#### Grounds for observing 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 and no corresponding sale of new products or decrease in operating expenses. In 2018, Tecnotree will continue to focus on cost optimization, and in addition, concentrate on minimizing currency exchange risks and withholding taxes by initiating actions on company structures and processes.

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.

The payment programme, agreed in the proposal for restructuring programme, is estimated to have a stabilizing effect on the company's operations. The company has paid the first installment belonging to the payment programme, on 30 December 2016, in accordance with the agreed timetable. In 2017, Tecnotree managed to reduce its debt under debt restructuring payment programme by EUR 6.3 million.

### **New IFRS standard IFRS 15 and IFRS 9**

Starting from 1.1.2018 Tecnotree has adopted two new IFRS standards – IFRS 15 Revenue from Contracts with Customers and IFRS 9 - Financial Instruments.

The objective of IFRS 15 Revenue from Contracts with Customers, is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Company has considered key areas of the new standard and analyzed their impact on revenue recognition principles it is following in year 2017 and identified changes required to comply with the new standard. It is estimated not to have a significant impact on year 2018 revenue. The Company has selected to adopt simplified retrospective method for transition in which it computes the impact of IFRS 15 for 2017 and adjusts the opening balance for financial period starting 1.1.2018 in retained earnings. Estimated impact of the transition adjustment is negative EUR 1.2 million and the final figure will be confirmed in the first quarter of 2018.

In consequence of IFRS 9 Tecnotree will change the principles how it records impairment losses for trade receivables based on lifetime expected credit losses instead of objective evidence that the Company will not be able to collect. The impact of the change is estimated to stay minor. The Company estimates that other new regulations of IFRS 9 are either not applicable, or do not cause any changes to accounting practices followed earlier.

## **2. 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.

The operating segments have changed in 2015. The former segments Americas (North, Central and South America) and Europe have been combined to form a single segment called Europe & Americas, and the former segments MEA (Middle East and Africa) and APAC (Asia Pacific) have also been combined to form a single segment called MEA & APAC. The segment figures for the comparative period have been correspondingly adjusted. The segments were combined because the management considered the Europe and APAC segments to be insignificant in respect of reporting.

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.

OPERATING SEGMENTS	1-12/2017	1-12/2016
<b>NET SALES, MEUR</b>		
Europe & Americas	<b>24.2</b>	25.0
MEA & APAC	<b>30.9</b>	35.1
<b>TOTAL</b>	<b>55.1</b>	60.1
<b>RESULT, MEUR</b>		
Europe & Americas	<b>4.5</b>	-11.4
MEA & APAC	<b>3.8</b>	2.0
<b>TOTAL</b>	<b>8.2</b>	-9.4
Non-allocated items	<b>1.5</b>	10.6
<b>OPERATING RESULT BEFORE R&amp;D CAPITALISATION &amp; AMORTISATION AND ONE-TIME COSTS</b>	<b>9.8</b>	1.2
One-time costs	<b>-17.8</b>	-11.3
<b>OPERATING RESULT</b>	<b>-8.0</b>	-10.1

### 3. GOODWILL

In accordance with the IFRS accounting standards an impairment test is required for the cash generating units at least once a year in order to ensure that a unit's assets are not carried at more than their recoverable value. In Tecnotree, eventual impairment of all cash generating units has been tested based on strategic financial key ratios.

As a result of the goodwill impairment testing made in connection with the preparation of financial statement Tecnotree made a write-down to goodwill of approximately EUR 16.7 million in its consolidated balance sheet. In the profit and loss statement the impact is shown in line depreciations, amortizations and impairment losses.

The goodwill in the balance sheet was mainly related to the business transaction implemented in 2009, and was allocated the goodwill to four cash generating units: Europe, Middle-East and Africa, Asia Pacific and Americas. In 2012, the company recorded a full goodwill impairment loss to values allocated to Europe and Asia Pacific regions, total of EUR 1.5 million. The write-down was made now, because the business development in Middle-East and Africa and Americas regions has not met with expectations. The delay of financial arrangements has also contributed to hindering the growth of business volumes.

The write-down is recorded as a one-off item and it has no cash flow impact.

## 4. INTEREST-BEARING AND NON-INTEREST BEARING LIABILITIES

At the end of the financial period, the company had interest-bearing loans from financial institutions EUR 17.8 (23.9) million. This included 17.6 (23.5) million loan as part of debt restructuring programme and EUR 0.2 (0.4) million other short-term credit facility.

### Interest-bearing liabilities

INTEREST-BEARING LIABILITIES, MEUR	31.12.2017	31.12.2016
Loans from financial institutions, 1 Jan	23.9	31.8
Raised loans	0.1	2.7
Repayments of loans	-6.3	-1.7
Cut of the loans in the restructuring program	0.0	-4.4
Transfer to non interest-bearing loans	0.0	-4.4
Loans from financial institutions, end of period	17.8	23.9
Finance lease liabilities, 1 Jan	0.4	0.5
Finance lease liabilities, additions	0.0	0.0
Finance lease liabilities, decreases	-0.1	-0.1
Finance lease liabilities, end of period	0.4	0.4
Interest-bearing liabilities total	18.2	24.4

### Non-interest bearing liabilities

At the end of the financial period, the company had non-interest bearing loans from financial institutions as part of debt restructuring programme EUR 4.4 (4.4) million.

## 5. RELATED PARTY TRANSACTIONS

Tecnotree's related parties include the subsidiaries, the members of the Board of Directors and the Management Board, the CEO and the close family members of the preceding persons, and those entities in which these people have control.

Regularly paid salaries and fees as well as ordinary intra-group transactions, Tecnotree has not entered any significant transactions with related parties during the financial period or previous year.

## 6. CONTINGENT LIABILITIES

CONSOLIDATED CONTINGENT LIABILITIES, MEUR	31.12.2017	31.12.2016
On own behalf		
Real estate mortgages	4.4	4.4
Corporate mortgages	45.3	45.3
Pledged deposits	0.4	1.2
Guarantees	0.0	0.7
Pledged trade and other receivables related to construction contracts		6.0
Other liabilities		
Disputed income tax liabilities in India	3.1	4.0
<b>OTHER OPERATING LEASES, MEUR</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Minimum rents payable based on other leases that cannot be cancelled:		
Other operating leases		
Less than one year	0.4	0.9
Between one and five years	1.0	1.7
<b>DERIVATIVE CONTRACTS, MEUR</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Interest rate swap, fair value (negative)	-0.1	-0.3
Interest rate swap, value of underlying instruments	10.1	11.6

In addition, the shares of the Indian subsidiary held by the parent company are pledged. These shares have a book value of EUR 7.4 million in the parent company.

## 7. KEY FIGURES

CONSOLIDATED KEY FINANCIAL FIGURES	1-12/2017	1-12/2016
Return on investment, %	-32.2	-7.6
Return on equity, %	-674.3	-43.9
Equity ratio, %	-19.1	17.9
Net gearing, %	-261.2	195.6
Investments, MEUR	0.2	0.3
% of net sales	0.5	0.5
Research and development, MEUR	6.0	6.5
% of net sales	10.8	10.8
Order book, MEUR	26.2	24.9
Personnel, average	727	895
Personnel, at end of period	666	818

CONSOLIDATED KEY FIGURES PER SHARE 1-12/2017 1-12/2016

Earnings per share, basic, EUR	<b>-0.13</b>	-0.05
Earnings per share, diluted, EUR	<b>-0.13</b>	-0.05
Equity per share, EUR	<b>-0.05</b>	0.09
Number of shares at end of period, x 1,000	<b>122,628</b>	122,628
Number of shares on average, x 1,000	<b>122,628</b>	122,628
Share price, EUR		
Average	<b>0.09</b>	0.11
Lowest	<b>0.07</b>	0.09
Highest	<b>0.13</b>	0.17
Share price at end of period, EUR	<b>0.07</b>	0.10
Market capitalisation of issued stock at end of period, MEUR	<b>8.6</b>	12.2
Share turnover, million shares	<b>63.3</b>	29.7
Share turnover, % of total	<b>51.6</b>	24.3
Share turnover, MEUR	<b>5.5</b>	3.5
Price/earnings ratio (P/E)	<b>0.0</b>	0.0

QUARTERLY KEY FIGURES Q4/17 Q3/17 Q2/17 Q1/17 Q4/16 Q3/16

Net sales, MEUR	<b>15.6</b>	12.2	15.1	12.1	14.7	16.2
Net sales, change %	<b>6.1</b>	-24.5	-6.4	-6.8	-40.2	-8.6
Adjusted operating result <sup>1</sup>	<b>4.4</b>	1.6	3.6	-0.2	0.8	1.8
% of net sales	<b>28.4</b>	13.4	23.6	-1.7	5.2	11.3
Operating result, MEUR	<b>-12.2</b>	1.4	3.1	-0.2	-9.6	0.8
% of net sales	<b>-78.4</b>	11.4	20.3	-1.7	-65.0	5.2
Adjusted result for the period, MEUR <sup>2</sup>	<b>2.6</b>	0.3	1.9	-1.5	3.0	-0.1
Result for the period, MEUR	<b>-14.1</b>	0.1	1.4	-2.5	2.0	-1.1
Personnel at end of period	<b>666</b>	696	719	771	818	892
Earnings per share, basic, EUR	<b>-0.11</b>	0.00	0.01	-0.02	0.02	-0.01
Earnings per share, diluted, EUR	<b>-0.11</b>	0.00	0.01	-0.02	0.02	-0.01
Equity per share, EUR	<b>-0.05</b>	0.06	0.07	0.09	0.09	0.07
Net interest-bearing liabilities, MEUR	<b>15.9</b>	16.2	17.4	28.9	20.9	32.5
Order book, MEUR	<b>26.2</b>	25.4	30.4	28.3	24.9	23.9

<sup>1</sup> Adjusted operating result = operating result before one-time items.

<sup>2</sup> Adjusted result for the period = result for the period before one-time items.