

# TECNOTREE

A photograph of three business professionals in a meeting. A woman in the center is smiling and looking at a tablet held by a man on the right. A man on the left is also looking at the tablet. The background is a bright office setting. The image is partially obscured by a dark blue triangle in the bottom right corner.

## Short Report Q1 2017

# TECNOTREE CORPORATION SHORT REPORT

## 1 JAN – 31 MAR 2017 (UNAUDITED)

28 April 2017 at 8:30 am

Tecnotree is a global provider of IT solutions for the management of services, products, customers and revenue for Communications Service Providers. Tecnotree helps customers to monetise and transform their business towards a marketplace of digital services. Together with its customers, Tecnotree empowers people to self-serve, engage and take control of their own digital life.

### FIRST QUARTER – RESULT IMPROVED

KEY FIGURES	1-3/ 2017	1-3/ 2016	1-12/ 2016
Net sales, MEUR	12.1	13.0	60.1
Adjusted operating result, MEUR <sup>1</sup>	0.1	-2.4	1.2
Operating result, MEUR	-0.2	-2.4	-10.1
Result before taxes, MEUR	-1.3	-3.7	-5.6
Adjusted result for the period, MEUR <sup>2</sup>	-1.9	-4.6	-4.2
Result for the period, MEUR	-2.2	-4.6	-6.3
Earnings per share, basic, EUR	-0.02	-0.04	-0.05
Order book, MEUR	28.3	28.2	24.9
Cash flow after investments, MEUR	2.6	-1.9	0.4
Change in cash and cash equivalents, MEUR	-2.1	-2.9	-1.7
Cash and cash equivalents, MEUR	1.4	3.3	3.5
Equity ratio %	16.3	24.5	23.9
Net gearing %	255.7	149.0	145.2
Personnel at end of period	771	922	818

<sup>1</sup> Adjusted operating result = operating result without one-time costs. Details of these are given in the section “Result analysis”.

<sup>2</sup> Adjusted result for the period = result for the period without one-time costs in the operating costs and Q4/16 restructuring income in financial items.

Unless otherwise stated, all figures presented below are for the review period 1-3/2017 and the figures for comparison are for the corresponding period 1-3/2016.

## **CEO Padma Ravichander:**

In many ways Q1-2017, can be defining quarter for Tecnotree.

This quarter substantiated our belief in the company and the path undertaken in the last few months.

At the top level, the quarter had a revenue of EUR 12.1 million, which is about 7% less than the same quarter last year (13.0).

As explained in our earlier quarter results announcement, the company has been facing significant reduction in LATAM sales region and challenges in the delivery of new products. In the last few months, the focus has been to consolidate existing business opportunities and has been successful in consolidating the revenue.

The bigger success in the quarter has been on the cost optimisation. Many initiatives were undertaken from Q3 -2016, which have resulted in significant reduction in operating costs.

The total operating costs for the quarter is EUR 10.8 million, which is the lowest in last many quarters. This is lower by 20% compared to same quarter in previous year (13.5).

The operative EBIT, without one-time costs for the quarter is EUR 0.1 million against (-2.4) in the same quarter of 2016.

While the result for the quarter is moderate, the turnaround of adjusted EBIT is significant and reaffirms that the company is moving in the right direction.

The cash flow after the investments for the quarter was EUR 2.6 million. During this quarter substantial amounts were received from a LATAM customer with whom the company had initiated a settlement agreement in Q4-2016. Similarly good inflows were recorded in the other business regions as well. In the first quarter of 2017, Tecnotree repatriated remarkable amount of receivables from its customer in Latin America, which was used for repaying long-term debts.

Tecnotree won a few major new orders during the quarter. We won a Customer Life Cycle Management and Self Care product implementation for one of the largest operators in Western Africa and a Commerce engine upgrade for our Central American Customer.

### **Future scenario**

We continue our efforts in cost minimisation and have initiated a plan for further reduction of costs by EUR 5 million, which will help the company financially in 2017 and 2018.

We are encouraged by the improved results of this quarter compared to last year and are equally committed to continuing our internal transformation journey to further reduce Opex, simplify our portfolio of products, and win in the marketplace with improved execution, quality and agility and innovative business models.

## SALES AND NET SALES

Tecnotree's net sales for the review period were EUR 12.1 (13.0) million.

Net sales in the review period included EUR 0.3 million currency exchange losses, whereas in the comparative period EUR 1.1 million currency exchange losses were recorded. These arose mainly from the fluctuations of the US dollar against the euro.

SPECIFICATION OF NET SALES, MEUR	1-3/ 2017	1-3/ 2016	1-12/ 2016
Revenue from contract work recognised by stage of completion (IAS 11)	3.1	3.5	19.7
Revenue from maintenance and support (IAS 18)	7.9	6.9	28.9
Revenue from goods and services (AS 18)	1.4	3.6	11.1
Currency exchange gains and losses	-0.3	-1.1	0.4
<b>TOTAL</b>	<b>12.1</b>	<b>13.0</b>	<b>60.1</b>

NET SALES BY MARKET AREA, MEUR	1-3/ 2017	1-3/ 2016	1-12/ 2016
Europe & Americas	4.5	6.5	25.0
MEA & APAC	7.7	6.5	35.1
<b>TOTAL</b>	<b>12.1</b>	<b>13.0</b>	<b>60.1</b>

CONSOLIDATED ORDER BOOK, MEUR	31.3. 2017	31.3. 2016	31.12. 2016
Europe & Americas	9.0	10.5	7.5
MEA & APAC	19.4	17.7	17.4
<b>TOTAL</b>	<b>28.3</b>	<b>28.2</b>	<b>24.9</b>

Tecnotree's first quarter net sales are usually lower than average quarterly net sales. One reason for this is the internal budget process at customers, which results in investment decisions being taken in later quarters in the year.

## RESULT ANALYSIS

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

In the first quarter the operating result included EUR 0.3 million one-time costs related to redundancies.

Tecnotree reports its result as follows:

INCOME STATEMENT, KEY FIGURES, MEUR	1-3/ 2017	1-3/ 2016	1-12/ 2016
Net sales	12.1	13.0	60.1
Other operating income	0.2	0.0	0.3
Operating costs excluding one-time costs	-12.2	-15.4	-59.1
Adjusted operating result	0.1	-2.4	1.2
One-time costs	-0.3		-11.3
OPERATING RESULT	-0.2	-2.4	-10.1
Financial items without foreign currency differences	-0.4	-1.8	-4.1
Exchange rate gains and losses in financial items	-0.7	0.5	-0.7
Income taxes	-0.9	-0.9	-0.6
Adjusted result for the period	-1.9	-4.6	-4.2
One times income in financial items	-0.3		-2.0
RESULT FOR THE PERIOD	-2.2	-4.6	-6.3

Tecnotree's net sales for the review period decreased 6.8 per cent to EUR 12.1 (13.0) million.

Net sales in the review period included EUR 0.3 million currency exchange losses, whereas in the comparative period EUR 1.1 million currency exchange losses were recorded. These arose mainly from the fluctuations of the US dollar against the euro.

Negative foreign currency differences of EUR 0.7 million (0.5 MEUR positive 2016) were recorded in financial items. These are mainly due to the impact of intra-group balance sheet items, when for example a subsidiary records an exchange rate gain or loss on a euro denominated receivable from the parent company. It has no direct impact on the Group's cash flow.

Exchange rates also have a direct impact on shareholders' equity in terms of translation differences arising from foreign companies, which totalled EUR 1.7 million positive in the review period.

Financial income and expenses (net) during the review period totalled EUR 1.1 million (1.3). Here is a breakdown of these:

Taxes for the period totalled EUR 0.9 (0.9) million, including the following items:

	1-3/ 2017	1-3/ 2016	1-12/ 2016
<b>FINANCIAL INCOME AND EXPENSES, MEUR</b>			
Interest income	0.1	0.0	0.1
Exchange rate gains	0.1	0.7	0.1
Other financial income	0.0	0.0	6.7
<b>FINANCIAL INCOME, TOTAL</b>	<b>0.2</b>	<b>0.7</b>	<b>6.9</b>
Interest expenses	-0.3	-0.8	0.3
Exchange rate losses	-0.8	-0.1	-0.7
Other financial expenses	-0.2	-1.1	-2.0
<b>FINANCIAL EXPENSES, TOTAL</b>	<b>-1.3</b>	<b>-2.0</b>	<b>-2.4</b>
<b>FINANCIAL ITEMS, TOTAL</b>	<b>-1.1</b>	<b>-1.3</b>	<b>4.5</b>

	1-3/ 2017	1-3/ 2016	1-12/ 2016
<b>TAXES IN INCOME STATEMENT, MEUR</b>			
Withholding taxes paid abroad	-0.8	-0.9	-4.5
Change in withholding tax accrual	0.0	0.2	4.3
Income taxes on the results of Group companies	-0.1	-0.2	-0.4
Prior year taxes	0.0	0.0	-0.0
Change in deferred tax asset in India	0.0	0.0	-0.0
Change in deferred tax liability based on:	0.0	0.0	0.0
- dividend tax in India	0.0	0.0	0.0
Other items	0.0	0.0	0.0
<b>TAXES IN INCOME STATEMENT, TOTAL</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.6</b>

Earnings per share were EUR -0.02 (-0.04). Equity per share at the end of the period was EUR 0.08 (31 December 201: EUR 0.09).

## PERSONNEL

At the end of March 2017 Tecnotree employed 771 (31 December 2016: 818) persons, of whom 90 (31 December 2016: 88) worked in Finland and 681 (31 December 2016: 730) elsewhere. The company employed on average 792 (925) people during the review period. Personnel by country were as follows:

PERSONNEL	1-3/2017	1-3/2016	1-12/2016
Personnel, at end of period	771	922	818
Finland	90	111	88
Ireland	14	45	24
Brazil	12	22	11
Argentina	44	38	41
India	540	626	567
United Arab Emirates	20	30	25
Other countries	51	50	62
Personnel, average	792	925	895
Personnel expenses (MEUR)	6,8	8,4	33,6

## EVENTS AFTER THE END OF THE PERIOD

Tecnotree signs in the second quarter 2017 maintenance and support contract with a leading operator group valued at over 14 million Euros and three-year Managed Services agreement with a leading Middle Eastern Operator valued at 8.2 million Euros

## PROSPECTS IN 2017

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 is engaged aggressively to collect its receivables from the key customers and is also negotiating with financiers on short term additional funding to secure liquidity. In addition, the company is also seeking long-term financing, which could be implemented through company or restructuring arrangements. The company's ability as going concern is dependent on the successful completion of the financing transactions that are currently under negotiations and its ability to continue to execute the payment programs.

The company will continue the EUR 5 million saving program initiated last year. Given the current critical financial situation of the company, in addition Tecnotree announced in March about EUR 5 million further cost cuts in 2017. The company expects to achieve its targets by reducing rented premises, reducing travel expenses, focusing on locations, reducing external services and personnel costs. The company continues increased focus on further improvements of the quality and timeliness of deliveries.

However, Tecnotree does not provide an annual outlook for 2017 due to several uncertainty factors having impact on customer investments. These uncertainty factors relate to a fluctuation in dollar as well as the softening macroeconomic environment and political instability in some of its key markets in Latin America, the Middle East and Africa.

The company estimates that quarterly fluctuations are significant.

## FINANCIAL INFORMATION

A press conference for analysts, investors and media will be held on Friday, 28 April 2017 at 10.00 am in Hotel Scandic Simonkenttä, conference room Tapiola, 1 floor, address Simonkatu 9, Helsinki. The conference will be held in English.

The Q1/2017 interim report will be presented by Padma Ravichander, CEO.

The material to be presented at the press conference will be available at [www.tecnotree.com](http://www.tecnotree.com).

Tecnotree is listed on Nasdaq Helsinki (TEM1V).

For more information, please visit [www.tecnotree.com](http://www.tecnotree.com).

## **TECNOTREE CORPORATION**

### **Board of Directors**

### **FURTHER INFORMATION**

Further information, investors and media:

Padma Ravichander, CEO, tel +97 156 414 1420

Kirsti Parvi, CFO, tel +358 50 5174569



## 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.

	1-3/ 2017	1-3/ 2016	1-12/ 2016
<b>CONSOLIDATED INCOME STATEMENT, MEUR</b>			
NET SALES	<b>12.1</b>	13.0	60.1
Other operating income	<b>0.2</b>	0.0	0.3
Materials and services	<b>-1.0</b>	-1.5	-4.7
Employee benefit expenses	<b>-6.8</b>	-8.4	-33.6
Depreciation, amortisation and impairment charges	<b>-0.2</b>	-0.2	-0.9
Other operating expenses	<b>-4.6</b>	-5.2	-31.2
<b>OPERATING RESULT</b>	<b>-0.2</b>	-2.4	-10.1
Financial income	<b>0.2</b>	0.7	6.9
Financial expenses	<b>-1.3</b>	-2.0	-2.4
<b>RESULT BEFORE TAXES</b>	<b>-1.3</b>	-3.7	-5.6
Income taxes	<b>-0.9</b>	-0.9	-0.6
<b>RESULT FOR THE PERIOD</b>	<b>-2.2</b>	-4.6	-6.3
Allocated to:			
Equity holders of parent company	<b>-2.3</b>	-4.5	-6.3
Non-controlling interest	<b>0.1</b>	-0.0	0.0
EPS calculated on the profit attributable to equity holders of parent company:			
Earnings per share, basic, EUR	<b>-0.02</b>	-0.04	-0.05
Earnings per share, diluted, EUR	<b>-0.02</b>	-0.04	-0.05

CONSOLIDATED BALANCE SHEET	31.3.2017	31.3.2016	31.12.2016
<b>Assets</b>			
Goodwill	18.1	16.9	17.6
Other intangible assets	0.4	0.6	0.4
Tangible assets	2.4	3.5	2.5
Deferred tax assets	0.9	0.6	0.6
Other non-current trade and other receivables	1.1	1.3	1.3
<b>Current assets</b>			
Inventories	0.9	0.7	0.9
Trade receivables	11.7	8.9	13.8
Other receivables	18.6	33.8	19.3
Investments	0.0	0.0	0.0
Cash and cash equivalents	1.4	3.3	3.5
<b>TOTAL ASSETS</b>	<b>55.5</b>	<b>69.4</b>	<b>59.8</b>
<b>Shareholders' equity</b>			
	9.2	11.3	10.7
<b>Non-current liabilities</b>			
Deferred tax liabilities	0.0	0.0	0.0
Non-current interest-bearing liabilities	23.2	0.4	24.0
Other non-current liabilities	8.7	1.7	8.8
<b>Current liabilities</b>			
Current interest-bearing liabilities	0.4	31.8	0.4
Trade payables and other liabilities	13.9	24.2	15.8
<b>EQUITY AND LIABILITIES, TOTAL</b>	<b>55.5</b>	<b>69.4</b>	<b>59.8</b>

CONSOLIDATED CONDENSED CASH FLOW STATEMENT, MEUR	1-3/ 2017	1-3/ 2016	1-12/ 2016
<b>Cash flow from operating activities</b>			
Result for the period	-2.2	-4.6	-6.3
Adjustments of the result	1.4	3.3	11.9
Changes in working capital	5.5	0.8	3.5
Interest paid	-0.8	-0.0	-0.4
Interest received	0.1	0.0	0.0
Income taxes paid	-1.4	-1.3	-7.8
<b>Net cash flow from operating activities</b>	<b>2.5</b>	<b>-1.8</b>	<b>0.9</b>
<b>Cash flow from investing activities</b>			
Investments in intangible assets	0.0	-0.0	-0.4
Investments in tangible assets	0.1	-0.1	-0.2
Proceeds from disposal of intangible and tangible assets	0.0	0.0	0.0
Changes in other securities		0.0	0.1
Interest received from other securities			0.0
<b>Net cash flow from investing activities</b>	<b>0.1</b>	<b>-0.1</b>	<b>-0.5</b>
<b>Cash flow from financing activities</b>			
Borrowings received	1.2	0.4	2.9
Repayments of borrowings	-1.2	-0.4	-2.9
Changes in credit facilities in use			
Finance lease liabilities, repayments and interest	0.0		-0.0
Changes in pledged cash deposits	-4.8		-0.8
Interest paid	0.1	-1.0	-1.3
<b>Net cash flow from financing activities</b>	<b>-4.7</b>	<b>-1.0</b>	<b>-2.1</b>
<b>Increase (+) and decrease (-) in cash and cash equivalents</b>	<b>-2.1</b>	<b>-2.9</b>	<b>-1.7</b>
Cash and cash equivalents at beg. of period	3.5	2.5	2.5
Impact of changes in exchange rates	0.0	-0.2	-0.3
<b>Cash and cash equivalents at end of period</b>	<b>1.4</b>	<b>3.3</b>	<b>3.5</b>

## KEY FIGURES

CONSOLIDATED KEY FINANCIAL FIGURES	1-3/2017	1-3/2016	1-12/2016
Return on investment, %	<b>-14.1</b>	9.1	24.7
Return on equity, %	<b>-125.1</b>	-73.6	1.4
Equity ratio, %	<b>16.3</b>	24.5	23.9
Net gearing, %	<b>255.7</b>	149.0	145.2
Investments, MEUR	<b>0.1</b>	0.1	1.2
% of net sales	<b>1.0</b>	1.1	1.9
Research and development, MEUR	<b>1.3</b>	3.2	13.0
% of net sales	<b>10.5</b>	24.6	21.6
Order book, MEUR	<b>28.3</b>	28.2	24.9
Personnel, average	<b>792</b>	925	895
Personnel, at end of period	<b>771</b>	922	818

QUARTERLY KEY FIGURES	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16	Q4/15
Net sales, MEUR	<b>12.1</b>	14.7	16.2	16.2	13.0	24.6
Net sales, change %	<b>-6.8</b>	-40.2	-8.6	-5.4	-23.7	1.7
Adjusted operating result <sup>1</sup>	<b>-0.2</b>	0.8	1.8	1.0	-2.4	6.4
% of net sales	<b>-1.7</b>	5.2	11.3	6.2	-18.3	25.9
Operating result, MEUR	<b>-0.2</b>	-9.6	0.8	1.0	-2.4	6.4
% of net sales	<b>-1.7</b>	-65.0	5.2	6.2	-18.3	25.9
Adjusted result for the period, MEUR <sup>2</sup>	<b>-1.5</b>	3.0	-0.1	-2.6	-4.8	3.9
Result for the period, MEUR	<b>-2.5</b>	2.0	-1.1	-2.6	-4.8	3.3
Personnel at end of period	<b>771</b>	818	892	926	922	934
Earnings per share, basic, EUR	<b>-0.02</b>	0.02	-0.01	-0.02	-0.04	0.03
Earnings per share, diluted, EUR	<b>-0.02</b>	0.02	-0.01	-0.02	-0.04	0.03
Equity per share, EUR	<b>0.09</b>	0.09	0.07	0.07	0.09	0.14
Net interest-bearing liabilities, MEUR	<b>28.9</b>	20.9	32.5	29.7	28.9	25.8
Order book, MEUR	<b>28.3</b>	24.9	23.9	29.8	28.2	26.8

<sup>1</sup> Adjusted operating result = operating result before one-time costs. Details of these are given in the section "Result analysis".

<sup>2</sup> Adjusted result for the period = result for the period without one-time costs in the operating costs and Q4/2016 restructuring income in financial items.