

# TECNOTREE

A photograph of three business professionals in a meeting. A woman in a light-colored blazer is pointing at a tablet held by a man in a light blue shirt. Another woman is partially visible on the right. The background is a bright office setting. The image is partially obscured by a dark blue triangle in the bottom right corner which contains white line-art graphics of leaves.

## Short Report Q3 2018

# TECNOTREE CORPORATION SHORT REPORT

## 1 JAN – 30 SEP 2018 (UNAUDITED)

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.

### A SIGNIFICANT IMPROVEMENT IN Q3 RESULT COMPARED TO LAST YEAR – OPERATING RESULT FOR JANUARY-SEPTEMBER WEAKENED DUE TO DECREASE IN NET SALES

KEY FIGURES	7-9/ 2018	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
Net sales, MEUR	12.4	12.2	29.8	39.5	55.1
Adjusted operating result, MEUR <sup>1</sup>	2.7	1.6	1.3	5.3	9.8
Operating result, MEUR	2.7	1.4	1.3	4.3	-8.0
Result before taxes, MEUR	2.2	1.2	1.1	2.1	-10.5
Adjusted result for the period, MEUR <sup>2</sup>	1.2	0.3	-1.6	-0.4	2.3
Result for the period, MEUR	1.2	0.1	-1.6	-1.4	-15.5
Earnings per share, basic, EUR	0.01	0.00	-0.01	-0.01	-0.13
Order book, MEUR			24.6	25.4	26.2
Cash flow after investments, MEUR	-1.9	1.6	0.4	4.8	4.8
Change in cash and cash equivalents, MEUR	0.5	1.2	1.1	-1.0	-0.9
Cash and cash equivalents, MEUR			3.1	2.1	2.3
Equity ratio %			-28.1	15.3	-19.1
Net gearing %			-	219.5	-
Personnel at end of period			571	696	666

<sup>1</sup> Adjusted operating result = operating result without one-time items.

<sup>2</sup> adjusted result for the period = result for the period without 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”. These measures are defined in the footnote to the above table, and in the table “Income statement, Key figures” under the section “Result analysis”.

Unless otherwise stated, all figures presented below are for the review period 1-9/2018 and the figures for comparison are for the corresponding period 1-9/2017.

## **CEO Padma Ravichander: Encouraging recovery in all fronts**

Third quarter of 2018 has been a quarter that has demonstrated encouraging results for Tecnotree indicating that the company is back on the right track. While Q1 in 2018 was one of our weakest quarters due to external factors, followed by a challenging Q2, the results of Q3 indicate that we have made a strong recovery in all fronts.

The revenue had seen a reduction in Q1 in 2018 mainly due to external factors, improved in Q2 in 2018 and has gained momentum in the latest quarter. The revenue for the third quarter stood at EUR 12.4 million, showing more than 25% increase over the previous quarter. The company has strong belief that the profitability is the most important goal to achieve and is slowly but surely taking giant steps in that direction.

While the increase in revenue is definitely a welcome change, the company continues its strong focus on further reducing operating costs. Operating expenses during the review period were EUR 28.5 million, or EUR 6.9 million lower than in the comparison period (35.4). Further, the company is constantly looking for opportunities to optimize costs and has set a new and additional target of reducing operational costs by EUR 7 million in 2019, for which necessary actions are already being initiated.

On the segments for revenue, Latin America is showing reasonable growth, while the APAC and MEA have further potential to grow. Despite weak performance of the African economies, Tecnotree customers in Africa have continued to invest in our products. Many new orders were won in this quarter, the major ones being Nepal Telecom for Roaming Billing System, VAS platform to a new European customer and renewal of several support contracts in Iran and in Zimbabwe, among others.

On the delivery front, Mauritius Telecom went live with Selfcare powered by “Tecnotree My Life Dashboard”, a cutting edge, self-service platform for subscribers, which again demonstrates the technical capabilities of the company. We also launched “ManaMobile”, new innovative operations management mobile app that we believe is state-of-the-art capability in the hands of our customers to reduce their downtimes and operational costs. We continue to invest in our Digital BSS, which we believe brings very strong value to our customers, preparing them for 5G and their digital transformation journey.

On the management side, we are pleased to have in our Board four new directors, who are all well-known industry professionals and will be adding a huge value to the company.

We believe that with the unwarranted distractions are behind us and we are now poised for further growth in revenue, optimizations in costs and will work towards delivering great value and positive results to all our stakeholders.

## SALES AND NET SALES

Tecnotree's net sales for January-September were EUR 29.8 (39.5) million.

Net sales in the review period included EUR 0.1 million currency exchange gains (-1.0). These arose mainly from the fluctuations of the US dollar against the euro.

SPECIFICATION OF NET SALES, MEUR	7-9/ 2018	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
Revenue from contract work recognised by stage of completion (IAS 11)		2.8		9.3	11.3
Revenue from maintenance and support (IAS 18)		7.7		23.9	31.2
Revenue from goods and services (AS 18)		1.9		7.3	13.8
Revenue from maintenance and support (IFRS 15)	<b>7.2</b>		<b>21.6</b>		
Revenue from goods and services (IFRS 15)	<b>5.2</b>		<b>8.0</b>		
Currency exchange gains and losses	<b>-0.0</b>	-0.3	<b>0.1</b>	-1.0	-1.3
<b>TOTAL</b>	<b>12.4</b>	12.2	<b>29.8</b>	39.5	55.1

NET SALES BY MARKET AREA, MEUR	7-9/ 2017	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
Europe & Americas	<b>5.6</b>	4.6	<b>11.8</b>	15.8	24.2
MEA & APAC	<b>6.8</b>	7.6	<b>17.9</b>	23.7	30.9
<b>TOTAL</b>	<b>12.4</b>	12.2	<b>29.8</b>	39.5	55.1

<b>CONSOLIDATED ORDER BOOK, MEUR</b>			<b>30.9</b>	30.9	31.12
Europe & Americas			<b>5.6</b>	6.2	10.7
MEA & APAC			<b>19.1</b>	19.2	15.5
<b>TOTAL</b>			<b>24.6</b>	25.4	26.2

## RESULT ANALYSIS

The operating result for the review period amounted to EUR 1.3 million being 3.0 million lower than in the comparative period (4.3). However, the operating result in the third quarter was EUR 1.3 million better than last year. Operating expenses during the review period were EUR 28.5 million, or EUR 6.9 million lower than in the comparison period (35.4). The result for the period EUR -1.6 million was EUR -0.2 million lower compared to comparative period (-1.4). The result in the third quarter was EUR 1.1 million better compared to last year.

Tecnotree reports its result as follows:

	7-9/ 2018	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
<b>INCOME STATEMENT, KEY FIGURES, MEUR</b>					
Net sales	12.4	12.2	29.8	39.5	55.1
Other operating income	0.0	0.0	0.1	0.2	0.2
Operating costs excluding one-time costs	-9.7	-10.6	-28.5	-34.3	-45.5
Adjusted operating result	2.7	1.6	1.3	5.3	9.8
One-time costs-/income+	0.0	-0.2	0.0	-1.1	-17.8
<b>OPERATING RESULT</b>	<b>2.7</b>	<b>1.4</b>	<b>1.3</b>	<b>4.3</b>	<b>-8.0</b>
Financial items without currency differences	-0.5	-0.2	-0.8	-0.8	-0.8
Exchange rate gains and losses in financial items	0.0	-0.0	0.6	-1.4	-1.8
Income taxes	-1.0	-1.1	-2.7	-3.5	-5.0
Adjusted result for the period	1.2	0.3	-1.6	-0.4	2.3
One-time costs	0.0	-0.2	0.0	-1.1	-17.8
<b>RESULT FOR THE PERIOD</b>	<b>1.2</b>	<b>0.1</b>	<b>-1.6</b>	<b>-1.4</b>	<b>-15.5</b>

The company's financial expenses decreased to EUR 0.2 million compared to EUR 2.1 million in the comparison period.

Positive foreign currency differences of EUR 0.6 million (-1.4) were recorded in financial items. These were mainly due to the changes in 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. The changes in balance-sheet items have 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 -2.8 (-2.0) million in the review period.

Financial income and expenses breakdown is as follows:

	7-9/ 2018	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
<b>FINANCIAL INCOME AND EXPENSES, MEUR</b>					
Interest income	0.0	0.0	0.1	0.2	0.2
Exchange rate gains	0.3	0.1	1.1	0.1	0.1
Other financial income	0.0	0.0	-0.0	0.0	0.0
<b>FINANCIAL INCOME, TOTAL</b>	<b>0.3</b>	<b>0.1</b>	<b>1.2</b>	<b>0.3</b>	<b>0.4</b>
Interest expenses	-0.1	-0.2	-0.4	-0.6	-0.6
Exchange rate losses	-0.3	-0.0	-0.5	-1.5	-1.9
Other financial expenses	-0.5	-0.0	-0.5	-0.4	-0.4
<b>FINANCIAL EXPENSES, TOTAL</b>	<b>-0.8</b>	<b>-0.3</b>	<b>-1.4</b>	<b>-2.4</b>	<b>-2.9</b>
<b>FINANCIAL ITEMS, TOTAL</b>	<b>-0.5</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-2.1</b>	<b>-2.5</b>

Taxes for the period totalled EUR 2.7 (3.5) million, including the following items:

TAXES IN INCOME STATEMENT, MEUR	7-9/ 2018	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
Withholding taxes paid abroad	-0.8	-1.0	-3.3	-3.5	-4.6
Change in withholding tax accrual	0.0	0.2	1.0	0.4	0.2
Income taxes on the results of Group companies	-0.2	-0.3	-0.3	-0.4	-0.5
Prior year taxes	-0.0	0.0	-0.0	0.0	0.0
Change in deferred tax asset in India	0.0	0.0	0.0	0.0	-0.0
TAXES IN INCOME STATEMENT, TOTAL	-1.0	-1.1	-2.7	-3.5	-5.0

Company's equity ratio was -28.1 % (15.3 %). Earnings per share were EUR -0.01 (-0.01). Equity per share at the end of the period was EUR -0.06 (0.06).

## PERSONNEL

At the end of September 2018 Tecnotree employed 571 (696) persons, of whom 61 (72) worked in Finland and 510 (624) elsewhere. The company employed on average 626 (743) people during the review period. Personnel by country were as follows:

PERSONNEL	1-9/2018	1-9/2017	1-12/2017
Personnel, at end of period	571	696	666
Finland	61	72	67
Brazil	10	10	10
Argentina	40	47	46
India	370	482	453
United Arab Emirates	15	20	18
Other countries	75	65	72
Personnel, average	626	743	727
Personnel expenses (MEUR)	-14.7	-20.1	-25.2

## CAPITAL INVESTMENT BY FITZROY INVESTMENTS LIMITED

Tecnotree has agreed on a capital investments worth up to EUR 5 million with Fitzroy Investments Limited, whereby the company has offered Fitzroy 52,555,040 new Tecnotree shares for subscription at a total price of EUR 2.09 million, indicating a price per share of approximately EUR 0.04 at subscription. In addition, Tecnotree has offered Fitzroy the opportunity to subscribe to 72,444,960 options that can be freely traded and that entitle – but do not oblige – the holder to subscribe within one year to 72,444,960 new shares in Tecnotree for a total price of EUR 2.91 million at subscription, indicating a price per share of approximately EUR 0.04 at subscription. Tecnotree's Board of Directors decided on the issue of the shares and options on the basis of the authorisation granted by the extraordinary general meeting on 14 September 2017.

On 24 September 2018, Fitzroy subscribed to the shares and options offered to it, and Tecnotree's Board of Directors has approved the subscriptions in full.

Tecnotree received EUR 2.09 million in gross assets from the share issue. The shares correspond to an ownership stake of approximately 29.99 per cent of Tecnotree. Following the share issue, there are now 175,183,468 shares in Tecnotree in total.

Slightly later than originally indicated, Tecnotree will be publishing the prospectus, relating to the Share issue to Fitzroy Investments Limited, by the end of November 2018, when the Shares subscribed to by Fitzroy Investments Limited will be listed on the Helsinki Stock

## EVENTS AFTER THE END OF THE PERIOD

Tecnotree announced on 10 October 2018 to start co-operation negotiations in Finland regarding the whole personnel on financial and productive grounds. The reduction is estimated to be a maximum of thirty positions. The company has worldwide 570 employees of whom 61 work in Finland.

In the frame of the negotiations also alternative ways to adjust company's activities in addition to the staff reductions are handled.

The objective of the negotiations is to adjust the cost level with the current business situation and to enhance the operations to match the market demands.

Due to the tight financial situation the aim of Tecnotree is to cut approximately EUR 7 million in operational costs in 2019. These cost savings will also be realized in 2019.

## PROSPECTS IN 2018

Tecnotree will not provide an estimate of its financial development for the full year 2018 due to the many uncertainties affecting customers' investments.

The company's liquidity position is very tight and its financial position and liquidity are critical. The company continues efforts to balance its financial position and to optimize its costs.

The continuity of the company's operations (going concern) is only possible if the company succeeds in gaining additional financing. The current working capital of the company is estimated to be sufficient at least until the end of January 2019. The working capital for the forthcoming 12 months will be sufficient provided that Fitzroy Investments Limited uses the offered options by the end of January 2019 and subscribes for 72,444,960 new shares in Tecnotree for a total price of EUR 2.91 million, or if the company succeeds in gaining other additional financing.

The company expects that Fitzroy or assignee of options will use its subscription right in January 2019 at the latest.

The company has a subsidiary in Argentina that was categorized as a hyperinflation country this year. The impact to the reported numbers of the company will be specified in the financial report for the last quarter of the year and for the full year full year 2018. The impact is not expected to be significant.

## **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

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



## 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	7-9/ 2018	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
NET SALES	<b>12.4</b>	12.2	<b>29.8</b>	39.5	55.1
Other operating income	<b>0.0</b>	0.0	<b>0.1</b>	0.2	0.2
Materials and services	<b>-0.9</b>	-0.2	<b>-1.5</b>	-1.2	-1.8
Employee benefit expenses	<b>-4.6</b>	-5.8	<b>-14.7</b>	-20.1	-25.2
Depreciation, amortisation and	<b>-0.1</b>	-0.2	<b>-0.5</b>	-0.5	-17.4
Other operating expenses	<b>-4.0</b>	-4.6	<b>-11.9</b>	-13.6	-18.9
OPERATING RESULT	<b>2.7</b>	1.4	<b>1.3</b>	4.3	-8.0
Financial income	<b>0.3</b>	0.1	<b>1.2</b>	0.3	0.4
Financial expenses	<b>-0.8</b>	-0.3	<b>-1.4</b>	-2.4	-2.9
RESULT BEFORE TAXES	<b>2.2</b>	1.2	<b>1.1</b>	2.1	-10.5
Income taxes	<b>-1.0</b>	-1.1	<b>-2.7</b>	-3.5	-5.0
RESULT FOR THE PERIOD	<b>1.2</b>	0.1	<b>-1.6</b>	-1.4	-15.5
Allocated to:					
Equity holders of parent company	<b>1.2</b>	0.1	<b>-1.6</b>	-1.5	-15.5
Non-controlling interest	<b>-0.0</b>	-0.0	<b>0.0</b>	0.1	0.1
EPS calculated on the profit attributable to equity holders of parent company:					
Earnings per share, basic, EUR	<b>0.01</b>	0.00	<b>-0.01</b>	-0.01	-0.13
Earnings per share, diluted, EUR	<b>0.01</b>	0.00	<b>-0.01</b>	-0.01	-0.13

CONSOLIDATED BALANCE SHEET	30.9.2018	30.9.2017	31.12.2017
<b>Assets</b>			
Goodwill	0.0	16.6	0.0
Other intangible assets	0.2	0.3	0.3
Tangible assets	1.6	2.1	2.1
Deferred tax assets	0.5	0.8	0.6
Other non-current trade and other receivables	0.6	0.5	0.7
<b>Current assets</b>			
Inventories	0.3	1.0	0.5
Trade receivables	12.4	12.3	15.3
Other receivables	8.9	12.2	10.2
Investments	0.0	0.0	0.0
Cash and cash equivalents	3.1	2.1	2.3
<b>TOTAL ASSETS</b>	<b>27.7</b>	<b>48.1</b>	<b>31.8</b>
<b>Shareholders' equity</b>			
	<b>-7.8</b>	7.4	-6.1
<b>Non-current liabilities</b>			
Deferred tax liabilities	0.0	0.0	0.0
Non-current interest-bearing liabilities	16.7	18.0	17.0
Other non-current liabilities	6.8	8.6	7.3
<b>Current liabilities</b>			
Current interest-bearing liabilities	0.8	0.3	1.2
Trade payables and other liabilities	11.2	13.9	12.5
<b>EQUITY AND LIABILITIES, TOTAL</b>	<b>27.7</b>	<b>48.1</b>	<b>31.8</b>

CONSOLIDATED CONDENSED CASH FLOW STATEMENT, MEUR	7-9/ 2018	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
<b>Cash flow from operating activities</b>					
Result for the period	<b>1.2</b>	0.1	<b>-1.6</b>	-1.4	-15.5
Adjustments of the result	<b>0.8</b>	1.2	<b>3.4</b>	6.0	26.7
Changes in working capital	<b>-0.1</b>	2.0	<b>4.1</b>	4.6	-0.9
Interest paid	<b>-1.2</b>	0.0	<b>-1.3</b>	-0.0	-0.1
Interest received	<b>0.0</b>	-0.1	<b>0.1</b>	0.0	0.2
Income taxes paid	<b>-2.6</b>	-1.5	<b>-4.3</b>	-4.3	-5.4
<b>Net cash flow from operating activities</b>	<b>-1.9</b>	1.8	<b>0.4</b>	4.9	5.0
<b>Cash flow from investing activities</b>					
Investments in intangible assets	<b>0.1</b>	-0.0	<b>0.0</b>	-0.0	-0.1
Investments in tangible assets	<b>-0.1</b>	-0.1	<b>-0.1</b>	-0.1	-0.1
Proceeds from disposal of intangible and tangible assets	<b>0.1</b>	-0.0	<b>0.1</b>	0.0	0.0
<b>Net cash flow from investing activities</b>	<b>0.0</b>	-0.2	<b>-0.0</b>	-0.1	-0.2
<b>Cash flow from financing activities</b>					
Proceeds from share issue	<b>2.1</b>	0.0	<b>2.1</b>	0.0	0.0
Borrowings received	<b>0.0</b>	0.0	<b>0.0</b>	0.0	0.1
Repayments of borrowings	<b>-0.2</b>	-0.3	<b>-1.3</b>	-6.2	-6.3
Changes in pledged cash deposits	<b>0.0</b>	0.2	<b>0.0</b>	0.8	1.0
Interest paid	<b>0.4</b>	-0.3	<b>-0.1</b>	-0.5	-0.5
<b>Net cash flow from financing activities</b>	<b>2.4</b>	-0.4	<b>0.7</b>	-5.8	-5.7
<b>Increase (+) and decrease (-) in cash and cash eq</b>	<b>0.5</b>	1.2	<b>1.1</b>	-1.0	-0.9
Cash and cash equivalents at beg. of period	<b>2.8</b>	1.1	<b>2.3</b>	2.3	3.5
Impact of changes in exchange rates	<b>-0.1</b>	-0.1	<b>-0.3</b>	-0.3	-0.3
<b>Cash and cash equivalents at end of period</b>	<b>3.1</b>	2.1	<b>3.1</b>	2.1	2.3

## KEY FIGURES

CONSOLIDATED KEY FINANCIAL FIGURES	1-9/2018	1-9/2017	1-12/2017
Return on investment, %	<b>30.4</b>	19.9	-32.2
Return on equity, %	<b>31.1</b>	-20.6	-674.3
Equity ratio, %	<b>-28.1</b>	15.3	-19.1
Net gearing, %	<b>N/A</b>	219.5	<b>N/A</b>
Investments, MEUR	<b>0.1</b>	0.1	0.2
% of net sales	<b>0.3</b>	0.3	0.5
Research and development, MEUR	<b>4.0</b>	4.5	6.0
% of net sales	<b>13.5</b>	11.3	10.8
Order book, MEUR	<b>24.6</b>	25.4	26.2
Personnel, average	<b>626</b>	743	727
Personnel, at end of period	<b>571</b>	696	666

QUARTERLY KEY FIGURES	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17
Net sales, MEUR	<b>12.4</b>	9.8	7.6	15.6	12.2	15.1	12.1
Net sales, change %	<b>1.6</b>	-35.3	-37.7	6.1	-24.5	-6.4	-6.8
Adjusted operating result <sup>1</sup>	<b>2.7</b>	1.0	-2.4	4.4	1.6	3.6	-0.2
% of net sales	<b>21.8</b>	10.3	-31.6	28.4	13.4	23.6	-1.7
Operating result, MEUR	<b>2.7</b>	1.0	-2.4	-12.2	1.4	3.1	-0.2
% of net sales	<b>21.8</b>	10.3	-31.6	-78.4	11.4	20.3	-1.7
Adjusted result for the period, MEUR <sup>2</sup>	<b>1.2</b>	0.0	-2.8	2.6	0.3	1.9	-1.5
Result for the period, MEUR	<b>1.2</b>	0.0	-2.8	-14.1	0.1	1.4	-2.5
Personnel at end of period	<b>571</b>	616	641	666	696	719	771
Earnings per share, basic, EUR	<b>0.01</b>	0.00	-0.02	-0.11	0.00	0.01	-0.02
Earnings per share, diluted, EUR	<b>0.01</b>	0.00	-0.02	-0.11	0.00	0.01	-0.02
Equity per share, EUR	<b>-0.06</b>	-0.09	-0.09	-0.05	0.06	0.07	0.09
Net interest-bearing liabilities, MEUR	<b>14.4</b>	14.8	11.2	15.9	16.2	17.4	28.9
Order book, MEUR	<b>24.6</b>	25.6	27.3	26.2	25.4	30.4	28.3

<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.