

TECNOTREE

Corporate Governance and Remuneration Statements 2016



CORPORATE GOVERNANCE AND REMUNERATION STATEMENTS 2016

Tecnotree Corporation is a Finnish Public Limited Company. The responsibilities and obligations 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, is available 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–,
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.

Christer Sumelius, b. 1946, M.Sc. (Econ.)
Member of the Board, 2001–
Main duty: President and CEO, Investsum Oy, 1984–
Tecnotree shares 31 Dec 2016: 2,147,937, holding of interest parties 1,632,796
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:

- Chair: EUR 50,000 a year
 - Vice-chair: EUR 30,000 a year
 - Members of the Board: EUR 23,000 a year
 - the Chair 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