

TECNOTREE

Powering the digital marketplace

Q4
2014

*Tecnotree
Financial Report*

TECNOTREE CORPORATION FINANCIAL REPORT 1 JAN – 31 DEC 2014 (UNAUDITED)

30 January 2015 at 8:30 am

Tecnotree is a global supplier of telecom IT solutions, providing products and services for charging, billing, customer care, and messaging and content services. The company's product portfolio comprises virtually the full range of business management systems for telecom operators, with standard solutions for fixed networks, mobile services and broad band and for managing subscriptions, services and cash flows for prepaid and post-paid customers. Tecnotree has a strong footing especially in developing markets.

FOURTH QUARTER IN LINE WITH EXPECTATIONS

Fourth quarter

- Fourth quarter net sales were EUR 24.2 (20.0) million.
- The adjusted operating result for the quarter was EUR 5.1 (3.6) million and the operating result EUR 4.7 (3.6) million.
- The adjusted result for the quarter was EUR 0.5 (-0.2) million and result EUR 0.5 (0.5) million.
- The order book at the end of the period stood at EUR 38.9 (31 December 2013: 45.0) million.
- Fourth quarter cash flow after investments was EUR 2.7 (0.1) million.
- Earnings per share were EUR 0.00 (0.00).

Full year 2014

- Net sales for the review period were EUR 74.0 (73.9) million.
- The adjusted operating result was EUR 3.7 (3.3) million and the operating result was EUR 3.3 (1.6) million.
- The adjusted result for the period was EUR -6.4 (-7.0) million and the result EUR -9.3 (-2.5) million.
- Cash flow after investments for the review period was EUR -1.8 (-4.6) million and the company's cash and cash equivalents were EUR 2.5 (31 December 2013: 6.6) million. The company's cash situations continued to be tight.
- Earnings per share were EUR -0.08 (-0.02).

KEY FIGURES	10-12/ 2014	10-12/ 2013	1-12/ 2014	1-12/ 2013
Net sales, MEUR	24.2	20.0	74.0	73.9
Adjusted operating result, MEUR ¹	5.1	3.6	3.7	3.3
Operating result, MEUR	4.7	3.6	3.3	1.6
Result before taxes, MEUR	4.0	3.7	-2.4	4.1
Adjusted result for the period, MEUR ²	0.5	-0.2	-6.4	-7.0
Result for the period	0.5	0.5	-9.3	-2.5
Earnings per share, basic, EUR	0.00	0.00	-0.08	-0.02
Order book, MEUR			38.9	45.0
Cash flow after investments, MEUR	2.7	0.1	-1.8	-4.6
Change in cash and cash equivalents, MEUR	0.5	-0.3	-4.2	-3.8
Cash and cash equivalents, MEUR			2.5	6.6
Equity ratio %			22.5	30.3
Net gearing %			172.7	113.4
Personnel at end of period			993	1,059

¹ Adjusted operating result = operating result before R & D capitalisation, amortisation of this and one-time costs. Details of these are given in the section "Result analysis".

² Adjusted result for the period = result for the period without exchange rate gains and losses, included in financial items, on intra-group balances being typically receivables due to subsidiaries from the parent company.

Unless otherwise stated, all figures presented below are for the review period 1-12/2014 and the figures for comparison are for the corresponding period 1-12/2013.

CEO Ilkka Raiskinen:

"The company's fourth quarter net sales and adjusted operating result set new records. The cash flow from operations was also positive, so 2014 ended well. The order book for Africa and the Middle East increased considerably during 2014 and the business outlook in the region is encouraging. Progress has been made in the large projects in Latin America; it has been agreed to carry out one of the projects in several projects in separate phases, which in future will reduce the amount of working capital tied up and improve cash flow.

Despite the encouraging final part of the year, the result for the whole year remained a loss, so the company's situation is still challenging. In 2015 efforts to raise efficiency will focus particularly on raising the degree of productisation, which will reduce the company's costs and speed up project deliveries.

Tecnotree operates in markets that are growing strongly. Teleoperators in these markets provide consumers not only with conventional telecoms services but also with Internet and content services, and the billing and charging services for these require new solutions. Tecnotree has a strong position in its key markets, and for this reason the company believes that the growth in the market will also be reflected in Tecnotree's business. Tecnotree's operating result is expected to continue to increase during 2015."

SALES AND NET SALES

Tecnotree's net sales in the review period increased 0.1 per cent to EUR 74.0 (73.9) million.

The differences between the market area sales in 2014 and in the previous year were very small. The order book in the Middle East and Africa region increased strongly while that in the Americas declined. One factor in this decline was that the company reached agreement with an operator group in Latin America to split delivery of the USD 30.5 million contract announced on 20 December 2011 into two delivery projects. Since agreement has not yet been reached on the second project, the order book at the end of year 2014 has been reduced by the outstanding amount exceeding the value of the first project, USD 17.3 million or EUR 13.5 million. The second project will be treated as a new deal in the order book, when it has been agreed. A more detailed explanation is given below in the section "Events after the end of period".

EUR 27.7 (23.9) million of sales in the review period have been recognised by stage of completion (IAS 11 Construction Contracts) and EUR 46.2 (50.0) million on delivery (IAS 18 Revenues).

Recurring maintenance and service sales totalled EUR 27.4 (29.6) million or 37.0 per cent (40.1 %) of net sales.

	1-12/2014	1-12/2013	1-12/2014	1-12/2013
NET SALES BY MARKET AREA	MEUR	MEUR	%	%
Americas (North, Central and South America)	37.8	38.6	51.0	52.2
Europe	4.2	4.6	5.7	6.2
MEA (Middle East and Africa)	29.0	28.6	39.3	38.7
APAC (Asia and Pacific)	3.0	2.2	4.0	2.9
TOTAL	74.0	73.9	100.0	100.0

	31.12.2014	31.12.2013	31.12.2014	31.12.2013
CONSOLIDATED ORDER BOOK	MEUR	MEUR	%	%
Americas (North, Central and South America)	3.8	20.7	9.8	46.0
Europe	1.4	1.6	3.5	3.6
MEA (Middle East and Africa)	32.1	20.3	82.5	45.2
APAC (Asia and Pacific)	1.6	2.3	4.2	5.2
TOTAL	38.9	45.0	100.0	100.0

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

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.

Tecnotree reports its operating result as follows:

INCOME STATEMENT, KEY FIGURES, MEUR	10-12/2014	10-12/2013	1-12/2014	1-12/2013
Net sales	24.2	20.0	74.0	73.9
Other operating income	0.0	0.0	0.1	0.1
Operating costs excluding product development capitalisation and one-time costs	-19.1	-16.5	-70.4	-70.6
Adjusted operating result	5.1	3.6	3.7	3.3
Product development amortisation		-0.0		-1.7
One-time costs	-0.4		-0.4	
OPERATING RESULT	4.7	3.6	3.3	1.6
Financial items without foreign currency differences	-0.7	-0.5	-2.8	-2.0
Income taxes	-3.5	-3.2	-6.9	-6.6
Adjusted result for the period	0.5	-0.2	-6.4	-7.0
Foreign currency differences included in financial items	0.0	0.6	-2.9	4.5
RESULT FOR THE PERIOD	0.5	0.5	-9.3	-2.5

The foreign currency differences included in financial items 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. These intra-group items are large, so the exchange rates have a significant impact. It is important to examine Tecnotree's operative result without the impact of exchange rates, which is why they are shown separately.

The 2014 costs include one-time costs of EUR 0.4 million arising from redundancies.

Net sales in 2014 were EUR 0.1 million more than in the previous year. Quarterly net sales varied considerably and were as follows (million euros): 14.4 (Q1), 11.7 (Q2), 23.7 (Q3) and 24.2 (Q4). Second quarter net sales were significantly lower than normal as most of the customer orders and net sales accrued in the second half of the year. The strengthening of the US dollar had a positive impact on net sales in the second half of the year.

The operating result for the year improved by EUR 1.3 million on the previous year. Amortisation was EUR 2.4 million less. Of this, EUR 1.7 million was because Tecnotree no longer had any amortisation of R&D capitalisation. Amortisation declined by a further EUR 0.5 million from the previous year with the ending of the amortisation of assets recognized at the purchase of the company in India, since five years had passed since the acquisition. The costs for materials and services increased EUR 1.3 million in particular because of larger equipment deliveries included in projects.

Financial income and expenses (net) during the review period totalled a net loss of EUR 5.7 million (net gain of EUR 2.5 million). As stated above, the exchange rate gains and losses included in financial items mainly comprise exchange rate differences on intra-group balance sheet items. These balance sheet items are typically receivables due to subsidiaries from the parent company. Exchange rate differences have no direct impact on the Group's cash flow.

FINANCIAL INCOME AND EXPENSES, MEUR	1-12/2014	1-12/2013
Interest income	0.0	0.1
Exchange rate gains	0.3	5.1
Other financial income	0.1	0.1
FINANCIAL INCOME, TOTAL	0.4	5.2
Interest expenses	-2.4	-1.4
Exchange rate losses	-3.1	-0.6
Other financial expenses	-0.5	-0.7
FINANCIAL EXPENSES, TOTAL	-6.0	-2.7
FINANCIAL ITEMS, TOTAL	-5.7	2.5

Taxes for the period totalled EUR 6.9 (6.6) million, including the following items:

TAXES IN INCOME STATEMENT, MEUR	1-12/2014	1-12/2013
Withholding tax expenses in parent company	-4.5	-2.8
Change in withholding tax provision	-1.3	-0.1
Income taxes on the results of Group companies	-0.3	-2.3
Prior year taxes	0.0	0.0
Change in deferred tax asset in India	-0.7	-0.7
Change in deferred tax liability based on:		
- R&D capitalisation	0.0	0.3
- dividend tax in India	-0.2	-1.2
Other items	0.0	0.2
TAXES IN INCOME STATEMENT, TOTAL	-6.9	-6.6

Earnings per share were EUR -0.08 (-0.02). Equity per share at the end of the period was EUR 0.14 (31 December 2013: EUR 0.18).

FINANCING AND INVESTMENTS

The company's cash situation remained tight during the review period. The company raised a new short-term bank loan of EUR 0.8 million in June 2014, and obtained a short-term loan of EUR 0.8 million from certain shareholders in the company who are related parties. These loans were repaid in December 2014. In September the company raised and repaid a short-term loan of EUR 0.5 million. In addition, in October the bank granted a EUR 0.7 million short-term bank loan, which the company repaid in November and December. Tecnotree had overdue trade payables at the end of the year.

Tecnotree's working capital increased during the period by EUR 0.3 million:

CHANGE IN WORKING CAPITAL, MEUR (increase - / decrease +)	1-12/2014	1-12/2013
Change in trade receivables	1.5	5.6
Change in other receivables	-7.5	-8.3
Change in inventories	0.1	0.0
Change in trade payables	5.0	-1.2
Change in other liabilities	0.7	-1.6
CHANGE IN WORKING CAPITAL, TOTAL	-0.3	-5.4

Project revenue is recognised in other receivables. When the agreement allows the customer to be invoiced, the receivables are regrouped in trade receivables. Trade and other receivables should be treated as one item when assessing changes in Tecnotree's working capital.

Tecnotree's cash and cash equivalents totalled EUR 2.5 (31 December 2013: 6.6) million. Cash flow after investments for the review period ended up EUR 1.8 million negative. During 2014 Tecnotree was working on two large projects with a combined value of USD 54.5 million that began in 2012. A large part of the payments will be received at the end of the projects. In 2014 Tecnotree received no payment at all for these projects, and this had a negative impact on the company's cash flow. The change in cash and cash equivalents for the review period was EUR -4.2 million. The company had no unused credit facilities at the end of the review period (31.12.2013: 0.0).

The balance sheet total on 31 December 2014 stood at EUR 75.0 (31 December 2013: 71.6) million. Tecnotree's gross capital expenditure during the review period was EUR 0.7 (0.6) million or 1.0 per cent (0.8 %) of net sales. Interest-bearing liabilities were EUR 31.8 (31 December 2013: 31.8) million. The net debt to equity ratio (net gearing) was 172.7 per cent (31 December 2013: 113.4 %) and the equity ratio was 22.5 per cent (31 December 2013: 30.3 %). During the period, total equity was affected by positive translation differences of EUR 4.4 million.

Tecnotree has reached agreement with its bank that any failure to achieve the performance ratios as stated in the loan covenants in the financing agreement signed in August 2013, will not result in the sanctions contained in the financing agreement, such as the obligation to repay the loans. This waiver regarding the covenants is valid for the year 2014 financial statements.

The following covenants (four out of six) as calculated on 30 December 2014 did not comply with the requirements of the financing agreement: interest coverage, leverage, cash flow cover and equity ratio.

Interest coverage, leverage and equity ratio are tested every six months and the terms for these get tougher as the loan period progresses. For interest coverage the full year operating profit should have been at least EUR 11.1 million, and leverage would have demanded an operating profit of at least EUR 6.9 million to comply with the terms of the test date on 31 December 2014. Similarly for the equity ratio, shareholders' equity on 31 December 2014 should have been at least EUR 26.2 million. The actual operating result for year 2014 was EUR 3.3 million and shareholders' equity on 31 December 2014 was EUR 16.9 million.

Cash flow cover is also tested at six month intervals but the terms for this do not get tougher as the loan period progresses. Cash flow after investments for the year was EUR -1.8 million, when to comply with the terms of the covenant it should have been at least EUR 2.4 million.

Next significant test date for the covenants will be on 30 June 2015.

Gross capital expenditure is tested annually and overdue trade receivables monthly. The figures for these are at the level required by the financial agreements and are not close to breaking these.

Since the waiver regarding the covenants is for a period of less than 12 months, the company's EUR 21.8 million loan is classified as a current loan, in accordance with the Standard. Tecnotree has reached agreement with its bank to postpone payment of the EUR 1.1 million instalment that was due in December 2014 to June 2015, when the next instalment of the same amount will be due. The six-monthly repayment instalments of EUR 1.1 million continue until December 2017, and the outstanding balance, EUR 14.1 million, falls due for payment on 30 June 2018.

PARENT COMPANY'S EQUITY LESS THAN HALF OF SHARE CAPITAL

The shareholders' equity of the parent company on 31 December 2014 was EUR 2,193,142.25, or 46.5 % of the share capital. So the parent company shareholders' equity has fallen below half of the share capital. According to section 23 of chapter 20 of the Limited Liability Companies Act, if a public company's shareholders' equity according to the balance sheet is less than half of its share capital, the Board of Directors shall without delay call a general meeting of shareholders to decide on any measures to restore the company to a sounder financial position. The general meeting of shareholders shall be held no later than three months after the financial statements have been completed. The Annual General Meeting of Tecnotree Corporation will be held at 5.00 pm on 25 March 2015 at the Marina Congress Center in Helsinki, where

measures to put the company back on a healthy financial standing will also be discussed. The Board will publish a separate invitation to the AGM at a later date, but no later than 4 March 2015.

BUSINESS DESCRIPTION

Tecnotree is a global supplier of telecom IT solutions, providing products, services and solutions for charging, billing, customer care, and messaging and content services. The company's product portfolio comprises virtually the full range of business management systems for telecom operators, with standard solutions for fixed networks, mobile services and broad band and for managing subscriptions, services and cash flows for prepaid and post-paid customers. Tecnotree's solutions enable communication service providers to expand their business by creating digital market places, individual service packages and personalised subscriptions, and increase added value throughout their customers' life cycles.

Tecnotree's business is based on system project sales, system maintenance and on customising, support and operating services. Tecnotree has a strong footing especially in developing markets such as Latin America, Africa and the Middle East.

SEGMENT INFORMATION

The operating segments under IFRS 8 reported by Tecnotree are the geographical areas, which are Americas (North, Central and South America), Europe, MEA (Middle East and Africa), and APAC (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 on a reasonable basis. Costs for product management, product development and administration, depreciations, taxes and financial items are not allocated.

GEOGRAPHICAL AREAS

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

Americas (North, Central and South America)

Net sales in the market area fell 2.1 per cent from the previous year to EUR 37.8 (38.6) million. To clarify the scope of the delivery for one project, with the original value of USD 30.5 million, and to release working capital, the company agreed to split this delivery project into two separate projects. Since agreement has not yet been reached on the second project, the order book at the end of year 2014 has been reduced by the outstanding amount exceeding the value of the first project, USD 17.3 million or EUR 13.5 million. The second project will be treated as a new deal in the order book, when it has been agreed. This affected the decline of the order book of 81.7 per cent to EUR 3.8 (20.7) million. Sales comprised expansions and

upgrades of solutions installed for current customers, the renewal of annual maintenance contracts, and partial implementation of new orders.

Europe

Net sales in Europe declined 8.1 per cent from the previous year, to EUR 4.2 (4.6) million. The order book in the region declined 15.4 per cent to EUR 1.4 (1.6) million. The decline in sales was due to falling sales of the company's established messaging solutions. In Europe Tecnotree has supplied completely new systems and expansions of existing systems, mainly to existing customers. In order to stop the fall in net sales, the focus in new sales is on the business support systems contained in the new strategy.

MEA (Middle East and Africa)

Net sales in the Middle East and Africa increased 1.4 per cent from the previous year, totalling EUR 29.0 (28.6) million. Tecnotree has obtained a good number of new orders in the area, and the order book was 57.8 per cent higher than at the end of 2013, standing at EUR 32.1 (20.3) million. Tecnotree has a broad customer base in the MEA region and this continued to expand during 2014. Tecnotree has succeeded particularly in sales of its business support systems, while demand for its established products has remained firm.

APAC (Asia and Pacific)

Net sales in the Asia and Pacific region increased 37.9 per cent from the previous year, to EUR 3.0 (2.2) million. The order book for a major delivery in the region turned into net sales, which meant that the order book declined 30.3 per cent to EUR 1.6 (2.3) million. Sales comprised expansions and upgrades of solutions installed for current customers, the renewal of annual maintenance contracts, and partial implementation of new orders.

PERSONNEL

At the end of December 2014 Tecnotree employed 993 (31 December 2013: 1,059) persons, of whom 89 (31 December 2013: 89) worked in Finland and 904 (31 December 2013: 970) elsewhere. The company employed on average 1,038 (1,067) people during the review period. Personnel by country were as follows:

PERSONNEL	1-12/2014	1-12/2013
Personnel, at end of period	993	1,059
Finland	89	89
Ireland	51	49
Brazil	31	34
Argentina	35	31
India	743	809
Other countries	44	47
Personnel, average	1,038	1,067
Personnel expenses (MEUR)	33.6	34.6

SHARES AND SHARE CAPITAL

At the end of December 2014 the shareholders' equity of Tecnotree Corporation stood at EUR 16.9 (31 December 2013: 21.7) million and the share capital was EUR 4.7 million. The total number of shares was 122,628,428.

At the end of the period, the company did not hold any of these shares anymore (31 December 2013: 64,704). During the period all 64,704 own shares were used for management rewards. Equity per share was EUR 0.14 (31 December 2013: EUR 0.18).

A total of 44,560,721 Tecnotree shares (EUR 8,668,831) were traded on the Helsinki Exchanges during the period 1 Jan – 31 Dec 2014, representing 36.3 per cent of the total number of shares.

The highest share price quoted in the period was EUR 0.26 and the lowest EUR 0.13. The average quoted price was EUR 0.19 and the closing price on 31 December 2014 was EUR 0.14. The market capitalisation of the share stock at the end of the period was EUR 17.0 million.

CURRENT AUTHORISATIONS

The Annual General Meeting of Tecnotree Corporation held on 26 March 2014 authorised the Board of Directors in accordance with the proposal of the Board of Directors to decide on the acquisition of a maximum of 12,262,842 of the Company's own shares. Own shares may be acquired with unrestricted shareholders' equity otherwise than in proportion to the holdings of the shareholders through public trading of the securities on NASDAQ OMX Helsinki Oy at the market price of the shares in public trading at the time of the acquisition. Own shares can be acquired for the purpose of developing the capital structure of the Company, carrying out corporate acquisitions or other business arrangements to develop the business of the Company, financing capital expenditure, to be used as part of the Company's incentive schemes, or to be otherwise retained in the possession of the Company, disposed of or nullified in the extent and manner decided by the Board of Directors. The Board of Directors shall decide on other terms of the share acquisition. The authorisation is valid for one year from the decision of the Annual General Meeting. The Board of Directors has not exercised this authorisation during the review period.

In addition, the Annual General Meeting authorised the Board of Directors in accordance with the proposal of the Board of Directors to decide to issue and/or to convey a maximum of 60,000,000 new shares and/or the Company's own shares either against payment or for free. New shares may be issued and the Company's own shares may be conveyed to the Company's shareholders in proportion to their current shareholdings in the Company or waiving the shareholder's pre-emption right, through a directed share issue if the Company has a weighty financial reason to do so. The Board of Directors may also decide on a free share issue to the Company itself. The Board of Directors is, within the authorization, authorized to grant the special rights referred to in Chapter 10, Section 1 of the Companies Act, which carry the right to receive, against payment, new shares of the Company or the Company's own shares held by the Company in such a manner that the subscription price of the shares is paid in cash or by using the subscriber's receivable to set off the subscription price. The Board of Directors shall decide on other terms and conditions related to the share issues and granting of the special rights. The

said authorisations is valid for one year from the decision of the Annual General Meeting. The Board of Directors has not exercised this authorisation during the review period.

INCENTIVE SCHEME

During the review period the company had a current share-based incentive scheme that the Board of Directors had established on 25 October 2011. Any reward in the scheme for the 2014 earning period is based on Tecnotree Group's operating profit and the company's trade weighted average share price in December 2014. No rewards were recognised based on these criteria.

LEGAL PROCEEDINGS

Atul Chopra withdrew and waived a legal action taken against Tecnotree in the court of arbitration in Singapore on 12 March 2013. In the claim Atul Chopra and Aparna, a company close to him, requested indemnity of about EUR 1.1 million. In relation to the matter Tecnotree, Atul Chopra and Aparna agreed to settle the matter and withdrawn all legal actions and other claims against each other. On 30 May 2014, the Singapore International Arbitration Centre confirmed the settlement between the parties. As part of the settlement Tecnotree agreed to pay a lump sum of EUR 0.1 million to Atul Chopra.

The company is not involved in any other major legal proceedings.

RISKS AND UNCERTAINTY FACTORS

Dependence on key customers

Tecnotree's largest customers are much bigger businesses than the company itself and the two largest customers accounted for 79 % of net sales in 2014. The relationship between the company and its major customers is one of interdependence, which offers business opportunities but also poses risks.

Carrying out customer projects, profitability, forecasting

Certain commitments are associated with the project and maintenance agreements made by the company, and unforeseen costs may arise in the future from these agreements. The company aims to limit these commitments with limitation of liability clauses in customer contracts. In addition the company has a current global liability insurance to cover any liabilities that may materialise in connection with customer projects in accordance with the insurance agreement.

Carrying out projects involves risks. They are contained for example in projects that require new product development, where creating new product features may prove more difficult than anticipated. Another problem with project sales arises from variations in net sales and profit during the different quarters of the year. Forecasting these variations is often difficult.

The company's order book includes large projects with deliveries of over a year, some deliveries even several years. These include customer specific customizations, in which success

lies risk. During the long time of delivery, the needs of the customers change and this can lead to unforeseen problems. Long-term projects can tie up significant amounts of capital.

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.

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 company hedges its currency denominated net position for a maximum period of 12 months, using currency forward contracts and currency options. The exchange rate fluctuations of Indian Rupies also have a significant impact on the Group's net result. Intra-group receivables and liabilities are large and these result in large exchange rate differences in the income statement, since the companies usually have different functional currencies.

Financing

Long-term projects generate receivables through revenue recognition, but there may be a long delay in invoicing for these and receiving payment. This delay increases the risk for the payment.

The company had all its credit facilities in use at the end of 2014. The cash flow varies considerably from one quarter to another, which at times makes the cash supply tight. The risk exists that the company will have to postpone payment of expenses. The company had overdue trade payables to its suppliers at the end of the review period. This may make it more difficult for the company to obtain materials and services from external suppliers and may create the risk of legal action by suppliers.

The financing agreement made by Tecnotree in August 2013 that is in force until 2018 contains six different covenants. One of these is tested monthly, four at half year intervals, and one annually. The terms of three covenants become tighter as the loan period progresses. If a condition for a covenant is not met, the financier is entitled to demand payment of the loans taken. Previously in similar situations the company has succeeded in negotiating an agreement with its financier under which it has not needed to repay the loans.

Tecnotree has reached agreement with its bank that any failure to achieve the performance ratios as stated in the loan covenants in the financing agreement, will not result in the sanctions contained in the financing agreement, such as the obligation to repay the loans. This waiver regarding the covenants is valid for the year 2014 financial statements. As stated above in the section 'Financing and Investments', some of the covenants failed to achieve the figures specified in the financing agreement on 31 December 2014. The company has also reached agreement with its bank to postpone payment of the EUR 1.1 million instalment due in December 2014 of its long-term loan until June 2015.

As far as can be seen, the company has no chance of paying a dividend in the next few years. Contributing factors are the lack of distributable funds, the terms of the financing agreement, and the reduction in the share capital that is being proposed to the meeting of shareholders.

Further information about significant uncertainty factors and going concern is given below in the section “Going concern basis” under “Accounting principles for the financial report”.

Technology

Tecnotree operates in a rapidly changing sector. When making R&D decisions there is the risk that the choice made may not bring the expected returns. Products in Tecnotree’s sector have a fairly short life span, and the company has changed course several times during its history to new product areas.

High tech products require skilled people, and personnel turnover is quite high for example in India. Copyright issues can result in disputes and loss of income.

Company acquisition and goodwill

The goodwill resulting from the acquisition of Tecnotree Convergence Limited (previously Lifetree Convergence Limited) involve risks. The goodwill impairment tests are based on management's financial expectations and assumptions that contain risks.

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, so it is difficult to obtain credit for withholding taxes.

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. It also often has to pay withholding taxes.

Risks and uncertainties in the near future

Tecnotree’s risks and uncertainties in the near future relate to projects, to their timing, to receivables, to changes in foreign exchange rates and to financing (explained in more detailed under Financing above).

The company has sales to a client in Argentina. The Argentine government is having difficulties in connection with old foreign debt, which may have a negative impact on payments due from Argentina. There are similar risks in several other countries where Tecnotree has customers and sales.

At the end of the year the Group’s shareholders’ equity stood at EUR 16.9 million. However, the shareholders’ equity of the parent company was only EUR 2.2 million while its share capital stood at EUR 4.7 million. So the shareholders’ equity of the parent company has fallen below half of the share capital. More details about the general meeting of shareholders stipulated in section 23 of chapter 20 of the Limited Liability Companies Act is given in a separate section above.

Because of the risks related to the sufficiency of cash and to shareholders' equity, the company is currently examining the possibility of obtaining new, primarily equity financing.

EVENTS AFTER THE END OF PERIOD

Tecnotree reached agreement with an operator group in Latin America to split delivery of the USD 30.5 million contract announced on 20 December 2011 into two delivery projects. The first phase is valued at USD 13.2 million and this includes delivery of a charging system for prepaid customers and a subscription management system. This first phase is being completed and will come to an end during the first half of 2015.

Phasing the project as agreed has reduced Tecnotree's order book at the end of year 2014 by USD 17.3 million, since the USD 30.5 million contract signed on 20 December 2011 has been split into two projects and commercial negotiations on the second part are still in progress. Phasing the project clarifies the overall project and releases USD 5.6 million in working capital, since under the terms of the original agreement Tecnotree's right to invoice depended on progress in delivery of the entire system. Under the phasing agreed now, Tecnotree has the right to invoice after completion of partial deliveries.

As part of the phasing, the parties have agreed on the delivery of the Tecnotree Agility™ Converging Charging Solution as the mobile data charging platform in three countries. Tecnotree will also provide expert services to ensure the smooth integration of the solution with existing network operations and business support systems. The precise commercial value of the second phase will be determined during negotiations, and deliveries will be spread over 2015 and 2016.

PROSPECTS IN 2015

Tecnotree estimates that its operating result will improve from 2014. Variations in the quarterly figures will be considerable.

PROPOSAL CONCERNING THE RESULT

The Board of Directors proposes to the Annual General Meeting, that no dividend be paid for the financial year ended 31 December 2014, and that the parent company's loss for the financial year, EUR 5,519,009.82, be covered by non-restricted equity reserves of EUR 2,131,259.02 and the rest EUR 3,387,750.80 by reducing share capital.

FINANCIAL INFORMATION

Tecnotree is holding a conference for analysts, investors and the media to present its financial report on Friday, 30 January 2015 at 10.00 am in the Tapiola conference room at the Scandic Hotel Simonkenttä, Simonkatu 9, Helsinki. The financial report will be presented by CEO Ilkka Raiskinen and the conference will be held in Finnish. The material to be presented at the press conference will be available at www.tecnotree.com.

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	Note	10-12/ 2014	10-12/ 2013	1-12/ 2014	1-12/ 2013
NET SALES	2	24.2	20.0	74.0	73.9
Other operating income		0.0	0.0	0.1	0.1
Materials and services		-3.6	-1.1	-11.9	-10.6
Employee benefit expenses		-9.2	-8.9	-33.6	-34.6
Depreciation, amortisation and impairment charges		-0.3	-0.4	-1.1	-3.5
Other operating expenses		-6.4	-6.1	-24.4	-23.6
OPERATING RESULT	2	4.7	3.6	3.3	1.6
Financial income		0.1	0.9	0.4	5.2
Financial expenses		-0.8	-0.8	-6.0	-2.7
RESULT BEFORE TAXES		4.0	3.7	-2.4	4.1
Income taxes		-3.5	-3.2	-6.9	-6.6
RESULT FOR THE PERIOD		0.5	0.5	-9.3	-2.5
Allocated to:					
Equity holders of parent company		0.5	0.5	-9.3	-2.5
Non-controlling interest		0.0	-0.0	-0.0	0.0
EPS calculated on the profit attributable to equity holders of parent company:					
Earnings per share, basic, EUR		0.00	0.00	-0.08	-0.02
Earnings per share, diluted, EUR		0.00	0.00	-0.08	-0.02
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, MEUR		10-12/ 2014	10-12/ 2013	1-12/ 2014	1-12/ 2013
RESULT FOR THE PERIOD		0.5	0.5	-9.3	-2.5
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Translation differences from foreign oper.		0.5	-0.8	4.7	-9.1
Tax relating to components of OCI		-0.2	-0.0	-0.3	0.5
Other comprehensive income, net of tax		0.3	-0.8	4.4	-8.7
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		0.8	-0.4	-4.9	-11.1
Allocated to:					
Equity holders of parent company		0.8	-0.4	-4.9	-11.2
Non-controlling interest		0.0	-0.0	-0.0	0.0

CONSOLIDATED BALANCE SHEET

Note 31.12.2014 31.12.2013

Assets			
Goodwill		16.6	15.3
Other intangible assets		0.4	0.4
Tangible assets		3.8	4.0
Deferred tax assets		0.9	1.5
Other non-current trade and other receivables		1.1	0.8
Current assets			
Inventories		0.5	0.6
Trade receivables		15.2	17.5
Other receivables		33.8	24.4
Investments		0.1	0.6
Cash and cash equivalents		2.5	6.6
TOTAL ASSETS		75.0	71.6
Shareholders' equity		16.9	21.7
Non-current liabilities			
Deferred tax liabilities		3.4	3.0
Non-current interest-bearing liabilities	3	0.0	20.7
Other non-current liabilities		1.2	0.9
Current liabilities			
Current interest-bearing liabilities	3	31.8	11.1
Trade payables and other liabilities		21.7	14.2
EQUITY AND LIABILITIES, TOTAL		75.0	71.6

CALCULATION OF CHANGES IN
SHAREHOLDERS' EQUITY, MEUR

MEUR	A	B	C	D	E	F	G	H	I	J
SHAREHOLDERS' EQUITY 1 JAN 2014	4.7	0.8	-0.1	-12.9	5.5	2.3	21.3	21.7	0.1	21.7
Result for the period							-9.3	-9.3	-0.0	-9.3
Other comprehensive income:										
Translation differences, net of tax				4.4				4.4		4.4
Total comprehensive income for the period				4.4			-9.3	-4.9	-0.0	-4.9
Disposal of own shares			0.1				-0.0	0.0		0.0
Sharebased payments							-0.0	-0.0		-0.0
Transactions with shareholders, total			0.1				-0.1	0.0		0.0
Covering of loss					-3.8		3.8	0.0		0.0
Other changes						0.0	-0.0			
							0.1	0.1	0.0	0.1
SHAREHOLDERS' EQUITY 31 DEC 2014	4.7	0.8	0.0	-8.5	1.6	2.3	15.8	16.8	0.1	16.9
Me	A	B	C	D	E	F	G	H	I	J
SHAREHOLDERS' EQUITY 1 JAN 2013	4.7	0.8	-0.1	-4.2	18.0	5.2	8.4	32.8	0.1	32.8
Result for the period							-2.5	-2.5	0.0	-2.5
Other comprehensive income:										
Translation differences, net of tax				-8.7				-8.7		-8.7
Total comprehensive income for the period				-8.7			-2.5	-11.2	0.0	-11.1
Share issue			0.1				-0.1	0.0		0.0
Sharebased payments							0.0	0.0		0.0
Transactions with shareholders, total			0.1				-0.0	0.0		0.0
Covering of loss					-12.6	-2.9	15.4	0.0		0.0
Other changes							0.0	0.0	-0.0	0.0
SHAREHOLDERS' EQUITY 31 DEC 2013	4.7	0.8	-0.1	-12.9	5.5	2.3	21.3	21.7	0.1	21.7

A = Share capital

B = Share premium fund

C = Own shares

D = Translation differences

E = Invested non-restricted equity reserve

F = Other reserves

G = Retained earnings

H = Total equity attributable to equity holders of parent company

I = Non-controlling interest

J = Total shareholders' equity

CONSOLIDATED CONDENSED CASH FLOW STATEMENT, MEUR **1-12/2014** 1-12/2013

Cash flow from operating activities		
Result for the period	-9.3	-2.5
Adjustments of the result	13.9	8.0
Changes in working capital	-0.3	-5.4
Interest paid *	-0.2	-0.1
Interest received	0.1	0.1
Income taxes paid	-5.9	-4.3
Net cash flow from operating activities	-1.7	-4.2
Cash flow from investing activities		
Investments in intangible assets	-0.1	-0.1
Investments in tangible assets	-0.7	-0.5
Proceeds from disposal of intangible and tangible assets	0.1	0.0
Proceeds from disposal of other securities	0.5	0.0
Interest received from other securities	0.0	0.1
Net cash flow from investing activities	-0.1	-0.4
Cash flow from financing activities		
Borrowings received	2.8	21.8
Repayments of borrowings	-2.8	-13.3
Changes in credit facilities in use	0.0	-5.0
Interest paid *	-2.4	-2.7
Net cash flow from financing activities	-2.4	0.8
Increase (+) and decrease (-) in cash and cash equivalents	-4.2	-3.8
Cash and cash equivalents at beg. of period	6.6	11.3
Impact of changes in exchange rates	0.2	-0.9
Cash and cash equivalents at end of period	2.5	6.6

* Interest and other financial items paid related to the Group's loan arrangement have been regrouped from Net cash flow from operating activities to Net cash flow from financing activities. The figures for the comparative periods have been retrospectively changed to reflect this.

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 2013 Annual Report. The new and revised IFRS regulations that came into force on 1 January 2014 have not had a significant impact on the accounting principles and basis for preparing the financial report.

The presentation of the cash flow statement has changed so that interest and other financial items paid have been regrouped from 'Net cash flow from operating activities' to 'Net cash flow from financing activities'. The figures for the comparative periods have been retrospectively changed to reflect this.

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". In addition Tecnotree has a risk relating to the sufficiency of the shareholders' equity of the parent company. This is explained under its own heading above and is mentioned in the section "Risks and uncertainties in the near future".

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, for which sales of new products have not fully managed to compensate. Another contributing factor to the losses before 2014 was that as from 2009 Tecnotree no longer capitalised R & D costs and previous capitalisation, some EUR 20 million, was amortised in the years 2009-2013.

The consolidated result for 2014 was weakened by exchange rate losses totalling EUR 2.9 million recorded mainly for intra-group receivables that are included in financial items and have no impact on the Group's cash flow. Without these, the consolidated result would have been a loss of EUR 6.4 million. The company believes that the result will turn positive thanks to improved efficiency. It also believes that sales will increase. The decline in the sale of old products is considered to be of less importance than growth in the sale of new products.

The company's financial situation in 2014 was tight. One contributing factor has been two exceptionally large customer projects from which no payments were received during the year. The cash flow for these projects is estimated to turn positive in 2015. The company does not intend in future to undertake projects of such a large scale. Instead it will make customer agreements in which the projects consist of smaller elements, for which payment is received more quickly and that are easier to manage.

Tecnotree is looking into obtaining additional financing, primarily equity financing, to strengthen its financial position and reduce risks. The company is using an external firm of consultants for this purpose.

2. SEGMENT INFORMATION

The operating segments under IFRS 8 reported by Tecnotree are the geographical areas, which are Americas (North, Central and South America), Europe, MEA (Middle East and Africa), and APAC (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 on a reasonable basis. Costs for product management, product development and administration, depreciations, taxes and financial items are not allocated.

OPERATING SEGMENTS	1-12/2014	1-12/2013
NET SALES, MEUR		
Americas (North, Central and South America)	37.8	38.6
Europe	4.2	4.6
MEA (Middle East and Africa)	29.0	28.6
APAC (Asia Pacific)	3.0	2.2
TOTAL	74.0	73.9
RESULT, MEUR		
Americas (North, Central and South America)	14.4	16.9
Europe	1.5	1.7
MEA (Middle East and Africa)	13.6	10.3
APAC (Asia Pacific)	0.1	-0.0
TOTAL	29.6	28.9
Non-allocated items	-25.9	-25.6
OPERATING RESULT BEFORE R&D CAPITALISATION & AMORTISATION AND ONE-TIME COSTS	3.7	3.3
Product development amortisation		-1.7
One-time costs	-0.4	
OPERATING RESULT	3.3	1.6

3. INTEREST-BEARING LIABILITIES

At the end of the review period, Tecnotree had a long-term loan of EUR 21.8 million (31 December 2013: 21.8) as well as a fully used credit facility of EUR 10.0 million (31 December 2013: 10.0) to finance working capital.

The credit facility is long-term in nature and in force until 30 June 2018, but is based on financing individual customer receivables. Financing taken under the credit facility falls due on payment of the receivables for which they were taken, but is renewed by financing new

receivables. This is the reason for presenting the credit facility as current liability in the balance sheet.

The company had all its credit facilities in use at the end of the review period. The cash flow varies considerably from one quarter to another, and this in turn places strain on the money situation. The company had overdue trade payables to its suppliers at the end of the review period. This may make it more difficult for the company to obtain materials and services from external suppliers and may create the risk of legal action by suppliers.

Likewise the long-term loan from financial institutions is classified as current in the balance sheet, because the waiver regarding the covenants is for a period of less than 12 months. Tecnotree has reached agreement with its bank that any failure to achieve the performance ratios as stated in the loan covenants in the financing agreement signed in August 2013, will not result in the sanctions contained in the financing agreement, such as the obligation to repay the loans. This waiver regarding the covenants is valid for the year 2014 financial statements. As mentioned in the "Financing and investments" chapter in the first part of the interim report, the figures for some of the covenants as calculated on 31 December 2014 did not comply with the requirements of the financing agreement. The company has also reached agreement with its bank to postpone payment of the EUR 1.1 million instalment due in December 2014 of its long-term loan until June 2015. The six-monthly repayment instalments of EUR 1.1 million continue until December 2017, and the outstanding balance, EUR 14.1 million, falls due for payment on 30 June 2018.

In June the company received a short-term bank loan of EUR 0.8 million, as well as short-term loans amounting to EUR 0.8 million from certain shareholders in the company who are related parties. These loans were repaid in December 2014. In September the company raised and repaid a short-term loan of EUR 0.5 million. In addition, in October the bank granted a EUR 0.7 million short-term bank loan, which the company repaid in November and December.

INTEREST-BEARING LIABILITIES, MEUR	31.12.2014	31.12.2013
Loans from financial institutions, 1 Jan	31.8	28.3
Raised loans	2.0	21.8
Repayments of loans	-2.0	-13.3
Changes in credit facilities in use	0.0	-5.0
Loans from financial institutions, end of period	31.8	31.8
Loans from related parties, 1 Jan	0.0	
Raised loans	0.8	
Repayments of loans	-0.8	
Loans from related parties, end of period	0.0	
Interest-bearing liabilities total	31.8	31.8

4. 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.

In June 2014 Tecnotree raised a variable-interest short-term loan with market-based conditions of EUR 0.8 million from certain shareholders in the company who are related parties. The company repaid these loans in December.

In the second quarter 2013 the former CEO Kaj Hagros was in accordance with the employment agreement paid a lump-sum compensation of EUR 0.3 million at the end of service.

Except for the above mentioned transactions and regularly paid salaries and fees as well as ordinary intra-group transactions, Tecnotree has not entered any significant transactions with related parties during the review period or previous year.

5. CONTINGENT LIABILITIES

CONSOLIDATED CONTINGENT LIABILITIES, MEUR	31.12.2014	31.12.2013
On own behalf		
Real estate mortgages	4.4	4.4
Corporate mortgages	45.3	45.3
Guarantees	0.2	0.3
Other liabilities		
Desputed income tax liabilities in India	1.3	0.4
OTHER OPERATING LEASES, MEUR	31.12.2014	31.12.2013
Minimum rents payable based on other leases that cannot be cancelled:		
Other operating leases		
Less than one year	0.7	0.4
Between one and five years	0.3	0.3
DERIVATIVE CONTRACTS, MEUR	31.12.2014	31.12.2013
Currency call options, fair value (negative)	-0.1	-0.1
Currency call options, value of underlying instruments	8.4	22.6
Currency put options, fair value (positive)	0.0	0.2
Currency put options, value of underlying instruments	7.8	21.5
Interest rate swap, fair value (negative)	-0.5	-0.3
Interest rate swap, value of underlying instruments	14.5	14.5

In addition, the shares of the Indian subsidiary held by the parent company are pledged. These shares have a book value of EUR 35.4 million in the parent company. The net assets of the Indian subsidiary in the consolidated balance sheet are EUR 45.6 million.

6. KEY FIGURES

CONSOLIDATED KEY FINANCIAL FIGURES	1-12/2014	1-12/2013
Return on investment, %	7.1	11.9
Return on equity, %	-48.2	-9.1
Equity ratio, %	22.5	30.3
Net gearing, %	172.7	113.4
Investments, MEUR	0.7	0.6
% of net sales	1.0	0.8
Research and development, MEUR	12.0	14.0
% of net sales	16.2	19.0
Order book, MEUR	38.9	45.0
Personnel, average	1,038	1,067
Personnel, at end of period	993	1,059

CONSOLIDATED KEY FIGURES PER SHARE	1-12/2014	1-12/2013
Earnings per share, basic, EUR	-0.08	-0.02
Earnings per share, diluted, EUR	-0.08	-0.02
Equity per share, EUR	0.14	0.18
Number of shares at end of period, x 1,000	122,628	122,564
Number of shares on average, x 1,000	122,605	122,551
Share price, EUR		
Average	0.19	0.21
Lowest	0.13	0.15
Highest	0.26	0.29
Share price at end of period, EUR	0.14	0.21
Market capitalisation of issued stock at end of period, MEUR	17.0	25.8
Share turnover, million shares	44.6	72.4
Share turnover, % of total	36.3	59.0
Share turnover, MEUR	8.7	15.5
Price/earnings ratio (P/E)	-1.8	-10.3

QUARTERLY KEY FIGURES	4Q/14	3Q/14	2Q/14	1Q/14	4Q/13	3Q/13
Net sales, MEUR	24.2	23.7	11.7	14.4	20.0	17.4
Net sales, change %	20.6	35.7	-47.7	3.1	-10.6	-11.5
Adjusted operating result ¹	5.1	4.7	-4.3	-1.8	3.6	1.0
% of net sales	21.3	19.8	-36.9	-12.3	17.8	5.8
Operating result, MEUR	4.7	4.7	-4.3	-1.8	3.6	0.5
% of net sales	19.4	19.8	-36.9	-12.3	17.7	2.7
Result before taxes, MEUR	4.0	2.8	-5.5	-3.7	3.7	1.9
Personnel at end of period	993	1,059	1,052	1,042	1,059	1,053
Earnings per share, basic, EUR	0.00	0.01	-0.05	-0.04	0.00	0.00
Earnings per share, diluted, EUR	0.00	0.01	-0.05	-0.04	0.00	0.00
Equity per share, EUR	0.14	0.13	0.10	0.15	0.18	0.18
Net interest-bearing liabilities, MEUR	29.2	31.4	30.3	28.4	24.6	24.2
Order book, MEUR	38.9	52.7	46.7	49.1	45.0	48.0

¹ Adjusted result = operating result before R&D capitalisation, amortization of this and one-time costs. Details of these are given in the section "Result analysis".