TECNOMEN

ANNUAL REPORT 2005

Contents

Tecnomen in brief

Mission

Tecnomen's mission is to help its customers to improve profitability and boost competitiveness by

- providing competitive products and local service
- investing in the development of innovative, cutting-edge products
- developing a global distribution and sales network and by intensifying cooperation with partners.

Tecnomen develops and supplies messaging and charging solutions for telecom operators and service providers worldwide. Founded in 1978, Tecnomen is one of the leading suppliers of messaging solutions and has a strong market position also in prepaid systems. Tecnomen's product lines are Messaging and Charging.

Messaging

Main products and services from the Messaging product line

- Voice and Video Messaging: voice and video messaging systems and services
- Unified Communications: unified messaging systems and services combining voice mail, email, fax, multimedia and short messaging services
- Multimedia Messaging: multimedia messaging systems and services
- Short Messaging: short messaging systems and services

Other Messaging products and services

- Telco Server: multipurpose platform for implementing voice and video applications in circuit switched and IMS networks
- Professional Mobile Radio (PMR) Messaging: messaging systems and services tailored for public authority use

Charging

Main products from the Charging product line

- Convergent Charging: the product contains a broad selection of functions for prepaid and postpaid billing, charging and rating of voice and video calls, data traffic and content services in both mobile and fixed networks
- Enhanced Assisting Intelligent Peripheral (EAIP): the product plays voice prompts to phone users as part of interactive voice services
- Complementary services from partners for Convergent Charging product

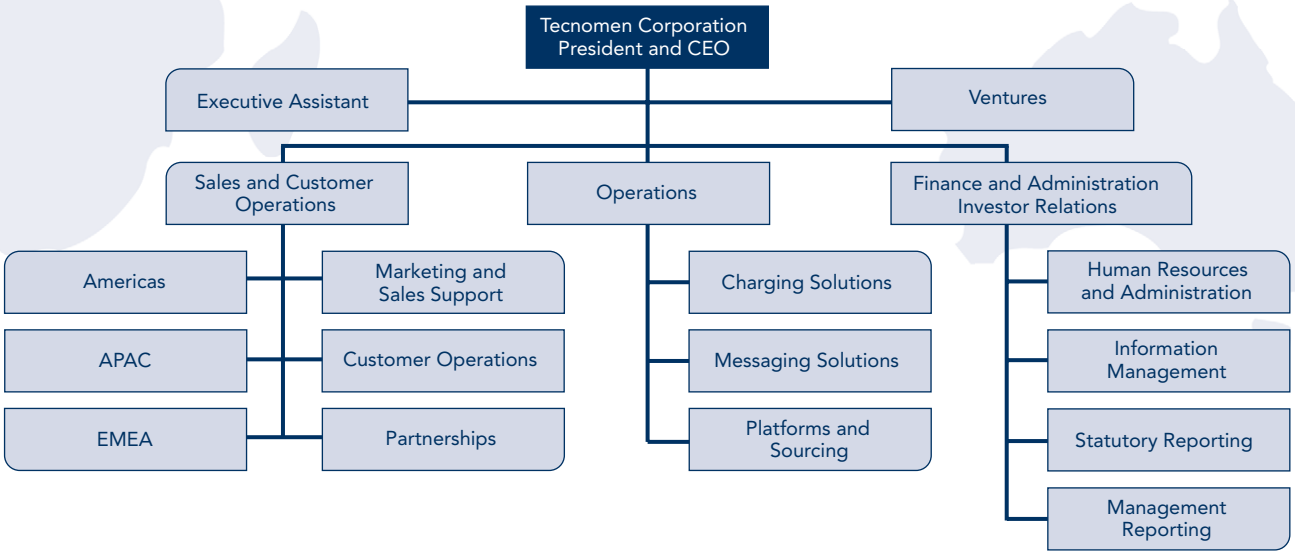
Tecnomen markets, sells, delivers and maintains its products and services through its own worldwide organisation and through global and local partners. Tecnomen has supplied systems to more than 80 customers around the world.

Organisation

Headquartered in Espoo, Finland, Tecnomen also has offices in Ireland, Germany, the Netherlands, Spain, Brazil, Mexico, South Africa, Malaysia, Taiwan, Thailand and the United Arab Emirates. In 2005 Tecnomen opened an office in Russia. The company has three product development units located in Espoo, Malaysia and Ireland, where there is also a production unit.

Tecnomen has 373 employees working in 13 locations.

Tecnomen's shares are quoted on the Main List of the Helsinki Exchanges.



Key figures

	IFRS 2005	IFRS 2004	FAS 2004	FAS 2003	FAS 2002	FAS 2001 pf
Net sales, MEUR	69.0	51.6	51.5	45.3	39.9	57.1
Net sales, change %	33.7		13.7	13.6	-30.2	-13.9
Operating result, MEUR	9.6	3.9	1.6	-7.0	-14.1	-1.5
as % of net sales	13.9	7.5	3.1	-15.6	-35.5	-2.7
Result before taxes, MEUR	10.3	4.9	2.6	-6.4	-14.6	0.6
as % of net sales	14.9	9.5	5.1	-14.2	-36.7	1.1
Result for the period, MEUR	8.8	4.0	2.1	-7.3	-14.3	0.4
Personnel at the end of the period	373	350	350	398	457	556
Earnings per share, undiluted, EUR	0.15	0.07	0.04	-0.13	-0.25	0.01
Earnings per share, diluted, EUR	0.15	0.07				
Equity per share, EUR	1.33	1.16	1.17	1.13	1.26	1.50
Net interest-bearing liabilities, MEUR	-32.8	-30.2	-30.0	-34.1	-33.8	-40.0

pf = pro forma

CEO's review

Highlights of 2005

During 2005 our sales increased significantly. We maintained our strong market position in Europe and other mature markets. Our customers expanded their Messaging and Prepaid systems also in vigorously growing Latin American markets such as Argentina, Ecuador, Brazil, El Salvador, Honduras and Guatemala. We raised our market share in Russia and Africa and supplied Next Generation Messaging (NGM) systems in Europe and the Asia Pacific region.

We expanded the NGM offering in the Messaging product line and developed new voice and video messaging services. We also brought onto the market the next generation Telco Server, an open, standard compliant and scalable multipurpose platform for building voice and video messaging services.

During the past year, public authorities showed increased interest in messaging systems for TETRA networks. To meet demand, we tailored voice messaging services and short data services for the public authority market. These Messaging systems enable TETRA operators to provide a wide range of value-added services for demanding public authority customers such as the police and fire brigades.

In 2005 we expanded our cooperation with Jinny Software Ltd, a company specialising in multimedia systems and services. Under the terms of the agreement, Jinny Software Ltd provides Tecnomen with product development, delivery and maintenance services for Multimedia Messaging (MMSC) and Short Messaging (SMSC) products.

On the Charging product line, we continued to develop the Convergent Charging product, adding advanced services for real-time prepaid data charging, in response to growing demand from operators for converging, real-time charging services for voice messaging as well as short messaging, multimedia messaging and GPRS data traffic.

We have added a wide range of new features for real-time prepaid voice charging, which improve the competitiveness of operators. Product development efforts focused on further development of bonus and discount models and on making the Convergent Charging product more competitive.

Towards the end of the year we established the Tecnomen Ventures unit, which has the task of looking for new opportunities for expansion in different product and market sectors.

Financial situation

Our goal for 2005 was to increase net sales and maintain the positive trend in our result, and we achieved both of these targets.

Net sales in 2005 of EUR 69.0 million clearly exceeded the previous year's figure, rising by 33.7 per cent. Growth came mainly from sales of Charging products in Latin America, where we achieved growth of 61.2 per cent. We also retained or strengthened our position in other Tecnomen market areas. In Europe, Middle East and Africa (EMEA) sales grew 6.0 per cent. In the Asia Pacific area (APAC), sales also grew slightly, by 5.0 per cent.

Our result improved considerably from the previous year. Net profit totalled EUR 9.2 million (+129.5%). Return on investment (ROI) reached 15.9 per cent. The cash flow was EUR 2.7 million and the financial situation strong. The equity ratio at the end of the year stood at 86.9 per cent and the debt equity ratio at -42.3 per cent.

We invested EUR 13.4 million in product development. No significant change took place in personnel numbers during the past year, even though net sales increased considerably. The number of personnel rose by 6.6 per cent. In line with our goals we made greater use than in previous years of the resources of our partners. This flexible resourcing can be adjusted in line with sales development, enabling a fast reaction on the market when necessary.

Strategy and values

Tecnomen aims with the value-added services it provides to increase the net sales and profitability of its customers. Our own goal is to grow profitably and achieve a position globally where our customers and partners make Tecnomen their partner of first choice.

Our Next Generation Messaging product is aimed at the mature markets, where conventional, closed systems will in the near future be replaced by new, open standard based systems

that utilise IP technology. Open systems will considerably reduce the operating expenses of our customers' systems. This trend is being boosted by the need of operators to obtain cost savings in a situation where prices of subscriber voice services are going down. In data services, there are no signs of a single service that will attract large numbers of users; instead for these services, usage and returns consist of many services for limited segments. This requires a flexible product platform on which new services can be built easily and efficiently.

Our Charging product is designed for the growing markets, where it is normal for over 80 per cent of subscribers to be prepaid customers. Although voice remains the most important of our applications for this customer base, I believe that charging for data traffic will increase.

Respect for customers, taking their needs into account and understanding their business, and continuous improvement of operations are Tecnomen's core values which can be seen in everything we do. This requires the commitment of all personnel, and the sharing of responsibilities and authority, bearing in mind the strengths of each employee. Open, honest communication with internal and external stakeholder groups creates the foundation of trust on which we build the future.

The future

In Europe our focus will be on upgrading and expanding existing systems, whereas in the Americas and Asia we will continue to supply new Messaging and Charging solutions and services. Africa and Eastern Europe are growth areas for Tecnomen. Our goal is also to develop a local and regional sales and support network together with global and local partners.

We expect that market willingness to invest will continue to grow favourably. Continuing strong organic growth and increasing demand for our next generation Messaging and Charging solutions from operators boost Tecnomen's market potential worldwide.

Our goals for 2006 remain growth and profitability, which we measure by return on investment. We will continue to develop our business processes without raising the relative share of fixed costs.

The past year was in every respect a good year and I would like to thank all Tecnomen personnel for this. Despite the considerable increase in net sales, the number of personnel in the Group has not risen significantly. We have succeeded in making our business processes more efficient and flexible with the help of subcontractors. I would especially like to thank our customers, who have demonstrated their confidence in us, expressing their appreciation in the most valuable way in the form of new orders. At the same time I would also like to thank our partners and all Tecnomen shareholders.

Jarmo Niemi
President and CEO

Tecnomen's product lines

Flexible total solutions

Tecnomen develops and delivers Messaging and Charging solutions for teleoperators and service providers. The company provides its customers with total solutions comprising software licences, hardware, installation and training services, and maintenance and support services. Using the various Messaging and Charging solutions, operators and service providers can build service packages suitable for their own market segments and target groups.

The products and services provided by Tecnomen can be integrated together and introduce new ways of communicating. Tecnomen products incorporate well-known, standardised technology and interfaces, which speeds up development, ensures that systems function properly and facilitates the integration of third party applications. Tecnomen employs third party products in its solutions when this is technically and financially justified.

Innovations and hard work

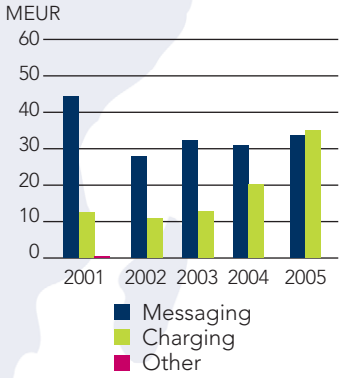
Intensifying competition between mobile operators creates new requirements for suppliers to the telecoms sector. Tecnomen's goal is to help operators compete and to improve their profitability. In practice this means continuously targeting resources on understanding the business requirements of operators and launching new cost-effective services on the market.

These new market requirements have an impact on all Tecnomen products. Products have to be more cost-effective and must be easier to adapt to a customer's individual business needs. On the other hand, the new 3G and IMS network technologies are altering the core structures of telecoms networks, which opens up new opportunities for Tecnomen's products.

During the review year Tecnomen focused its largest investments on developing Next Generation Messaging and Convergent Charging products. Customers have given a positive reception to the results of this work.

In addition to its product development investments, Tecnomen continued to streamline operations on its product lines. The company carefully raised the share of variable costs in total costs to improve flexibility. A new 'Platforms and Sourcing' department, functioning in parallel to the product lines, is responsible for common system components for products, and contract negotiations with partners, equipment and software suppliers and subcontractors centrally.

Net sales by product line
2001–2005



MEUR	2001	2002	2003	2004	2005
Total	57.1	39.9	45.3	51.5	69.0
Messaging	44.1	28.3	32.2	31.5	33.9
Charging	12.6	11.6	13.1	20.0	35.0
Other	0.4				

Messaging

Strong player

Tecnomen has a sound track record of 25 years of building modular, scalable Messaging solutions that provide users with an extremely wide range of messaging services. The messaging solutions and services are designed to be flexible so that they can respond to operators' present and future needs.

Product strategy

Tecnomen itself develops the core components of the Messaging solutions. This includes developing the Next Generation Messaging (NGM) product and the open Telco Server product. Telco Server is part of the NGM system architecture and provides a multipurpose platform for voice and video messaging services. In addition to system development, Tecnomen is continuously expanding the NGM product family with new voice, video messaging and notification services. It aims to further expand the offering into the IMS and convergence markets.

Tecnomen has an extensive network of development partners. These partners increase flexibility in product development resources, and enable Tecnomen to implement more efficiently the change requests proposed by customers. This creates a competitive edge in an evolving and rapidly changing market.

Messaging products and services

- Voice and Video Messaging: voice and video messaging systems and services
- Unified Communications: unified messaging systems and services combining voice mail, email, fax, multimedia and short messaging services
- Multimedia Messaging: multimedia messaging systems and services
- Short Messaging: short message systems and services

Other Messaging products and services

- Telco Server: multipurpose platform for implementing voice and video applications in circuit switched and IMS networks
- Professional Mobile Radio (PMR) Messaging: messaging systems and services for public authority use

Voice and Video Messaging

Tecnomen Voice Mail and Video Mail services provide an extensive set of tools which allow subscribers to effectively manage their mobile communications. These tools simplify personal communications.

Voice Mail and Video Mail increase operators' revenues by turning unprofitable, unanswered calls into answered, profitable ones. Voice and Video Services also inform subscribers about calls not reaching them because the phone was turned off, out of coverage or engaged. In addition, these services deliver to subscribers any voice and video messages left for them during this time.

Unified Communications

Tecnomen's Unified Communications services simplify everyday communications. Subscribers can read or listen to messages at any time and in any format: email, voice mail, fax, short message or multimedia message.

Multimedia Messaging and Short Messaging

Tecnomen produces the Multimedia Messaging Service (MMS) and Short Messaging Service (SMS) with its partner. These services complement the Tecnomen product portfolio enabling Tecnomen to provide operators with an extensive range of services and products.

Telco Server

Tecnomen Telco Server is part of the Tecnomen NGM product family. Telco Server is an open standard based multipurpose platform that simplifies and speeds up the development of services and also provides large capacity in a small space. Introducing the Telco Server means lower investments in fixed assets and lower operating costs.

PMR Messaging

Tecnomen Professional Mobile Radio (PMR) Messaging products have been developed for use by the public authorities.

Customer solution

CLARO – one of Tecnomen's fastest growing Messaging customers

CLARO, a subsidiary of América Móvil, is the leading mobile operator group in Brazil. Tecnomen's Messaging services are used by more than 10 million CLARO group subscribers. CLARO's systems and services demonstrate Tecnomen's ability to successfully supply large scale Messaging systems that meet the requirements of operators. The deliveries to CLARO also prove the strength and expertise of Tecnomen's global sales, delivery and support organisation in international projects.

Tecnomen's PMR services are ideal for complementing the range of services provided by public authority networks. The systems can be used to provide alarm services and messaging solutions for use by the police, fire brigades, rescue services and social workers.

Highlights of 2005

Tecnomen's Next Generation Messaging (NGM) system, based on open standards, reinforced its position in voice and video messaging and in the media server market, which can be considered one of the most significant achievements of 2005. Tecnomen has supplied systems based on NGM technology since 2004. During 2005 Tecnomen supplied NGM systems especially in Europe and the Asia Pacific region. At the same time, Tecnomen's deliveries of traditional Messaging Systems, and expansions and upgrades for customers retained their strong position.

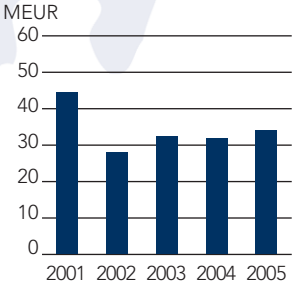
In June 2005 Tecnomen extended its cooperation with Jinny Software Ltd, a company that focuses on multimedia systems and services. Under this agreement Jinny Software Ltd provides Tecnomen with product development, delivery and maintenance services for Multimedia Messaging (MMSC) and Short Messaging (SMSC) products.

Prospects

Tecnomen is strongly placed against the competition. The NGM offering is competitive, and Tecnomen's traditional messaging systems remain competitive in terms of technology, price and quality.

This is a healthy position to start to increase Next Generation Messaging sales in 2006. Expansions and maintenance of installed systems are also expected to remain at a strong level.

Messaging, net sales
2001–2005



During 2006 work will continue on developing NGM systems and services. The service offering will be reinforced to include not only traditional voice and video messaging services and systems but also new areas in the IMS and convergence business. Tecnomen also aims to further increase its efforts at building product and product development partnerships.

Close cooperation with partnerships

Tecnomen has numerous partners, such as Jinny Software Ltd. Tecnomen also uses Sun Microsystems' system platforms and the Nuance speech recognition and text-to-speech (TTS) software and systems.

Accenture Services Oy is partly responsible for product development and maintenance of the current Messaging system. Accenture also provides Tecnomen with product development services for the Next Generation Messaging system.

Research and development

Tecnomen's product development is based on applying open standards, Internet and wireless technologies. Tecnomen belongs to several organisations that are responsible for developing open standards, such as Open Mobile Alliance, 3GPP, 3GPP2 and ETSI.

A considerable part of Messaging product development costs are variable costs, including long-term product development partnerships and subcontracting. This provides flexibility and scalability in the use of product development capacity, in line with the needs of a rapidly changing business environment.

Customer solution

Onetel – opens door for Tecnomen's Telco Server in Great Britain

In 2005 Tecnomen signed an important Telco Server agreement with the British company Onetel. The agreement meant the start of a new age for Tecnomen in supplying leading IP media servers to operators, service providers and system integrators as well as to third party developers of messaging applications. The Onetel agreement is a demonstration of Tecnomen's good position in a new market area, and it boosts the global growth potential for the Telco Server business.

Charging

Adaptable service offering for a changing market

Tecnomen has a strong position as the leading supplier of charging solutions in Latin America. This success is due to the wide range of real-time functions in Tecnomen's Convergent Charging and to providing a complete solution that takes individual customer needs into account.

The charging system market today is very different from when the Prepaid concept was first introduced. Prepaid subscribers expect to receive a wide range of value-added services such as data, content and entertainment services, in addition to traditional voice and short message services.

As competition intensifies, it is becoming increasingly important for operators to take into account subscriber needs and to launch innovative, tailored data services. This in turn increases demand for Tecnomen's Charging solutions and lays a firm foundation on which Charging product line can also grow and develop in the future.

Product strategy

The Charging product line develops network independent Convergent Charging solutions for operators worldwide. Tecnomen is known for its reliable, scalable and cost-effective Charging solutions and for its ability to build tailored solutions that meet the individual needs of customers in line with the prevailing state of the market.

Tecnomen develops the core components of the Convergent Charging product in-house. The core of the product consists of prepaid and postpaid billing, charging and rating functionalities and their physical implementation in mobile and fixed networks. Tecnomen works with its partners to implement complementary services that are integrally linked with charging solutions.

Like the Messaging product line, Charging also makes extensive use of the resources of development partners to cope with growth and fluctuations in demand.

Charging products and services

- Convergent Charging: the product contains a broad selection of functions for prepaid and postpaid billing, charging and rating of voice and video calls, data traffic and content services in both mobile and fixed networks
- Enhanced Assisting Intelligent Peripheral (EAIP): the product plays voice prompts to phone users as part of interactive voice services
- Complementary services from partners for Tecnomen's Convergent Charging product

Convergent Charging

Convergent Charging contains a broad selection of functions for prepaid and postpaid billing, charging and rating of voice calls, data traffic and content services in both mobile and fixed networks. The product has been tested with the systems of leading network suppliers as part of a total solution for operators.

Prepaid billing of subscribers is already more popular than postpaid billing in mobile networks. This popularity derives from the need of subscribers to control their phone bills and the desire of mobile operators to limit credit losses. A prepaid subscription can be sold with minimal associated costs, without identifying a new subscriber.

Support for postpaid billing supplements the Convergent Charging solution, so an operator does not have to invest in separate prepaid and postpaid platforms.

With the rating functionality in Convergent Charging, operators can change tariffs and other subscriber parameters in accordance with their unique business model. Rating rules are easy to understand, and they can be changed quickly and effectively in line with the operator's needs and the prevailing state of the market.

Customer solution

CTI – Tecnomen Prepaid supports CTI's amazing growth in Argentina

Towards the end of 2005 Tecnomen signed the largest contract for a Prepaid system expansion in its history with CTI, an Argentine subsidiary of América Móvil. CTI has 5.6 million subscribers in Argentina and during the past year has strongly increased its market share. Some 90 per cent of CTI's subscribers are prepaid customers. Tecnomen's Prepaid system gives CTI flexibility, cost-efficiency, and a large number of features to improve customer loyalty. The system supports CTI in achieving its targets for growth and profit in the competitive Argentine market.

Tecnomen offers complementary services to Convergent Charging product with its partners, including Prepaid Calling Card, for prepaid billing in the fixed network, and Virtual Private Network.

Enhanced Assisting Intelligent Peripheral (EAIP)

EAIP is an infrastructural component that Tecnomen primarily sells with its partners. The product delivers recorded messages to phone subscribers as part of interactive voice services.

During the past year EAIP was expanded with Mobile Centrex functions, which further strengthen the product's position as part of its partners' full service offering for mobile switches for corporate customers.

Highlights of 2005

Charging continued to grow strongly during 2005. Demand for Prepaid Voice increased considerably, but an increasing proportion of Charging deliveries included also Prepaid Data functionalities. One of the most important events in 2005 was the successful launch of the Convergent Charging product.

Prospects

Tecnomen's strong point is its ability to act more flexibly than the major network suppliers and respond quickly to customer expectations. It is difficult for competitors to copy the customer-oriented properties of Tecnomen's Convergent Charging.

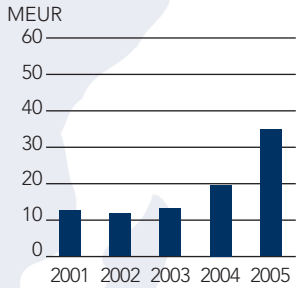
Organic growth coupled with demand for data charging predict strong demand for Convergent Charging, especially in Latin America. The product line is evolving along with its customers. Growth potential in the main market area derives not only from organic growth but also from new customers and from expansion into completely new market areas.

Tecnomen continues focused development efforts in order to maintain and develop its offering of tailored Convergent Charging solutions for existing and new customers.

Product development

During the past year the Charging product line increased the number of personnel in product development for the core components in the product, and at the same time intensified cooperation with its partners. Efficient, flexible use of the resources of product development partners enables a faster response to changing customer needs.

Charging, net sales
2001–2005



Customer solution

UMC – motor in the east

The Ukrainian company UMC experienced a rise of some 50 per cent in the number of its subscribers in 2005, to more than 11 million. Because of this rapid growth, during the review year UMC ordered expansions to the EAIP system to meet the requirements of the growing market and the expanding subscriber base. Tecnomen's EAIP is a flexible, cost-effective and scalable system that functions with only minor adjustments with several generations of switches. Tecnomen has supplied the expansions together with its long-term partner Siemens.

Customers and markets

Services – globally and locally

Tecnomen markets, sells, delivers and maintains its products and services through its own global organisation and through global and local partners.

Tecnomen supports its global operations with an extensive network of customer service offices. At year-end, including the headquarters in Espoo, the company had 13 offices worldwide responsible for sales, delivery and support services.

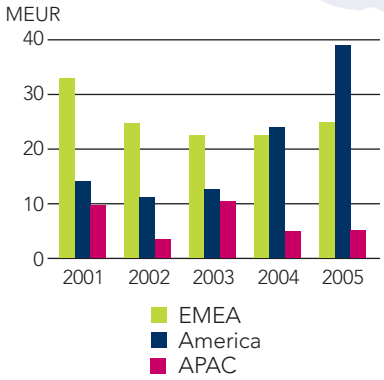
By the end of 2005 Tecnomen had supplied its systems to over 80 customers worldwide.

Operators invested in next generation systems

During 2005 investments by operators increased steadily in growing market areas such as Latin America, Africa, Eastern Europe and countries in Asia with large populations.

Demand for Next Generation Messaging (NGM) systems rose during the year as more and more 3G networks and open IP-based systems were taken into use. Compared with previous years operators invested more in next generation voice and video messaging solutions and services in order to increase their revenues and profitability. Demand for NGM systems was strongest in Europe and the Asia Pacific area.

Net sales by market area 2004–2005



MEUR	2001	2002	2003	2004	2005
Total	57.1	39.9	45.3	51.6	69.0
EMEA	33.1	24.9	22.6	22.5	24.8
America	14.2	11.4	12.6	24.1	38.7
APAC	9.8	3.6	10.1	5.1	5.3

Sales of Charging solutions grew strongly during 2005. Factors creating demand were the growth in subscriber numbers, which remained strong especially in Latin America, and the growing need to charge prepaid subscribers for the use of data services.

Actively broadening customer base

Tecnomen has three geographical market areas: Americas (North, Central and South America), EMEA (Europe, Middle East and Africa) and APAC (Asia Pacific). Each area is responsible for sales, delivery and support services in the countries in its region.

Tecnomen achieved its net sales targets for 2005. Net sales by market area were as follows: Americas 56.2 per cent (46.7%), EMEA 36.1 per cent (43.5%), and APAC 7.7 per cent (9.8%).

The focus for regional operations in 2005 was in expanding existing systems and upgrading them to next generation systems. Sales to existing customers accounted for 89.8 per cent (73.7%) of net sales.

Our success in securing new customers also continued strongly, and the company won new accounts in all market areas. The best results were achieved in Europe and Africa. New customer sales accounted for 10.2 per cent (25.5%) of net sales.

System maintenance accounted for 11.7 per cent (15.2%) of net sales.

Breakdown of sales – new customers, established customers

%	2001	2002	2003	2004	2005
New	22.7	18.8	14.9	25.5	10.2
Established	77.3	81.2	85.1	74.5	89.8

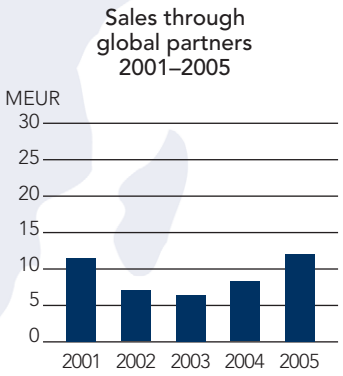
Customer profits are critical

Tecnomen's most important task is to improve the competitiveness and profits of its customers, which requires continuous efforts to understand the customer's business. Tecnomen supplies customers with total solutions and related installation, maintenance and support services, either on its own or together with partners.

Tecnomen will continue to focus on developing its local and regional sales and support network. Through this network, Tecnomen can provide its customers with improved, more diverse and faster service to increase their revenues and profitability and to develop their business. To increase customer satisfaction and the profitability of projects, Tecnomen is continuously making investments to develop project management skills and its supply chain.

Support from a global network of partners

Networking plays a major role in Tecnomen's strategy and business concept. The network of partners is important in marketing, sales, product development and deliveries. Tecnomen has global partnerships with Siemens, Nokia, Nortel, EADS and Accenture. These partners sell solutions developed by Tecnomen as part of their own network and system deliveries. In addition, Tecnomen itself works actively with regional and local partners. Cooperation developed positively during the year under review. Sales through global partners totalled EUR 12.2 million, or 20.6 per cent (15.8%) of net sales.



EMEA

Europe

Regional split continues

Tecnomen operates throughout Europe. In addition to its headquarters in Finland, the company has offices in Ireland, Germany, Spain and the Netherlands. During 2005 Tecnomen also opened an office in Russia to help it develop local sales, delivery and support services.

The regional split continued in the European market. In Western Europe the coverage of mobile networks and subscriber numbers are extremely high, whereas Eastern Europe experienced continuing strong organic growth in subscriber numbers. During 2005, operators' subscriber numbers increased on average 58.7 per cent in Eastern Europe and 8.8 per cent in Western Europe.

Tecnomen considers the market in Europe to be challenging. As pressure on prices increases, operators are looking for cost-efficiency and short payback times for their investments. As the focus in demand has switched to Next Generation Messaging (NGM) systems, operators are putting their efforts into offering customers new voice and video messaging service so as to increase their revenues and profitability.

During 2005, demand for NGM systems grew especially in Western Europe. Tecnomen supplied NGM systems to tele.ring in Austria, Voxmobile in Luxemburg and AMC in Albania. Operators also showed interest in next generation multipurpose platforms, and Tecnomen signed Telco Server contracts among others with the British company Onetel.

During the review year Tecnomen also supplied several messaging system expansions and upgrades to its European customers such as Swisscom in Switzerland and Mobilkom in Austria.

Tecnomen signed new messaging system contracts with the Russian Mobile TeleSystems (MTS), the Finnish Suomen Erillisverkot Oy and the Swedish Eltel Networks.

Middle East and Africa

Organic growth and new operators boost sales

Tecnomen has two offices in the Middle East and Africa market region. The Middle East head office is located in the United Arab Emirates and the African office is in South Africa. During 2005 Tecnomen strengthened its presence in these areas, developed local partnerships and focused on actively broadening the customer base.

The markets in the Middle East and Africa continued their strong organic growth. In the Middle East new operators have increased the market potential. This has stimulated the market, although mobile phone penetration remains low in the region.

In Africa development in legislation has intensified competition and increased subscriber numbers. During 2005 the operators' number of subscribers increased on average 30.5 per cent in the Middle East and 66.6 per cent in Africa.

Tecnomen obtained several new messaging customers in the Middle East and Africa market region, including customers in Senegal, Tunisia, Namibia and the United Arab Emirates. In addition, several major contracts on Messaging system expansions and upgrades were signed in rapidly growing markets such as Pakistan, Algeria and South Africa. Tecnomen also carried out an expansion and upgrade to a Prepaid system in Mauritania.

APAC

Asia Pacific

Market continued to grow strongly

Tecnomen operates throughout the Asia Pacific region. The head office for the region is located in Malaysia and the company also has offices in Taiwan and Thailand.

During 2005 Tecnomen's Asia Pacific offices intensified their activities to broaden the customer base and focused on developing sales channels. Deliveries of Next Generation Messaging (NGM) systems also started in the region.

The telecommunications markets in Asia continued to grow strongly, although the markets in the region are still divided into mature and strongly growing markets. During 2005 subscriber numbers in the Asia Pacific region grew on average 21.8 per cent. In the mature markets of Asia, with intensifying local competition, the role of individual, customised and local services gained in importance.

During the review year, Tecnomen won several orders to expand and upgrade Messaging systems in the Asia Pacific area: for example it supplied system expansions and upgrades to Indosat in Indonesia and to Maxis in Malaysia. Next Generation Voice and Video Messaging services were supplied to e.g. Celcom in Malaysia.

Fluctuations in the level of net sales have been a typical feature of the Asia Pacific area, due to the timing of major customer deliveries.

Americas

Northern, Central and South America

Renewability of Charging solutions becomes competitive factor

The head office for Tecnomen's Americas market region is located in Brazil. During 2005 operations in the region were expanded by opening an office in Mexico. The goal is to reinforce the company's local presence and to expand in Central America and Argentina.

The Latin American market continued to grow in areas where mobile penetration rates are still low. During 2005 operators' subscriber numbers in Latin America increased on average 38.3 per cent.

This growth is characterized by rapid advances in telecoms technology. In fact the ability to supply customers with new, continuously evolving messaging and other value added services has become a major competitive factor for operators. At the same time, operators must be able to offer invoicing services for real-time voice traffic and for SMS, MMS and GPRS data traffic in their networks.

Tecnomen's key customer in Latin America is the leading mobile operator group, América Móvil, which is the fourth largest mobile operator in the world. At the end of 2005, 14 of the operators in the América Móvil group were Tecnomen customers.

The continuing strong growth in subscriber numbers resulted in several system expansions. Tecnomen signed the largest contract in its history with the Argentinian company CTI. It also supplied expansions and upgrades to Prepaid systems, for example, to Porta in Ecuador, PCS Digital in Guatemala, CTE Telecom Personal in El Salvador, Aló-Megatel in Honduras and Brasil Telecom in Brazil. Major Messaging system expansions were supplied to CLARO and Brasil Telecom in Brazil.

The company also continued to actively broaden the customer base. A good example of this was the Prepaid system supplied to the América Móvil subsidiary CTI in Paraguay.

Personnel

Resource planning increases flexibility

Skilled, result-oriented and enthusiastic people are in a key position in achieving Tecnomen's business goals. Highly professional personnel are also of major importance in Tecnomen's strategy, and the targets derived from this form the basis for personnel development. Tecnomen aims to create and maintain a work environment that encourages each employee to be innovative and develop their skills. To achieve this goal, the business units and human resources management have to work closely together to identify the key factors in human resources planning and management so that they can be developed to give Tecnomen the greatest competitive edge.

During the past year, resource planning has had a key role at Tecnomen. Despite the increase in net sales, the company has only made moderate increases in its resources and personnel have been encouraged to take part in job rotation within the company. Tecnomen has obtained the extra resources it has needed, especially in research and development, by making greater use of its partners. By planning its internal and external resources the company has succeeded in building an effective, flexible arrangement that brings together the different areas and requirements for expertise.

Leading experts and standard methods

Ever intensifying competition means that Tecnomen must continuously examine and question its current business methods and focus and develop its competences, and requires a healthy spirit of competition. The priorities in Tecnomen's human resources planning will continue to be developing the readiness to change and flexibility of its organisation and enhancing planning of internal and external resources to ensure the company has the leading experts and the best possible business methods.

Since more than half of Tecnomen's personnel works at locations outside Finland, further development of global human resource processes is also important in establishing coherent and standard models for its business methods.

Personnel survey reveals areas needing improvement

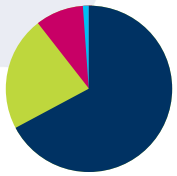
In summer 2005 Tecnomen conducted a job satisfaction survey, Tec Together, of the Group's entire personnel. The aims of the survey were to discover the views of personnel of Tecnomen as an employer and as a company and to identify the areas that they felt were in most need of improvement. The survey assessed different areas, such as how satisfied personnel were with their own work and with management, internal cooperation, communications and remuneration. The survey was completed by 83 per cent of personnel.

Personnel showed the highest level of satisfaction with their own work. Most of the respondents considered their work to be interesting and challenging and felt that they were able to develop in their work. The work of supervisory staff also received praise. This had improved from previous years. Systematically arranged appraisal discussions obtained positive comments. Employer image and communications are areas that require improvement, however. From the results of the survey, better opportunities for organizing work and training were areas chosen for improvement.

Although the survey does show general trends for the whole group, there were differences between the results from different sections of personnel. Therefore separate plans have been drawn up for each business unit, forming the basis for further development of operations. The underlying guiding principles here are provided by the goals and action programme for the whole group.

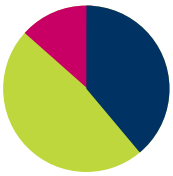
"Tecnomen's improved result is clear proof of the commitment and sincere desire of our personnel to work for our common future."

Employees by years of service



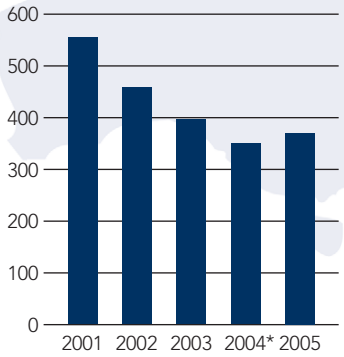
0–5	67%
6–10	23%
11–25	9%
25–	1%

Employees by business function 2005



Sales and customer operations	38.6%
Operations	48.8%
Finance and administration	12.6%

Employees at end of year



* 59 persons joined Accenture as a result of outsourcing agreement

Corporate Governance

Tecnomen Corporation is administered and managed in accordance with current legislation and the company's Articles of Association. The company complies with the Corporate Governance recommendations for public limited companies which were published jointly by the Helsinki Exchanges, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers and came into force on 1 July 2004.

Structure, tasks and responsibilities of the group's governing bodies

Ultimate responsibility for the Group's administration and operations is vested in Tecnomen Corporation's governing bodies, namely the Meeting of Shareholders, the Board of Directors, and the President and Chief Executive Officer. The President and CEO is assisted by the Group's Management Board.

Meeting of Shareholders

The Annual General Meeting of Shareholders is the highest decision-making body of Tecnomen Corporation and convenes once a year. The responsibilities of the AGM are defined in the Finnish Companies Act. The AGM's most important responsibilities include amending the Articles of Association, approving the financial statements, deciding on the dividend to be paid, discharging the members of the Board of Directors and the President and CEO from liability, appointing Board members and the company's auditors and deciding on their fees. The AGM is held each year before the end of May on a date determined by the Board of Directors. The AGM is held in the company's domicile, Espoo, or, if the Board of Directors so decides, in Helsinki. Tecnomen holds Extraordinary Meetings of Shareholders as necessary.

Tecnomen provides advance information in the Invitation to the Meeting of Shareholders and on its website at www.tecnomen.com.

Board of Directors

The tasks and responsibilities of Tecnomen Corporation's Board of Directors are defined in the Finnish Companies Act and other applicable legislation, according to which the Board of Directors is responsible for the appropriate organisation of business operations and corporate administration. The Board is also responsible for the appropriate organisation of the supervision of the company's accounting and management of its assets. The Board of Directors is tasked with promoting the interests of the company and shareholders, by providing guidelines for the company's operations so that in the long term they generate the best possible return on the capital invested in the company. Tecnomen's Board of Directors has confirmed Rules of Procedure for the Board to support their work, which define the tasks of the Board, the procedures for the work of the Board, and the meeting and decision-making procedures.

The members of Tecnomen's Board have no special duties other than those designated by law.

Board members, selection and term of office

Tecnomen's Board of Directors consists of a minimum of three and a maximum of seven members, as provided in the Articles of Association. The Annual General Meeting elects the Board and confirms the number of Board members. The Annual General Meeting on 24 March 2004 elected six members to the Board of Directors.

The term of office of Board members expires at the end of the third Annual General Meeting following election. The Articles of Association do not restrict the number of terms of office. No person aged 67 years or older may be elected to the Board.

As provided in the Articles of Association, the Board of Directors elects from among its members a Chairman and Vice Chairman for a term of one year at a time. A meeting of the Board of Directors constitutes a quorum if more than half of its members are present. Matters are decided by a simple majority vote. In the event of a tied vote, the Chairman has the casting vote.

Tecnomen's Board of Directors has assessed the independence of Board members from the company and shareholders in accordance with the Corporate Governance recommendations. On the basis of this assessment, the Board members are independent of the company and its major shareholders.

Board of Directors

Lauri Ratia, b. 1946, MSc (Tech)
Chairman of the Board
Member of Tecnomen Corporation's Board of Directors since 2001
President and CEO of Lohja Rudus Corporation since 1994
Member of the Board of the Confederation of Finnish Construction Industries, RT, since 2005
Chairman of the Board of Edita Plc since 2005
Vice Chairman of the Board of Kemira GrowHow since 2004
Member of the Board of Paloheimo Oy since 2002
Member of the Board of Olvi Plc since 1999
Member of the Finnish Association of Professional Board Members (Hallitusammattilaiset ry)
Tecnomen shares: 6 000
Tecnomen stock options: 75 000

Carl-Johan Numelin, b. 1937, MSc (Tech)
Vice Chairman of the Board
Member of the Board of Tecnomen Corporation since 2001
Chairman of the Board of Kyro Corporation since 1996
Member of the Finnish Association of Professional Board Members (Hallitusammattilaiset ry)
Tecnomen shares: 60 208
Tecnomen stock options: 37 500

Lars-Olof Hammarén, b. 1942, BSc (Eng.)
Member of the Board of Tecnomen Corporation since 2001
Member of the Board of Aktia Savings Bank plc since 2006
Chairman of the Board of Oy Arnala Ab since 1996
Chairman of the Board of Oy Hammaren & Co Ab since 1984
Member of the Board of Kyro Corporation since 1982
Tecnomen shares: 2 164 300
Tecnomen stock options: 37 500

Keijo Olkkola, b. 1939, MSc (Tech)
Member of the Board of Tecnomen Corporation since 2001
Tecnomen shares: 9 863
Tecnomen stock options: 37 500

Christer Sumelius, b. 1946, MSc (Econ.)
Member of the Board of Tecnomen Corporation since 2001
President of SE-Center Oy since 1988
President of Oy Investsum Ab since 1984
Vice Chairman of the Board of Kyro Corporation, member since 1995
Member of the Finnish Association of Professional Board Members (Hallitusammattilaiset ry)
Tecnomen shares: 1 322 780 (direct holding 375 280)
Tecnomen stock options: 37 500

Timo Toivila, b. 1950, MSc (Tech)
Member of the Board of Tecnomen Corporation since 2001
Member of Board of Teleste Corporation since 2003
No Tecnomen shares
Tecnomen stock options: 12 500

Secretary to the Board, not a Board member:
Kristiina Hoppu, LLM
Director, Legal Affairs and Human Resources

Lars Hammarén, Timo Toivila, Lauri Ratia, Carl-Johan Numelin, Christer Sumelius, Keijo Olkkola

Board meetings

Tecnomen's Board of Directors met 17 times in 2005. Calculated on the basis of the number of meetings and the number of members present, the average attendance of members at Board meetings was 93 per cent.

Assessment of Board activities

Tecnomen's Board of Directors regularly assesses its activities and working procedures to ensure it functions effectively and to high standards. The assessment takes the form of an internal self-evaluation.

Board Committees

Tecnomen's Board of Directors has established two committees: the Audit Committee and the Remuneration Committee. The Board has approved written rules of procedure for these committees, containing the main responsibilities and operating principles for the committees. The Board of Directors takes decisions based on the work of the committees.

The Audit Committee is tasked with assessing the adequacy of the Group's internal auditing, reporting and proactive risk management and with preparing proposals and studies concerning these for the Board of Directors. The Committee also assesses the quality and independence of the company's external audit. The Committee comprises two members of the Board (Mr Lauri Ratia and Mr Carl-Johan Numelin). Tecnomen's President and CEO and the company's CFO regularly participate in meetings of the Audit Committee.

The Remuneration Committee is tasked with preparing proposals for the Board concerning personnel remuneration schemes, including matters relating to the appointment and remuneration of senior management. The Committee comprises three members of the Board (Mr Lauri Ratia, Mr Carl-Johan Numelin and Mr Christer Sumelius) and one non-Board member (Mr Hannu Turunen).

President and Chief Executive Officer

The President and CEO 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 President and CEO may only undertake action that is unusual or far-reaching and important in principle to the company, when so authorised by the Board of Directors. The President and CEO is responsible for ensuring the company's accounting is in compliance with the law and that the assets of the company are reliably managed. The President and CEO is also responsible for investor relations, corporate communications, long-term strategic and financial planning, as well as for major operational decisions and supervising their implementation. The President and CEO prepares matters to be considered at Board meetings and reports to the Board.

A written contract of employment has been drawn up for the President and CEO and approved by the Board.

Management Board

The Management Board is tasked with supporting and assisting the President and CEO, supervising and developing the company's operations in accordance with the strategies and objectives set, creating group-level procedures, and monitoring the global human resources policy and remuneration system. The Management Board is also responsible for managing stakeholder relations. The Management Board meets monthly.

Tecnomen's Management Board comprises the President and CEO and persons heading the four operative functions. The President and CEO chairs the Management Board.

Management Board

Jarmo Niemi, b. 1953, MSc (Tech)
President and CEO since 31 October 2003
Member of the Board of Evox Rifa Group since 2000
Aspocomp Group Oyj, President, 1993–2003
Aspo Corporation, various management positions 1986–1993
Orion Corporation, Medion, various management positions 1981–1986
Tecnomen shares: 5 000
Tecnomen stock options: 80 000

Riitta Järnstedt, b. 1968, MSc (Econ.)
Chief Financial Officer (CFO) since 1 July 2000
Previous work experience at Tecnomen
- 1998–2000 Financial Manager
- 1995–1998 Chief Accountant

Helvar, Leading Accountant 1994
Suomen Räjähdemyynti, Financial Supervisor 1993
Tecnomen shares: 432
Tecnomen stock options: 75 000

Vesa Kemppainen, b. 1970, MSc (Tech)
Chief Operating Officer (COO) since 1 June 2004
Previous work experience at Tecnomen
- 2003–1 June 2004 Director, Corporate Development, member of the Management Board
- 1999–2000 Director, Software Development
- 1998–1999 Product Manager
- 1996–1998 Team Leader
- 1995–1996 Software Designer

Krocus Communications Oy, Founder, President 2001–2003
iobox, VP, Systems Development 2000–2001
Tecnomen shares: 64 836
Tecnomen stock options: 50 000

Eero Mertano, b. 1965
Vice President, Sales and Marketing, since 19 January 2004
Previous work experience at Tecnomen
- 1998–2000 Managing Director, Tecnomen Brazil
- 1997–1998 Director, Product Management
- 1995–1996 Product Manager

Add2Phone, Sales Director, President 2000–2003
Merlinsystems, Project Manager, Product Development Director 1993–1995
No Tecnomen shares
Tecnomen stock options: 50 000

Timo Nykänen, b. 1961, MSc (Tech)
Vice President, Tecnomen Ventures as from 2 December 2005
Previous work experience at Tecnomen
- 15 Sept. 2003–1 Dec. 2005 Director, Messaging

Krocus Communications Oy, Executive Vice President 2002–2003
Codeonline Oy, VP, R&D and Production, 2002
Terra Mobile-Iobox, VP, R&D, Spain 2000–2001
Trio Network Solutions Oy, VP, R&D 1999–2000
Sonera Corporation, project manager 1998–1999
Tecnomen shares: 12 393
Tecnomen stock options: 35 000

Eero Mertano, Vesa Kemppainen, Jarmo Niemi, Timo Nykänen, Riitta Järnstedt

Audit

The audit plays an important role as the auditing body appointed by the shareholders, enabling shareholders to obtain an independent statement on how the company's accounts, financial statements and administration have been managed.

The main task of the statutory audit is to confirm that the financial statements give a true and fair view of the company's result and financial position for the financial period ended. The company has one auditor. The auditor reports on its observations to the Board in conjunction with each interim report and issues an auditor's statement to shareholders as part of the annual financial statements. Auditors are appointed for a term of office of one year and their term expires at the close of the Annual General Meeting following election. Tecnomen's auditor in the 2005 financial year was KPMG Wideri Oy Ab, and the principal auditor was CPA Sixten Nyman.

The auditor's fees paid by Tecnomen Group for the 2005 financial year totalled EUR 175 075. In addition, the auditor was paid a further EUR 258 977 in fees for other services.

Remuneration

An effective remuneration scheme is a key tool in achieving shareholder control. The remuneration scheme aims to increase the motivation of the company's Board of Directors, President and CEO, and other management to work in the interest of the company and its shareholders.

Remuneration of Board members

Fees, salaries and other benefits paid to the Chairman of the Board of Directors, other members of the Board and the President and CEO in 2005 totalled EUR 184 425. The fees of Board members are paid quarterly.

Remuneration of the President and CEO and other management

The President and CEO and members of the Group's Management Board are not paid anything extra for being members of the Management Board.

The pensions of the President and CEO and members of the Group's Management Board are determined in accordance with the Employees Pension Act (TEL). The retirement age for the President and CEO is 60 years, and his full pension is 60 per cent of pensionable earnings.

The company has not granted loans to members of the Board of Directors or the Management Board nor has it given guarantees for them. Members or persons or organisations closely associated with them have no significant business connections with the company.

Control and reporting system

Control and supervision of Tecnomen Group's operations are based on planning and reporting systems at different levels of the hierarchy. The objective of the control and reporting system is to ensure that the company's operations are efficient and profitable, that information is reliable and that official regulations and internal operating principles are observed. The company's Board of Directors is ultimately responsible for the accounting of the company and for supervision of the management of the company's assets. The President and CEO is responsible for the practical implementation of the accounting and control and reporting systems.

Long-term planning of the company's business is guided by the corporate-level strategic plans that are updated each year and approved by the company's Board of Directors. At corporate and Board level, a monthly reporting system tracks the business risks and how well goals are being met. The monthly reports presented at meetings contain actual figures for past performance and forecasts for the company's future performance.

The development of financial added value is monitored in the company's quarterly reports and the information is published, for example, in the annual report.

Risk management

The task of risk management is to identify, manage and track the major risks in the company's business and business environment to enable the company to achieve its strategic and financial goals in the best possible way. The principles for internal administration and financial reporting are defined in the Audit Committee's rules of procedure.

The risk management process obtains support from the risk management work group, which meets regularly and consists of the President and CEO and financial and sales management.

The Group's financial management is responsible for managing the Group's foreign exchange, interest rate and liquidity risks and for insurance concerning operational risks; the business units are responsible for risk management for the rest of their operations. The risk management work group reports major risks to the Audit Committee.

Insider Management

Tecnomen complies with the Guidelines for Insiders drawn up by the Helsinki Exchanges. The company keeps its insider register in the SIRE system maintained by the Finnish Central Securities Depository Ltd.

The company's statutory insiders are the members of the Board of Directors, the President and CEO, the members of the Management Board, and the auditor. Tecnomen has also defined as permanent insiders persons who, in their work, regularly obtain information that may have a material impact on the value of the company's shares.

Tecnomen's Board of Directors has confirmed a restriction on insider trading which forbids trading in the company's shares by insiders for 14 days before the publication of financial reports. When necessary, Tecnomen sets up separate insider registers for major projects. The Director, Legal Affairs and Human Resources, is responsible for managing and monitoring insider issues.

For further information: www.tecnomen.com

Report of the Board of Directors

Sales and net sales

Tecnomen's net sales in the review period rose 33.7 per cent to EUR 69.0 (51.6) million.

Tecnomen's deliveries are divided into project deliveries and product and service deliveries. Project deliveries are recognised in accordance with IAS 11 (Construction contracts) by stage of completion on the balance sheet date. Revenue from product and service deliveries is recognised, in accordance with IAS 18, when the amount of revenue can be measured reliably and it is probable that the company will receive the economic benefits associated with the transaction. Some examples of these are system deliveries of short duration and supplementary deliveries, such as maintenance, licences, training, documentation and spare parts. Revenue from fixed term maintenance contracts is normally recognised on a straight-line basis over the contract period.

EUR 52.3 million of the net sales in the review period has been recognised in accordance with IAS 11 and EUR 16.7 million in accordance with IAS 18.

Sales through global partners totalled EUR 12.2 (8.1) million, or 17.7 per cent (15.8%) of net sales.

Maintenance and service sales totalled EUR 8.1 million, or 11.7 per cent (15.2%) of net sales.

The order book stood at EUR 27.9 (12.2) million at the end of the review period. Americas accounted for 66.0 per cent of the order book, EMEA for 33.1 per cent and APAC for 0.9 per cent.

Operating result

The operating result for the review period increased considerably to EUR 9.6 (3.9) million. The Group achieved this strong result because it grew faster than the market and enhanced its internal efficiency. Net sales grew in all product groups and geographical areas.

The profit for the period before taxes was EUR 10.3 (4.9) million.

Earnings per share were EUR 0.15 (0.07). Equity per share at the end of the period was EUR 1.33 (1.16).

Financing and investments

Tecnomen's financial position is strong. Liquid assets totalled EUR 33.2 (30.8) million. The balance sheet total on 31 December 2005 stood at EUR 90.4 (76.9) million. Interest bearing liabilities amounted to EUR 0.4 (0.5) million. The debt to equity ratio (gearing) was -42.4 per cent (-44.7%). The balance sheet structure remained strong and the equity ratio on 31 December 2005 was 86.9 per cent (88.8%).

Tecnomen's gross capital expenditure during the review period, excluding the capitalisation of development costs, was EUR 2.0 (1.6) million, or 3.0 per cent (3.1%) of net sales.

Financial income and expenses during the review period totalled EUR 0.7 (1.0) million. Interest income of EUR 0.8 (0.6) million came from investing cash funds, the net effect of assessing currency based balance sheet items was an expense of EUR 0.1 (-0.5) million, and other financial costs totalled EUR 0.0 (0.1) million.

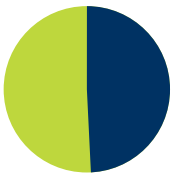
Change in working capital, MEUR	1–12/05	1–12/04
Change in trade receivables and advances	-8.9	14.4
Change in other short-term receivables, non-interest bearing	2.1	-17.0
Change in inventories	0.0	0.0
Change in accounts payable and advances	1.6	-0.2
Change in other current liabilities	1.9	-2.0
Change in working capital, total	**-3.3**	**-4.8**

Markets

During the final quarter of the year investments by operators continued at a high level in growing markets such as Latin America, Africa and the densely populated countries of Asia.

Increasing demand for converging charging solutions and the continuing strong growth in subscriber numbers resulted in several expansion contracts for prepaid systems in Latin America. At the end of the period Tecnomen signed the largest expansion contract for a prepaid system in its history with CTI, the Argentine subsidiary of América Móvil. The

Net sales by product lines 2005



Messaging 49.2% (61.4%)
Charging 50.8% (38.6%)

Net sales by geographical area 2005

Americas 56.2% (46.7%)
EMEA 36.1% (43.5%)
APAC 7.7% (9.8%)

value of the contract was USD 15.4 million and the expansion will be supplied during the first half of 2006. Expansions and upgrades to prepaid systems were supplied to Telemig Celular and Amazonia Celular in Brazil and to Porta in Ecuador. In addition a new prepaid system was taken into commercial use by CTI in Paraguay.

Demand for Next Generation Messaging (NGM) solutions continued to grow during the review period as operators, especially in Western Europe and Asia, looked to invest in next generation systems to increase revenues and profitability. A good example of an NGM project was the NGM system supplied by Tecnomen to tele.ring in Austria, replacing the operator's previous messaging system.

Operators continued to show interest in next generation multipurpose platforms, and Tecnomen strengthened its position in the media server market. During the period Tecnomen supplied Telco Server platform for example to Onetel in the United Kingdom.

Tecnomen supplied expansions and upgrades of conventional messaging systems to Digitel in Venezuela, Indosat in Indonesia, Swisscom in Switzerland and Brasil Telecom in Brazil. In addition Tecnomen supplied a messaging system for the TETRA network to the Government of Dubai in the Arab Emirates.

Messaging product line

The biggest achievement in the year can be considered the strengthening of the position of Tecnomen's open standard based NGM system in voice and video messaging and in the media server market.

During the review period, Tecnomen expanded the service offering for NGM systems to include not only conventional voice and video messaging services and systems but also new areas in the IMS and convergence business.

Charging product line

Tecnomen's Convergent Charging (Prepaid) product continued its success during the review period. Deliveries to new customers lay a firm foundation for future growth.

The functions in the Convergent Charging product were expanded to include prepaid and post-paid billing for services, and various forms of charging and rating for voice, data and content services in mobile and fixed networks.

Research and development

Research and development costs during the review period were EUR 13.4 (11.5) million, corresponding to 19.5 per cent (22.4%) of net sales. EUR 3.8 (1.6) million of development costs have been capitalised and will be amortised over 3–5 years from the start of commercial use. R&D costs of EUR 0.4 (0.1) million were amortised during the review period.

Personnel

At the end of 2005 Tecnomen employed 373 (350) persons, of whom 121 (129) worked in Finland and 252 (221) outside Finland. The company employed on average 355 (355) people during the review period.

Tecnomen shares and share capital

At the end of 2005 the shareholders' equity of Tecnomen Corporation stood at EUR 77.3 (67.5) million and the share capital was EUR 4 664 702.24, divided into 58 308 778 shares. The equity per share was EUR 1.33 (1.16).

A total of 42 794 577 Tecnomen shares (EUR 79 323 848), representing 73.39 per cent of the total number of shares, were traded on the Helsinki Exchanges during the period 3 January–31 December 2005.

The highest share price quoted in the period was EUR 2.60 and the lowest EUR 1.28. The average quoted price was EUR 1.86 and the closing price on 31 December 2005 was EUR 2.45. The share stock had a market capitalisation of EUR 142 856 506 at the end of the period.

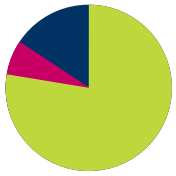
Current authorisations

At the end of the financial period, Tecnomen's Board of Directors had the following current authorisations given by the AGM held on 16 March 2005:

1. Authorisation to decide to dispose of the company's own shares already in the possession of the company and any acquired under the authorisation given to the Board.

Tecnomen disposed of 133 200 of its own shares on 29 December 2005 as consideration for the transaction on 23 April 2003 in which Tecnomen purchased the entire share stock of Krocus Communications Oy. The consideration for the shares disposed was 1 euro per share and the disposal was made outside the stock exchange. The total nominal value of the

Employees by area



EMEA	286	(78%)
America	63	(15%)
APAC	24	(7%)

disposed shares was EUR 10 656, representing 0.23 per cent of the entire share capital and votes of Tecnomen Corporation. After this disposal of shares the company held 134 800 of its own shares, representing 0.23 per cent of the company´s share capital and votes. The nominal value of the shares held by the company totalled EUR 10 784. In other respects the Board has not exercised this authorisation during the past fiscal year.

2. Authorisation to decide to increase the share capital by issuing new shares, convertible bonds and/or stock options in one or more issues. The number of new shares through share issuance or subscription of shares in exchange for convertible bonds or pursuant to the stock options may be at most 7 518 515 shares, and the company´s share capital may rise by at most a total of EUR 601 481.20. The Board has not exercised this authorisation during the past fiscal year.

Stock option programme

The company has a valid 2002 stock option programme approved by the Annual General Meeting of Shareholders on 11 April 2002, which is divided into four stock option series, the 2002A, 2002B, 2002C and 2002D stock options. A maximum of 4 100 000 stock options may be issued that entitle holders to subscribe to a total of 4 100 000 Tecnomen Corporation shares. As a result of subscriptions with the 2002 stock options, the company´s share capital can rise by a maximum of EUR 328,000. The subscription periods are as follows: for the 2002A options: 1.4.2003–30.4.2006, 2002B 1.4.2004–30.4.2007, 2002C 1.4.2005–30.4.2007 and 2002D 1.4.2006–30.4.2008. The share subscription price for stock options 2002A and 2002B is EUR 1.68, for stock option 2002C EUR 0.46 and for stock option 2002D EUR 1.33. During 2005, a total of 29 200 shares were subscribed with the 2002A stock options, 25 500 with 2002B and 161 500 with 2002C, and these raised the share capital by EUR 17 296. The company's share capital may rise as the result of share subscriptions with the outstanding share options by a maximum of EUR 310 704, which represents 6.67 per cent of the company's shares and voting rights after share subscription.

Tecnomen's board of directors and auditors

During the review year, Tecnomen's Board of Directors had six members: Lauri Ratia, Carl-Johan Numelin, Lars Hammarén, Keijo Olkkola, Christer Sumelius and Timo Toivila. Lauri Ratia was Chairman of the Board and Carl-Johan Numelin Vice-Chairman.

Timo Nykänen was appointed Vice President at the Tecnomen Ventures unit that was established on 2 December 2005.

Tecnomen's Management Board has five members: Jarmo Niemi, President and CEO, CFO Riitta Järnstedt, COO Vesa Kemppainen, Eero Mertano, VP, Sales & Marketing and Timo Nykänen, VP, Ventures.

Tecnomen Corporation's auditor was KPMG Oy Ab and the principal auditor was CPA Sixten Nyman.

Risk management

The greatest risks in Tecnomen's operations are related to major customer and partner relationships and to the correct timing and success of product development.

The objective of the hedging policy is to hedge at most the currency denominated net position for a maximum period of 12 months. The change in the fair value of currency hedging is recognised in other operating income or expenses.

Liquid funds are invested, avoiding credit and liquidity risks, in money-market deposits and short-term interest funds with a good credit rating.

The payment record of customers is continually monitored. The credit rating of customers and the situation concerning receivables from projects previously supplied to the customer are examined as part of the sales process.

Prospects

The present healthy order book will enable Tecnomen to record a better net sales and result in the first half of the year than in the previous year. During 2006 Tecnomen's goals are to increase net sales and to maintain a good level of profitability.

Dividend proposal

The Board of Directors proposes that a dividend of EUR 0.02 per share, in total EUR 1 163 479.56, be paid from the parent company's profit for the 2005 fiscal year and that the remainder after paying the dividend, EUR 7 601 021.92, be transferred to equity.

The dividend will be paid to shareholders who are registered on the record date of 20 March 2006 in the list of shareholders maintained by the Finnish Central Securities Depository. The Board proposes to the AGM that the dividend be paid on 27 March 2006.

Events after the end of period

The Board of Directors has examined the efficiency of the use of the company's equity and will present the needed action to the Annual General Meeting of Shareholders.

Tecnomen Corporation
Board of Directos

Consolidated income statement

EUR 1 000	Note	1.1.–31.12.2005	1.1.–31.12.2004
Net sales	1, 2	68 985	51 581
Other operating income	3	56	1 438
Materials and services	4	-13 857	-11 297
Employee benefit expenses	5	-23 329	-19 860
Depreciation	6	-2 183	-2 257
Other operating expenses	7	-20 111	-15 752
Operating result		9 561	3 855
Financial income	9	1 856	1 428
Financial expenses	10	-1 129	-378
Result before taxes		10 288	4 904
Income taxes	11	-1 523	-905
Result for the period		8 765	3 999
Net profit attributable:			
To equity holders of the parent		8 765	3 999
Earnings per share calculated on profit attributable to equity holders of the parent	13		
Earnings/share, undiluted, EUR		0.15	0.07
Earnings/share, diluted, EUR		0.15	0.07
Number of shares on average, 1000s of shares			
- undiluted		58 174	57 693
- diluted		59 476	58 166

Consolidated balance sheet

EUR 1 000	Note	31.12.2005	31.12.2004
Assets			
Non-current assets			
Goodwill	14	682	682
Other intangible assets	14	5 390	1 938
Tangible assets	15	8 649	8 435
Long-term trade and other receivables	16	618	562
Total non-current assets		15 340	11 616
Current assets			
Inventories	17	2 254	2 221
Trade and other receivables	18	39 549	32 296
Cash and cash equivalents	19	33 222	30 765
Total current assets		75 025	65 282
Total assets		90 365	76 898
Shareholders' equity and liabilities			
Share capital			
Share capital	20	4 665	4 647
Share premium fund		66 178	66 029
Own shares		-122	-259
Other reserves		282	381
Translation differences		211	16
Retained earnings		6 044	-3 337
Equity attributable to equity holders of the parent		77 257	67 477
Total shareholders' equity		77 257	67 477
Non-current liabilities			
Deferred tax liability	23	1 524	636
Long-term interest-bearing liabilities	24	432	465
Long-term non-interest-bearing liabilities	25	254	1
Provisions	26		96
Total non-current liabilities		2 211	1 197
Current liabilities			
Short-term interest-bearing liabilities	27	33	106
Trade payables and other liabilities	28	10 865	8 118
Total current liabilities		10 897	8 224
Equity and liabilities		90 365	76 898

Change in shareholders' equity

EUR 1 000	Equity attributable to equity holders of the parent						
Change in shareholders' equity 1–12/2004	**Share capital**	**Share premium fund**	**Other reserves**	**Own shares**	**Translation difference**	**Retained earnings**	**Total**
Shareholders' equity 31.12.2003	4 647	66 029	282	-399	-773	-4 540	65 246
Impact of implementation of IFRS standards					773	-2 959	-2 186
Adjusted shareholders' equity 1.1.2004	4 647	66 029	282	-399		-7 499	63 060
Translation difference					16		16
Change in fair value of available-for-sale investments			153				153
Deferred taxes' share of period movements			-54				-54
Net gain recognised directly in shareholders' equity			100		16		116
Result for the period						3 999	3 999
Total profits and losses recognised during period			100		16	3 999	4 115
Share-based payments						171	171
Disposal of own shares				140		-8	132
				140		163	303
Total shareholders' equity 31.12.2004	**4 647**	**66 029**	**381**	**-259**	**16**	**-3 337**	**67 477**

	Equity attributable to equity holders of the parent						
Change in shareholders' equity 1–12/2005	**Share capital**	**Share premium fund**	**Other reserves**	**Own shares**	**Translation difference**	**Retained earnings**	**Total**
Shareholders' equity 1.1.2005	4 647	66 029	381	-259	16	-3 337	67 477
Translation difference					194		194
Change in fair value of available-for-sale investments			-153			153	
Deferred taxes' share of period movements			54			-54	
Net gain recognised directly in shareholders' equity			-100		194	100	194
Result for the period						8 765	8 765
Total profits and losses recognised during period			-100		194	8 864	8 959
Options exercised	17	149					166
Share-based payments						351	351
Other adjustments						171	171
Disposal of own shares				137		-4	133
	17	149		137		517	821
Total shareholders' equity 31.12.2005	**4 665**	**66 178**	**282**	**-122**	**211**	**6 044**	**77 257**

Consolidated cash flow statement

EUR 1 000	Note	1.1.–31.12.2005	1.1.–31.12.2004
Cash flow from operating activities			
Result for the period		8 765	3 999
Adjustments for:			
Depreciations		2 183	2 257
Unrealised exchange rate gains and losses		87	-608
Interest income and other financial income		-1 261	-706
Interest expense and other financial expenses		447	264
Income taxes		1 523	905
Other adjustments		88	-223
Changes in working capital			
Change in trade and other receivables		-6 745	-4 748
Change in inventories		-33	-28
Change in trade payables and other liabilities		3 516	-2 177
Interest paid		-447	-264
Interest received		492	731
Income taxes paid		-335	-279
Net cash flow from operating activities		**8 280**	**-877**
Cash flow from investments			
Investments in intangible assets		-3 850	-1 645
Investments in tangible assets		-1 861	-1 639
Net cash flow from investments		**-5 711**	**-3 284**
Cash flow from financing activities			
Repayment of current loans		-73	-148
Repayment of non-current loans		-33	
Net cash flow from financing activities		**-106**	**-148**
Change in liquid funds		**2 463**	**-4 309**
Liquid funds at beginning of fiscal year		30 765	34 833
Change in foreign exchange rates		199	34
Change in fair value of investments		-193	206
Liquid funds at end of fiscal year	19	33 222	30 765
Change		2 463	-4 309

Accounting principles for consolidated financial statements

Notes to the consolidated financial statements

Tecnomen develops and supplies messaging and charging solutions for telecom operators and service providers. The Group has operations in Finland and in 13 other locations in 11 countries.

The Group's parent company is Tecnomen Corporation, which is domiciled in Espoo, and its registered address is Finnoonniitynkuja 4, 02770 Espoo. A copy of the consolidated financial statements can be obtained on the Internet at www.tecnomen.com or from the head office of the Group's parent company at Finnoonniitynkuja 4.

Accounting principles

Basis for Preparing Consolidated Financial Statements

Tecnomen's consolidated financial statements have been prepared in accordance with the international financial reporting standards (IFRS) approved by the EU, applying the IAS and IFRS standards in force on 31 December 2005 and SIC and IFRIC interpretations. The notes to the consolidated financial statements also conform to Finnish accounting and corporate legislation.

The Group adopted IFRS standards on 1 January 2005 and has adjusted its previously reported 2004 consolidated financial statements to conform to IFRS. The transition date is 1 January 2004. In the transition the Group has applied IFRS 1 First-time Adoption of International Financial Reporting Standards. The differences arising from the adoption of IFRS are presented in reconciliations that are given in Note 34 'IFRS transition'. Before it adopted IFRS standards, the Group applied Finnish accounting legislation and regulations.

The consolidated financial statements are prepared on the historical cost basis, apart from the exceptions mentioned later in these accounting principles. The financial statement information is presented in thousands of euro.

Use of estimates

The preparation of the financial statements in accordance with IFRS standards requires management to make certain estimates and assumptions concerning the future. Actual results may differ from these estimates. In addition, management has to make judgments in applying the accounting principles. Information about the judgments made by management in the application of the accounting principles employed by the Group and which have the most significant impact on the financial statements is given in the note "Accounting principles requiring judgments by management and key sources of estimation uncertainty".

Accounting principles for consolidated financial statements

Subsidiaries

Subsidiary companies are companies controlled by the Group. Control exists when the Group holds over half the voting rights or otherwise has control. Control means the right to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Intragroup holdings are eliminated using the purchase method. The financial statements of subsidiaries are included in the consolidated financial statements from the date that the Group has obtained control and divested subsidiaries until the date that control ceases. Intragroup transactions, unrealised margins on intragroup deliveries, internal receivables and liabilities, and internal profit distribution have been eliminated.

Foreign currency items

Transactions in foreign currencies are translated to the functional currency at the rates of exchange prevailing on the transaction date or at the rate close to that on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated to the functional currency using the rate of exchange on the closing date. Exchange rate gains and losses arising from the translation of foreign currency transactions and of monetary assets and liabilities are recognised in the income statement. Exchange gains and losses relating to business operations are treated as adjustments to net sales or to purchasing and manufacturing. Exchange rate gains and losses related to financing operations are entered under financial income and expenses.

The consolidated financial statements are presented in euro, which is the functional and presentation currency for the Group's parent company. The income statements of foreign Group companies whose functional currency is not the euro are translated into euros using the average exchange rate for the period, and balance sheet items, apart from the result for the period, at the exchange rate on the balance sheet date. Translation differences arising from eliminating the acquisition cost of foreign subsidiaries, and from translating the foreign subsidiaries' accumulated equity subsequent to acquisition,

the income statement and the balance sheet are recognised in translation reserve in equity.

In accordance with the exemption permitted by IFRS, translation differences accumulated before the transition date are recorded under retained earnings. Translation differences arising after the transition date are recognised in the income statement as part of the profit or loss on sale when the foreign subsidiary is sold.

Property, plant and equipment

Property, plant and equipment are valued at their historical cost less accumulated depreciation and any impairment losses.

Certain parts of items of property, plant and equipment are accounted for as separate items. When such a part is replaced, the costs relating to the new part are capitalised. Subsequent expenses are capitalised if it is probable that they will increase the economic benefits to the company. All other costs, such as normal repair and maintenance costs, are recognised as incurred.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life. Land is not depreciated. The estimated useful lives are as follows:

- Buildings and structures 25 years
- Machinery and equipment 3–5 years
- Computing hardware and equipment 3–5 years

The residual value of assets and their useful lives are reassessed annually when the financial statements are prepared, and if necessary are adjusted to show any changes in the expectation of economic benefits.

Gains or losses from the sale or disposal of property, plant and equipment are recognised in the income statement.

Depreciation on an item of property, plant and equipment ceases when the item is classified as an asset held for sale, in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Borrowing costs

Borrowing costs are recorded as an expense in the period in which they are incurred. Transaction costs that are directly related to the raising of loans and are clearly linked to a specific loan are included in the amortised cost and are amortised as interest costs using the effective interest rate method.

Intangible assets

Goodwill

Goodwill represents the amount of the acquisition cost that exceeds the Group's share of the fair value on the date of acquisition of the net assets of a company acquired after 1 January 2004.

Goodwill on business combination acquired before 1 January 2004 represents the book value recorded under the previous financial statement standards, and this has been used as the deemed cost.

Goodwill is no longer amortised. Instead it is tested annually for impairment. For this purpose goodwill is allocated to cash-generating units. Goodwill is valued at cost less any impairment.

Other intangible assets

Intangible assets that have finite useful life are recorded in the balance sheet and amortised in the income statement on a straight-line basis over their useful life as follows:

- Intangible rights 3–10 years
- Capitalised development expenditure 3-5 years

Research and development costs

Research costs are charged to the income statement as incurred. Development costs for new products are capitalised when they meet the requirements of IAS 38 Intangible Assets and are amortised over the useful economic life of the products. At Tecnomen, capitalisation of product development costs that fulfil IFRS criteria starts when a product's functional requirements and the plans for product industrialisation, testing and project are complete and have been approved and economic benefits are expected from the product. The useful life of capitalised development expenditure is 3-5 years, and they are amortised on a straight-line basis over this period from the start of commercial use.

Inventories

Inventories are stated at the lower of acquisition cost and net realisable value. The acquisition cost is based on the FIFO principle. The acquisition cost of manufactured products and work in progress includes the cost of raw materials, direct labour costs, other direct costs as well as an appropriate share of variable and fixed production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Leases

Leases are classified in accordance with the principles of IAS 17 as either finance leases or other leases. A finance lease is defined as a lease in which the benefits and risks of ownership are substantially transferred to the user of the asset. A finance lease is recognised in the balance sheet at the lower of the fair value of the leased asset and the present value of the minimum lease payments at inception of the lease. Assets acquired with a finance lease, less accumulated depreciation, are recorded in tangible fixed assets and obligations under the lease in interest-bearing liabilities. Lease payments are apportioned between financing costs and reduction of the outstanding liability. Depreciation is made on assets acquired with a finance lease over the shorter of the period according to the Group's planned depreciation schedule for tangible fixed assets and the lease period.

Leases in which the lessor retains the risks and benefits of ownership are treated as operating leases. Payments made under other leases are recognised as other expenses in the income statement on a straight-line basis over the lease period.

Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is also estimated for the following assets, irrespective of whether there is any indication of impairment or not: goodwill and intangible assets not yet available for use.

The recoverable amount is calculated as the higher of fair value less costs to sell and value in use. At Tecnomen impairment tests are carried out based on the value in use at the cash-generating unit level. The value in use is the present value of the future net cash flows obtainable from the asset.

An impairment loss is recognised if the balance sheet value of an asset or cash-generating unit exceeds the recoverable amount. The impairment loss is entered in the income statement.

An impairment loss is reversed if there are indications that the impairment loss may no longer exist and when conditions have changed and the recoverable amount for the asset has changed after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. An impairment loss in respect of goodwill is never reversed.

An impairment test on goodwill as required by the transition standard was made in accordance with IAS 36 on the date of transition to IFRS standards on 1 January 2004 and according to this there was no need to recognise an impairment loss.

Employee benefits

Pension benefits

Pension plans are classified as defined benefit and defined contribution plans.

Defined contribution plan expenses are recognised in the income statement in the period in which the obligation is incurred. The obligation for defined benefit pension plans is calculated using the projected unit credit method. The pension obligation is discounted to discover its present value using interest rates for government bonds that have maturity dates approximating to the terms of the Group's pension obligation. The pension liability or asset in the balance sheet is formed by the difference between the present value of the pension obligation and plan assets, to which are added unrecognised actuarial gains and losses and unrecognised past service costs.

The Group has applied the exemption permitted by IFRS 1 by which all actuarial gains and losses on the date of transition to IFRS standards on 1 January 2004 were recognised in the opening balance sheet equity. Actuarial gains and losses subsequent to the transition date are recognised in the income statement over the expected average remaining working lives of the employees participating in the plan to the extent that they exceed 10 per cent of the greater of the present value of the pension obligation and the fair value of plan assets.

Share-based payment

The Group has applied IFRS 2 Share-based Payment to all option schemes where the options have been granted after 7 November 2002 and not yet vested before 1 January 2005. No costs have been presented in the income statement for earlier option schemes. The fair value of the option rights is measured on grant date and is recognised as an expense on a straight-line basis over the period during which the employees become entitled to the options. The cost determined at grant date is based on the Group's estimate of the number of options to which entitlement is expected to arise by the end of the period during which the employees become entitled to the options. The fair value is measured based on the Black-Scholes formula. Changes in the estimates for the final number of options are recognised in the income statement. When the option rights are exercised, payments for share subscriptions are allocated so that the nominal value of the share, adjusted by any transaction

costs, is recorded in share capital and the remainder in the share premium account.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the obligation will have to be settled, and the amount of the obligation can be reliably estimated. If it is possible to obtain compensation for some of the obligation from a third party, the compensation is recognised as a separate asset item, but only when it is in practice certain that the compensation will be obtained.

A provision for restructuring is recognised when the Group has drawn up a detailed and formal restructuring plan and restructuring has either commenced or the plan has been announced publicly. A plan for restructuring shall contain at least the following information: the business concerned, principal locations affected, the location, function and approximate number of employees who will be compensated for having their services terminated, the type of expenditure that will be incurred, and when the plan will be implemented.

Income tax

The tax expense in the income statement consists of current tax, based on the taxable profit for the period, and deferred tax. Current tax is calculated on the taxable profit using the tax rate in force in each country. The tax is adjusted by any tax relating to previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The biggest temporary differences arise from capitalised development expenditure, from investments valued at fair value, and from revenue recognition practice.

Deferred tax is calculated using tax rates enacted by the balance sheet date. Deferred tax liabilities are recognised in full, but deferred tax assets are only recognised to the extent that it is probable that future taxable income will be available against which they can be utilised.

Revenue recognition

At Tecnomen, sales contracts are divided into project deliveries and goods and service deliveries.

Project deliveries are recognised in accordance with IAS 11 Construction Contracts. Project revenue and expenses are recognised in the income statement in proportion to the stage of completion on the balance sheet date, once the outcome of the project can be estimated reliably. The outcome can be estimated reliably when the anticipated revenue and costs of the contract and the progress of the project can be estimated reliably and when it is probable that the economic benefits associated with the project will flow to the enterprise.

The stage of completion of a project is determined for each contract by the proportion of the estimated total contract costs accounted for by the costs incurred for work performed to date (cost-to-cost method). The stage of completion method of revenue recognition is based on estimates of the expected revenue and expenses associated with the contract and on estimating the progress of the project. The revenue and expenses recognised in the income statement are revised if the estimates of the outcome of the project change. The accumulated effect due to the change in the estimates is recognised in the period when the change is known for the first time and its amount can be estimated. If the outcome of the project cannot be estimated reliably, revenue is only recognised to the extent of project costs incurred. This method of recognition is typically applied in first delivery projects for new products or when a delivery project contains a significant amount of customisation for individual customers. The margin on the project is recognised on final acceptance.

A project is considered unprofitable if its costs exceed total project revenue. The expected loss is then recognised as an expense immediately.

Goods and service deliveries are recognised in accordance with IAS 18 Revenue. Revenue from the sale of goods is recognised when the significant risks and benefits of ownership have been transferred to the buyer and when the amount of the revenue can be measured reliably and it is probable that the economic benefits will flow to the enterprise. The revenue from services is recognised when the service has been rendered. Supplementary deliveries that are often sold separately such as maintenance, licences, training, documentation and spare parts are examples of goods and service deliveries. Revenue from fixed-term maintenance contracts is normally recognised over the contract period on a straight-line basis.

Definition of operating profit

IAS 1 Presentation of Financial Statements does not define the term 'operating profit'. Tecnomen Group has defined it as follows: operating profit is the net sum obtained after adding other operating income to revenues and then deducting purchasing costs adjusted by the change in stocks of finished products and work in progress, costs from employee benefits, depreciation, amortisation and any impairment losses, and other operating expenses. Changes in the fair value of

derivative financial instruments made for hedging purposes are recognised in the income statement in other operating income or expenses.

All other income statement items are presented below the operating profit. Exchange rate differences are included in operating profit if they arise from items connected with business operations, otherwise they are entered in financing items.

Non-current assets held for sale and discontinued operations

Non-current assets held for sale are classified as held for sale if their carrying value can be recovered mainly from selling the asset rather than continuing use of it. Non-current assets held for sale as well as assets classified as held for sale that are related to discontinued operations are valued at the lower of carrying amount and fair value less costs to sell. Depreciation on these assets ceases on reclassification.

Financial assets and liabilities

The Group has applied IAS 39 Financial Instruments: Recognition and Measurement as from 1 January 2004.

Financial assets are classified in accordance with IAS 39 in the following categories: financial assets recognised at fair value through profit or loss, held-to-maturity investments, loans and other receivables and available-for-sale financial assets. Financial assets recognised at fair value through profit or loss include financial assets held for trading. Transaction costs are included in the carrying amount for items that are not measured at fair value through profit and loss. All purchases and sales of financial assets are recognised on the transaction date.

Derecognition of financial assets from the balance sheet takes place when the Group has lost the contractual right to cash flows or when it has transferred the risks and rewards substantially outside the Group.

Available-for-sale assets are stated at fair value and changes in the fair value are entered in the fair value reserve in equity, taking into account the tax effect. Changes in fair value are transferred from equity to the income statement when the instrument is sold or its value has fallen so that an impairment loss has to be recognised for the instrument.

Financial assets recognised at fair value through profit or loss are measured at fair value and any change in value is recognised in the income statement.

Held-to-maturity investments and loans and other receivables are valued at amortised cost.

In accordance with IAS 32 Financial Instruments: Disclosure and Presentation the treasury shares held by the company are presented in the balance sheet as a reduction in equity.

Cash and cash equivalents comprise cash in hand, bank deposits that can be obtained on call, and other short-term extremely liquid investments. The main tools used for cash management are investments that consist of extremely liquid interest rate funds with a good risk classification. Direct deposits in banks are also made to a certain extent.

Financial liabilities are initially entered in the accounts at fair value based on the consideration received. After this they are stated at the amortised cost using the effective interest rate method. Financial liabilities are included in non-current and current liabilities. The Group's financial liabilities are non-interest bearing, apart from the pension insurance plan -related reborrowing taken by the parent company.

Derivative financial instruments and hedge accounting

Derivative financial instruments to which hedge accounting is not applied, are classified as held-for-trading financial assets or liabilities. Derivative financial instruments are initially entered in the accounts at the acquisition cost, which corresponds to their fair value. Subsequently, derivatives are stated at fair value.

Tecnomen does not apply hedge accounting as stated in IAS 39, and for this reason changes in the fair values of derivative financial instruments taken for hedging purposes are recognised in the income statement under other operating income or expenses.

Trade and other receivables

Construction work in progress

Construction work in progress is stated at the aggregate amount of costs incurred and recognised profits less the amount that has been invoiced. Costs include all costs directly related to the Group's construction contracts and the share of fixed costs and overheads that can be allocated to the project. Allocation is based on normal capacity usage.

Trade receivables

Trade receivables are stated at amortised acquisition cost less any impairment.

Segment information

The primary segment reported in segment reporting is the whole Group and the secondary segment is formed by the geographical areas. The segments presented correspond to the company's internal reporting structure, in which management receive reports on the profitability of the whole company, the profitability of individual customers and customer projects, sales and sales margin by sales office, and costs for cost centres as defined in the function-based organisation.

The Group's geographical segments are as follows:

- Americas (North, Central and South America)
- EMEA (Europe, Middle East and Africa)
- APAC (Asia Pacific)

Accounting principles requiring judgments by management and key sources of estimation uncertainty

To prepare the consolidated financial statements in accordance with international financial reporting standards, management has to make estimates and assumptions concerning the future. Actual results may differ from these estimates and assumptions. In addition it has to make judgments in the application of the accounting principles.

These estimates mainly affect recognition of income and expenses, the valuation of assets, the capitalisation of R&D costs and the recognition of deferred tax assets and their utilisation against future taxable income.

The Group tests goodwill annually for impairment and evaluates indications of impairment as stated in the accounting principles above. The recoverable amount from cash-generating units is determined using calculations that are based on value in use and require the use of estimates.

Management monitors the feasibility and life cycle estimates for R&D projects. If these estimates give indication of possible impairment of capitalised R&D costs, an impairment test is made based on value in use.

Application of renewed or modified IAS/IFRS standards

Tecnomen Group is adopting in 2006 the following renewed or modified standards published by IASB in 2004:

- Modified IAS 19 Employee Benefits
- Modified IAS 39 Financial Instrument: Recognition and Measurement
- Modified IAS 21 The Effects of Changes in Foreign Exchange Rates

As well as these standards, the Group is also adopting the IFRIC 4 interpretation Determining Whether an Arrangement Contains a Lease.

The Group estimates that adopting the standards and the interpretation will not have a significant impact on the Group's future financial statements.

The Group is adopting in 2007 the following renewed standard published by IASB in 2005:

- IFRS 7 Financial Instruments: Disclosures and change to IAS 1 Capital Disclosures

The Group estimates that the new standard will mainly affect the notes to the consolidated financial statements.

Notes to the consolidated income statement

1. Segment reporting

IAS 14 Segment Reporting -standard determines that segment information is presented in respect of Group's business and geographical segments. Group's primary segment is the business segment. The business segment includes developing and delivering messasing and charging solutions. Tecnomen reports the whole Group as the business segment. This is based on the Group's internal organisation structure and financial reporting, in which the profitability of the whole company, sales and sales margin by sales office, and costs by cost centre of the functions are reported to management. Tecnomen's risk profile is the same, irrespective of the geographical location of operations and of the product sold.

The geographical areas are reported as the secondary segment. Tecnomen Group operates in three geographical areas: Americas (North, Central and South America), EMEA (Europe, the Middle East and Africa) and APAC (Asia Pasific). Inter-segment pricing is determined on an arm's length basis.

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items include taxes, financial items, and corporate assets and expenses. Investments comprise increases in tangible and intangible assets that are expected to be used for more than one period. In presenting information for the geographical segments, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

Geographical segments (secondary segment information) EUR 1 000

Net sales	1.1.–31.12.2005	1.1.–31.12.2004
APAC	5 318	5 059
Americas	38 792	24 069
EMEA	24 875	22 453
Total	68 985	51 581

Assets	1.1.–31.12.2005	1.1.–31.12.2004
APAC	4 979	1 846
Americas	5 283	5 277
EMEA	96 424	77 892
Inter-segment items	-16 321	-8 116
Total	90 365	76 898

Investments	1.1.–31.12.2005	1.1.–31.12.2004
APAC	19	9
Americas	294	183
EMEA	5 576	3 081
Total	5 889	3 273

2. Construction contracts	1.1.–31.12.2005	1.1.–31.12.2004
Net sales include revenue from projects recognised in proportion to the stage of completion	52 272	34 792
Advance payments at end of year	875	352
Retention amount from trade receivables at end of year Items in trade receivables that are linked to the fullfilment of agreed obligations.	4 908	2 831
Gross cumulative invoicing at year end for projects in progress that are recognised by stage of completion	44 559	28 860
Gross cumulative amount recognised at year end for projects in progress that are recognised by stage of completion	53 703	41 959
Amount recognised in trade receivables before invoicing customer	9 144	13 099

NOTES TO THE CONSOLIDATED INCOME STATEMENT EUR 1 000

3. Other operating income	1.1.–31.12.2005	1.1.–31.12.2004
Exchange gains on forward contracts		1 425
Other operating income	56	
Gain on disposal of other intangible assets		13
Other operating income total	56	1 438

4. Materials and services		
Purchases during the period	-12 423	-9 650
Increase/decrease in inventories	-202	11
Materials and supplies	-12 624	-9 639
External services	-1 233	-1 658
Materials and services total	-13 857	-11 297

5. Employee benefit expenses		
Salaries and fees	-17 227	-15 307
Pension expenses, defined contribution plans	-3 277	-1 754
Pension expenses, defined benefit plans	41	-192
Pension expenses total	-3 236	-1 946
Share options granted to employees	-351	-171
Other employee benefits	-2 516	-2 436
Other employee benefits total	-2 866	-2 607
Employee benefit expenses total	-23 329	-19 860

Average number of employees		
Finland	125	144
Germany	13	13
Spain	2	2
East and Southeast Asia	25	26
Ireland	120	114
Brazil	53	44
Middle East	16	12
Total	355	355

6. Depreciation and impairment losses		
Depreciation by class of asset		
Other intangible assets		
Capitalised development expenditure	-436	-109
Other intangible assets	-147	-250
Total	-583	-359
Tangible assets		
Buildings	-306	-307
Machinery and equipment	-1 294	-1 591
Total	-1 600	-1 898
Depreciation and impairment losses total	-2 183	-2 257

NOTES TO THE CONSOLIDATED INCOME STATEMENT EUR 1 000

7. Other operating expenses	1.1.–31.12.2005	1.1.–31.12.2004
Subcontracting	-5 046	-4 228
Office management costs	-3 611	-3 882
Travel	-3 307	-2 919
Agent fees	-2 188	-2 190
Rents	-1 122	-1 125
Professional services	-1 195	-674
Marketing	-473	-390
Exchange losses on forward contracts	-2 629	
Other expenses	-539	-345
Other operating expenses total	-20 111	-15 752

The subcontracting item in other operating expenses consists largely of amounts paid to Accenture Services Oy for software development and maintenance for the voice messaging system. Tecnomen outsourced a major part of these functions to Accenture Service Oy at the beginning of 2004.

8. Research and development expenditure

Research and development expenditure	9 140	9 789
Amortisation of capitalised development expenditure	436	109
Research and development expenditure total	9 576	9 899

9. Financial income

Interest income	625	530
Foreign exchange gains	986	826
Other financial income	245	72
Financial income total	1 856	1 428

Interest income in 2005 includes a total of EUR 434 thousand in realised interest income from sold investments.

10. Financial expenses

Interest expenses	-40	-32
Other financial expenses		-57
Foreign exchange losses	-1 090	-289
Financial expenses total	-1 129	-378
Financial income and expenses total	726	1 050

Items above the operating result include foreign exchange rate differences (net) of EUR 1 792 thousand in 2005 (EUR–1 882 thousand in 2004).

11. Income tax

Income tax	-332	-346
Tax for previous accounting periods	-250	9
Change in deferred tax liabilities and tax assets	-941	-568
Income tax total	-1 523	-905

12. Taxbase reconciliation

Income taxes
Income tax reconciliation between tax expense computed at statutory rates in Finland (2005: 26%, 2004: 29%) and income tax expense provided on earnings

Profit before taxes	10 288	4 904
Income tax using Finnish tax rates	2 675	1 422
Non-deductible expenses and tax-free income	373	207
Forfeited withholding taxes	297	192
Effect of different tax rates applied to foreign subsidiaries	170	-19
Taxes of prior periods	250	-9
Recognition of deferred tax from operating losses in previous years	-2 241	-1 035
Change in deferred tax liabilities resulting from reduction in Finland's tax rate		147
Taxes in income statement	-1 523	-905

NOTES TO THE CONSOLIDATED INCOME STATEMENT EUR 1 000

13. Earnings per share

Undiluted earnings per share is calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2005	2004
Profit attributable to equity holders (EUR 1 000)	8 765	3 999
Weighted average number of shares during the year (1 000 shares)	58 174	57 693
Earnings per share, undiluted (EUR/share)	0.15	0.07

To calculate the diluted earnings per share, the weighted average number of shares takes into account the dilutive effect of converting all potential ordinary shares into shares. The Group has share options that have a dilutive effect on the number of ordinary shares. Share options have a dilutive effect when the exercise price is lower that the fair value of the share. The amount of the dilution is the number of shares that can be considered as issued for no consideration since the company could not issue the same number of shares at fair value with the funds received from the share subscription. The fair value of the shares is based on the average price of the share during the financial year.

	2005	2004
Profit attributable to equity holders for calculating diluted earnings per share (EUR 1 000)	8 765	3 999
Weighted average number of shares during period (1 000 shares)	58 174	57 693
Effect of share options (1 000 shares)	1 302	473
Weighted average number of shares for calculating diluted earnings per share (1 000 shares)	59 476	58 166
Earnings per share, diluted (EUR/share)	0.15	0.07

Notes to the consolidated balance sheet

EUR 1 000

14. Other intangible assets

Intangible assets 2005	Goodwill	Development expenditure	Intangible assets	Total
Acquisition cost 1.1.	682	1 645	3 317	5 644
Conversion difference			-7	-7
Increase		3 850	186	4 036
Decrease			-1	-1
Acquisition cost 31.12.	682	5 495	3 494	9 672
Accumulated depreciation 1.1.		-109	-2 915	-3 024
Conversion difference			7	7
Accumulated depreciation for decreases and transfers			1	1
Depreciation during period		-436	-147	-583
Accumulated depreciation 31.12.		-545	-3 054	-3 599
Book value 31.12.2005	**682**	**4 950**	**440**	**6 072**

In 2005 EUR 3 850 thousand of development expenditure was capitalised. These projects are not yet in commercial use, so no amortisation has been made on them.

NOTES TO THE CONSOLIDATED BALANCE SHEET 1 000 EUR

Intangible assets 2004	Goodwill	Development expenditure	Intangible assets	Total
Acquisition cost 1.1.	682		3 235	3 917
Increase		1 645	188	1 833
Decrease			-106	-106
Acquisition cost 31.12.	682	1 645	3 317	5 644
Accumulated depreciation 1.1.			-2 769	-2 769
Accumulated depreciation for decreases and transfers			104	104
Depreciation during period		-109	-250	-359
Accumulated depreciation 31.12.		-109	-2 915	-3 024
Book value 31.12.2004	**682**	**1 536**	**401**	**2 620**

In 2004 EUR 1 645 thousand of development expenditure was capitalised. EUR 841 thousand will be amortised over 5 years and EUR 805 thousand over 3 years.

Goodwill from the purchase of Krocus Communications Oy, with a book value of EUR 682 thousand, has been allocated to the messaging and charging product lines. In the impairment test on the goodwill, the difference was calculated between the book value and the recoverable amount, and no indication was found of impairment.

The main variables in defining cash flows are the company's profitability, discounted interest rate, residual value and number of years on which the cash flow estimates are based. Management estimates the development of these factors based on internal and external views of the history and future of the industrial sector. No major change is forecast in profitability during the forecast period. The period used for the forecast is five years and the discounted interest rate 9.08%.

15. Tangible assets

Tangible assets 2005	Land and water areas	Buildings	Machinery and equipment	Investments in progress	Total
Acquisition cost 1.1.	2 069	7 511	24 693	46	34 320
Conversion difference			72		72
Increase			1 853		1 853
Decrease			-350	-4	-354
Acquisition cost 31.12.	2 069	7 511	26 268	42	35 891
Accumulated depreciation 1.1.		-3 340	-22 545		-25 885
Conversion difference			-84		-84
Accumulated depreciation for decreases and transfers			342		342
Depreciation during period		-306	-1 308		-1 614
Accumulated depreciation 31.12.		-3 646	-23 595		-27 241
Book value 31.12.2005	**2 069**	**3 865**	**2 673**	**42**	**8 649**

NOTES TO THE CONSOLIDATED BALANCE SHEET 1 000 EUR

Tangible assets 2004	Land and water areas	Buildings	Machinery and equipment	Investments in progress	Total
Acquisition cost 1.1.	2 069	7 511	23 627	55	33 262
Conversion difference			-30		-30
Increase			1 439		1 439
Decrease			-343	-9	-352
Acquisition cost 31.12.	2 069	7 511	24 693	46	34 320
Accumulated depreciation 1.1.		-3 034	-21 274		-24 308
Conversion difference			18		18
Accumulated depreciation for decreases and transfers			302		302
Depreciation during period		-307	-1 591		-1 898
Accumulated depreciation 31.12.		-3 340	-22 545		-25 886
Book value 31.12.2004	**2 069**	**4 171**	**2 149**	**46**	**8 435**

16. Long-term trade and other receivables	31.12.2005	31.12.2004
Long-term prepaid expenses and accrued income		
Long-term tax assets (indirect tax)	570	530
Other long-term prepaid expenses and accrued income	48	32
Long-term prepaid expenses and accrued income total	618	562
Long-term trade and other receivables total	**618**	**562**

17. Inventories

Materials and consumables	1 536	1 785
Work in progress	166	42
Finished products/goods	552	394
Inventories total	2 254	2 221

18. Trade and other short-term receivables

Trade receivables	22 082	12 656
Other short-term receivables	189	440
Work in progress related to construction contracts	15 534	16 923
Short-term prepaid expenses and accrued income	1 744	2 277
Trade and other receivables total	39 549	32 296

Short-term prepaid expenses and accrued income

Forward contracts		1 344
Deferred taxes (indirect)	479	
Other prepaid expenses and accrued income	1 262	934
Total	1 742	2 277

19. Cash and cash equivalents

Cash	10 888	6 636
Cash equivalents	22 334	24 128
Cash and cash equivalents total	33 222	30 765

NOTES TO THE CONSOLIDATED BALANCE SHEET 1 000 EUR

20. Notes to the shareholders' equity

	Number of outstanding shares (1 000 shares)	Share capital	Share premium fund	Other reserves	Own shares	Total
1.1.2004	57 693	4 647	66 029	282	-399	70 559
Disposal of own shares	132				140	140
Change in fair value of available-for-sale investments				153		153
Deferred taxes' share of period movements				-54		-54
31.12.2004	57 825	4 647	66 029	381	-259	70 798
Disposal of own shares	133				137	137
Options exercised	216	17	149			166
Change in fair value of available-for-sale investments				-153		-153
Deferred taxes' share of period movements				54		54
31.12.2005	58 174	4 665	66 178	282	-122	71 002

The maximum number of shares is 65 611 thousand (65 611 thousand in 2004). The nominal value of the shares is EUR 0.08 and the maximum share capital of the group is EUR 5 249 thousand (EUR 5 249 thousand in 2004). All the issued shares are fully paid.

Descriptions of funds in shareholders' equity

Own shares
Own shares includes the aquisition cost of company shares held by the Group. During the fiscal year 2004 Tecnomen disposed of 132 000 of its own shares as consideration in a transaction in which Tecnomen purchased the entire share stock of Krocus Communications Oy on 23 April 2003. The consideration received for the shares disposed was 1 euro per share and after this disposal of shares the company held 268 000 of its own shares, with a book value of EUR 259 thousand. During the fiscal year 2005 Tecnomen disposed of 133 200 of its own shares as consideration in the same transaction. The consideration received for the shares disposed was 1 euro per share and after this disposal of shares the company held 134 800 of own shares with a book value of EUR 122 thousand. Own shares have been deducted from the number of shares when calculating per share ratios.

Translation difference
Translation differences include exchange gains and losses arising from the translation of the financial statements of foreign subsidiaries.

Other reserves
Other reserves contains two reserves: the fair value reserve for available-for-sale investments and other reserves of subsidiaries. The change in the fair value of available-for-sale investments is presented in the reconciliation of the Group's shareholders' equity.

Dividend
After the balance sheet date the Board of Directors has proposed that a dividend of EUR 0.02 per share be paid for the financial period ended on 31 December 2005.

21. Share-based payment

Tecnomen Oyj has one valid incentive and motivation system that is based on share value. It is a stock programme that was approved by the Annual General Meeting of Shareholders on 11 April 2002 and is divided into four stock option series, the 2002A, 2002B, 2002C and 2002D stock options. The option rights granted after 7 November 2002 and not yet vested before 1 January 2005 have been recorded in the financial statements in accordance with IFRS 2 Share-based Payment. Option rights are granted to key personnel in the group and to the Board of Directors. Tecnomen's share options have a period of commitment.

If the employment of the share option holder ceases before 1 April 2006 for some other reason than the employee's death or reaching statutory retirement age in accordance with the terms of employment or if the company has otherwise specified retirement, then the employee shall immediately offer the company or a person designated by the company without consideration any share options for which the subscription period has not begun on the date when employment ceased. The share options have no transfer restrictions. Once their subscription period has started they can be freely transferred, so the employee may sell the share options to a third party.

The changes in shares during the period and the weighted average exercise prices are as follows:

	2005		2004	
1 000 shares	**Weighted average exercise price EUR/share**	**Number of options**	**Weighted average exercise price EUR/share**	**Number of options**
Granted options at beginning of period	1.29	1 722	1.24	1 130
Granted during period	1.33	395	1.31	708
Exercised during period	0.77	-216		
Returned during period	0.96	-35	0.99	-116
Granted options at beginning of period	1.28	2 441	1.28	2 046
Exercisable at end of period	1.36	1 865	1.29	1 722

The options exercised during the financial year had an average price of EUR 0.77 and exercising them started on 1 April 2005. The Group obtained EUR 166 thousand for the options exercised and of this EUR 17 thousand was recognised in share capital and EUR 149 thousand in the share premium fund. No share options were exercised in the previous period.

The table below shows the subscription periods and exercise prices for shares using the share options:

Option series	**No. of options**	**Subscription period for shares**	**Period for defining exercise price**	**Exercise price EUR**
2002A	400 000	1.4.2003–30.4.2006	1.3.2002–31.3.2002	1.68
2002B	1 200 000	1.4.2004–30.4.2007	1.3.2002–31.3.2002	1.68
2002C	1 200 000	1.4.2005–30.4.2007	1.3.2003–31.3.2003	0.46
2002D	1 300 000	1.4.2006–30.4.2008	1.3.2004–31.3.2004	1.33

Employee share options usually have no quoted market value and their terms and conditions differ significantly from standard share options. For this reason the fair value of employee options has to be measured with a generally accepted option pricing formula. The most commonly used formula for pricing options and employee options is the Black-Scholes formula, and this is used for Tecnomen's employee share options. The period for measuring the fair value should reflect the date on which the company receives the services for which it makes a share-based payment. In practice, however, it is very difficult to specify when the company actually receives the services from the employee and in one sense this is a continuing process.

Tecnomen has issued the share-based instruments in stages, so the system has many grant dates as defined in IFRS 2. The grant date, in other words the date for measuring fair value, is either the final day in the period for defining the share subscription price or the grant date set by the Board for the option series in question, if this date is after the period for setting the subscription price. The prevailing share price on the measuring date is based on the closing prices on the grant dates. The subscription price is defined in the option terms. The subscription price for the Tecnomen 2002C options is, according to the terms, EUR 0.46 and for 2002D options correspondingly EUR 1.33. The share subscription price for the options includes a dividend adjustment, so it is not necessary to calculate or take into account future Tecnomen dividends when calculating the fair value. The Black-Scholes formula assumes that option exercises occur at the end of the option's contractual term, which for Tecnomen's 2002C option is the last exercise date, 30 April 2007, and for 2002D options is 30 April 2008.

The estimated future volatility is an indicator describing expected future volatility in the share price. Future volatility can be estimated in two ways, based on historical observation of share prices or derived from market pricing for other listed share options. To achieve comparability, annualized volatility is always used. When calculating historical volatility, two key choices have to be made: the length of the historical period and the interval for observations. The future volatility of Tecnomen's share is estimated from the historical share price volatility using weekly observations starting on 2 January 2002, when the the shares of the new Tecnomen Corporation, created in a merger, were first quoted on the Helsinki Exchanges.

The fair value of the options granted during the year was valued using the Black-Scholes formula at EUR 185 thousand. In 2005 EUR 351 thousand (2004: EUR 171 thousand) were recorded as an expense in the income statement for share options.

The variables used in Black-Scholes formula are as follows:

	2005	**2004**
Ending price, weighted average, EUR	1.15	0.86
Issue price, weighted average, EUR	1.23	0.87
Share price on exercise date of share options, weighted average, EUR	2.01	
Rate of interest, weighted average, %	2.76	2.88
Time to maturity, weighted average	3.71	3.96
Volatility, weighted average, %	53.77	54.37

NOTES TO THE CONSOLIDATED BALANCE SHEET 1 000 EUR

22. Pension liability

The Group's pension benefits conform to the regulations and practices in force in different countries. Statutory and any voluntary pension plans are managed by pension companies. Tecnomen's only relevant defined benefit plan is the disability pension obligation under the Finnish pension system which is reported in the transition and during 2004 as a defined benefit plan. At the end of 2004 the disability pension obligation under the Finnish pension system changed from being a defined benefit plan to a defined contribution plan. After the change the voluntary insurance plan for management forms Tecnomen's defined benefit plan.

Defined benefit obligation in the balance sheet:

	2005	2004
Present value of funded obligations	84	39
Fair value of plan assets	-105	-46
Surplus	-20	-6
Receivable from funded obligations	-20	-6

Defined benefit obligation in the income statement:

	2005	2004
Current service cost	41	80
Interest cost	4	16
Expected return on plan assets	-4	
Net acturial (gain) loss recognised		-23
Past service cost		-15
Curtailment		-249
	41	-192

Changes in net liability for defined benefit obligations recognised in the balance sheet:

	2005	2004
Beginning of year	-6	231
Contributions	-55	-46
Pension expense recognised in income statement	41	-192
End of year	-20	-6

Actuarial assumptions at balance sheet date:	2005	2004
Discount rate	4.50%	5.00%
Expected return on plan assets	5.25%	5.25%
Future salary increases	3.50%	3.50%

NOTES TO THE CONSOLIDATED BALANCE SHEET 1 000 EUR

23. Deferred tax assets and liabilities

Deferred tax liabilities 2005	1.1.2005	In income statement	In equity	31.12.2005
Change in fair value of investments	69	-12	-54	3
Amortisation of development expenditure	399	888		1 287
Depreciation difference	159	66		224
Other items	9	1		10
Total	636	942	-54	1 524

Deferred tax liabilities 2004	1.1.2004	In income statement	In equity	31.12.2004
Change in fair value of investments	15		54	69
Amortisation of development expenditure		399		399
Depreciation difference	98	60		159
Other items	11	-3		9
Total	125	457	54	636

Deferred tax assets 2004	1.1.2004	In income statement	In equity	31.12.2004
Other items	110	-110		
Total	110	-110		

On 31 December 2005 the Group had unutilised taxable losses of EUR 12 443 thousand (EUR 18 456 thousand on 31 December 2004) for which deferred tax assets had not been recognised. Deferred tax assets are recognised when the time when the losses can be utilised against future taxable profits can be reliably estimated. These losses expire in the period 2012–2013. The Group has other deductible items of a temporary nature to the value of EUR 2 285 thousand, for which deferred tax assets have not been recognised because of the uncertainty about utilising them.

Deferred tax assets have not been recognised for the retained earnings of foreign subsidiaries, EUR 2 081 thousand on 31 December 2005 (EUR 4 184 thousand on 31 December 2004), since the funds are invested permanently in the country in question or are located in countries where payment of a dividend has no tax consequences.

24. Interest-bearing, liabilities to others

	31.12.2005	31.12.2004
Pension loans	432	465
Long-term interest-bearing liabilities total	432	465

The fair value of the loan is stated in Note 30.

Maturity of non-current liabilities

2006		33
2007	30	30
2008	28	28
2009	26	26
At a later date	347	347
Total	432	465

The loan is a TEL pension loan and the interest rate is the TEL interest rate which was 5.50 per cent as from 1 July 2005 (previously 4.50 per cent). The loan is in euros.

25. Non-interest-bearing, liabilities to others

Other liabilities	1	1
Advances received	254	
Long-term non-interest-bearing liabilities total	254	1

NOTES TO THE CONSOLIDATED BALANCE SHEET 1 000 EUR

26. Change in provisions

Changes in provisions, long-term 2005	1.1.2005	Reversals of unused provisions	31.12.2005
Tax provisions	96	-96	
Changes in provisions total	**96**	**-96**	

Changes in provisions, long-term 2004	1.1.2004	Reversals of unused provisions	31.12.2004
Tax provisions	625	-529	96
Changes in provisions total	**625**	**-529**	**96**

Tax provision is related to equity financing given to the subsidiary in Brazil.

27. Interest-bearing, liabilities to others	31.12.2005	31.12.2004
Loans from financial institutions		71
Pension loans	33	35
Short-term interest-bearing liabilities total	33	106

28. Accounts payable and other liabilities to others

Advances received	1 193	884
Accounts payable	2 860	1 239
Accrued liabilities and deferred income	5 798	4 448
Other liabilities	1 015	1 548
Accounts payable and other liabilities to others total	10 865	8 118

Accrued liabilities and deferred income (long- and short-term)

Wages, salaries and other employee payments	2 636	1 296
Project provisions	123	992
Agent commissions	1 441	892
Other	1 598	1 268
Total	5 798	4 448

29. Financial risks

The task of risk management is to identify, manage and track the major risks in the company's business and business environment to enable the company to achieve its strategic and financial goals in the best possible way. The principles for internal monitoring and financial reporting are defined in the Audit Committee's rules of procedure. Supporting the risk management process is the risk management work group, which meets regularly and consists of the President and CEO and financial and sales management.

The Group's financial management is responsible for managing the Group's foreign exchange, interest rate and liquidity risks and for insurance concerning operational risks; the business units are responsible for risk management for the rest of their operations. Major risks, after analysis by the risk management work group, are reported to the Audit Committee.

The financial risks to which the Group is exposed in its operations are mainly currency and credit risks. The Group has no major loans or credit facilities in use thanks to its strong equity ratio. The objective of the Group's financial risk management is to minimise the effects of volatility for recognised major market risks on the Group's result and balance sheet.

Currency risk

Transaction risk
The Group's open currency position comprises foreign currency denominated balance sheet items, and binding currency denominated purchase and sales contracts. The Group's policy is to hedge at most the currency denominated net position for a maximum period of 12 months. The Group has not hedged other currency risks arising from the transaction position, since they are not significant. Hedging is mainly with foreign exchange forwards; open foreign exchange forwards in the financial statements totalled EUR 10 850 thousand and hedging instruments had a fair value of EUR 11 355 thousand. Tecnomen Group does not apply hedge accounting as stated in IAS 39 to hedging of the currency position, and the change in the fair value of currency hedging is recognised in other operating income and expenses. During 2005, EUR 2 629 thousand was recognised in other operating expenses for currency hedging.

A major part of the Group's purchasing and production operations takes place in euros in the euro area. The Group is exposed in its operations to exchange rate risk mainly to the US dollar, since a significant part of the Group's invoicing is in US dollars. In 2005 39 per cent of invoicing was in euros, 52 per cent in US dollars and 7 per cent in Brazilian reals. The Group did not hedge the open BRL currency position, in part because of local currency restrictions.

Translation risk
The Group's open translation risk comes from two subsidiaries, in Brazil and Malaysia. The shareholders' equity of these subsidiaries, which is exposed to translation risk, is not hedged. The open translation risk for the Brazilian subsidiary was EUR -1 243 thousand on 31 December 2005 and for the Malaysian subsidiary EUR 469 thousand. In 2005, the translation difference in shareholders' equity caused by changes in exchange rates for these two subsidiaries was EUR 158 thousand.

Liquidity and credit risks
Management of the Group's interest rate risk focuses on the optimal management of liquid funds profitably and safely, since the Group does not have significant interest-bearing receivables or liabilities. Liquid funds are invested, avoiding credit and liquidity risks, in objects with a good credit rating, making sure of sufficient liquidity for capital expenditure and acquisitions. The investments are made in money market deposits and short-term interest funds.

Responsibility for sales-related credit risks lies primarily with the local sales company. As part of the sales process, the customer's credit rating is checked, as well as the situation concerning receivables from projects previously supplied to the customer. Tecnomen has not arranged financing for customers with third parties.

30. Fair value of financial assets and liabilities

Below are presented the principles used by the Group to determine the fair values of all financial instruments. In addition the table lists the fair values of the financial instruments and the book values by type of instrument in the consolidated balance sheet.

EUR 1 000	Note	Book value 2005	Fair value 2005	Book value 2004	Fair value 2004
Financial assets					
Cash	19	10 888	10 888	6 636	6 636
Cash equivalents	19	22 334	22 334	24 128	24 128
Forward contracts		10 850	11 355	19 772	18 428
Trade and other receivables	16, 18	40 165	40 165	32 858	32 858
Financial liabilities					
Pension loan	24	-432	-359	-465	-372
Accounts payable and other liabilities	28	-10 865	-10 865	-8 118	-8 118

Funds and money market deposits
Cash and cash equivalents includes funds and money market investments. The change in the fair value of financial instruments on 31 December 2005 was EUR 13 thousand (EUR 206 thousand on 31 December 2004).

Derivatives
The fair value of forward contracts is determined by using the market rate for contracts of a similar duration.

Pension liability
Fair value is based on discounted cash flows. The discounted rate is the interest rate, which corresponds to the rate for a comparable loan that the Group would get from a third party at balance sheet date.

31. Other leases

Group as lessee

Non-cancellable operating lease rentals are payable as follows:

Other leases **EUR 1 000**	**31.12.2005**	**31.12.2004**
Less than one year	665	498
Between one and five years	1 263	596
Over five years	10	
Total	1 938	1 093

The Group has leased office machines, office facilities and company cars. The leases typically run for one to three years and normally they include an option to continue the lease agreement after the original ending date. The index, terms of renewal and other conditions in different agreements may vary. During 2005 EUR 1 122 thousand was recognised as an expense in the income statement in respect of operating leases (EUR 1 125 thousand in 2004).

32. Contingent liabilities

EUR 1 000	**31.12.2005**	**31.12.2004**
Pledges given	689	809
Debts with mortgages on property as security		
Mortgages on real estate	722	722
Total	722	722
Pledges given to cover other own commitments		
Mortgages on real estate	1 261	1 261
Mortgages on company assets	235	235
Total	1 497	1 497
Pledges		
On own behalf	666	793
Total	666	793
Other liabilities		
Rent quarantees	15	
Restriction related to real estate in Ireland	676	943
Total	690	943

33. Related parties

The relationships between the Group's parent and subsidiaries are as follows:

Group companies	Domicile	Parent company ownership, %	Group voting rights, %
Parent company			
Tecnomen Oyj	Espoo, Finland		
Subsidiaries			
Tecnomen Ltd	County Clare, Ireland	100	100
Tecnomen GmbH	Dreieich, Germany	100	100
Tecnologia de Mensajes Tecnomen SL	Madrid, Spain	100	100
Tecnomen Hong Kong LTD	Wan Chai, Hong Kong	100	100
Tecnomen Sistemas de Telecommunicacao Ltda	São Paulo - SP CEP, Brazil	100	100
Tecnomen (M) Sdn Bhd	Kuala Lumpur, Malaysia	100	100
Tecnomen Japan Oy	Espoo, Finland	100	100

Tecnomen has a related party relationship with the CEO of the parent company, the Management Board and the Board of Directors.

EUR 1 000	2005	2004
Management Board compensation		
Salaries and other short-term employee benefits	-665	-634
Termination benefits	-80	-78
Share-based payment	-111	
Management compensation total	-856	-712
Salaries, fees and benefits of President and CEO and of Board of Directors		
President and CEO	-179	-173
Board members		
Ratia Lauri	-62	-34
Hammarén Lars	-22	-17
Numelin Carl-Johan	-25	-17
Olkkola Keijo	-22	-17
Sumelius Christer	-24	-17
Toivila Timo	-31	-17
Turunen Hannu (Board member until 24 March 2004)		-4

The CEO of the parent company is entitled to retire at the age of 60 years.

The management was granted 135 000 share options during 2005 (145 000 share options in 2004). The terms and conditions of the share options are the same for management and employees. A total of 382 000 stock options were held by members of the Management Board, and 117 000 of these were exercisable in 2005 (247 000 stock options in 2004, of which 25 000 options were exercisable in that year).

The Board of Directors was not granted any share options during 2005 (87 500 share options in 2004). The terms and conditions of the share options are the same for the Board of Directors and employees. A total of 262 500 stock options were held by the Board of Directors, of which 175 000 options were exercisable in 2005 (262 500 stock options in 2004, of which 87 500 options were exercisable in 2004).

34. Transition to IFRS -standards

As stated in these notes in 'Basis for Preparing the Consolidated Financial Statements', these are Tecnomen Group's first financial statements prepared in accordance with IFRS standards (International Financial Reporting Standards). Before adopting IFRS -standards, Tecnomen reported its financial information accordance with FAS (Finnish Accounting Standards). Adopting IFRS -standards has changed the reported financial statements, their notes and accounting principles from previous financial reports. The principles presented in the notes in 'Accounting Principles' have been applied in preparing the financial statements for the year ended 31 December 2005, the figures for comparison for the year ended 31 December 2004 and the opening IFRS balance sheet on 1 January 2004. The following reconciliation calculations and explanations describe the differences between IFRS reporting and Finnish Accounting Standards for 2004 and for the transition date to IFRS standards on 1 January 2004.

Reconciliation of shareholders' equity

EUR 1 000	Note	FAS 31.12.2003	IFRS adjustments	IFRS 01.01.2004	FAS 31.12.2004	IFRS adjustments	IFRS 31.12.2004
Assets							
Non-current assets							
Other intangible assets	4	466		466	401	1 536	1 938
Goodwill	7	682		682	546	136	682
Tangible assets		8 972		8 972	8 435		8 435
Non-current assets	1	2 452	-877	1 575	562		562
Total non-current assets		12 572	-877	11 695	9 943	1 673	11 616
Current assets							
Inventories		2 193		2 193	2 221		2 221
Trade receivables	1	24 792	-18 415	6 376	34 823	-2 527	32 296
Other receivables	1	3 073	15 271	18 344			
Cash at bank and in hand	5	34 833	53	34 886	30 559	206	30 765
Total current assets		64 891	-3 091	61 799	67 602	-2 320	65 282
Total assets		77 463	-3 968	73 495	77 546	-648	76 898
Equity and liabilities							
Shareholders' equity							
Share capital		4 647		4 647	4 647		4 647
Share premium fund		66 029		66 029	66 029		66 029
Other reserves		282		282	282	100	381
Own shares		-399		-399	-259		-259
Translation differences		-773	773		-825	841	16
Retained earnings		2 711	-2 959	-248	-4 480	-2 857	-7 337
Result for the period		-7 251		-7 251	2 138	1 861	3 999
Shareholders' equity attributable to equity holders of the parent		65 246	-2 186	63 060	67 532	-55	67 477
Total shareholders' equity		65 246	-2 186	63 060	67 532	-55	67 477
Non-current liabilities							
Deferred tax liability	2	110	15	125	167	468	636
Long-term interest-bearing liabilities		500		500	465		465
Long-term non-interest-bearing liabilities		256		256	1		1
Provisions	3	625	231	856	96		96
Total non-current liabilities		1 491	246	1 738	729	468	1 197
Current liabilities							
Short-term interest-bearing liabilities		219		219	106		106
Trade payables and other liabilities	1	10 506	-2 028	8 479	9 179	-1 061	8 118
Total current liabilities		10 725	-2 028	8 697	9 284	-1 061	8 224
Total equity and liabilities		77 463	-1 780	10 435	77 546	-648	76 898

Reconciliation of profit EUR 1 000	Note	FAS 1–12/2004	IFRS adjustments 1–12/2004	IFRS 1–12/2004
Net sales	1	51 498	83	51 581
Other operating income	5	27	1 412	1 438
Materials and services		-11 297		-11 297
Employee benefit expenses	4	-21 217	1 358	-19 860
Depreciation	7	-2 284	27	-2 257
Other operating expenses	1, 4	-15 133	-619	-15 752
Operating result		1 594	2 260	3 855
Financial income		1 428		1 428
Financial expenses		-378		-378
Result before taxes		2 644	2 260	4 904
Income taxes	2	-506	-399	-905
Result for the period		2 138	1 861	3 999
Earnings per share, EUR		0.04		0.07
Earnings per share, diluted, EUR		0.04		0.07

Reconciliation of shareholders' equity EUR 1 000	1.1.2004	31.12.2004
Shareholders' equity according to FAS	65 246	67 532
IFRS transition:		
1. IAS 11 Construction Contracts	-1 993	-1 466
2. IAS 12 Income Taxes	-15	-468
3. IAS 19 Employee Benefits	-231	
4. IAS 38 Intangible Assets		1 536
5. IAS 39 Financial Instruments: Recognition and Measurement	53	206
6. IFRS 3 Business Combinations		136
IFRS adjustments total	-2 187	-55
Shareholders' equity according to IFRS	63 060	67 477

Reconciliation of income statement EUR 1 000	2004
Result for the period according to FAS	2 138
IFRS transition:	
1. IAS 11 Construction Contracts	527
2. IAS 12 Income Taxes	-399
3. IAS 19 Employee Benefits	231
4. IAS 38 Intangible Assets	1 536
5. IFRS 2 Share-based Payment	-171
6. IFRS 3 Business Combinations	136
IFRS adjustments total	1 861
Result for the period according to IFRS	3 999

Accounting principles in IFRS transition

1. Revenue recognition

Tecnomen's deliveries are divided into project or product and service deliveries. Project deliveries are recognised in accordance with IAS 11 Construction Contracts by stage of completion at the balance sheet date when the outcome of a project can be estimated reliably. At Tecnomen the stage of completion is defined by the cost-to-cost method, ie. the proportion of the estimated costs accounted for by actual costs. The outcome of projects containing a substantial amount of customer specific features cannot always be reliably estimated, in these cases only an amount equal to actual costs is recognised. Expected project losses are expensed immediately. A change in balance sheet classification between trade receivables and other financial assets has been made in the transition to revenue recognition by stage of completion. Product and service deliveries are recognised in accordance with IAS 18 Revenue. Revenue from product sales is recognised when the amount can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise. For example, system deliveries of short duration and supplementary deliveries such as maintenance, licences, training, documentation and spare parts. Revenue from fixed term maintenance contracts are normally recognised during the contract period on a straight-line basis. The change in revenue recognition principles improved net sales by EUR 83 thousand and the operating profit by EUR 527 thousand during the year 2004.

2. Income taxes

According to IAS 12 Income Taxes, deferred tax liabilities are to be recognised in full and deferred tax assets based on the estimated probable benefit. The tax rate valid on the balance sheet date is used in measuring deferred taxes. Tecnomen has recognised deferred taxes for the amortisation of development expenditure. Deferred tax on 1 January 2004 stood at EUR 15 thousand and on 31 December at EUR 468 thousand. In addition, deferred taxes in balance sheet include deferred taxes from other insignificant items. Confirmed losses are not recognised as a deferred tax asset.

3. Employee benefits

The disability pension obligation under the Finnish pension system (Employees' Pension Act, TEL) is reported in accordance with IAS 19 Employee Benefits as a defined benefit plan. Defined benefit plans have been recorded in the balance sheet as a liability based on actuarial calculations. The effect of defined benefit plans on equity was EUR -200 thousand on 1 January 2004. At the end of 2004 the disability pension obligation under the Finnish pension system changed being a defined benefit plan to a defined contribution plan. The effect of the change, EUR 231 thousand, has been recognised in the income statement in 2004. Defined contribution plans are expensed during the periods to which the payment relates.

4. Intangible assets

Development expenditure for new products are capitalised and amortised over the asset's expected useful life provided they fulfil the criteria defined in IAS 38 Intangible Assets. At Tecnomen, capitalisation of development expenditure that meet IFRS criteria starts when the requirements for operation, production and testing are ready and have been approved together with the project plan. The useful life of capitalised development expenditure is 3-5 years. In 2004 research and development expenditure were EUR 11 500 thousand, of which EUR 1 536 thousand was amortised on the balance sheet 31 December 2004. A significant part of Tecnomen´s research and development activities are directly related to customer projects or do not fulfil the IAS 38 criteria for capitalisation.

5. Financial instruments

Tecnomen applies IAS 39 Financial Instruments: Recognition and Measurement in recognising and measuring financial instruments as from 1 January 2004. The company hedges trade receivables for 12 months and records derivatives in the financial statements at fair value at the balance sheet date. Tecnomen does not apply hedge accounting according to IAS 39, so changes in the fair values of derivatives are recognised in other income or expenses in the income statement. Treasury

shares held by the company are recognised in accordance with IAS 32 Financial Instruments: Disclosure and Presentation as a reduction in equity.

6. Share-based payment

Option rights granted in accordance with IFRS 2 Share-based Payment are be measured at fair value on the grant date and are expensed over their vesting period. The standard is applied to option rights granted after 7 November 2002 and not yet vested before 1 January 2005. In the 2004 fiscal year, expenses of EUR 171 thousand were recognised for share options.

7. Amortisation of goodwill

According to IFRS 3 Business Combinations, amortisation is no longer made on goodwill; instead the impairment of goodwill is tested in accordance with standard IAS 36 on a yearly basis. Reversing amortisation made improves the IFRS operating result in 2004 by EUR 136 thousand. The impairment test made on the transition date showed no need to recognise an impairment loss.

Impairment of assets

According to IAS 36 Impairment of Assets, the company has to test assets for any indication of impairment. To identify any impairment, the carrying value of the asset is compared to its recoverable amount. At Tecnomen these impairment tests are based on value in use and at cash-generating unit level. Value in use is the present value of estimated net future cash flows arising from the use of an asset. The impaiment test carried out at transition indicated that the value in use of intangible and tangible assets exceeded the carrying amounts.

Leases

According to IAS 17 Leases, lease agreements are classified as either finance leases or operating leases. A finance lease is a lease agreement where the risks and rewards of the assets are substantially transferred to its owner. The assets leased under finance leases are capitalised in the balance sheet and depreciated using the same depreciation schedule as for property, plant and equipment. Tecnomen Corporation does not have any significant finance lease agreements.

Cash flow statements

The amortisation of development expenditure causes a classification change in the cash flow statement between the cash flow from business operations and the cash flow from investments. Under FAS, development expenditure were recognised in the income statement as an expense and were reported as part of the cash flow from business operations. There are no other significant differences between Tecnomen Corporation's IFRS and FAS cash flow statements.

Key financial figures

35. Key financial figures from five years	IFRS 2005	IFRS 2004	FAS 2004	FAS 2003	FAS 2002	FAS 2001 Official 31.3.–31.12.	FAS 2001 pf 1.1.–31.12.
Income statement							
Net sales, EUR million	69.0	51.6	51.5	45.3	39.9	42.2	57.1
change %	33.7		13.7	13.6	-30.2		-13.9
Operating profit, EUR million	9.6	3.9	1.6	-7.0	-14.1	-2.0	-1.5
% of net sales	13.9	7.5	3.1	-15.6	-35.5	-4.6	-2.7
Profit before taxes, EUR million	10.3	4.9	2.6	-6.4	-14.6	-0.1	0.6
% of net sales	14.9	9.5	5.1	-14.2	-36.7	-0.2	1.1
Balance sheet							
Non-current assets, MEUR	14.7	11.1	9.4	10.1	11.4	12.8	
Current assets							
Inventories, MEUR	2.3	2.2	2.2	2.2	3.6	3.3	
Financial assets, MEUR	73.4	63.6	65.9	65.2	66.3	82.5	
Shareholders' equity, EUR million	77.3	67.5	67.5	65.2	72.5	87.3	
Provisions, EUR million	0.0	0.1	0.1	0.6	0.6		
Liabilities							
Non-current liabilities, EUR million	0.7	0.5	0.6	0.7	0.9	1.2	
Current liabilities, EUR million	10.9	8.2	9.1	10.9	7.9	10.1	
Deferred tax liabilities, EUR million	1.5	0.6	0.2	0.1			
Balance sheet total, EUR million	90.4	76.9	77.5	77.5	81.3	98.7	
Financial indicators							
Return on equity (ROE), %	12.1	6.0	3.2	-10.5	-17.9	0.0	0.6
Return on investment (ROI), %	15.7	7.4	4.1	-9.1	-18.0	0.1	0.9
Equity ratio, %	86.9	88.8	88.1	85.2	90.1	89.2	89.2
Debt/Equity (gearing) ratio, %	-42.4	-44.7	-44.4	-52.3	-46.6	-45.8	-45.8
Investments, EUR million	2.0	1.6	1.6	1.9	2.2	2.4	3.3
% of net sales	3.0	3.1	3.1	4.2	5.5	5.7	5.9
Research and development, EUR million	13.4	11.5	11.5	9.4	11.2	12.0	15.7
% of net sales	19.5	22.4	22.4	20.8	28.0	28.4	27.5
Order book, EUR million	27.9	12.2	9.8	10.0	10.4	4.4	4.4
Personnel, average	355	355	355	440	520	567	559
Personnel, at the end of the year	373	350	350	398	457	556	556
Key ratios per share							
Earnings/share, EUR (undiluted)	0.15	0.07	0.04	-0.13	-0.25	0.00	0.01
Earnings/share, EUR (diluted)	0.15	0.07	0.04				
Equity per share, EUR	1.33	1.16	1.17	1.13	1.26	1.50	
Adjusted number of shares at the end and during of year, 1 000 shares	58 309	58 093	58 093	58 093	58 093	58 093	
Number of shares on average, 1 000 shares	58 147	58 093	58 093	58 093	58 093	39 742	
Number of company-held shares at the beginning of year, 1 000 shares	268	400	400	400	400		
Number of disposed company-held shares, 1 000 shares	133	132	132				
Number of company-held shares at the end of year, 1 000 shares	135	268	268	400	400		
Share price trend, EUR							
Average price	1.86	1.37	1.37	0.86	0.97	1.89	
Lowest price	1.28	1.11	1.11	0.39	0.49	0.98	
Highest price	2.60	1.82	1.82	1.59	2.10	3.93	
Share price at the end of the year, EUR	2.45	1.33	1.33	1.37	0.51	1.81*	
Market value of share capital at the end of year, EUR million	142.9	77.3	77.3	79.6	29.6	105.1*	
Share turnover, million shares	42.8	33.1	33.1	32.4	24.3	5.1	
Share turnover, % of total number	73.4	57.1	57.1	55.8	41.8	12.8	
Share turnover, EUR million	79.3	45.5	45.5	27.9	23.6	9.6	
(P/E)	16.26	19.19	35.97	-10.90	-2.05	-6 800.7	

* From the first quotation date for new Tecnomen 2 Jan. 2002
pf=pro forma figures
Tecnomen's financial statements have been prepared for both the official group for 31 March–31 December 2001 and the pro porma group for 1 January–31 December 2001. The official Tecnomen group consists of the former Tecnomen Holding Group. The Tecnomen pro forma group consists of the official Tecnomen Group plus the figures for the old Tecnomen Group for the period 1 January–31 December 2001.

Calculation of key indicators

Return on equity (ROE), % = $\frac{\text{Result for the period}}{\text{Shareholders' equity (average)}} \times 100$

Return on investments (ROI), % = $\frac{\text{Result before taxes + financial expenses}}{\text{Balance sheet total - non-interest-bearing liabilities (average)}} \times 100$

Equity ratio, % = $\frac{\text{Shareholders' equity}}{\text{Balance sheet total - advances received}} \times 100$

Earnings per share (EPS) = $\frac{\text{Profit attributable to equity holders of the parent}}{\text{Adjusted average number of shares during the financial year}}$

Dividend per share = $\frac{\text{Dividends distributed for the financial year}}{\text{Adjusted number of shares at the end of the financial year}}$

Dividend/Result, % = $\frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}} \times 100$

Equity/share = $\frac{\text{Equity attributable to equity holders of the parent}}{\text{Adjusted number of shares at the end of the financial year}}$

Debt/equity ratio, % (gearing) = $\frac{\text{Net interest-bearing liabilities - cash and other liquid financial assets}}{\text{Shareholders' equity}} \times 100$

Market capitalisation = Number of shares at end of financial year x last trading price of financial year

P/E ratio = $\frac{\text{Adjusted share price at end of financial year}}{\text{Earnings per share (EPS)}}$

Effective dividend yield, % = $\frac{\text{Dividend per share}}{\text{Last trading price of financial year}}$

Parent company's income statement

EUR 1 000	Note	1.1.–31.12.2005	1.1.–31.12.2004
Net sales	1	64 591	44 805
Other operating income	2	56	376
Materials and services	3	-13 784	-10 012
Personnel expenses	4	-11 074	-11 349
Depreciation	5	-1 193	-1 578
Other operating expenses	6	-30 058	-22 242
Operating result		8 539	1
Financial income and expenses	7	2 860	400
Result before extraordinary items		11 399	401
Result before appropriations and taxes		11 399	401
Appropriations	8	-252	-271
Direct taxes	9	-297	-192
Result for the financial year		10 851	-61

Parent company's balance sheet

EUR 1 000	Note	31.12.2005	31.12.2004
Assets			
Long-term assets			
Intangible assets	10	828	947
Tangible assets	11	5 824	6 044
Shares in Group companies	12	1 259	1 259
Receivables from Group companies	12	299	299
Investments	12	17	17
Total long-term assets		8 228	8 566
Current assets			
Inventories	13	1 118	980
Short-term receivables	14	44 811	35 299
Cash at bank and in hand	15	31 137	29 596
Total current assets		77 067	65 876
Total assets		85 295	74 442
Equity and liabilities			
Shareholders' equity	16		
Share capital		4 665	4 647
Share premium fund		66 178	66 029
Own shares		-122	-259
Retained earnings		-9 284	-7 921
Result for the financial year		10 851	-61
Total shareholders' equity		72 287	62 435
Accumulated appropriations	17	862	610
Liabilities			
Deferred tax liability			
Long-term liabilities	18	433	465
Short-term liabilities	19	11 713	10 932
Total liabilities		12 146	11 397
Total equity and liabilities		85 295	74 442

Parent company's cash flow statement

EUR 1 000	1.1.–31.12.2005	1.1.–31.12.2004
Cash flow from operating activities		
Result before taxes	11 399	401
Adjustments for:		
Planned depreciation	1 193	1 578
Unrealised exchange rate gains and losses	903	19
Financial income and expenses	-872	-419
Other adjustments	-74	165
Changes in working capital:		
Current receivables, non-interest-bearing, increase	-10 452	-3 989
Inventories, decrease	-138	260
Current liabilities, non-interest-bearing, decrease	663	-1 246
Interest paid and other financial expenses	-332	-205
Interest received	435	454
Income taxes paid	-297	-192
Net cash flow from operations	**2 430**	**-3 172**
Cash flow from investments		
Investments in tangible assets	-162	-188
Investments in intangible assets	-692	-1 008
Cash flow from investments	**-854**	**-1 196**
Cash flow from financing activities		
Repayment of current loans	-2	-3
Repayment of non-current loans	-33	-35
Cash flow from financing activities	**-35**	**-38**
Change in liquid funds	1 541	-4 405
Liquid funds on 1 Jan.	29 596	34 001
Liquid funds on 31 Dec.	**31 137**	**29 596**

Accounting principles of parent company

The financial statements of Tecnomen Oyj are prepared in accordance with the revised Finnish Accounting Act (1997/1336) and Ordinance (1997/1339) and with other legislation and regulations concerning financial statements.

Comparability of the result

Tecnomen Oyj has adopted the stage of completion method in construction contracts as from 1 January 2005. The comparable information for the previous accounting period has not been changed because of the change in accounting principles. The impact of the change in accounting principles, EUR 1 298 164.52, has been recorded in shareholders' equity at the balance sheet date 31 December 2005, in accordance with the opinion published by the Finnish Accounting Board 1750/2005 (21.6.2005).

Items denominated in foreign currencies

Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Foreign currency receivables and liabilities in the financial statements, including those hedged with derivative contracts, are translated into euros at the average exchange rate quoted by the European Central Bank on the closing date.

Exchange rate gains and losses relating to business operations are treated as adjustments to net sales or purchasing and manufacturing. Exchange rate gains and losses relating to financing operations are entered under financing income and expenses. Exchange rate gains and losses arising from the translation of balance sheet items are charged to the income statement.

Exchange rate differences on derivative contracts made for hedging purposes are charged to the income statement under other operating income and expenses. Open forward contracts are valued at the average exchange rate on the closing date and are charged to the income statement.

Net sales

Net sales comprise sales revenue from which indirect taxes, exchange rate differences and discounts have been deducted.

At Tecnomen, sales contracts are divided into project deliveries and product and service deliveries.

Project deliveries are mainly recognised according to the stage of completion. Project revenue and project costs are recognised as revenue and expenses respectively by reference to the stage of completion on the balance sheet date, if the outcome of the project can be estimated reliably. The outcome of a project can be reliably estimated when the anticipated revenue and costs from the contract and the progress of the project can be reliably measured and it is probable that the economic benefits associated with the project will flow to the enterprise.

The stage of completion of a project is determined for each contract by the proportion of the estimated total contract costs accounted for by the costs incurred for work performed to date (cost-to-cost method). The stage of completion method of revenue recognition is based on estimates of the expected revenue and expenses associated with the contract and on estimating the progress of the project. The revenue and expenses recognised in the income statement are revised if the estimates of the outcome of the project change. The accumulated effect due to the change in the estimates is recognised in the period when the change is known for the first time and its amount can be estimated.

If the outcome of the project cannot be estimated reliably, revenue is only recognised to the extent of project costs incurred.

A project is considered unprofitable if its costs exceed total project revenue. The expected loss is recognised as an expense immediately.

Revenue from the sale of products and services is recognised when the significant risks and benefits of ownership have been transferred to the buyer and when the amount of the revenue can be measured reliably and it is probable that the economic benefits will flow to the enterprise. The revenue from services is recognised when the service has been rendered. Supplementary deliveries such as maintenance, licences, training, documentation and spare parts are examples of goods and service deliveries. Revenue from fixed-term maintenance contracts is normally recognised over the contract period on a straight-line basis.

Pension arrangements
Statutory pension and supplementary pension obligations in Finland are covered through payments to pension insurance organisations.

Leasing
Leasing payments have been entered as rentals. Unpaid leasing fees are presented in the financial statements under contingent liabilities.

Research and development expenses
Research and development expenses are expensed as incurred, apart from machinery purchases, which are depreciated over three years on a straight-line basis.

Valuation of inventories
Inventories are valued using the FIFO principle at the lower of acquisition cost, repurchase price or probable selling price.

Valuation of fixed assets
Fixed assets have been capitalised at the acquisition cost. Planned depreciation is calculated on a straight-line basis over the useful life of the fixed assets.

The periods for planned depreciation are as follows:
- Intangible rights 3–10 years
- Other capitalised expenditure 5 years
- Buildings and structures 25 years
- Machinery and equipment 3–5 years
- Computing hardware and software 3–5 years
- Corporate goodwill 5 years

Purchase and disposal of company's own shares
The total purchase expense for the shares has been recorded so that it reduces unrestricted shareholders' equity. During the 2005 financial year Tecnomen disposed of 133 200 of its own shares as consideration in a transaction in which Tecnomen purchased the entire share stock of Krocus Communications Oy. The consideration for the shares disposed was 1 euro per share and after this disposal of shares the company held 134 800 of own shares with a book value of EUR 122 097.91.

Notes to the parent company's income statement

EUR 1 000	1.1.–31.12.2005	1.1.–31.12.2004
1. Net sales		
Net sales by market area		
Europe, Middle East and Africa	25 002	23 492
Asia Pacific	4 911	2 705
Americas	34 678	18 609
Net sales total	64 591	44 805
Net sales by product group		
Messaging	35 763	29 737
Charging	28 828	15 069
Total	64 591	44 805
Net sales include revenue from projects recognised in proportion to the stage of completion	48 873	28 898
Advance payments at end of year	875	352
Retention amount from trade receivables at end of year	3 761	78
Items in trade receivables that are linked to the fullfilment of agreed obligations.		
Gross cumulative invoicing at year end for projects in progress that are recognised by stage of completion	38 445	24 409
Gross cumulative amount recognised at year end for projects in progress that are recognised by stage of completion	46 704	37 552
	8 259	13 143
2. Other income from operations		
Other income	56	376
Other income from operations total	56	376
3. Materials and services		
Purchases during financial year	-12 939	-8 278
Changes in inventories of materials and supplies	83	-260
Total	-12 856	-8 538
External services	-928	-1 474
Materials and services total	-928	-10 012
4. Personnel expenses		
Salaries and fees	-8 844	-9 122
Pension expenses	-1 509	-1 340
Other personnel expenses	-721	-887
Personnel expenses total	-11 074	-11 349
Salaries and remuneration paid to Members of the Board and Managing Director		
Managing Director	-179	-173
Members of the Board	-184	-136
Total	-363	-309
Average number of employees		
Parent company	125	129

NOTES TO THE PARENT COMPANY'S INCOME STATEMENT EUR 1 000

	1.1.–31.12.2005	1.1.–31.12.2004
5. Depreciation		
Depreciation according to plan		
Intangible assets		
Intangible rights	-136	-249
Other expenditure with long-term impact	-144	-136
Tangible assets		
Buildings	-247	-247
Machinery and equipment	-666	-946
Depreciation according to plan total	-1 193	-1 578
6. Other operating expenses		
Subcontracting	-6 836	-4 148
Travel	-1 299	-1 427
Other expenses	-21 924	-16 667
Other operating expenses total	-30 058	-22 242
7. Financial income and expenses		
Dividend income		
Dividend income from Group companies	2 891	
Dividend income from Group companies total	2 891	
Financial income		
Interest income from Group companies	7	2
Interest income from others	619	525
Other financial income from others	836	191
Interest and financial income total	1 462	718
Financial expenses		
Interest expenses to others	-26	-26
Financial expenses to others	-1 468	-292
Interest and financial expenses total	-1 493	-318
Financial income and expenses total	2 860	400
Other financial income and expenses including		
Foreign exchange gains	649	191
Foreign exchange losses	-1 467	-287
Exchange gains and losses total	-817	-97
8. Appropriations		
Difference between depreciation according to plan and depreciation made in taxation	-252	-271
Appropriations total	-252	-271
9. Direct taxes		
Income taxes from business operations	-297	-192
Direct taxes total	-297	-192

Notes to the parent company's balance sheet

EUR 1 000

10. Intangible assets

Intangible assets 2005	Intangible rights	Other long-term expenses	Total
Acquisition cost 1.1.	2 938	1 023	3 960
Increase	119	43	162
Acquisition cost 31.12.	3 057	1 065	4 122
Accumulated depreciation 1.1.	-2 537	-477	-3 014
Depreciation during the period	-136	-144	-280
Accumulated depreciation 31.12.	-2 672	-621	-3 294
Book value 31.12.2005	**385**	**444**	**828**

Intangible assets 2004	Intangible rights	Other long-term expenses	Total
Acquisition cost 1.1.	2 856	1 023	3 879
Increase	188		188
Decrease	-106		-106
Acquisition cost 31.12.	2 938	1 023	3 960
Accumulated depreciation 1.1.	-2 391	-341	-2 732
Accumulated depreciation for decreases and transfers	104		104
Depreciation during the period	-249	-136	-386
Accumulated depreciation 31.12.	-2 537	-477	-3 014
Book value 31.12.2004	**401**	**546**	**947**

11. Tangible assets

Tangible assets 2005	Land areas	Buildings	Machinery and equipment	Investments in progress	Total
Acquisition cost 1.1.	1 666	6 045	15 582	46	23 339
Increase			696		696
Decrease			-267	-4	-271
Acquisition cost 31.12.	1 666	6 045	16 012	42	23 765
Accumulated depreciation 1.1.		-2 813	-14 482		-17 295
Accumulated depreciation for decreases and transfers			267		267
Depreciation during the period		-247	-666		-912
Accumulated depreciation 31.12.		-3 059	-14 881		-17 941
Book value 31.12.2005	**1 666**	**2 986**	**1 130**	**42**	**5 824**

NOTES TO THE PARENT COMPANY'S BALANCE SHEET EUR 1 000

Tangible assets 2004	Land areas	Buildings	Machinery and equipment	Investments in progress	Total
Acquisition cost 1.1.	1 666	6 045	14 995	55	22 761
Increase			897		897
Decrease			-310	-9	-319
Acquisition cost 31.12.	1 666	6 045	15 582	46	23 339
Accumulated depreciation 1.1.		-2 566	-13 817		-16 383
Accumulated depreciation for decreases and transfers			281		281
Depreciation during the period		-247	-946		-1 193
Accumulated depreciation 31.12.		-2 813	-14 482		-17 295
Book value 31.12.2004	**1 666**	**3 232**	**1 100**	**46**	**6 044**

12. Investments

Investments 2005	Shares in Group companies	Investments other	Shares other	Total
Acquisition cost 1.1.	1 259	299	17	1 575
Acquisition cost 31.12.	1 259	299	17	1 575
Book value 31.12.2005	**1 259**	**299**	**17**	**1 575**

Investments 2004	Shares in Group companies	Investments other	Shares other	Total
Acquisition cost 1.1.	1 216	299	17	1 533
Increase	42			42
Acquisition cost 31.12.	1 259	299	17	1 575
Book value 31.12.2004	**1 259**	**299**	**17**	**1 575**

Group companies	Domicile	Parent company ownership, %	Group ownership,%	Number of shares	Parent company shares Nominal value/share, EUR	Book value EUR 1 000
Tecnomen Ltd	County Clare, Ireland	100	100	131 428	1.35	124
Tecnomen GmbH	Dreieich, Germany	100	100	200 000	0.50	92
Tecnologia de Mensajes Tecnomen SL	Madrid, Spain	100	100	500	6.05	31
Tecnomen Hong Kong LTD	Wan Chai, Hong Kong	100	100	500 000	0.13	59
Tecnomen Sistemas de Telecommunicacao Ltda	São Paulo - SP CEP Brazil	100	100	1 154 251	0.54	902
Tecnomen (M) Sdn Bhd	Kuala Lumpur, Malaysia	100	100			42
Tecnomen Japan Oy	Espoo, Finland	100	100	500	16.80	8
Total						1 259

NOTES TO THE PARENT COMPANY'S BALANCE SHEET EUR 1 000

Current assets	**31.12.2005**	**31.12.2004**
13. Inventories		
Materials and consumables	940	854
Finished products/goods	178	126
Inventories total	1 118	980
14. Short-term receivables		
Trade receivables	19 359	27 909
Work in progress related to construction contracts	13 272	
Short-term prepaid expenses and accrued income	1 690	2 259
Other receivables	56	320
Total	34 377	30 488

When starting to use the stage of completion method in revenue recognition, reclassifications were made between trade receivables and other receivables.

Receivables from companies belonging to the Group		
Trade receivables	6 134	4 811
Other receivables	4 300	
Total	10 434	4 811
Short-term receivables total	44 811	35 299
Prepaid expenses and accrued income		
Forward contracts		1 344
Deferred taxes (indirect)	479	
Other receivables	1 211	915
Total	1 690	2 259
15. Cash at bank and in hand		
Cash at bank and in hand	31 137	29 596

NOTES TO THE PARENT COMPANY'S BALANCE SHEET EUR 1 000

16. Shareholders' equity	31.12.2005	31.12.2004
Share capital 1.1.	4 647	4 647
Options exercised	17	
Share capital 31.12.	4 665	4 647
Share premium fund 1.1.	66 029	66 029
Options exercised	149	
Share premium fund 31.12.	66 178	66 029
Own shares 1.1.	-259	-399
Disposal of own shares	137	140
Own shares 31.12.	-122	-259
Retained earnings 1.1.	-7 982	-7 913
Loss on sale of own shares	-4	-8
Effect of change in recognition practice	-1 298	
Retained earnings 31.12.	-9 284	-7 921
Result from the financial period	10 851	-61
Total shareholders' equity	72 287	62 435

Unrestricted equity	Group 31.12.2005 IFRS	Group 31.12.2004 FAS	Parent company 31.12.2005	Parent company 31.12.2004
Retained earnings 31.12.	6 133	-2 381	1 444	-8 241
The portion of accumulated depreciation difference entered under shareholders' equity	-638	-451		
Other items restricting distribution of profit	-282	-282		
Unrestricted equity	5 213	-3 114	1 444	-8 241

17. Accumulated appropriations	31.12.2005	31.12.2004
Provisions at the beginning of the financial year	610	339
Increase (+), decrease (-)	252	271
Accumulated appropriations total	862	610

18. Long-term liabilities		
Pension loans	432	465
Other liabilities	1	1
Long-term liabilities total	433	465

Maturity of long-term liabilities		
2006		33
2007	30	30
2008	28	28
2009	26	26
At a later date	347	347
Total	432	465

NOTES TO THE PARENT COMPANY'S BALANCE SHEET EUR 1 000

19. Short-term liabilities	31.12.2005	31.12.2004
Pension loans	33	35
Accounts payable	2 161	736
Accrued liabilities and deferred income	4 407	4 847
Other liabilities	327	646
Advances received	1 190	814
Total	8 117	7 078
Liabilities from companies belonging to the Group		
Accounts payable	3 581	3 849
Accrued liabilities and deferred income	15	5
Total	3 596	3 854
Short-term liabilities total	11 713	10 932
Accrued liabilities and deferred income		
Wages and salaries and other employee payments	1 593	1 276
Agent commissions	1 441	820
Project provisions	123	1 888
Other	1 250	863
Accrued liabilities and deferred income, Group	15	5
Total	4 422	4 852

The big difference in project provision expenses is due to the adoption of revenue recognition by stage of completion.

20. Contingent liabilities		
Pledges given	689	809
Pledges given to cover other own commitments		
Mortgages on real estate	1 261	1 261
Mortgages on company assets	235	235
Total	1 497	1 497
Other company liabilities		
Leasing liabilities		
With due date in the current financial year	213	145
With later due date	162	88
Total	375	233
Pledges		
On own behalf	666	793
Total	666	793
Other liabilities		
Rent quarantees	15	
Total	15	
Total other company liabilities	1 056	1 026
Values of underlying instruments of derivative contracts		
Currency forward contracts		
Market value	11 355	18 428
Value of underlying instruments	10 850	19 772

Shares and shareholders

Shares and share capital

Tecnomen has a single share series and all shares hold equal voting rights.

According to its Articles of Association, Tecnomen has a minimum capital of EUR 2 000 000 and a maximum capital of EUR 15 000 000. The share capital can be increased or decreased within these limits without having to amend the Articles of Association. On 31 December 2005 Tecnomen had a share capital of EUR 4 664 702.24 that was fully paid and registered in the trade register and 58 308 778 shares, of which the company held 134 800. The shares were purchased under the authorisation given by the 2004 Annual General Meeting. The shares held by the company have no voting rights and no dividend is paid to them.

Tecnomen's share has a nominal value of 8 cents. Equity per share was EUR 1.17. 99.94 per cent of the company's shares are entered in the book-entry securities system maintained by the Finnish Central Securities Depository.

Quotation of shares

Tecnomen's shares are quoted on the Helsinki Exchanges. Tecnomen's trading code is TEM1V. Tecnomen's trading unit is 200 shares.

Authorisations of the Board of Directors for 2005

Authorisation to dispose of the Company's own shares

The Annual General Meeting of Shareholders on 16 March 2005 authorised the Board to dispose of the company's own shares. The authorisation allows the disposal of all company shares acquired under the authorisation given to the Board and of company shares already held by the company. The authorisation includes the right to decide to disapply the preemptive subscription rights of shareholders when disposing of the shares. The authorisation is in force for one year from the decision of the Annual General Meeting.

Tecnomen disposed of 133 200 of its own shares on 29 December 2005 as consideration for the transaction on 23 April 2003 in which Tecnomen purchased the entire share stock of Krocus Communications Oy. The consideration for the shares disposed was 1 euro per share and the disposal was made outside the stock exchange. The total nominal value of the disposed shares was EUR 10 656, representing 0.23 per cent of the entire share capital and votes of Tecnomen Corporation. After this disposal of shares the company held 134 800 of its own shares, representing 0.23 per cent of the company´s share capital and votes. The nominal value of the shares held by the company totalled EUR 10 784.

Authorisation of the Board of Directors to increase the company's share capital

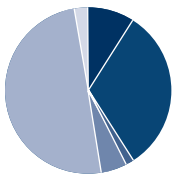
Tecnomen's Annual General Meeting of Shareholders on 16 March 2005 authorised the Board of Directors to decide on raising the company's share capital by issuing new shares and/or convertible bonds and/or stock options. Under the authorisation the share capital can be raised, in one or more issues, by a maximum of EUR 601 481.20, by issuing a maximum of 7 518 515 new shares. The authorisation includes the right to disapply the pre-emptive subscription rights of shareholders, to determine the criteria for setting the subscription price and to set the subscription price. The subscription price may not be less than the nominal value of the share. The authorisation is in force for one year from the decision of the Annual General Meeting. During 2005 the company did not use this authorisation.

Shareholders

On 31 December 2005 Tecnomen had a total of 5 954 shareholders recorded in the book-entry securities system. Of these 5 946 were in direct ownership and 8 were nominee-registered.

On 31 December 2005 the ten largest shareholders (excluding nominee-registered shareholders) together owned 28.01 per cent of the shares and voting rights. On 31 December 2005, altogether 12.99 per cent of Tecnomen's shares were in foreign ownership, with 2.35 per cent in direct ownership and 10.64 per cent nominee-registered. The shareholder information is maintained by Finnish Central Securities Depository Ltd.

Ownership structure by sector 31 December 2005



Companies	8.49%
Finance houses and insurance companies	31.95%
Public sector	1.71%
Non-profit making associations	5.52%
Households and private persons	49.93%
Foreign holders	2.35%
Joint account	0.06%

Trading and share performance

A total of 42 794 577 Tecnomen shares (EUR 79 323 848) were traded on the Helsinki Exchanges during the period 3 January–31 December 2005, or 73.39 per cent of the total number of shares. The highest share price quoted in this period was EUR 2.60 and the lowest was EUR 1.28. The average quoted price was EUR 1.86 and the closing price on 31 December 2005 was EUR 2.45. The share stock had a market value of EUR 142 856 506 at the closing price.

Taxable value of shares in Finland

The taxable value of Tecnomen shares in Finland for the fiscal year 2005 has been confirmed at EUR 1.69 per share.

Obligation to redeem shares

According to Article 15 of Tecnomen's Articles of Association, a shareholder whose holding reaches or exceeds 33 1/3 per cent or 50 per cent of all the company's shares or of the voting rights held by the shares, is obliged, at the request of other shareholders, to redeem their shares and securities entitling holders to shares, on terms specified in more detail in Article 15 of the Articles of Association.

Shareholdings of the Board of Directors and management

On 31 December 2005 the total number of shares owned by the members of Tecnomen's Board of Directors and the President and CEO was 3 568 151, which includes the shares owned by these persons themselves, by minor children and by companies in which they hold a controlling interest. Altogether these represent 6.11 per cent of the total share capital and voting rights.

On 31 December 2005 the total number of shares owned by the members of Tecnomen's Management Board, excluding those owned by the President and CEO, was 77 661, which includes the shares owned by these persons themselves, by minor children and by companies in which they hold a controlling interest. Altogether these represent 0.13 per cent of the total share capital and voting rights.

Stock options held by management and Board members

A total of 317 500 Tecnomen stock options were held by members of the Board of Directors and the President and CEO on 31 December 2005. Altogether these stock options represent 0.54 per cent of the total share capital and voting rights after share subscription.

A total of 210 000 stock options were held by members of Tecnomen's Management Board, excluding the President and CEO, on 31 December 2005. Altogether these shares represent 0.36 per cent of the total share capital and voting rights after share subscription.

Company dividend policy

Tecnomen's dividend policy is to base its proposed dividend payment, to be approved by the Annual General Meeting, on the annual result and complying with legal requirements. During the past four years the company has not had distributable funds that would entitle it to pay a dividend.

Shareholder agreements and shareholding notifications

Tecnomen has no knowledge of shareholder agreements relating to the ownership of the company or to the use of voting rights.

During 2005 the company received one shareholder notification, according to which the combined holdings in Tecnomen Corporation of Osuuspankkikeskus, its subsidiaries and investment funds controlled by the subsidiaries rose in a transaction on 23 December 2005 to 3 612 162 shares. This corresponds to 6.2 per cent of the shares and votes in Tecnomen Corporation.

Stock option programme 2002

The company has a valid 2002 stock option programme approved by the Annual General Meeting of Shareholders on 11 April 2002. A total of 4 100 000 stock options may be issued of which 400 000 are subscribed by code 2002A, 1 200 000 by code 2002B, 1 200 000 by code 2002C and 1 300 000 by

code 2002D. Each option entitles the holder to subscribe one share. The subscription periods are as follows: for the 2002A options: 1.4.2003–30.4.2006, 2002B 1.4.2004–30.4.2007, 2002C 1.4.2005–30.4.2007 and 2002D 1.4.2006–30.4.2008.

As a result of subscriptions with the 2002 stock options, the company's share capital can rise by a maximum of EUR 310 704, representing 6.67 per cent of the total share capital and voting rights after share subscription. The share subscription price for stock options 2002A and 2002B is EUR 1.68, for stock option 2002C EUR 0.46 and for stock option 2002D EUR 1.33. Dividends that have been decided on in the time between the start of the period for determining the subscription price and the date of subscription are deducted from the subscription price. The stock option scheme includes some 60 people.

A total of 381 000 2002A stock options, 304 000 2002B stock options, 344 000 2002C stock options and 1 052 500 2002D stock options have been allocated. The stock options not allocated to members of the Board of Directors or to personnel were issued to a wholly owned subsidiary of Tecnomen Corporation for allocation at a later date.

During 2005, a total of 29 200 shares were subscribed with the 2002A stock options, 25 500 with 2002B and 161 500 with 2002C.

The company has no convertible bonds or bonds with warrants.

Shareholders 31 December 2005

The company's ten largest shareholders, excluding nominee-registered shareholders.

	No. of shares	% of shares and votes
Sampo Life Insurance Co. Ltd	3 083 400	5.29
Hammarén Lars-Olof	2 164 300	3.71
OP-Finland Small Firm Fund	2 092 562	3.59
Sumelius Henning	2 022 300	3.47
Pohjola Finland Value Investment Fund	1 479 800	2.54
FIM Fenno Fund	1 466 600	2.52
Sumelius Johanna Marina	1 122 400	1.92
Kaleva Mutual Insurance Company	1 000 000	1.72
Suupohjan Osuuspankki	951 200	1.63
Oy Investsum Ab	947 500	1.62
Total	16 330 062	28.01

Division of shares 31 December 2005

No. of shares	No. of shareholders	%	No. of shares	%
1–100	531	8.92	31 803	0.06
101–500	2 410	40.48	617 147	1.06
501–1 000	1 005	16.88	803 826	1.38
1 001–5 000	1 332	22.37	3 294 425	5.65
5 001–10 000	292	4.90	2 251 518	3.86
10 001–50 000	243	4.08	5 660 365	9.71
50 001–100 000	54	0.91	3 980 505	6.83
100 001–500 000	68	1.14	14 643 204	25.11
500 001<	19	0.32	26 988 385	46.29
Joint account			37 600	0.06
Total	5 954	100.00	58 308 778	100.00

Auditor's report

To the shareholders of Tecnomen Oyj

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Tecnomen Corporation for the period 1 January–31 December 2005. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Espoo, 3 March 2006

KPMG OY AB
Sixten Nyman
Authorized Public Accountant

Signatures to the report of the Board of Directors and financial statements

Espoo February 13, 2006

Jarmo Niemi
CEO and President

Lauri Ratia
Chairman of the Board

Carl-Johan Numelin

Keijo Olkkola

Lars Hammarén

Christer Sumelius

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