

TECNOTREE

A photograph of three business professionals in an office setting. A woman in the center is smiling and looking at a tablet held by a man on the left. Another woman on the right is pointing at the tablet with a pen. The background is a bright, out-of-focus office. The image is partially obscured by a dark blue triangle in the bottom right corner.

Short Report Q3 2017

TECNOTREE CORPORATION SHORT REPORT

1 JAN – 30 SEP 2017 (UNAUDITED)

27 October 2017 at 8:30 am

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

NET SALES REDUCED – OPERATING RESULT IMPROVED

KEY FIGURES	7-9/ 2017	7-9/ 2016	1-9/ 2017	1-9/ 2016	1-12/ 2016
Net sales, MEUR	12.2	16.2	39.5	45.4	60.1
Adjusted operating result, MEUR ¹	1.6	1.8	5.3	0.5	1.2
Operating result, MEUR	1.4	0.8	4.3	-0.5	-10.1
Result before taxes, MEUR	1.2	-0.3	2.1	-5.4	-5.6
Adjusted result for the period, MEUR ²	0.3	-0.1	-0.4	-7.3	-4.2
Result for the period, MEUR	0.1	-1.1	-1.4	-8.2	-6.3
Earnings per share, basic, EUR	0.00	-0.01	-0.01	-0.07	-0.05
Order book, MEUR			25.4	23.9	24.9
Cash flow after investments, MEUR	1.6	-2.4	4.8	-4.7	-0.9
Change in cash and cash equivalents, MEUR	1.2	-2.1	-1.0	-5.3	-3.0
Cash and cash equivalents, MEUR			2.1	1.0	3.5
Equity ratio %			15.3	11.4	17.9
Net gearing %			219.5	399.8	195.6
Personnel at end of period			696	892	818

¹ Adjusted operating result = operating result without one-time costs. Details of these are given in the section "Result analysis".

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

With reference to the new guidelines on alternative performance measures issued by the European Securities and Markets Authority (ESMA), Tecnotree uses the alternative performance measures "adjusted operating result" and "adjusted result for the period". These measures are defined in the footnote to the above table, and in the table "Income statement, Key figures" under the section "Result analysis".

Unless otherwise stated, all figures presented below are for the review period 1-9/2017 and the figures for comparison are for the corresponding period 1-9/2016.

CEO Padma Ravichander:

During the report period, we have been successful in reducing the costs and improving the profitability, whereas the revenue continues to be a challenge. The revenue decreased in both geographical areas in the way that the revenue from maintenance and support services increased somewhat while the revenue from contract works and other services showed a clear decrease.

Negotiations on some major contracts proceeded and there are several projects to go live by the end of this year. The order book at the end of the report period amounted to EUR 25.4 million compared with EUR 23.9 million at the end of the same period last year. The order book is growing specifically in the area MEA & APAC.

The operating result for the period stood at EUR 4.3 million showing an improvement compared with EUR -0.5 million during the corresponding period last year. The profitability reflects these activities, which company has undertaken during the year. The reported figures now indicate that the company is in the right path.

We continued our cost optimization program. The total operating costs (excluding one-time costs) stood at EUR 34.3 million being down by 24% compared to the costs of EUR 45.0 million during the same period in last year. The optimization of human resources continued in all locations and the headcount decreased by 22%. The co-operation negotiations in Finland were concluded during the report period, with the targeted savings of EUR 1.1 million annually. Mainly the impact of cost reduction measures will become visible in the coming quarters.

All in all, the financial performance of the company has improved in the review period, showing a positive trend. The decrease in revenue is substantial and so is the reduction in costs, which has improved the operating result for the period.

To pursue the good progress, Tecnotree will focus on the internal transformation of the company in the following areas:

- Further maintaining operating expenses
- Consolidating and rationalizing product portfolio
- Building greater level of productisation and re-use

This major transformation of the company shall improve overall quality, profitability and attractiveness of our products.

SALES AND NET SALES

Tecnotree's net sales for the review period were EUR 39.5 (45.4) million.

Net sales in the review period included EUR 1.0 million (0.7) currency exchange losses. These arose mainly from the fluctuations of the US dollar against the euro.

SPECIFICATION OF NET SALES, MEUR	7-9/ 2017	7-9/ 2016	1-9/ 2017	1-9/ 2016	1-12/ 2016
Revenue from contract work recognised by stage of completion (IAS 11)	2.8	7.3	9.3	16.4	19.7
Revenue from maintenance and support (IAS 18)	7.7	6.8	23.9	21.6	28.9
Revenue from goods and services (AS 18)	1.9	2.2	7.3	8.0	11.1
Currency exchange gains and losses	-0.3	-0.2	-1.0	-0.7	0.4
TOTAL	12.2	16.2	39.5	45.4	60.1

NET SALES BY MARKET AREA, MEUR	7-9/ 2017	7-9/ 2016	1-9/ 2017	1-9/ 2016	1-12/ 2016
Europe & Americas	4.6	5.9	15.8	18.6	25.0
MEA & APAC	7.6	10.3	23.7	26.7	35.1
TOTAL	12.2	16.2	39.5	45.4	60.1

CONSOLIDATED ORDER BOOK, MEUR			30.9. 2017	30.9. 2016	31.12. 2016
Europe & Americas			6.2	7.5	7.5
MEA & APAC			19.2	16.3	17.4
TOTAL			25.4	23.9	24.9

RESULT ANALYSIS

The operating result for the review period was 4.8 million better than in the comparative period despite lower net sales. Operating expenses during the review period were EUR 35.4 million, or EUR 10.6 million lower than in the comparison period (46.0). The costs for the review period include one-time costs of EUR 1.1 million (1.0) arising from redundancies.

In the third quarter, Tecnotree booked one-time costs of personnel reductions of EUR 0.2 million (1.0).

Tecnotree reports its result as follows:

INCOME STATEMENT, KEY FIGURES, MEUR	7-9/ 2017	7-9/ 2016	1-9/ 2017	1-9/ 2016	1-12/ 2016
Net sales	12.2	16.2	39.5	45.4	60.1
Other operating income	0.0	0.0	0.2	0.1	0.3
Operating costs excluding one-time costs	-10.6	-14.4	-34.3	-45.0	-59.1
Adjusted operating result	1.6	1.8	5.3	0.5	1.2
One-time costs-/income+	-0.2	-1.0	-1.1	-1.0	-11.3
OPERATING RESULT	1.4	0.8	4.3	-0.5	-10.1
Financial items without currency differences	-0.2	-0.8	-0.8	-3.6	-4.2
Exchange rate gains and losses in financial items	-0.0	-0.3	-1.5	-1.2	-0.7
Income taxes	-1.1	-0.8	-3.5	-2.8	-0.6
Adjusted result for the period	0.3	-0.1	-0.4	-7.3	-4.2
One-time costs	-0.2	-1.0	-1.1	-1.0	-2.0
RESULT FOR THE PERIOD	0.1	-1.1	-1.4	-8.2	-6.3

The company's financial expenses decreased to EUR 2.4 million compared to EUR 5.1 million in the comparison period.

Negative foreign currency differences of EUR 1.5 million (1.2) were recorded in financial items. These are mainly due to the changes in intra-group balance sheet items, when for example a subsidiary records an exchange rate gain or loss on a euro denominated receivable from the parent company. It has no direct impact on the Group's cash flow.

Exchange rates also have a direct impact on shareholders' equity in terms of translation differences arising from foreign companies, which totalled EUR -2,0 (-1.4) million in the review period.

Financial income and expenses (net) during the review period totalled EUR -2.1 million (-4.9). Here is a breakdown of these:

FINANCIAL INCOME AND EXPENSES, MEUR	7-9/ 2017	7-9/ 2016	1-9/ 2017	1-9/ 2016	1-12/ 2016
Interest income	0.0	0.1	0.2	0.1	0.1
Exchange rate gains	0.1	0.0	0.1	0.0	0.1
Other financial income	0.0	0.0	0.0	0.0	6.7
FINANCIAL INCOME, TOTAL	0.1	0.1	0.3	0.2	6.9
Interest expenses	-0.2	-0.6	-0.6	-2.0	0.3
Exchange rate losses	-0.0	-0.3	-1.5	-1.2	-0.7
Other financial expenses	-0.0	-0.3	-0.4	-1.8	-2.0
FINANCIAL EXPENSES, TOTAL	-0.3	-1.2	-2.4	-5.1	-2.4
FINANCIAL ITEMS, TOTAL	-0.2	-1.1	-2.1	-4.9	4.5

Taxes for the period totalled EUR 3.5 (2.8) million, including the following items:

TAXES IN INCOME STATEMENT, MEUR	7-9/ 2017	7-9/ 2016	1-9/ 2017	1-9/ 2016	1-12/ 2016
Withholding taxes paid abroad	-1.0	-0.8	-3.5	-2.9	-4.5
Change in withholding tax accrual	0.2	0.0	0.4	0.5	4.3
Income taxes on the results of Group companies	-0.3	-0.1	-0.4	-0.4	-0.4
Prior year taxes	0.0	-0.0	0.0	0.0	-0.0
Change in deferred tax asset in India	0.0	-0.0	0.0	0.0	-0.0
TAXES IN INCOME STATEMENT, TOTAL	-1.1	-0.8	-3.5	-2.8	-0.6

Company's equity ratio improved and it was 15.3 % (11.4 %). Earnings per share were EUR -0.01 (-0.07). Equity per share at the end of the period was EUR 0.06 (0.07).

PERSONNEL

At the end of September 2017 Tecnotree employed 696 (892) persons, of whom 72 (107) worked in Finland and 624 (785) elsewhere. The company employed on average 743 (927) people during the review period. Personnel by country were as follows:

PERSONNEL	1-9/2017	1-9/2016	1-12/2016
Personnel, at end of period	696	892	818
Finland	72	107	88
Ireland	0	29	24
Brazil	10	16	11
Argentina	47	36	41
India	482	622	567
United Arab Emirates	20	23	25
Other countries	65	59	62
Personnel, average	743	927	895
Personnel expenses (MEUR)	-20.1	-24.9	-33.6

EVENTS AFTER THE END OF THE PERIOD

No significant events have occurred after the end of the period.

PROSPECTS IN 2017

The company estimates that its net sales will be less in 2017 than in the previous year and the operating result will be better than in 2016. Net sales was EUR 60.1 million and the operating result was EUR -10.1 million.

The company continues to be financially constrained and the liquidity will remain extremely tight. The amount of overdue trade payables have remained unchanged both in the Group and in the parent company. At the publication of the financial statements, there is no certainty about 12- month sufficiency of long-term, short-term and working capital financing.

The company is engaged aggressively to collect its receivables from the key customers, contemplating a financing arrangement to secure the continuity of its operations and to strengthen its capital and negotiating with financiers to secure long-term external funding through investors, which could be implemented through company or restructuring arrangements. The company follows the restructuring program and implements operational efficiency measures.

The company's ability as going concern is dependent on the successful completion of the financing transactions and its ability to continue to execute payments according to debt restructuring payment programme. The company has agreed with two biggest creditors to postpone the due date of late payment at the end of August until the end of November 2017.

The company will continue the EUR 5 million saving program initiated in March 2017. The company expects to achieve its targets by reducing rented premises, reducing travel expenses, focusing on locations, reducing external services and personnel costs. Actions have done during the review period, but mostly, the cost savings will realize during 2018.

The company estimates that quarterly fluctuations are significant.

TECNOTREE CORPORATION

Board of Directors

FURTHER INFORMATION

Further information, investors and media:

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For more information, please visit www.tecnotree.com.

TABLE SECTION (UNAUDITED)

The financial figures in the income statement, balance sheet and key indicators are presented in million euros. The figures shown here have been calculated using exact values.

CONSOLIDATED INCOME STATEMENT, MEUR	7-9/ 2017	7-9/ 2016	1-9/ 2017	1-9/ 2016	1-12/ 2016
NET SALES	12.2	16.2	39.5	45.4	60.1
Other operating income	0.0	0.0	0.2	0.1	0.3
Materials and services	-0.2	-0.7	-1.2	-3.9	-4.7
Employee benefit expenses	-5.8	-8.4	-20.1	-24.9	-33.6
Depreciation, amortisation and	-0.2	-0.2	-0.5	-0.7	-0.9
Other operating expenses	-4.6	-6.1	-13.6	-16.5	-31.2
OPERATING RESULT	1.4	0.8	4.3	-0.5	-10.1
Financial income	0.1	0.1	0.3	0.2	6.9
Financial expenses	-0.3	-1.2	-2.4	-5.1	-2.4
RESULT BEFORE TAXES	1.2	-0.3	2.1	-5.4	-5.6
Income taxes	-1.1	-0.8	-3.5	-2.8	-0.6
RESULT FOR THE PERIOD	0.1	-1.1	-1.4	-8.2	-6.3
Allocated to:					
Equity holders of parent company	0.1	-1.1	-1.5	-8.2	-6.3
Non-controlling interest	-0.0	0.0	0.1	0.0	0.0
EPS calculated on the profit attributable to equity holders of parent company:					
Earnings per share, basic, EUR	0.00	-0.01	-0.01	-0.07	-0.05
Earnings per share, diluted, EUR	0.00	-0.01	-0.01	-0.07	-0.05

CONSOLIDATED BALANCE SHEET

30.9.2017 30.9.2016 31.12.2016

	30.9.2017	30.9.2016	31.12.2016
Assets			
Goodwill	16.6	17.1	17.6
Other intangible assets	0.3	0.5	0.4
Tangible assets	2.1	3.2	2.5
Deferred tax assets	0.8	0.6	0.6
Other non-current trade and other receivables	0.5	1.2	1.3
Current assets			
Inventories	1.0	0.7	0.9
Trade receivables	12.3	14.5	13.8
Other receivables	12.2	32.4	19.3
Investments	0.0	0.0	0.0
Cash and cash equivalents	2.1	1.0	3.5
TOTAL ASSETS	48.1	71.2	59.8
Shareholders' equity	7.4	8.1	10.7
Non-current liabilities			
Deferred tax liabilities	0.0	0.0	0.0
Non-current interest-bearing liabilities	18.0	0.4	24.0
Other non-current liabilities	8.6	2.0	8.8
Current liabilities			
Current interest-bearing liabilities	0.3	33.1	0.4
Trade payables and other liabilities	13.9	27.6	15.8
EQUITY AND LIABILITIES, TOTAL	48.1	71.2	59.8

CONSOLIDATED CONDENSED CASH FLOW STATEMENT, MEUR	7-9/ 2017	7-9/ 2016	1-9/ 2017	1-9/ 2016	1-12/ 2016
Cash flow from operating activities					
Result for the period	0.1	-1.1	-1.4	-8.2	-6.3
Adjustments of the result	1.2	2.7	6.0	8.7	6.5
Changes in working capital	2.0	-2.5	4.6	-1.6	3.5
Interest paid	0.0	-0.0	-0.0	-0.1	-0.0
Interest received	-0.1	0.0	0.0	0.1	0.1
Income taxes paid	-1.5	-1.5	-4.3	-3.4	-5.0
Net cash flow from operating activities	1.8	-2.4	4.9	-4.6	-1.2
Cash flow from investing activities					
Investments in intangible assets	-0.0	0.0	-0.0	-0.0	-0.0
Investments in tangible assets	-0.1	-0.0	-0.1	-0.2	-0.3
Proceeds from disposal of intangible and tangible assets	-0.0	0.0	0.0	0.1	0.6
Net cash flow from investing activities	-0.2	-0.0	-0.1	-0.2	0.3
Cash flow from financing activities					
Borrowings received	0.0	1.2	0.0	2.1	2.1
Repayments of borrowings	-0.3	-0.5	-6.2	-0.9	-1.7
Finance lease liabilities, repayments and interest	-0.0	-0.0	-0.1	-0.0	0.0
Changes in pledged cash deposits	0.2	0.0	0.8	0.0	-0.2
Interest paid	-0.3	-0.4	-0.5	-1.8	-2.2
Net cash flow from financing activities	-0.4	0.4	-5.8	-0.6	-2.1
Increase (+) and decrease (-) in cash and cash equivalents	1.2	-2.1	-1.0	-5.3	-3.0
Cash and cash equivalents at beg. of period	1.1	3.1	3.5	6.4	6.4
Impact of changes in exchange rates	-0.1	0.0	-0.3	-0.1	0.0
Cash and cash equivalents at end of period	2.1	1.0	2.1	1.0	3.5

KEY FIGURES

CONSOLIDATED KEY FINANCIAL FIGURES	1-9/2017	1-9/2016	1-12/2016
Return on investment, %	19.9	-0.9	-7.6
Return on equity, %	-20.6	-84.6	-43.9
Equity ratio, %	15.3	11.4	17.9
Net gearing, %	219.5	399.8	195.6
Investments, MEUR	0.1	0.2	0.3
% of net sales	0.3	0.5	0.5
Research and development, MEUR	4.5	5.7	6.5
% of net sales	11.3	12.6	10.8
Order book, MEUR	25.4	23.9	24.9
Personnel, average	743	927	895
Personnel, at end of period	696	892	818

QUARTERLY KEY FIGURES	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16
Net sales, MEUR	12.2	15.1	12.1	14.7	16.2	16.2
Net sales, change %	-24.5	-6.4	-6.8	-40.2	-8.6	-5.4
Adjusted operating result ¹	1.6	3.6	-0.2	0.8	1.8	1.0
% of net sales	13.4	23.6	-1.7	5.2	11.3	6.2
Operating result, MEUR	1.4	3.1	-0.2	-9.6	0.8	1.0
% of net sales	11.4	20.3	-1.7	-65.0	5.2	6.2
Adjusted result for the period, MEUR ²	0.3	1.9	-1.5	3.0	-0.8	-2.6
Result for the period, MEUR	0.1	1.4	-2.5	2.0	-1.1	-2.6
Personnel at end of period	696	719	771	818	892	926
Earnings per share, basic, EUR	0.00	0.01	-0.02	0.02	-0.01	-0.02
Earnings per share, diluted, EUR	0.00	0.01	-0.02	0.02	-0.01	-0.02
Equity per share, EUR	0.06	0.07	0.09	0.09	0.07	0.07
Net interest-bearing liabilities, MEUR	16.2	17.4	28.9	20.9	32.5	29.7
Order book, MEUR	25.4	30.4	28.3	24.9	23.9	29.8

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

² Adjusted result for the period = result for the period without one-time costs.