



**TEKLA**

# Tekla Corporation

Annual Report 2007

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[www.tekla.com](http://www.tekla.com)

## FROM THE CEO

### TEKLA IN 2007: PROFITABLE, GROWING AND INTERNATIONAL

The figures for 2007 show that we reached record profitability both absolutely and relatively. Our net sales of nearly 60 million euros generated an operating result of almost 21 million euros. This good profitability was made possible by focusing on the software product business and extremely favorable development of our sales.

Net sales do not grow by themselves. Responding to market demand and product development wanted by the customers require people. During 2007, the number of our personnel increased by 55 people, taking the sale of the Defence business into consideration. We are continuing to recruit more people, as we want to ensure the prerequisites for long-term growth in the future as well.

Being international is everyday for us at Tekla, but by no means in a negative sense. We are working in a truly international organization; of the 400 Tekla employees, nearly four out of ten already work outside Finland. There are about ten people working in our headquarters in Espoo whose native country is not Finland. In a meeting of the international sales organization in the summer of 2007, which also involved our partners, 30 nationalities were present!

More than 80% of our net sales are generated outside Finland. With regard to the Building & Construction business area, the proportion is as much as 94%. We have customers on all continents in more than 80 countries. Impressive sites and landmarks designed using Tekla Structures can be found in the largest cities in the world. In the United States, which is our largest individual market, our software has been used in the design of various stadiums and malls among others. Our operations in India gained momentum during the year, too. Tekla Xpower, a part of Infra & Energy's product portfolio, on the other hand, has customers in the Nordic countries and the Baltic countries, but also in Germany and Malaysia.

The market has been favorable to us. Model-based design and new ways of working are gaining ground. Customers must be able to perform their work faster, more efficiently and faultlessly; Tekla offers innovative software product solutions that are the result of long-term development efforts to meet this challenge.

Tekla has chosen the strategy of focusing on the software product business. In accordance with this strategy, the Infra & Energy business area was formed at the beginning of the year, and the project-based



Photo: Pasi Hytti

Defence business was divested in the second quarter. Our objective is a more extensive software portfolio for our customers as well as making internal operations more effective in terms of product development and maintenance functions.

Tekla was established in Finland in 1966, and almost all of our product development is still located here. The Finnish environment suits us in many ways; for instance, Finland is a good and unprejudiced home laboratory when we are developing new software products for the international market.

So, Tekla has a long history that we can be proud of. An IT company with a history of more than four decades is a rarity, even outside Finland. Traditions are the heart and backbone of our excellence and customer industry knowledge.

I wish to thank our customers, partners, other stakeholders, and above all our excellent personnel for a great year for Tekla!

Ari Kohonen, President and CEO

## FIVE YEARS IN FIGURES 2003 – 2007

(Million euros)	IFRS				FAS	
	2007	2006	2005	2004	2004	2003
<b>SCALE OF OPERATIONS:</b>						
Net sales	59.25	49.78	37.95	37.89	37.89	39.81
Change, %	19.0	31.2	0.2	-	-4.8	-4.0
Net sales, continuing businesses	58.24	47.64				
Change, %	22.3					
Exports and international operations	47.89	37.44	27.29	21.49	21.49	20.73
Change, %	27.9	37.2	27.0	-	3.7	-3.0
% of net sales	80.8	75.2	71.9	56.7	56.7	52.1
Balance sheet total	47.00	39.75	28.59	33.53	32.91	35.71
Research and development expenses 1)	12.93	10.66	9.50	11.05	11.05	12.28
% of net sales	21.8	21.4	25.0	29.2	29.2	30.8
Investments in property, plant and equipment	1.66	1.33	1.30	0.84	0.84	1.34
% of net sales	2.8	2.7	3.4	2.2	2.2	3.4
Personnel, on average	374	324	299	368	368	428
Net sales / employee (1,000 euros)	158.4	153.6	126.9	103.0	103.0	93.0
Personnel expenses / employee (1,000 euros)	69.5	70.7	66.3	58.5	58.3	54.7
<b>PROFITABILITY:</b>						
Operating profit (loss)	20.68	13.62	6.39	-0.80	-1.47	-9.45
% of net sales	34.9	27.4	16.8	-2.1	-3.9	-23.7
Operating profit (loss), continuing businesses	17.90	13.38				
% of net sales	30.7	28.1				
Operating profit (loss) before extraordinary items	21.21	13.77	7.08	-0.96	-1.60	-9.32
% of net sales	35.8	27.7	18.7	-2.5	-4.2	-23.4
Profit / loss before appropriations and taxes	21.21	13.77	7.08	-0.96	-1.60	-9.32
% of net sales	35.8	27.7	18.7	-2.5	-4.2	-23.4
Return on equity (ROE), %	55.4	48.5	28.3	-0.1	-4.6	-33.0
Return on investment (ROI), %	74.5	63.1	32.7	-3.2	-5.8	-29.9
Operating profit (loss) / employee (1,000 euros)	55.3	42.0	21.4	-2.2	-4.0	-22.1
<b>FINANCING AND FINANCIAL POSITION:</b>						
Shareholders' equity	31.45	24.72	17.21	23.79	23.31	24.17
Interest-bearing liabilities	0.34	0.69	1.34	1.76	1.57	2.02
Non-interest-bearing liabilities	15.21	14.34	10.04	7.98	7.90	9.38
Equity ratio, %	67.5	63.4	61.1	71.8	72.0	69.0
Net gearing, %	-94.8	-95.2	-81.2	-78.5	-89.2	-50.6
<b>SHARE RELATED DATA:</b>						
Earnings per share (euros)	0.69	0.45	0.26	0.00	-0.05	-0.42
Earnings per share (euros), continuing businesses	0.60	0.44				
Earnings per share (euros), discontinued operations	0.09	0.01				
Equity per share (euros)	1.40	1.10	0.76	1.06	1.04	1.07
Dividend per share (euros) 2)	0.50	0.40	0.12	0.00	0.00	0.00
Dividend (1,000 euros) 2)	11,258	9,007	2,702	0	0	0
Dividend to earnings ratio, %	72.5	88.9	46.2	0.0	0.0	0.0
Effective dividend yield, %	3.9	5.1	3.5	0.0	0.0	0.0
Price / earnings (P/E)	18.4	17.5	13.2	-	-38.5	-4.6
Share prices, euros						
- period's lowest	7.60	3.38	1.85	1.71	1.71	0.98
- period's highest	14.94	7.90	3.60	2.80	2.80	2.15
- period's average	10.88	5.24	2.87	2.16	2.16	1.46
- on December 31	12.70	7.88	3.42	1.87	1.87	1.93
Market capitalization	285.96	177.43	77.01	42.11	42.11	43.46
Share turnover (in 1,000s)	13,797	13,742	8,026	3,901	3,901	2,269
Share turnover, %	61.3	61.0	35.6	17.3	17.3	10.1
Number of issue-adjusted shares at year's end	22,516,600	22,516,600	22,516,600	22,516,600	22,516,600	22,516,600
Average number of issue-adjusted shares	22,516,600	22,516,600	22,516,600	22,516,600	22,516,600	22,516,600

1) The calculation principles of research and development expenses were specified in 2007.

2) The Board's proposal to the AGM.

In calculating share related data, the company's own shares are deducted from the total number of shares and the value of treasury shares from shareholders' equity. Calculation of financial indicators on page 57.

# REVIEW BY THE BOARD OF DIRECTORS 20007

## FINANCIAL YEAR IN BRIEF

### > Tekla Group's \*)

- Net sales were 59.25 (in the corresponding period 2006 49.78) million euros.
- Operating result was 20.68 (13.62) million euros and operating profit percentage was 34.9 (27.4).

### > Tekla Group's continuing businesses

- Net sales were 58.24 (47.64) million euros. The growth of net sales was approximately 22 percent.
- Operating result was 17.90 (13.38) million euros and operating profit percentage was 30.7 (28.1).
- The share of international operations amounted to 82 (79) percent of net sales.

### > During 2007 Tekla focused further on product-oriented software business. Therefore the energy and municipal business areas were merged into Infra & Energy at the beginning of the year, and Defence business was sold at the end of April.

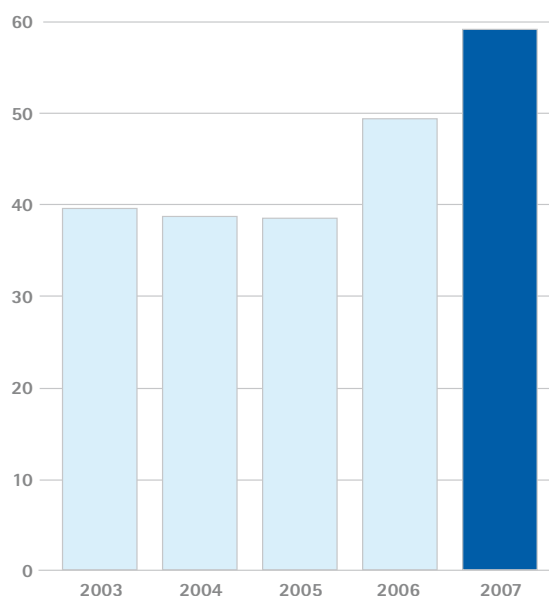
> Building & Construction business area, which achieved record net sales, 45.48 million euros, pursues growth with the expanded product portfolio in addition to its well-established steel design software. B&C's operating profit amounted to 15.96 million euros and its operating profit percentage was 35.1. The share of international operations was 94 percent. The business area has customers in more than 80 countries.

> Also the other business area, Infra & Energy, reached good results on the yearly level. Its net sales amounted to 12.76 million euros, operating profit was 1.96 million euros and operating profit percentage was 15.4. The share of international operations was 42 percent.

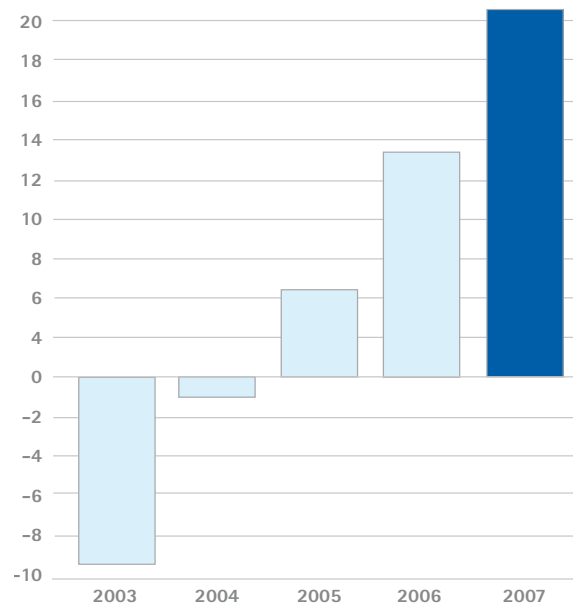
> Tekla Corporation's Board will propose to the Annual General Meeting, to be held March 19, 2008, that a dividend of 0.50 euros per share be distributed for the financial period 2007. This translates into a total dividend payment of 11,258,300 euros.

\*) These figures include the sold Defence business and the sales profit of it.

**Tekla Group's net sales, million euros**



**Tekla Group's operating result, million euros**



## BUSINESS

Tekla develops and markets software products and related services that make customers' core business more effective, enable their further development and enhance customers' competitiveness. The products are used in building and construction, in energy companies and water utilities as well as in municipalities. The ingenuity of Tekla's products is in their model-based technology; Tekla is an international forerunner in developing model-based technology in its customer segments. Tekla also has decades of experience in select customer industries.

Tekla's software products are sold in the international market to a clearly defined customer segments and they are meant for professional use.

For Tekla, focusing on the software product business enables more unified processes in the product

development and among others customer relations management.

## NET SALES AND RESULT

Net sales of Tekla Group for January-December 2007 totaled 59.25 (49.78 during the same period in 2006) million euros. Growth in net sales was 19%. The operating result for 2007 was 20.68 (13.62) million euros. The operating result amounted to 34.9% (27.4%) of net sales. The Defence business, sold at the end of April 2007, and the resulting sales profit are included in these figures.

Net sales of the continuing businesses for January-December 2007 amounted to 58.24 (47.64) million euros, increasing by approximately 22%. The operating result of the continuing businesses was clearly better than the previous year, reaching 17.90 (13.38) million euros, and

**Tekla Group's net sales and operating result are shown in the following tables**

### Net sales, million euros

1.1.- 31.12.	2007	2006	Change	2007	2006
Building & Construction	45.48	35.88	9.60	76.8	72.1
Infra & Energy *)	12.76	11.76	1.00	21.5	23.6
Defence **)	1.00	2.14	-1.14	1.7	4.3
Others	0.01	0.00	0.01	0.0	0.0
<b>Total</b>	<b>59.25</b>	<b>49.78</b>	<b>9.47</b>	<b>100</b>	<b>100</b>

### Operating result, million euros

1.1.- 31.12	2007	2006	Change
Building & Construction	15.96	12.77	3.19
Infra & Energy *)	1.96	1.04	0.92
Defence **)	2.78	0.24	2.54
Others	-0.02	-0.43	0.41
<b>Total</b>	<b>20.68</b>	<b>13.62</b>	<b>7.06</b>

\*) At the beginning of 2007, the Energy & Utilities and Public Infra business areas were merged. Comparison figures for 2006 have been calculated to correspond with the new division of business areas..

\*\*) Defence has been processed as discontinued operations also for the comparison period. The Defence operating result for Q2/2007 includes sales profit amounting to approximately 2.3 million euros and estimated additional sale price amounting to 0.25 million euros for Q4/2007.

the operating result percentage was 30.7 (28.1). Profit (loss) before taxes amounted to 18.43 (13.54) million euros.

## PROFITABILITY

Return on investment (ROI) was 74.5 (63.1) percent and return on equity (ROE) 55.4 (48.5) percent. Earnings per share were 0.69 (0.45) euros and for the continuing businesses earnings per share were 0.60 (0.44) euros. Equity per share at the end of the period was 1.40 (1.10) euros.

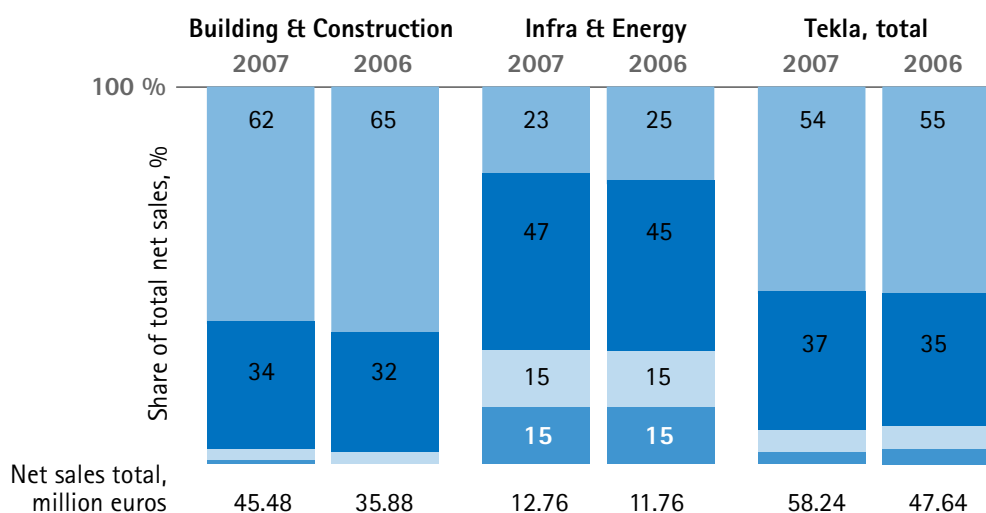
## FINANCIAL POSITION

The consolidated balance sheet totaled 47.00 (39.75) million euros. Equity ratio was 67.5 (63.4) percent. Interest-bearing debts were 0.34 (0.69) million euros. Liquid assets stood at 30.15 (24.24) million euros, constituting 64.2 (61.0) percent of the balance sheet total.

## INVESTMENTS

Gross investments in 2007 amounted to 1.66 (1.33) million euros, consisting of normal acquisitions of hardware, software and equipment.

## Net sales by type (continuing businesses)



Net sales types used in the table above:

- License: license to use the sold product version
- Recurring: maintenance income (includes annual product versions and customer support) and subscriptions
- Services: implementation support, training and consultation
- Others: e.g. customer- or customer group-specific product projects

## BUSINESS AREAS

### BUILDING & CONSTRUCTION

Tekla's Building & Construction business area (B&C) develops and markets the Tekla Structures software product for model-based design of steel and concrete structures as well as the management of fabrication and construction.

The trends in the building industry have remained favorable in Tekla's key market areas. Tekla's products are primarily used in commercial, office and industrial buildings. B&C's largest market is the United States, and the weakened industry outlook there mainly concerns small-scale residential construction.

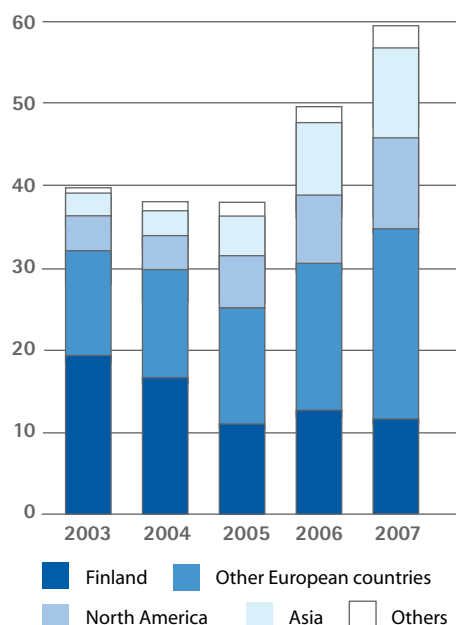
Demand for modeling systems is on the rise, and product modeling is strengthening its position in structural design and other stages of the building process. Tekla's market position as a supplier of 3D modeling

software is strong in all markets and the numbers of users continued to increase.

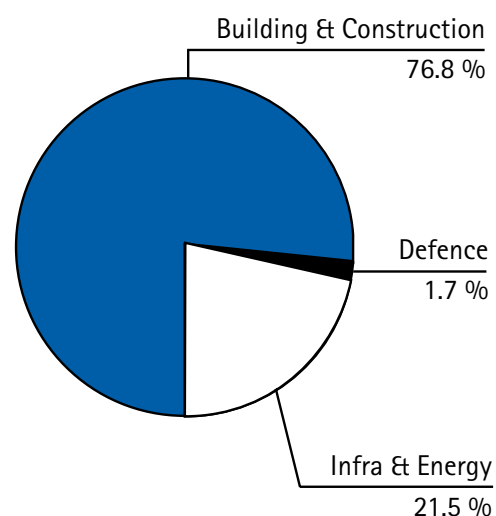
B&C's customers' business volumes show no sign of letting up; customers are rather suffering from a shortage of manpower. The impacts of volume changes on the demand for Tekla's products are not straightforward. Fluctuation in the demand for licenses in particular does not necessarily follow building industry trends very closely. Increase in the average size of transactions and larger customer accounts are favorable trends in Tekla's view.

The net sales of B&C amounted to 45.48 (35.88) million euros for January-December 2007. Net sales increased by approximately 27% compared to the same period the previous year. The operating result was 15.96 (12.77) million euros. B&C's operating result percentage for 2007 was 35.1% (35.6%). Changes in the U.S. dollar-euro exchange rate had a minor negative impact on an annual level.

Net sales by market area, million euros



Net sales 2007 by business area, %





B&C's net sales for the fourth quarter totaled 12.04 (10.91) million euros, increasing by 10.4%. B&C's operating result was 3.85 (3.99) million euros and operating result margin 32.0% (36.6%).

B&C experienced more moderate growth in October-December than during the first three quarters due to the timing of individual major deals.

International operations accounted for 94% (94%) of B&C's net sales for January-December 2007. Most markets, such as North America, India and the Middle East, were extremely strong. Other key markets in 2007 were Western Europe and the Nordic countries. Highest relative growth in net sales for the fourth quarter was seen in North America and the Far East.

By far the most of B&C's net sales was still generated by the product offering for structural steel engineering. Sales of B&C's other products developed also favorably during the year. Nordic customers in particular are using the features of Tekla Structures increasingly more extensively.

Building & Construction pursues growth with the expanded product portfolio in addition to its well-established steel design software. From the point of view of Tekla, it is a very favorable trend that the building industry's move from traditional two-dimensional work methods to model-based 3D processes seems to be gaining momentum. This development increases customers' productivity and improves their competitiveness in every market condition. The number of personnel will be increased further in order to expand the product offering and marketing capabilities.

Tekla's representative office in India was transformed into a fully-owned subsidiary at the end of 2007. This facilitates increased flexibility in this rapidly growing market.

#### **B&C events in 2007:**

- In November, Tekla introduced the Tekla Structures for Construction Management concept in the United States and the United Arab Emirates. The concept expands the Tekla Structures software to use by builders, developers and contractors

**Building & Construction** business area develops and markets the Tekla Structures software.

By enabling the creation of the most accurately detailed and data-rich structural models, Tekla provides the building and construction industry the best constructability on the market.

**Tekla Structures** is premium-brand building information modeling (BIM) software that streamlines the delivery process of design, detailing, fabrication, and construction organizations. Tekla Structures' ability to process extensive amounts of data enables the creation of accurately detailed and highly constructable 3D and 4D models that apply to every stage of design and construction and represent the "as-built" condition of a building. Tekla Structures effectively integrates into any best-of-breed software driven workflow; such collaborative workflows are the key to minimizing errors and maximizing efficiency, resulting in high profitability and on-time project completion.

Tekla Structures encompasses specialized configurations for structural engineers, steel detailers and fabricators, precast concrete detailers and manufacturers, as well as construction companies in more than 80 countries.

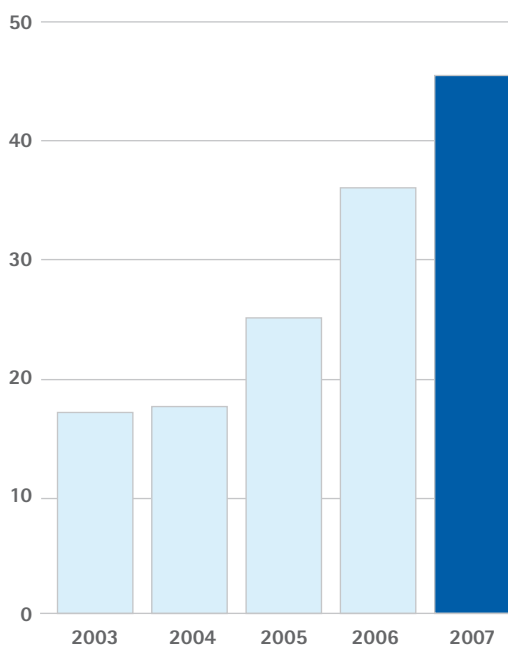
- > In October, Tekla signed an international partnership agreement with the world's largest manufacturer of steel, ArcelorMittal. The aim is to aid architects, designers, design agencies and building professionals in using steel as efficiently as possible.
- > The Indian company Techflow Engineers strengthened its competitive position and increased the number of its Tekla Structures licenses to one hundred. Techflow is a local pioneer in structural engineering and a long-term customer for Tekla.
- > WSP Group, one of the fastest growing building industry consultancies in the world and the industry's leading expert in structural 3D modeling, signed a framework agreement with Tekla in September.
- > In August, Tekla signed a framework agreement with one of the leading Nordic engineering companies, Ramboll Group. Ramboll is a significant Tekla Structures user. The company has used the software in hundreds of General Design projects, most of which have involved concrete as the building material.
- > The Al Attar Group, a U.A.E.-based real estate development and construction group, chose to adopt Tekla Structures in its key business processes in July

- > Tekla joined the Business Software Alliance in the spring. The BSA is a global association that aims to reduce software piracy and promote a legal network environment

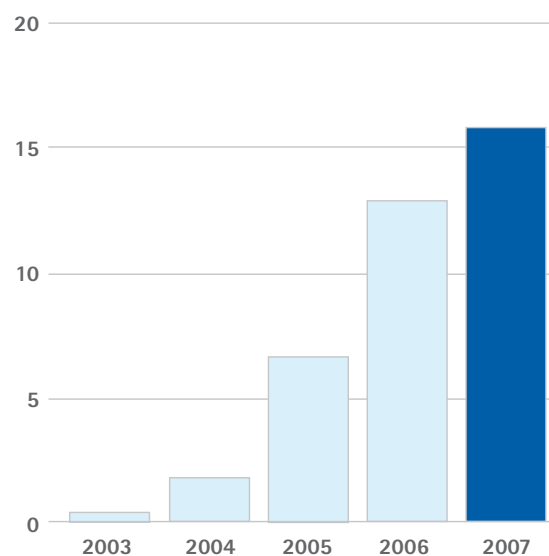
## INFRA & ENERGY

At the beginning of 2007, the Energy & Utilities and Public Infra business areas merged into a new business area, Infra & Energy. Infra & Energy focuses on development and sales of model-based software solutions that support customers' core processes. Its key customer industries (products in brackets) are energy distribution (Tekla Xpower), infrastructure management (Tekla Xcity, Tekla Xstreet) and water supply (Tekla Xpipe). I&E's product-based offering also comprises customer projects where product features are developed in cooperation with individual customers or customer groups. Product entities developed in the projects are offered to other customers as well.

**Net sales, Building & Construction, million euros**



**Operating result, Building & Construction, million euros**



Structural changes in the energy industry and end users' increasing expectations of the reliability of energy distribution and customer service increase the need for developing and renewing network information systems. Tekla has a solid market position in the industry in the Nordic countries and the Baltic states. In Finland, increasing regional collaboration will increase the public sector's GIS development needs. Tekla's market position is still strong in large and medium-sized Finnish municipalities.

The net sales of I&E amounted to 12.76 (11.76) million euros for January–December 2007. Net sales increased by some 9%. I&E's operating result for the reporting period was 1.96 (1.04) million euros. I&E's operating result percentage was 15.4% (8.8%). International operations accounted for 42% (33%) of net sales.

I&E's net sales for the fourth quarter amounted to 4.40 (3.65) million euros and operating result was 1.20 (0.53) million euros. The operating result percentage was 27.3% (14.6%). Also the Infra & Energy business area achieved good annual results, as previously predicted. It experienced strong growth during the fourth quarter, and I&E made more than a half of its 2007 result during this quarter.

The majority of I&E's net sales consists of sales to existing customers. New customers are still mainly expected from among Swedish and German energy companies as well as Finnish and Swedish water utilities. In Eastern Europe, business opportunities are explored with local partners. The customer base in the infrastructure management sector is expected to broaden with the adoption of regional services in Finland. The outlook for the business area seems favorable. Demand is not very sensitive to economic fluctuations.

#### **I&E events in 2007:**

##### **Tekla Xpower:**

- > Latvia's national energy company Latvenergo ordered a significant expansion of Tekla Xpower towards the end of the year.
- > Swedish Mälarenergi became a new customer.
- > A contractor interface, realized as a customer cooperation project, was also completed at the end of the year.
- > Additionally, expansion of network information system use was agreed with several customers in the Nordic countries. Utilization of the software expanded in Malaysia as well.

##### **Tekla Xcity:**

- > In the field of infrastructure management, several collaboration projects were underway with customers.

The **Infra & Energy** business area develops and markets model-based software solutions for energy distribution, the municipal sector, water supply and sewerage and infrastructure planning.

The **Tekla Xpower** and **Tekla Xpipe** network information systems are used by more than 70 energy distribution companies in Northern Europe and by nearly 20 water utilities in Finland and Sweden.

**Tekla Xcity**, the location and basic register information system for municipalities, and **Tekla Xstreet**, the planning system for the infrastructure sector, are used in more than 50 municipalities and engineering offices in Finland and Sweden.

- > A project to develop electronic building supervision services continued with six major Finnish cities. When it is completed next summer, the application will comprise a key part of the Tekla Xcity-based electronic service entity for infrastructure management.
- > The Internet map service reform project was completed

#### Tekla Xpipe:

- > A bridgehead in the Swedish water supply field was taken with the Tekla Xpipe system order by the city of Linköping.

## DEFENCE

As a part of the decision to focus further on product-based international business operations, Tekla sold its project-based Defence business to Patria on May 1, 2007. In line with the terms and conditions of the contract, Tekla has a possibility until the end of 2008 to receive an additional sale price depending on the sales development of the sold business. In connection with the transaction, slightly more than 20 Defence employees transferred to Patria.

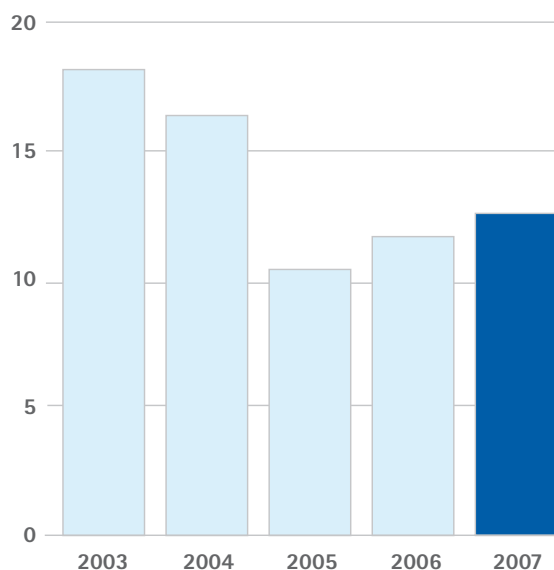
The Defence business area's net sales for 2007 amounted to 1.00 (2.14) million euros. Its operating result was 2.78 (0.24) million euros. The operating result for Q2/2007 includes sales profit amounting to approximately 2.3 million euros and estimated additional sale price amounting to 0.25 million euros for Q4/2007.

Defence is processed as discontinued operations in the financial reporting for 2007 and the comparison period.

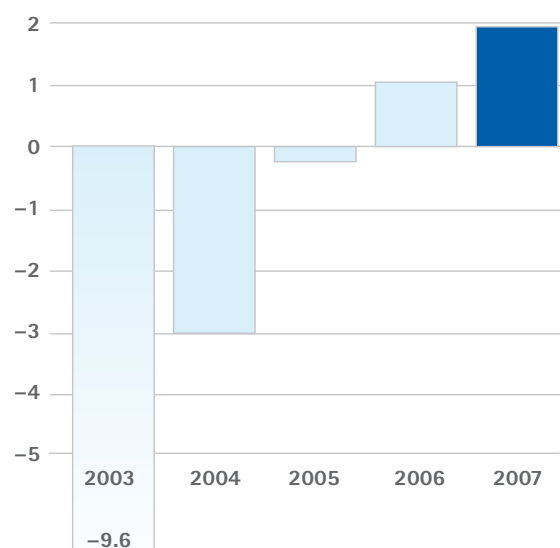
## PRODUCT DEVELOPMENT

The annual main version of Tekla Structures was launched in mid-April. During the latter half of the year, Tekla Structures development focused on the 2008 main version to be released in the spring. In the main version, the focuses of development include modeling of all types of structures, speed and user friendliness of the software, improvements connected with drawings and reports, and more versatile utilization of the model between organizations.

**Net sales, Infra & Energy,  
million euros**



**Operating result, Infra & Energy,  
million euros**



A product module for construction management is being developed for the software, making it possible to model the entire project from detailing to site schedules and supervision.

Main versions of the Tekla Xpower and Tekla Xpipe software products were completed in June. They feature a variety of new functions, especially in network calculations. During the second half of the year the product development focused among others on Tekla Xpower's next main version, which was completed in December. The possibility of controlling access to the system data by various user groups (such as subcontractors) was developed as a key feature.

Development of the Tekla Xcity and Tekla Xstreet software products continued in close cooperation with customers. This year, versions of both products were released in June and in November - December. The WebMap Internet map service reform project was completed towards the end of the year.

Product development was reorganized as of the beginning of 2008, and software product development was transferred to the corresponding business areas. This was made to ensure that product development will take place even closer to the customers. The Technology & Architecture unit is responsible for technology and architecture shared by all of the products.

## **SHORT-TERM RISKS AND UNCERTAINTY FACTORS**

Possible risks and uncertainty factors associated with Tekla's business are mainly connected with the market and competition situation and the general economic situation. Trends in the building industry may weaken, at least in certain markets, which might have a negative impact on the demand for Tekla products.

In the software product business, it is possible to react swiftly to growing demand, and profits from additional sales are good. The majority of net sales comprises of sales of licenses entitling to use software products. Fluctuation in their demand can be rapid and significant. In the short term and in case of quick changes, it would be challenging to proportion fixed personnel expenses, which account for the majority of Tekla's costs.

The sales of Tekla software are geographically distributed. Also, individual customers do not account for a significant share of net sales, and therefore risks such as those described above are not significant.

## **ENVIRONMENT**

The direct environmental consequences of Tekla's business are minimal. The direct environmental effects arising from the use of the company's products are not considered to be significant.

## **PERSONNEL AND ORGANIZATION**

### **Personnel**

The Group personnel averaged 374 (in 2006: 324 and in 2005: 299) in January-December 2007; on average 144 (2006: 107, 2005: 95) worked outside Finland. In these figures, the number of part-time staff has been converted to correspond to full-time work contribution. The Defence personnel (approximately 20) are included in the number of personnel until the end of April 2007.

At the end of the year, Tekla personnel totaled 400 (2006: 365, 2005: 324) including part-time staff, of them 158 (2006: 123, 2005: 100) outside Finland. The number of personnel in the continuing businesses increased by 55 during 2007. Largest increases to personnel took place in product development and sales.

The average age of Tekla's employees was 37.5 (2006: 37.5, 2005: 37.9) years. Of the personnel, 64% (2006: 66%, 2005: 66) had a higher academic degree or university-level studies. 29% (2006: 27%, 2005: 27) of Tekla employees were female, 71% (2006: 73%, 2005: 73%) male. The turnover of personnel was 7.7% (2006: 8.2%, 2005: 7.5%).

The company has a compensation and incentive system applied to all employees, and The Tekla Board of Directors decides on its principles on an annual basis. They are connected with the achievement of the previous year's operative and financial goals as well as share price development. Tekla has no valid option programs.

In 2007 salaries totaled 21.5 (2006: 18.7 and 2005: 15.8) million euros.

#### Senior management

No changes took place in the composition of the Tekla Management Team during 2007. The members of the

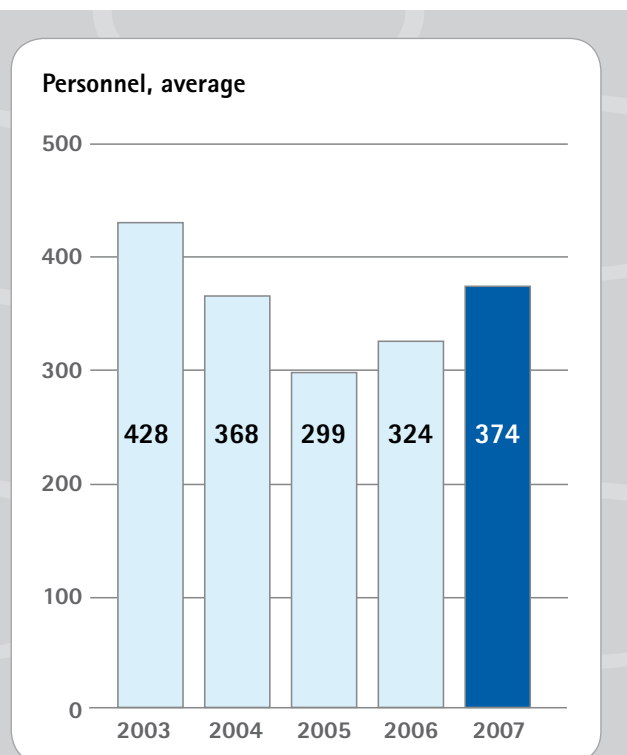
Tekla Management Team are Ari Kohonen, President and CEO; Risto Rätty, Executive Vice President and CEO's deputy (appointment as of January 1, 2008) (Building & Construction); Heikki Multamäki, Executive Vice President (Business Development); Kai Lehtinen, Senior Vice President (Infra & Energy); Petri Raitio, Senior Vice President (Technology & Architecture); Leif Granholm, Senior Vice President (Tekla Nordic Area); Harald Lundberg, Vice President (Tekla Information Management); Anneli Bergström, Vice President (Human Resources) and Timo Keinänen, CFO.

#### CORPORATE GOVERNANCE

Corporate Governance in Tekla Corporation complies with the provisions of the Finnish Companies Act, Tekla's Articles of Association and, as of July 1, 2004, the Corporate Governance Recommendation prepared by the Helsinki Stock Exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. Further information on Corporate Governance at Tekla can be found on the Internet at [www.tekla.com](http://www.tekla.com) ➤ Investors ➤ Corporate Governance.

#### ANNUAL GENERAL MEETING 2007

Tekla Corporation's Annual General Meeting on March 15, 2007 adopted the financial statements, consolidated income statement and balance sheet for 2006. The Annual General Meeting also discharged the CEO and the Board members from liability. The Annual General Meeting also approved the Board's proposal that a dividend of 0.20 euros plus an extra dividend of 0.20 euros due to the anniversary, or a total of 0.40 euros per share, be distributed for the financial period 2006.



### Board of Directors

Ari Kohonen, Esa Korvenmaa, Olli-Pekka Laine (Vice Chair), Heikki Marttinen (Chair) and Erkki Pehu-Lehtonen were re-elected Board members until the conclusion of the Annual General Meeting in 2008. Timo Keinänen was re-elected deputy member of the Board. Juha Kajanen is the Tekla personnel representative on the Board and Pirjo Lundén his personal deputy.

### Auditors

PricewaterhouseCoopers Oy were re-elected as auditors. Markku Marjomaa, Authorized Public Accountant, acts as the auditor in charge.

### Authorizations

The AGM gave the Board the following authorizations:

- > The Board was authorized to decide on the increase of the company's share capital in one or several tranches of new shares so that a maximum of 4,500,000 new shares with a nominal value of 0.03 euros may be subscribed.
- > The Board was authorized to decide on the acquisition of the company's own shares for the development of the company's capital structure and to be used as means of payment at the discretion of the Board regarding object and extent when the company acquires assets related to its business operations or renders its own shares as payment in potential acquisitions or to be used as part of the company's remuneration and incentive system. The maximum number of shares to be acquired was 500,000.
- > The Board was authorized to decide on the transfer of the company's own shares. The authorization concerns all the company's own shares acquired by

the company based on the authorizations given to the Board, in total 569,600 shares. The company's own shares may be used as means of payment at the discretion of the Board regarding object and extent when the company acquires assets related to its business operations or renders its own shares as payment in potential acquisitions or to be used as part of the company's remuneration and incentive system.

All the above mentioned four authorizations are valid until the Annual General Meeting 2008, but not longer than one year from the Annual General Meeting's decision, i.e. until March 15, 2008.

The Board did not use the authorizations given by the AGM during 2007.

### DIVIDEND AND DISTRIBUTABLE FUNDS

The parent company's distributable funds amount to 22,985,645 euros, of which the profit for the financial period is 14,529,801 euros.

The Board will propose to the Annual General Meeting, to be held March 19, 2008, that a dividend of 0.50 euros per share be distributed for the financial period 2007. This translates into a total dividend payment of 11,258,300 euros.

### OUTLOOK FOR 2008

The Board of Directors estimates that growth in net sales for 2008 will be approximately 15% on the previous year and that the operating result will exceed that of the previous year. Growth in the Building & Construction business area is expected to outpace Infra & Energy, while both business areas are expected to improve their results on the previous year.

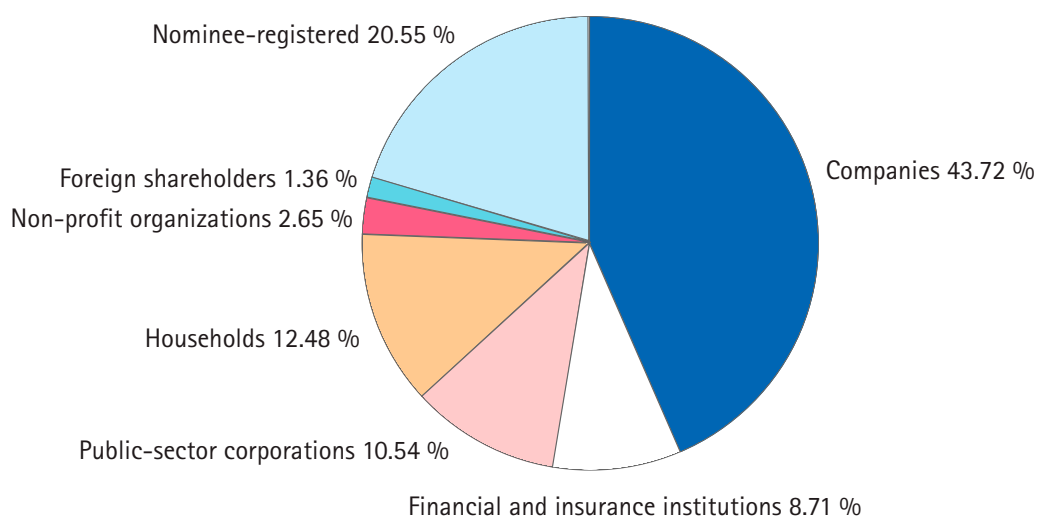


## SHARES AND SHAREHOLDERS

### THE LARGEST SHAREHOLDERS 31.12.2007

	No of shares	Share of shares and votes, %
Gerako Oy	8,596,020	38.06
(Nominee-reg.) Skandinaviska Enskilda Banken	1,906,149	8.44
(Nominee-reg.) Nordea Bank Finland	1,807,593	8.00
Tapiola Pension	1,029,000	4.56
Ilmarinen Mutual Pension Insurance Company	760,370	3.37
(Nominee-reg.) Svenska Handelsbanken Ab	495,952	2.20
Mutual Fund FIM Forte	492,340	2.18
Ereka Oy	480,000	2.13
(Nominee-reg.) Northern Trust Global Services	418,495	1.85
Etera Mutual Pension Insurance Company	410,000	1.82
<b>Ten largest, total</b>	<b>16,395,919</b>	<b>72.59</b>
Others	6,190,281	27.41
<b>Total</b>	<b>22,586,200</b>	<b>100.00</b>

### OWNERSHIP BREAKDOWN BY SECTOR 31.12.2007



### OWNERSHIP BREAKDOWN BY NUMBER OF SHARES 31.12.2007

	No of shareholders	%	No of shares	%
1 – 1,000	2,332	80.03	846,694	3.75
1,001 – 10,000	506	17.36	1,430,338	6.33
10,001 – 100,000	54	1.85	1,833,336	8.12
100,001 – 500,000	17	0.58	4,376,700	19.38
500,001 – 1,000,000	1	0.03	760,370	3.37
1,000,001 –	4	0.14	13,338,762	59.06
<b>Total</b>	<b>2,914</b>	<b>100.00</b>	<b>22,586,200</b>	<b>100.00</b>



## **SHARES AND SHARE CAPITAL**

The total number of Tekla Corporation shares at the end of December 2007 was 22,586,200, of which the company owned 69,600. The total nominal value of those was 2,088 euros, representing 0.3 percent of the total share capital and the total number of votes. A total of 220,702.46 euros had been used for acquiring the company's own shares, and their market value was 883,920 euros on December 31, 2007. The nominal value of the share is 0.03 euros. At the end of the period, share capital stood at 677,586 euros.

## **SHARE PRICE TRENDS AND TRADING**

The highest quotation of the share in 2007 was 14.94 (7.90) euros, the lowest 7.60 (3.38) euros. The average quotation was 10.88 (5.24) euros. On the last trading day of the year, trading closed at 12.70 (7.88) euros. The share price increased by approximately 61% during the financial period.

A total of 13,797,159 (13,741,585) Tekla shares changed hands during 2007, amounting to 61% (61%) of the entire share capital. Tekla terminated the market-making agreement for its share in July. The agreement terminated on August 31, 2007.

Nominee registered and foreign owners held 21.90% (17.45%) of all shares at the end of 2007.

## **CHANGES IN OWNERSHIP STRUCTURE**

### **(FLAGGING ANNOUNCEMENTS)**

According to a notification by Fidelity International Ltd and its subsidiaries dated March 19, 2007, their holdings in Tekla Corporation had decreased below the 5% threshold to 4.09%.

At the end of March, Fidelity International Ltd and its subsidiaries announced that their holdings had crossed above the 5% threshold after the security lending ended on March, 23, 2007. According to the notification, the new holdings amounted to 8.37%.

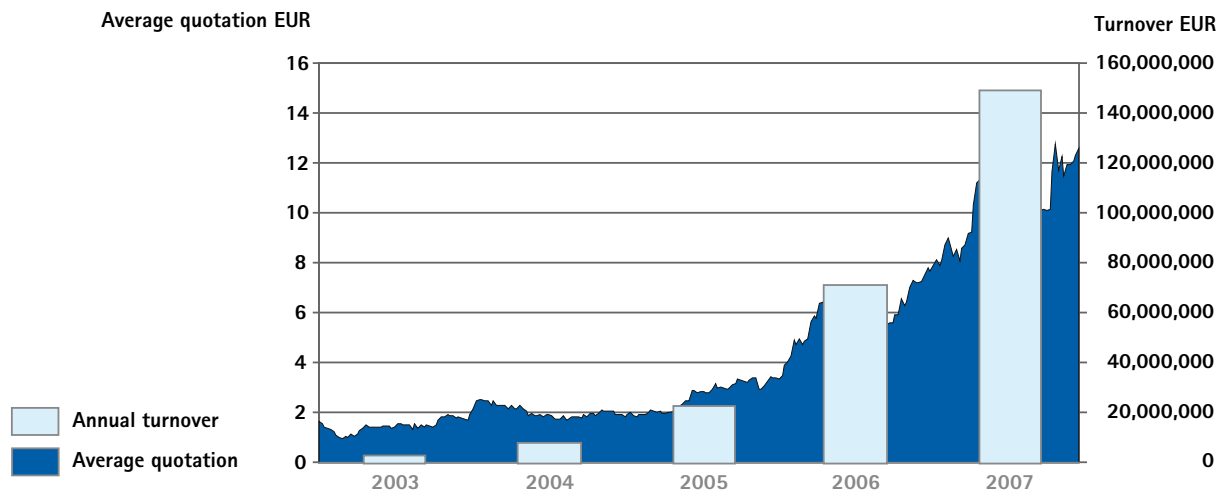
Fidelity International Ltd's and its subsidiaries' holdings in Tekla Corporation crossed below the 5% threshold by means of sales of shares on December 12, 2007. According to the notification, the new holdings amounted to 4.99%.

In January 2008 (after the reporting period), Threadneedle Asset Management Holdings Limited announced that their holdings in Tekla Corporation crossed above the 5% threshold on January 14, 2008. According to the notification, Threadneedle's holdings amounted to 5.098%.

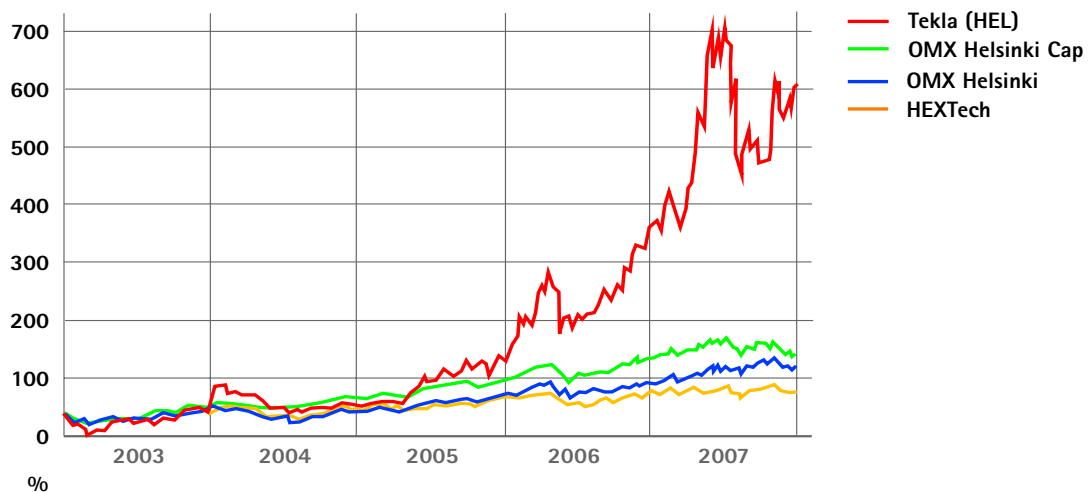
## **OWNERSHIP OF THE MANAGEMENT**

The Board of Directors and the CEO owned or controlled 8,609,270 shares of Tekla Corporation at year's end. These shares represented 38.2 percent of share capital and votes.

### SHARE TURNOVER AND AVERAGE QUOTATION 2003 – 2007



### OMX INDICES AND SHARE PRICE 2003 – 2007



### BASIC FACTS ON SHARE

Listed on	22.5.2000
Trade symbol	TLA1V
Industry:	Information technology
ISIN	FI0009008833

## CONSOLIDATED INCOME STATEMENT, IFRS

1,000 euros

	Note	1.1. – 31.12.2007	1.1. – 31.12.2006
Net sales	1, 3	58,243	47,639
Other operating income	4	1,019	1,021
Change in inventories of finished goods and work in progress		33	17
Raw materials and consumables used		-2,037	-2,007
Employee compensation and benefit expense	5	-25,492	-21,703
Depreciation	6	-1,143	-1,193
Other operating expenses	7	-12,725	-10,396
Operating profit		17,898	13,378
Financial income	9	1,861	1,064
Financial expense	9	-1,325	-906
Profit before taxes		18,434	13,536
Income taxes	10	-4,921	-3,547
<b>Result for the period from continuing businesses</b>		<b>13,513</b>	<b>9,989</b>
<b>Discontinued operations</b>			
Result for the period from discontinued operations	2	2,057	175
<b>Net profit for the period</b>		<b>15,570</b>	<b>10,164</b>

Attributable to

Equity holders of the parent company	15,570	10,164
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Earnings per share calculated from the profits attributable to the equity holders of the parent company:

Earnings per share (EUR)	0.69	0.45
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Earnings per share from continuing businesses attributable to the equity holders of the Company:

Earnings per share (EUR)	0.60	0.44
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Earnings per share from discontinued operations attributable to the equity holders of the Company:

Earnings per share (EUR)	0.09	0.01
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Earnings are not diluted.

## CONSOLIDATED BALANCE SHEET, IFRS

1,000 euros	Note	31.12.2007	31.12.2006
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,795	1,736
Goodwill	13	101	101
Intangible assets	13	743	489
Other financial assets	14, 15	300	300
Receivables	14, 18	481	562
Deferred tax assets	16	111	356
		<b>3,531</b>	<b>3,544</b>
<b>Current assets</b>			
Inventories	17	73	40
Trade and other current receivables	14, 18	12,958	10,908
Current income tax assets	14	0	3
Other financial assets	14, 15	25,217	18,597
Cash and cash equivalents	14, 19	4,972	5,692
		<b>43,220</b>	<b>35,240</b>
<b>Assets related to discontinued operations</b>	<b>2</b>	<b>250</b>	<b>966</b>
<b>Assets total</b>		<b>47,001</b>	<b>39,750</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves attributable to the equity holders of the parent company</b>			
Share capital	20	678	678
Share premium account	20	8,893	8,893
Legal reserve	20	1,325	1,325
Treasury shares	20	-221	-221
Translation differences	20	-458	-205
Fair value reserve	20	298	101
Retained earnings		20,939	14,153
		<b>31,454</b>	<b>24,724</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	16	131	0
Provisions	23	0	477
Financial liabilities	14, 24	69	268
		<b>200</b>	<b>745</b>
<b>Current liabilities</b>			
Trade and other payables	14, 25	13,347	12,173
Current income tax liabilities	14	1,003	798
Provisions	23	0	355
Financial liabilities	14, 24	274	425
		<b>14,624</b>	<b>13,751</b>
<b>Liabilities total</b>		<b>14,824</b>	<b>14,496</b>
<b>Liabilities related to discontinued operations</b>	<b>2</b>	<b>723</b>	<b>530</b>
<b>Equity and liabilities total</b>		<b>47,001</b>	<b>39,750</b>

## CONSOLIDATED CASH FLOW STATEMENT, IFRS

1,000 euros

1.1. – 31.12.2007 1.1. – 31.12.2006

### Cash flows from operating activities

Profit (loss) before income taxes	18,434	13,536
Adjustments; transactions with no associated payment:		
Depreciation	1,143	1,193
Financial income and expenses	-500	-183
Other adjustments	244	80

Cash flow before working capital changes	19,321	14,626
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#### Changes in working capital:

Change in trade and other current receivables	-2,350	-2,771
Change in inventories	-33	-17
Change in trade and other payables	449	3,532
Change in provisions	-833	153

Net cash from operating activities	16,554	15,523
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Interest paid	-9	-22
Interest received	195	109
Other financial expenses	-82	0
Income taxes paid	-4,350	-2,462

Cash flow from continuing businesses	12,308	13,148
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Cash flow from discontinued operations	2	1,242	-138
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Net cash flows from operating activities	13,550	13,010
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### Cash flows from investing activities

Investments in property, plant and equipment		-1,657	-1,325
Proceeds from sale of property, plant and equipment		254	128
Cash flow from sale of discontinued operations	2	2,346	0
Purchases of available-for-sale financial assets		-55,159	-48,637
Proceeds from sale of available-for-sale financial assets		50,110	43,836
Interests received from available-for-sale financial assets		649	398

Net cash flow from investing activities	-3,457	-5,600
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### Cash flows from financing activities

Payment of dividend	-9,007	-2,702
Repayments of borrowings	-389	-591
Payments of finance lease liabilities	-43	-59

Net cash used in financing activities	-9,439	-3,352
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Change in cash and cash equivalents	654	4,058
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Cash and cash equivalents at beginning of the period	7,779	3,721
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Cash and cash equivalents at end of the period	8,433	7,779
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1,000 euros

1.1. – 31.12.2007    1.1. – 31.12.2006

**Reconciliation of cash and cash equivalents in the balance sheet and cash flow statement**

Cash and cash equivalents according to balance sheet at beginning of the period	5,692	3,661
Available-for-sale financial assets, cash equivalents	2,087	60
Cash and cash equivalents according to cash flow statement at beginning of the period	7,779	3,721
Cash and cash equivalents according to balance sheet at end of the period	4,972	5,692
Available-for-sale financial assets, cash equivalents	3,461	2,087
Cash and cash equivalents according to cash flow statement at end of the period	8,433	7,779

**STATEMENT OF CHANGES IN EQUITY, IFRS**

1,000 euros

Equity attributable to equity holders of the parent

	Share capital	Share premium account	Reserve fund	Treasury shares	Acc. transl. differences	Fair value reserves	Retained earnings	Total
<b>Equity Jan 1, 2006</b>	<b>678</b>	<b>8,893</b>	<b>1,325</b>	<b>-221</b>	<b>-46</b>	<b>36</b>	<b>6,545</b>	<b>17,210</b>
Transl. differences			0		-159		146	-13
Changes in available-for-sale investments						65		65
Items recognized directly in equity	0	0	0	0	-159	65	146	52
Net profit for the period							10,164	10,164
Total income and expenses recognized in the period	0	0	0	0	-159	65	10,310	10,216
Payment of dividend							-2,702	-2,702
<b>Equity Dec 31, 2006</b>	<b>678</b>	<b>8,893</b>	<b>1,325</b>	<b>-221</b>	<b>-205</b>	<b>101</b>	<b>14,153</b>	<b>24,724</b>
<b>Equity Jan 1, 2007</b>	<b>678</b>	<b>8,893</b>	<b>1,325</b>	<b>-221</b>	<b>-205</b>	<b>101</b>	<b>14,153</b>	<b>24,724</b>
Transl. differences			0		-253		223	-30
Changes in available-for-sale investments						197		197
Items recognized directly in equity	0	0	0	0	-253	197	223	167
Net profit for the period							15,570	15,570
Total income and expenses recognized in the period	0	0	0	0	-253	197	15,793	15,737
Payment of dividend							-9,007	-9,007
<b>Equity Dec 31, 2007</b>	<b>678</b>	<b>8,893</b>	<b>1,325</b>	<b>-221</b>	<b>-458</b>	<b>298</b>	<b>20,939</b>	<b>31,454</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## GENERAL

Tekla Corporation (the parent company) is a Finnish public limited company, domiciled in Espoo, and its registered address is Metsänpojankuja 1, 02130 Espoo, Finland.

Tekla is an international software product company whose model-based software products make customers' core processes more effective in building and construction, energy distribution, infrastructure management and water supply. Tekla has customers in more than 80 countries.

The Board of Directors of Tekla Corporation has authorized the 2007 financial statements for issue on February 6, 2008.

## BASIS OF PREPARATION

In preparing the financial statements, the IAS and IFRS standards and SIC and IFRIC interpretations effective on December 31, 2007 were observed. International Financial Reporting Standards refer to the standards defined in the Finnish Accounting Act and related regulations approved for application in the EU and their interpretations in accordance with the EU regulation (EC) 1606/2002.

The financial statements have been prepared based on historical cost conventions, excluding available-for-sale investments and derivative instruments, which are measured at fair value.

The financial statements are presented in thousands of euros, unless otherwise stated.

The Group adopted the following IFRS standards, amendments and interpretations as of January 1, 2007:

- IFRS 7, Financial Instruments: Disclosures (effective on January 1, 2007)
- IAS 1 (Amendment), Presentation of Financial Statements - Capital Disclosures (effective on January 1, 2007)
- IFRIC 10, Interim Financial Reporting and Impairment (effective on November 1, 2006)
- IFRIC 9, Reassessment of Embedded Derivatives (effective on June 1, 2006)
- IFRIC 8, Scope of IFRS 2 (effective on May 1, 2006)
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective on March 1, 2006)

The adopted standards have not had substantial impact on the Group's financial statements for 2007. The IFRS 7 has increased the amount of Notes in the Group's Financial Statements.

The following new standards, interpretations and amendments to existing standards have been published before December 31, 2007. Tekla has not adopted these new or amended standards in its financial statements for 2007. These are not estimated to be significant with regard to the Group's operation.

- IFRS 8, Operating Segments (effective on January 1, 2009)
- IAS 1 (Revised), Presentation of Financial Statements (effective on January 1, 2009 \*)
- IAS 23 (Amendment), Borrowing Costs (effective on January 1, 2009 \*)
- IFRS 2 (Amendment), Share-based Payment (effective on January 1, 2009 \*)
- IFRS 3 (Revised), Business Combinations (effective on January 1, 2010 \*)
- IAS 27 (Revised), Consolidated and Separate Financial Statements (effective on January 1, 2010 \*)
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective on January 1, 2008 \*)
- IFRIC 13, Customer Loyalty Programmes (effective on July 1, 2008 \*)
- IFRIC 12, Service Concession Arrangements (effective on March 1, 2007 \*)
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective on March 1, 2007)

\*) The interpretation has not yet been endorsed by the EU.

## USE OF ESTIMATES

When preparing the financial statements, the Group's management is required to make estimates and assumptions influencing the content of the financial

statements, and it must exercise its judgment regarding the application of accounting policies. These estimates are based on the management's best knowledge, but it is possible that actual results may ultimately differ from the estimates used in the financial statements. Tax losses carried forward are recognized as deferred tax assets only to the extent that it is probable that future taxable profits will be available against which unused tax losses can be utilized. Actual results could differ from those estimates.

## PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the parent company Tekla Corporation and the subsidiaries in which the parent company holds directly or indirectly more than half of the votes or in which the parent company directly or indirectly has the right to decide on the principles of the company's finances and business activity. Subsidiaries acquired during the financial year are included in the financial statements from the date of acquisition, and divested subsidiaries up to the date when control has been relinquished.

Acquired subsidiaries are included in the financial statements using the purchase method of accounting, i.e. the assets, liabilities and contingent liabilities are measured at fair value at the time of acquisition. The acquisition cost less the fair value of specifiable assets, liabilities and contingent liabilities constitutes goodwill. In accordance with the IFRS 1 standard, business acquisitions preceding the IFRS transition date are not adjusted to the IFRS principles; they remain in the pretransition date values based on the Finnish Accounting Standards.



All intragroup transactions, unrealized margins of internal deliveries, internal liabilities and receivables, and internal profit distribution are eliminated.

Intragroup holding is eliminated using the purchase method of accounting. The exchange differences arising from elimination of intragroup holdings are entered under consolidated shareholders' equity.

## **FOREIGN CURRENCY TRANSACTIONS**

The figures on Group units' results and financial standing are measured in the currency that is the currency of the primary operating environment of each unit ("functional currency"). The consolidated financial statements are presented in euros, which is the parent company's functional and presentation currency.

Transactions in foreign currencies are recorded at the exchange rate on the date of transaction. At the end of the financial period, foreign currency monetary items are translated to the functional currency using the exchange rate at the balance sheet date. Non-monetary items are carried at the exchange rate at the date of the transaction.

All foreign exchange gains and losses from operational and financial items are entered as exchange rate differences in the income statement under financial income and expenses. Exchange differences arising from a monetary item that forms a part of the company's net investment in a foreign operation is recognized in shareholders' equity.

In the consolidated financial statements, the income statements of foreign subsidiaries are translated into euros at the average rate for the year and balance sheets at the average exchange rate of the balance sheet date.

An exchange difference resulting from translation of the income statement and balance sheet at different rates is entered under consolidated shareholders' equity. An exchange difference resulting from the translation of a subsidiary's equity in the consolidation is entered under shareholders' equity.

## **FINANCIAL ASSETS AND LIABILITIES**

The Group's financial assets are classified as follows: financial assets at fair value through profit or loss, loans and other receivables, and available-for-sale financial assets. The categorization is based on the purpose of the acquisition of the financial assets, and it is performed in connection with the original acquisition. The classification is always re-evaluated at the balance sheet date.

Transaction costs are included in the original book value of the financial assets, when the item in question is not recognized as income at fair value. The financial assets measured at fair value are originally recognized at fair value, and the transaction costs are entered in the income statement. All purchases and sales of financial assets are recorded on the date of the transaction.

Derecognition of a financial asset is done when the Group has lost its contractual right to cash flow or when it has, for a significant extent, transferred risks and rewards to outside the group.

### **Financial assets and liabilities at fair value through profit or loss**

Derivatives that do not meet the requirements of hedge accounting, are categorized as held for trading and they are measured at fair value through profit or loss. Profit and loss, both realized and unrealized, from fair value

changes is recognized in the income statement for the period during which they arise.

#### **Loans and other receivables**

Loans and other receivables are non-derivative financial assets, with fixed or determinable payments, which are not traded in an active market and not held for trading. They are measured at amortized cost. They are recognized in the balance sheet's Trade and other receivables group as current or non-current assets based on their nature; non-current, if they mature after 12 months.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets specifically designated to this group or not classified otherwise. Available-for-sale financial assets are measured at fair value, using quoted market prices. The unlisted securities whose fair value cannot be reliably determined are measured at cost with impaired losses. Fair value changes on available-for-sale financial assets are recognized directly in equity, in the fair value reserve. When such an asset is sold, the cumulative fair value changes are recognized in profit or loss.

Available-for-sale financial assets are included in non-current assets excluding those that are meant to be held for less than 12 months after the balance sheet date, in which case they are included in current assets.

#### **Cash and cash equivalents**

Cash and cash equivalents are reported at cost in the balance sheet. Cash and cash equivalents include cash and bank deposits that can be withdrawn on demand. In the cash flow statement, cash and cash equivalents also contain the liquid investments whose remaining

maturity at date of purchase is at the most 3 months. Such investments are originally recognized in accounting as belonging to available-for-sale financial assets.

#### **Financial liabilities**

Financial liabilities are initially recognized at fair value based on the consideration received or paid in a transaction. Subsequently, (interest-bearing) loans are measured at amortized cost using the effective interest method. The amount of financial liabilities that is to be settled within 12 months of the balance sheet date is presented as a current liability. Other liabilities are presented as non-current liabilities.

### **DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING**

The Group uses derivative contracts to hedge against the exchange rate risks of prospective sales agreements. Hedge accounting as defined in IAS 39 is not in use in the Group.

Derivatives are initially recognized at cost, corresponding to their fair value. After this, derivatives are measured at fair value. All fair value changes of derivatives are recognized directly in financial income and expenses. In the balance sheet, the fair value of derivatives is presented in non-current receivables or liabilities, based on whether their fair value is positive or negative.

The fair value of foreign exchange forward contracts is calculated by valuing the forward contract at the forward rate on the balance sheet date and by comparing it with the equivalent value calculated through the forward rate when the forward contract was entered into.

## REVENUE RECOGNITION

Revenue is recognized when risks and rewards connected with ownership of the goods have been transferred to the buyer. Usually, the revenue is recognized upon delivery. When net sales are calculated, indirect sales taxes and discounts, for instance, are deducted from sales revenue.

Revenue from goods or services sold is recognized at the time of delivery, except for revenue on significant long-term (generally lasting more than 6 months) projects, which is recognized on the percentage of completion method. The percentage of completion method is also applied to projects that take place during two interim report periods.

The percentage of completion is defined as the proportion of costs incurred for work performed to date compared to the total estimated project costs. When it is likely that the total costs required for completing the project exceed the total revenue from the project, the expected loss is recognized as an expense immediately.

When the outcome of a long-term project cannot be reliably estimated, project-related costs are recognized as an expense in the period in which they are incurred, and revenue from the project is recognized only to the extent of recoverable expenses. Loss on the project is recognized as an expense immediately.

Should the estimates on the outcome of the project change, recognized sales and profit will be adjusted in the period in which the change first becomes known and can be estimated.

As available-for-sale financial assets are measured at their fair value, interest income related to these is not accrued.

## INCOME TAXES

The Group income statement includes current taxes of Group companies based on taxable profit for the financial period according to local tax regulations as well as adjustments to prior year taxes and changes in deferred taxes.

Deferred tax assets and liabilities are recognized for all temporary differences arising from the difference between the tax basis of assets and liabilities and their book values in financial reporting. In the determination of deferred income tax the enacted tax rate is used. Principal temporary differences arise from property, plant and equipment, provisions, tax losses carried forward and financial instruments. A deferred tax asset is recognized only to the extent that it is probable that it can be utilized for future taxable income.

## GOODWILL AND OTHER INTANGIBLE ASSETS

In calculating goodwill, the net fair value of the acquiree's assets, liabilities and contingent liabilities is deducted from the cost of the transaction. Goodwill is not amortized. Instead, goodwill is tested for impairment at least annually whenever there is an indication of impairment.

Other intangible rights comprise trademarks and patents, other intangible assets software licenses, for instance. Patents and software licenses are recognized in the balance sheet at cost. Other intangible rights comprise trademarks and patents, other intangible assets, software licenses, for instance. Patents and software licenses are recognized in the balance sheet at cost. Software licenses are amortized on a straight-line basis during an expected useful life of from two to six years. Trademarks and patents are amortized over ten years.

## RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed in the period in which they are incurred, except for development costs capitalized based on IAS 38, which are capitalized and amortized during the useful life. So far, the company has not capitalized development expenses in the balance sheet.

## DISPOSED OPERATIONS

Held-for-sale non-current assets and assets associated with discontinued operations are classified as held for sale and measured at the lower of book value and fair value less costs to sell, if their amount corresponding to the book value will mostly be recovered through the sale of the asset instead of continued use. Depreciation of these assets is discontinued upon classification.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Property, plant and equipment are depreciated using the straight-line method over their useful lives. The depreciation period of machinery and equipment is 2 to 5 years. The useful life of an asset is reviewed at each financial year-end and, if necessary, any change in expectations for financial benefit reflected as an adjustment to the estimated useful life.

Property, plant and equipment are stated in the Notes at cost less accumulated depreciation and impairment loss. Cost includes only the commodities for which the acquisition cost has not yet been depreciated in full according to plan. Sales gains and losses on machinery and equipment are included in other operating income and expenses.

## BORROWING COSTS

Borrowing costs are recognized as an expense in the period in which they are incurred.

## GOVERNMENT GRANTS

The Group receives government grants, intended to, e.g., promote the companies' research and development activity. Such grants are reported as other income and recognized in proportion with the costs incurred in each project subject to the grant.

Grants relating to acquisition of assets (property, plant and equipment) are presented by deducting the grant from the tangible asset's carrying amount. Grants are recognized in the income statement through smaller depreciations over the useful life of the asset. So far, Tekla has not received government grants related to the acquisition of assets.

## IMPAIRMENT OF ASSETS

With regard to assets subject to depreciation, it is reviewed whether there are indications that an asset's value may be impaired. If there are indications, the recoverable amount of the item is estimated based on its net selling price or a higher value in use. The need for impairment is assessed at the level of cash generating units, i.e. at the lowest possible level largely independent of others, the cash flows of which can be separated from other units. If the carrying amount exceeds the recoverable amount, the difference is recognized in the income statement as an impairment loss.

Goodwill is not amortized. Instead, it is tested for impairment annually or whenever there is an indication of impairment.

A previously recognized impairment is reversed, if the assumptions used in estimating the recoverable amount change. The extent of impairment loss to be reversed should not be more than what the asset's carrying amount would have been if the impairment had not been recognized. Impairment loss for goodwill is not reversed.

According to IAS 39, all financial assets are assessed at each balance sheet date by examining whether there is any objective evidence of impairment of the value of item or item group in the financial assets. Impairment losses recognized as income relating to investments in available-for-sale equity instruments are not reversed. If, in a subsequent period, the fair value of a debt instrument carried as available-for-sale increases due to an event occurring after the impairment was originally recognized, the previously recognized impairment loss is reversed through profit and loss.

## **LEASES**

Leases on property, plant and equipment are classified as finance leases if they transfer a substantial portion of the risks and rewards incident to ownership. Finance leases are recognized in the balance sheet as assets and liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease. Assets held under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. Finance lease payments are apportioned between finance charges and reductions of outstanding liability.

Leases where substantially all the risks and rewards of ownership are retained by the lessor are classified as other rental contracts. Other rental expenses based

on a lease are recognized as expenses in the income statement on a straight-line basis over the lease term. Lease commitments are presented as off-balance sheet commitments in the Notes.

## **INVENTORIES**

Inventories are measured at the lower of cost or net realizable value. Cost is determined using the FIFO method. Cost of finished goods and work in progress includes direct production related wages, other direct production expenses and the share of general production costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

## **TRADE RECEIVABLES**

Trade receivables are measured at their expected net present value, which is the original invoice amount less expected impairment. A trade receivable is impaired when it is justifiably probable that the group will not collect all amounts due on the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default in payments are considered as indicators that a trade receivable is impaired. The impairment amount is classified as other operating expense.

## **SHARE CAPITAL AND TREASURY SHARES**

The entire share capital consists of ordinary shares. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax.

When purchasing Tekla Corporation's own shares, equity is deducted by the consideration paid for the shares including transaction costs. When treasury shares are sold, retained earnings are increased by the consideration received for the shares less direct costs, taking taxes into account.

### **PENSION BENEFITS**

The pension arrangements of the Group companies comply with local regulations and practices. Pension plans are classified as defined contribution plans.

Contributions for defined contribution plans are recognized as expenses in the balance sheet for the period for which they are contributed.

### **PROVISIONS**

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that fulfilling the obligation requires payment or induces financial loss and the amount of the loss can be estimated reliably. Provisions can be related to restructuring, loss-making contracts and tax-related risks.

Provisions are measured at the present value of the expenditure required in order to cover the obligation.

### **SHARE-BASED PAYMENT**

Tekla Corporation has no valid share option programs.

### **DIVIDENDS**

Dividends distributed by the Group are recognized during the period in which shareholders have approved the dividend to be distributed. No dividends or return of capital is paid on treasury shares held by the company.

### **EARNINGS PER SHARE**

Basic earnings per share are computed by dividing net profit or loss by the weighted average number of shares outstanding during the period.

Tekla has no options, so there has not been any need to compute the dilution effect of options.

## NOTES TO THE FINANCIAL STATEMENTS

In 1,000 euros unless otherwise noted.

### 1. Segment information

Segment information is presented based on the Group's business and geographical segments. The primary segment reporting form of the Group is based on business segments. The business segments are based on the Group's internal organizational structure and internal financial reporting.

**Building & Construction** develops and markets software products for product model-based engineering as well as management of building and fabrication of steel and concrete structures.

At the beginning of 2007, Energy & Utilities and Public Infra were merged into the new **Infra & Energy** business area. The comparison figures for 2006 have been calculated in accordance with the new business segment division.

Infra & Energy supplies solutions that improve business and operative efficiency and competitiveness to energy distribution companies and water utilities, and it also offers information systems in the technical sector that make municipal operations more efficient.

The business segments consist of business operations, whose product and service-related risks and profitability differ from other business segments. The products and services of the geographical segments are sold in a certain economic environment where risks and profitability differ from the risks and profitability of the economic environment in other geographical segments.

The assets and liabilities of a segment are business items used by the segment in its business or which can be reasonably allocated to the segment. The non-allocated items include tax and financial items and items shared by the entire company. Investments consist of property, plant and equipment and intangible asset additions, which are used over more than one period.

Net sales are divided into license, recurring, service and other sales. License sales comprise of the right to use the product version sold. Recurring sales include maintenance income (annual product versions and customer support) and subscriptions. Service sales refer to implementation support, training and consultation. Other sales comprise of customer- or customer group-specific product projects.

**Business segments** **2007**
**Continuing businesses**

(1,000 EUR)

	<b>Building &amp; Construction</b>	<b>Infra &amp; Energy</b>	<b>Unallocated items</b>	<b>Group</b>
External sales				
Licenses	28,335	2,963		31,298
Recurring	15,337	6,047		21,384
Services	1,568	1,908		3,476
Others	239	1,840	6	2,085
External sales total	45,479	12,758	6	58,243
Net sales	45,479	12,758	6	58,243
Operating profit	15,962	1,959	-23	17,898
Unallocated items				-4,385
Profit (loss) for the period				13,513

**2007**

(1,000 EUR)

	<b>Building &amp; Construction</b>	<b>Infra &amp; Energy</b>	<b>Unallocated items</b>	<b>Segments' internal items</b>	<b>Total</b>
Segment assets	10,279	4,048	32,925	-502	46,750
Segment liabilities	9,651	1,922	3,753	-502	14,824
Segment depreciation	524	222	397	0	1,143
Segment investments	957	343	468	0	1,768

**Business segments** **2006**
**Continuing businesses**

(1,000 EUR)

	<b>Building &amp; Construction</b>	<b>Infra &amp; Energy</b>	<b>Unallocated items</b>	<b>Group</b>
External sales				
Licenses	23,147	2,914		26,061
Recurring	11,473	5,246		16,719
Services	1,232	1,814	1	3,047
Others	31	1,780	1	1,812
External sales total	35,883	11,754	2	47,639
Net sales	35,883	11,754	2	47,639
Operating profit	12,772	1,044	-438	13,378
Unallocated items				-3,389
Profit (loss) for the period				9,989



## 2006

(1,000 EUR)	Building & Construction	Infra & Energy	Unallocated items	Segments' internal items	Total
Segment assets	9,907	2,616	26,571	-310	38,784
Segment liabilities	8,535	2,230	4,042	-310	14,497
Segment depreciation	386	223	584	0	1,193
Segment investments	586	213	463	0	1,262

The Group's operations are located in four geographical segments: Finland, Other Europe, North America, and Asia. The net sales of the geographical segments are presented based on the location of the customers or the resellers. Assets are presented based on the location of the assets.

## Geographical segments Continuing businesses

## 2007

(1,000 EUR)	Finland	Rest of Europe	North America	Asia	Others	Group
Net sales	10,357	23,033	11,190	11,055	2,608	58,243
Segment assets	35,417	4,370	4,177	2,786	0	46,750
Investments	1,379	257	38	94	0	1,768

## 2006

(1,000 EUR)	Finland	Rest of Europe	North America	Asia	Others	Group
Net sales	10,201	18,076	8,268	8,959	2,135	47,639
Segment assets	28,674	4,562	4,078	1,470	0	38,784
Investments	1,028	106	105	23	0	1,262

## 2. Discontinued operations

### Defence business

Tekla's Defence business was transferred to Patria on May 1, 2007.

The calculations below present the sold business' profit and cash flow impact in the reporting period. The Defence operating profit for Q4/2007 includes an estimated additional sale price in the amount of EUR 0.25 million.

<b>Result for the Defence business</b>	<b>2007</b>	<b>2006</b>
Net sales	1,003	2,147
Expenses	-808	-1,910
Profit (loss) before income taxes	195	237
Taxes	-51	-62
Profit (loss) after income taxes	144	175
Sales profit from the Defence business sale	2,585	
Taxes	-672	
Sales profit after taxes	1,913	
Profit (loss) for the period from discontinued operations	2,057	175

### Cash flow statement, Defence

Cash flows from operating activities	1,242	-138
Cash flows from investing activities	2,346	0
Total cash flow	3,588	-138

### The effect of the sale of the Defence business on the financial position of the Group

**Dec 31, 2007**

Other receivables	250
Tax liabilities	723

### Consideration received and effect on cash flow

Cash received	2,346
Cash and cash equivalents disposed of	0
Total net disposal consideration	2,346

## 3. Long-term projects

	<b>2007</b>	<b>2006</b>
Income recognized	326	623
Not recognized	364	0
Revenues recorded prior to billings, incl. in receivables	85	240
Advances received	-168	-238
<b>Receivables / liabilities from long-term contracts</b>	<b>-83</b>	<b>2</b>

In 2007, long-term projects consisted of two Tekla Xcity projects in the Infra & Energy business area. In 2006, long-term projects consisted of one Tekla Xpower project in the Infra & Energy business area and two Tekla Xcity projects.

#### 4. Other operating income

	2007	2006
Sales gains from property, plant and equipment	5	6
Product development grants	591	579
Rental income	359	326
Others	64	110
<b>Total</b>	<b>1,019</b>	<b>1,021</b>

Tekla Corporation's product development grants have been given by Tekes (the Finnish Funding Agency for Technology and Innovation). The grants are meant to promote companies' research and development activities and share their risks, encourage commercializing the outcome of the projects, increase networking and make use of international collaboration.

Rental income is generated by the sublease of the Group's previous premises. The sublease contracts have been transferred to Kiinteistö Oy Espoon Koronakatu 1 with the termination of the lease of the previous premises on December 31, 2007.

#### 5. Employee benefits expense

	2007	2006
Salaries	21,076	17,689
Pension expenses - defined contribution plans	2,643	2,529
Other personnel expenses	1,773	1,485
<b>Total</b>	<b>25,492</b>	<b>21,703</b>

##### Group headcount:

Personnel, on average	367	306
Personnel, end of period	400	345
of whom part-time	21	21

Information on the executive compensation and benefits is presented in Note 28. Related party transactions.

#### 6. Depreciation and amortization

	2007	2006
Intangible assets		
Intangible rights	14	17
Other intangible assets	292	233
Tangible assets		
Machinery and expenses	837	943
<b>Total</b>	<b>1,143</b>	<b>1,193</b>

## 7. Other operating expenses

	2007	2006
Rental expenses	2,045	2,347
Travel expenses	2,257	1,845
IT expenses	976	759
Marketing expenses	2,100	1,298
Others	5,347	4,147
<b>Total</b>	<b>12,725</b>	<b>10,396</b>

Rental expenses consist mainly of lease payments for the Group's offices.

The item "others" consists of a number of expenses connected with administration and maintenance, which are not significant individually.

## 8. Research and development expenses

The income statement includes 12.93 million euros of research and development expenses recognized as expense in 2007 (10.66 million euros in 2006).

The research and development expenses are primarily comprised of expenses allocated to the development of Tekla's own software. More than half of these expenses are personnel related.

## 9. Financial income and expenses

<b>Financial income</b>	<b>2007</b>	<b>2006</b>
Interest income		
From available-for-sale investments	690	397
From loans and other receivables	171	88
Foreign exchange gains from loans and other receivables	542	383
Foreign exchange forward contract value changes		
– not in hedge accounting	458	196
	<b>1,861</b>	<b>1,064</b>

The Group's interest income derives mainly from the parent company's investments in commercial papers, municipal bonds, certificates of deposit and other negotiable debt instruments (See Note 15. Available-for-sale financial assets).

<b>Financial expenses</b>		
Interest expenses from financial liabilities at amortized cost	-12	-17
Foreign exchange losses from loans and other receivables	-1,225	-805
Foreign exchange forward contract value changes		
– not in hedge accounting	-6	-13
Other financial expenses	-82	-71
	<b>-1,325</b>	<b>-906</b>
<b>Exchange rate differences, total</b>	<b>-231</b>	<b>-239</b>

## 10. Income taxes

	2007	2006
Current tax	-4,502	-3,258
Taxes for previous periods	-43	30
Deferred taxes	-376	-319
<b>Total</b>	<b>-4,921</b>	<b>-3,547</b>

Reconciliation of the tax expense in the income statement and the taxes calculated based on the tax rate of the Group's domicile:

Profit before income taxes	18,434	13,536
Taxes calculated with the domicile's tax rate	-4,793	-3,519
Utilization of previously unrecorded tax losses	110	498
Deferred tax asset recorded on previous years' losses	111	91
Tax losses for which no deferred tax asset was recorded	-140	-217
Effect of consolidation	-34	-343
Effect of differing foreign tax rates	-112	-50
Effect of non-deductible expenses/non-taxable income	-27	-6
Others	-36	-1
<b>Income taxes in the income statement</b>	<b>-4,921</b>	<b>-3,547</b>
Effective tax rate	27%	26%

## 11. Earnings per share

Earnings per share are computed by dividing the profits attributable to equity holders of the parent company by the weighted average number of shares outstanding during the period.

	2007	2006
Profits attributable to the equity holders of the parent company	15,570	10,164
Weighted average number of shares outstanding during the period	22,516,600	22,516,600
Earnings per share for profit attributable to the equity holders of the Company (EUR)	0.69	0.45
Earnings per share (EUR)		
from continuing businesses	0.60	0.44
from discontinued operations	0.09	0.01

There was no dilution effect on the company's equity during the period.

## 12. Property, plant and equipment

	2007	2006
	Machinery and equipment	Machinery and equipment
Cost January 1	6,669	6,466
Exchange differences	-89	-27
Additions	1,163	985
Disposals	-542	-522
Transfer to discontinued operations		-233
<b>Cost December 31</b>	<b>7,201</b>	<b>6,669</b>
Accumulated depreciation January 1	4,933	4,609
Exchange differences	-57	-26
Accumulated depreciation on disposals	-307	-443
Transfer to discontinued operations		-150
Depreciation for the year	837	943
<b>Accumulated depreciation December 31</b>	<b>5,406</b>	<b>4,933</b>
<b>Net book amount December 31</b>	<b>1,795</b>	<b>1,736</b>

Property, plant and equipment include the following assets held under finance leases:

	2007	2006
	Machinery and equipment	Machinery and equipment
Cost December 31	192	145
Accumulated depreciation December 31	-50	-52
<b>Net book amount December 31</b>	<b>142</b>	<b>93</b>

## 13. Goodwill and intangible assets

	2007	2006
<b>Goodwill</b>		
Cost January 1	494	494
<b>Cost December 31</b>	<b>494</b>	<b>494</b>
Accumulated amortization January 1	393	393
<b>Accumulated amortization December 31</b>	<b>393</b>	<b>393</b>
<b>Net book amount December 31</b>	<b>101</b>	<b>101</b>

The goodwill (in total 101 thousand euros) originates primarily in the acquisition of the Group's French subsidiary, where goodwill is also allocated in connection with testing for impairment.

The cash flow projections used for the test for impairment are based on budgeted sales approved by the management, covering a period of five years, during which the profit margin ratio as well as market position are expected to remain at the current level. Cash flows after this period have been extrapolated without a growth factor. The pre-tax discount rate used in the calculations is 9%. The management estimates that no reasonably foreseeable change of any of the key variables used in the calculations would lead to a situation where the recoverable amount of the subsidiary would be below its carrying amount.

## Intangible assets

	Intangible rights	Other intangible assets	Total
Cost January 1, 2007	183	1,487	1,670
Exchange differences	0	-16	-16
Additions	0	605	605
Disposals	0	-36	-36
<b>Cost December 31, 2007</b>	<b>183</b>	<b>2,040</b>	<b>2,223</b>
Accumulated amortization January 1, 2007	145	1,036	1,181
Exchange differences	0	-6	-6
Accumulated amortization on disposals	0	-1	-1
Amortization for the year	14	292	306
<b>Accumulated amortization December 31, 2007</b>	<b>159</b>	<b>1,321</b>	<b>1,480</b>
<b>Net book amount December 31, 2007</b>	<b>24</b>	<b>719</b>	<b>743</b>
Cost January 1, 2006	183	3,071	3,254
Exchange differences	0	-13	-13
Additions	0	340	340
Disposals	0	-1,848	-1,848
Transfer to discontinued operations	0	-63	-63
<b>Cost December 31, 2006</b>	<b>183</b>	<b>1,487</b>	<b>1,670</b>
Accumulated amortization January 1, 2006	129	2,673	2,802
Exchange differences	0	-12	-12
Accumulated amortization on disposals	-1	-1,811	-1,812
Transfer to discontinued operations	0	-47	-47
Amortization for the year	17	233	250
<b>Accumulated amortization December 31, 2006</b>	<b>145</b>	<b>1,036</b>	<b>1,181</b>
<b>Net book amount December 31, 2006</b>	<b>38</b>	<b>451</b>	<b>489</b>

#### 14. Carrying amounts of financial assets and liabilities by measurement categories

	Financial assets/ liabilities at fair value through profit and loss	Loans and other receivables	Available- for-sale financial assets	Financial liabilities measured at amortized cost	Balance sheet item carrying amounts	Fair value
<b>Balance sheet item December 31, 2007</b>						
<b>Non-current financial assets</b>						
Other financial assets			300		300	300
Receivables		481			481	481
<b>Current financial assets</b>						
Trade and other receivables		12,650			12,650	12,650
Derivative contracts	308				308	308
Other financial assets			25,217		25,217	25,217
Cash and cash equivalents		4,972			4,972	4,972
<b>Carrying amount by category</b>	<b>308</b>	<b>18,103</b>	<b>25,517</b>	<b>0</b>	<b>43,928</b>	<b>43,928</b>
<b>Non-current financial liabilities</b>						
Financial liabilities				69	69	69
<b>Current financial liabilities</b>						
Trade and other payables				13,347	13,347	13,347
Current income tax liabilities				1,003	1,003	1,003
Financial liabilities				274	274	274
<b>Carrying amount by category</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,693</b>	<b>14,693</b>	<b>14,693</b>
<b>Balance sheet item December 31, 2006</b>						
<b>Non-current financial assets</b>						
Other financial assets			300		300	300
Receivables		562			562	562
<b>Current financial assets</b>						
Trade and other receivables		10,850			10,850	10,850
Derivative contracts	58				58	58
Current income tax assets		3			3	3
Other financial assets			18,597		18,597	18,597
Cash and cash equivalents		5,692			5,692	5,692
<b>Carrying amount by category</b>	<b>58</b>	<b>17,107</b>	<b>18,897</b>	<b>0</b>	<b>36,062</b>	<b>36,062</b>
<b>Non-current financial liabilities</b>						
Financial liabilities				268	268	268
<b>Current financial liabilities</b>						
Trade and other payables				12,173	12,173	12,173
Current income tax liabilities				798	798	798
Financial liabilities				425	425	425
<b>Carrying amount by category</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13,664</b>	<b>13,664</b>	<b>13,664</b>



## 15. Other financial assets

### Available-for-sale financial assets

Available-for-sale financial assets are mainly comprised of the parent's investments in commercial papers, municipal bonds, certificates of deposit and other negotiable debt instruments, which are measured at fair value.

A total of 689,582 euros of interest income and sales gains were recognized for these investments in 2007 (EUR 397,020 in 2006).

With an agreement signed on June 23, 2005, Tekla Corporation became a minority shareholder in Tocoman Services Oy (10%) and TocoSoft Oy (10%), whose shares make up the Group's long-term shareholding. Unlisted equity instruments are measured at cost, since there is no market price defined by a functioning market and changes in the fair value are not materially.

Changes in the value of available-for-sale investments recorded in the fair value reserve have been detailed in the statement of changes in the group's equity.

### Long-term

	2007	2006
Measured at cost		
Shareholdings	300	300
<b>Total</b>	<b>300</b>	<b>300</b>

### Short-term

Measured at fair value		
Bonds	25,182	18,547
Other shares	35	50
<b>Total</b>	<b>25,217</b>	<b>18,597</b>

## 16. Deferred tax assets and liabilities

Changes in deferred taxes in 2007:

	31.12.06	Recognized in the income statement	31.12.07
Deferred tax assets:			
Tax losses	198	-87	111
Provisions	216	-216	0
<b>Total</b>	<b>414</b>	<b>-303</b>	<b>111</b>
Deferred tax liabilities:			
Other items	-7	-83	-90
Accumulated depreciation difference	-51	10	-41
<b>Total</b>	<b>-58</b>	<b>-73</b>	<b>-131</b>
<b>Deferred tax liabilities, net</b>	<b>356</b>	<b>-376</b>	<b>-20</b>

Changes in deferred taxes in 2006:

	31.12.05	Recognized in the income statement	31.12.06
Deferred tax assets:			
Tax losses	529	-331	198
Provisions	177	40	217
Other items	6	-6	0
<b>Total</b>	<b>712</b>	<b>-297</b>	<b>415</b>
Deferred tax liabilities:			
Other items	0	-7	-7
Accumulated depreciation difference	-37	-15	-52
<b>Total</b>	<b>-37</b>	<b>-22</b>	<b>-59</b>
<b>Deferred tax assets, net</b>	<b>675</b>	<b>-319</b>	<b>356</b>

The Group companies had a total of 5.79 million euros of tax losses on December 31, 2007 (6.37 million euros in 2006) for which no tax asset is recognized as the Group is not likely to accumulate taxable income against which the losses could be used before the losses in question expire.

The balance sheet does not include deferred tax assets in companies who made a loss in the current period or previous financial periods. Recognition of the deferred tax assets is based on profit estimates that show that it is probable that the losses in question can be utilized. The management estimates that most of the deferred tax assets recorded will be used during the following financial period, i.e. the nature of the asset is mostly short-term.

## 17. Inventories

	2007	2006
Work in progress	66	12
Finished goods	7	28
<b>Total</b>	<b>73</b>	<b>40</b>

## 18. Receivables

<b>Current receivables</b>	<b>2007</b>	<b>2006</b>
Trade receivables	10,119	9,717
Other receivables	410	164
Prepaid expenses and accrued income	2,429	1,027
<b>Total</b>	<b>12,958</b>	<b>10,908</b>

Prepaid expenses and accrued income		
Product development and other grants	721	429
Receivables from long-term contracts	0	2
Accrued sales income	872	118
Financial assets at fair value through profit or loss	308	58
Other items	528	420
<b>Total</b>	<b>2,429</b>	<b>1,027</b>

Allowances for doubtful accounts deducted from trade receivables	195	121
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### Non-current receivables

Trade receivables	481	562
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The non-current trade receivables consisted of two customer receivables in the Building & Construction business area.

Neither the current nor the non-current receivables bear any interest.

## 19. Cash and cash equivalents

	2007	2006
Cash at bank and in hand	4,972	5,692

## 20. Share capital and reserves

	Number of shares	Share capital	Share premium account	Reserve fund	Treasury shares
<b>1.1.2006</b>	<b>22,586,200</b>	<b>678</b>	<b>8,893</b>	<b>1,325</b>	<b>-221</b>
Translation differences				0	
<b>31.12.2006</b>	<b>22,586,200</b>	<b>678</b>	<b>8,893</b>	<b>1,325</b>	<b>-221</b>
Translation differences				0	
<b>31.12.2007</b>	<b>22,586,200</b>	<b>678</b>	<b>8,893</b>	<b>1,325</b>	<b>-221</b>

The number of shares is 22,586,200 (22,586,200 in 2006). The nominal value of the share is 0.03 euros per share, and the Group share capital is 678 thousand euros (678 thousand euros in 2006). All issued shares have been fully paid. The maximum share capital of the Group is 1.80 million euros (1.80 million euros in 2006).

### Share premium account

The share premium account is used for entering share premium from share issues when the subscription price of the share exceeds its nominal value. The first time when share premium was entered in Tekla's share premium account was in 1999. The share premium account increased significantly in connection with the listing in the spring of 2000.

The share premium account has been reduced in 2003, 2004 and 2005 in order to cover retained losses in the balance sheet.

In November 2005, the share premium account was reduced by 12.38 million euros due to return of capital to shareholders.

### Reserve fund

The portion of equity transferred based on the decision of the General Meeting has been entered in the reserve fund.

### Fair value reserve

The fair value reserve includes fair value adjustments of available-for-sale investments.

### Translation differences

The translation differences include translation differences from the translation of foreign units' financial statements, and translation differences from the parent company's long-term receivables from the Group's foreign subsidiaries.

### Treasury shares

Treasury shares include the acquisition cost of the 69,600 treasury shares held by the parent company. The cost of the shares was 221 thousand euros, which is presented as a deduction from equity.

## 21. Share-based payment

Tekla has no valid share option programs.

## 22. Pension benefit liabilities

In December 2004, the Ministry of Social Affairs and Health approved changes to the calculation principles of disability pension liabilities in the Finnish employment pension system (TEL), which took effect on January 1, 2006. According to the new practice, the disability pension part of TEL is classified as a defined contribution plan in IFRS financial statements.

In the Tekla Group's foreign subsidiaries, pensions are arranged in accordance with local, defined contribution pension plans.

After the aforementioned calculation principle change took effect as of the beginning of 2006, the Group's pension plans are classified as defined contribution plans.

## 23. Provisions

	Loss-making contracts	Provision for pensions	Total
<b>1.1.2007</b>	<b>750</b>	<b>82</b>	<b>832</b>
Decreases in provisions	-750	-82	-832
<b>31.12.2007</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Loss-making contracts

The Group's lease agreement for a building that the Group no longer used in its business was terminated on December 31, 2007.

### Provisions for pension obligations

Provisions for pension obligations consist of provisions for unemployment pension obligations of employees dismissed in 2003. The unemployment pensions have been granted at the latest during 2007 and their costs are considered in the annual TYEL calculations.

## 24. Financial liabilities

The Group's financial liabilities consist of product development loans granted by the Finnish Funding Agency for Technology and Innovation (Tekes) and finance lease liabilities. The book amounts of the liabilities correspond to their fair values.

	2007	2006
Non-current		
Other liabilities	0	217
Finance lease liabilities	69	51
<b>Total</b>	<b>69</b>	<b>268</b>
Current		
Other liabilities	217	389
Finance lease liabilities	57	36
<b>Total</b>	<b>274</b>	<b>425</b>

The terms of the product development loans limit the use of the loan for reasons other than promoting research and development. Tekla Corporation has committed to pay an interest rate on the loans equal to the standing Bank of Finland interest rate less three percent, but at least one percent. The repayment obligation of the loans can be avoided as a result of a separate application only, if the funded project fails to result in profitable business or if the borrower is materially unsuccessful in achieving the technological goals presented in the project plan.

	2007	2006
<b>The non-current liabilities mature as follows:</b>		
2008	0	268
2009	32	0
2010	37	0
<b>Total</b>	<b>69</b>	<b>268</b>

**The currency mix of the non-current liabilities is as follows:**

EUR	0	217
SEK	69	51
<b>Total</b>	<b>69</b>	<b>268</b>

**The currency mix of the current liabilities is as follows:**

EUR	217	389
SEK	57	36
<b>Total</b>	<b>274</b>	<b>425</b>

**The weighted average of the effective rates of interest of the non-current liabilities were:**

Other liabilities		1.00 %
Finance lease liabilities	6.63 %	5.26 %

The weighted average of the effective rates of interest of the current liabilities were:

	2007	2006
Other liabilities	1.00 %	1.00 %
Finance lease liabilities	5.58 %	5.52 %

The finance lease liabilities will mature as follows:

Finance lease liabilities – total amount of minimum lease payments

In one year	63	40
1 – 5 years	74	52
<b>Total</b>	<b>137</b>	<b>92</b>

Finance lease liabilities – present value of minimum lease payments

In one year	57	36
1 – 5 years	69	51
<b>Total</b>	<b>126</b>	<b>87</b>

Future finance charges	11	5
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## 25. Trade and other payables

	2007	2006
Advances received	413	686
Trade and other payables	957	1,260
Other liabilities	1,368	1,424
Accrued liabilities and deferred income		
Accrued salaries and social expenses	5,260	4,156
Accrued sales income	4,088	3,873
Accrued liabilities related to long-term contracts	83	0
Other items	1,178	774
<b>Total</b>	<b>10,609</b>	<b>8,803</b>
<b>Total</b>	<b>13,347</b>	<b>12,173</b>

The item "Other liabilities" consists of payroll withholding tax, value added tax and other non-interest-bearing current liabilities.

## 26. Other lease agreements

### The Group as lessee

Minimum lease payments due to non-cancellable other lease agreements:

	2007	2006
Premises		
In one year	1,610	1,732
1 – 5 years	3,125	1,644
After five years	14	0
<b>Total</b>	<b>4,749</b>	<b>3,376</b>
Others		
In one year	408	459
1 – 5 years	403	411
<b>Total</b>	<b>811</b>	<b>870</b>

Tekla has the right to extend its current office lease by 3 years with current terms and conditions remaining effective, given that the lessor is notified before a set date.

Most of the lease commitments under "other" derive from car leasing contracts.

The income statement for 2007 includes rental expenses paid based on other lease agreements in the amount of 2.4 million euros (2.7 million euros in 2006).

The Group subleased its prior office premises. The premise lease agreement was terminated on December 31, 2007. A one-time payment of EUR 312 thousand was paid as a compensation lease and service charge consideration in 2007. The Group's 750-thousand-euro provision connected with these agreements has been cancelled in 2007 (Note 23). The amount of minimum lease costs concerning these buildings was EUR 435 thousand in 2007 (EUR 431 thousand in 2006). Minimum lease income from the sublease agreements was EUR 359 thousand in 2007 (EUR 326 thousand in 2006).

### The Group as lessor

Minimum lease payments to be received due to non-cancellable other lease agreements:

	2007	2006
In one year	0	276
1 – 5 years	0	411
<b>Total</b>	<b>0</b>	<b>687</b>

The sublease agreements have been transferred to Kiinteistö Oy Espoon Koronakatu 1 in connection with the termination of the lease of the previous premises on December 31, 2007.



## 27. Contingent liabilities

Collateral given for own commitments	2007	2006
Business mortgages (as collateral for bank guarantee limit)	505	505
Pledged funds	65	82
<b>Other contingent liabilities</b>		
Guarantees	0	66
<b>Total</b>	<b>570</b>	<b>653</b>

A repayment liability is connected with the product development grants from Tekes, according to which the grants have to be returned only if they have been received in error, in excess or on apparently erroneous grounds, or if they have been used for a purpose significantly different from the one intended for.

### Derivative contracts

Forward foreign exchange contracts		
Fair value	308	58
Nominal values of underlying securities	3,634	3,855

The forward agreements mainly mature within the next 12 months.

## 28. Related party transactions

### The Group's subsidiary and parent company relationships

Company	Domicile	Ownership (%)	Share of votes (%)
Parent company of the Tekla Group			
Tekla Corporation	Finland	-	-
Subsidiaries of the Tekla Group			
Tekla AS	Norway	100	100
Tekla GmbH	Germany	100	100
Tekla Inc.	U.S.A.	100	100
Tekla India Private Limited	India	100	100
Tekla K.K.	Japan	100	100
Tekla (M) Sdn Bhd	Malaysia	100	100
Tekla Sarl	France	100	100
Tekla Software AB	Sweden	100	100
Tekla (UK) Limited	United Kingdom	100	100
Tekla Software (Shanghai) Ltd. Co.	China	100	100

Tekla Corporation's largest shareholder is Gerako Oy.

On December 31, 2007, Gerako Oy held 38.06% of Tekla Corporation, and it is domiciled in Finland.

**Transactions with related parties**

	2007	2006
Purchases and sales of goods and services		
Gerako Oy		
purchases of services	61	74
reimbursed expenses	13	16
Outstanding balances for purchases and sales of services		
Gerako Oy		
trade payable	8	5
trade receivable	0	1

The terms and conditions of the related party transactions have been arm's length.

**Management remuneration \***

	2007	2006
Salaries and other short-term employee benefits	1,273	1,195
Termination benefits	182	182
Post-employment benefits	352	346

\* Management herein refers to members of the Tekla Corporation Management Team and Directors of the business areas.

## 29. Financial risk management

Tekla Group faces normal financial risks associated with international operations. In relation to this, the objective of risk management is to supervise and, if necessary, limit risks. The Company's financial risks are centrally managed and administered by the Corporate Treasury, which reports to the Company's Board of Directors on a regular basis in accordance with the Company's policies and guidelines.

**Currency risk**

Currency risks due to the Group's international business are managed by hedging net payment flow in US dollars. Even though the hedge ratios meet the effective hedging requirements of the Group's risk management policy, they do not fully meet the hedging requirements of IAS 39. The Group uses forward foreign exchange contracts to hedge against the exchange rate risks of prospective sales agreements. Gains and losses of forward foreign exchange contracts are recognized in the income statement at the end of each reporting period. In general, the maximum tenor of the forward contracts is 12 months.

Foreign exchange risk arising from investments in foreign operations is not hedged, and it is included in the Group's net foreign currency position in accordance with the Group risk management policy.

**Sensitivity to market risks arising from financial instruments as required by IFRS 7**

The following sensitivity analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's profit for the year and equity to changes in the EUR/USD exchange rate resulting from financial instruments: financial assets and liabilities included in the balance sheet on December 31, 2007. Financial instruments affected by the above market risks include working capital items, such as trade and other receivables and trade and other payables, deposits, cash and cash equivalents, and derivative financial instruments. The following assumptions were made when calculating the sensitivity to changes in the EUR/USD foreign exchange rates:

- the variation in EUR/USD rate is assumed to be +/- 10%
- the position includes USD-denominated financial assets and liabilities, i.e. deposits, trade and other receivables, trade and other payables, cash and cash equivalents, as well as derivative financial instruments
- the position excludes USD-denominated future cash flows.

The sensitivity analysis does not take into account future cash flows, which the Group hedges in significant volumes, it only reflects the change in fair value of hedging instruments.

	31.12.2007	31.12.2006
Net position	-746	188
Effect on net profit	-55	14

### Liquidity risk

Liquidity risk refers to the impact on the Company's profit and cash flow arising if it cannot ensure sufficient financing for its operations. The Group's main source of financing is cash flow from operating activities.

Investing the liquid assets of the company takes place according to principles dictated by the Board in certificates of deposit, bonds and similar securities where the risks are almost non-existent. Liquid assets are invested in bonds, commercial papers and other instruments issued by companies listed in the Helsinki Stock Exchange. Other potential investment objects include bonds issued by banks, the state, municipalities and the European Central Bank. The Group's investments in bonds are staggered so that only bonds issued by the State of Finland and the European Central Bank have no upper limits in euros.

The maximum allowed remaining term to maturity of an individual financial instrument is 18 months. The average term to maturity of bonds may be a maximum of 12 months measured by duration.

Due to the company's rather large amount of liquid assets, the liquidity risk is very low.

### Maturities of financial liabilities on Dec 31, 2007:

	2008	2009-2010	2011-	Total
Fx forward contracts, outflow	-3,326			-3,326
Fx forward contracts, inflow	3,634			3,634
<b>Derivatives, net</b>	<b>308</b>	<b>0</b>	<b>0</b>	<b>308</b>
Accounts payable and other liabilities	-14,350			-14,350
Other liabilities, repayments (product development loans)	-217			-217
Other liabilities, financial expenses (product development loans)	-3			-3
Finance leases, repayments	-57	-69		-126
Finance leases, financial expenses	-6	-5		-11
<b>Total</b>	<b>-14,325</b>	<b>-74</b>	<b>0</b>	<b>-14,399</b>

Repayments for 2008 are disclosed under current liabilities in the balance sheet. The financial expenses mainly comprise of interest expenses.

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**Maturities of financial liabilities on Dec 31, 2006:**

	2007	2008-2009	2010-	Total
Fx forward contracts, outflow	-3,796			-3,796
Fx forward contracts, inflow	3,854			3,854
<b>Derivatives, net</b>	<b>58</b>	<b>0</b>	<b>0</b>	<b>58</b>
Accounts payable and other liabilities	-12,971			-12,971
Other liabilities, repayments (product development loans)	-389	-217		-606
Other liabilities, financial expenses (product development loans)	-6	-3		-9
Finance leases, repayments	-36	-51		-87
Finance leases, financial expenses	-4	-1		-5
<b>Total</b>	<b>-13,348</b>	<b>-272</b>	<b>0</b>	<b>-13,620</b>

Repayments for 2007 are disclosed under current liabilities in the balance sheet. The financial expenses mainly comprise of interest expenses.

**Credit risk**

Credit risks related to trade and other receivables are minimized with short terms of payment, efficient methods of collecting and by considering the contracting party's credit rating. The Company does not have significant concentrations of credit risk associated with receivables, as the Company's customer base is large and geographically dispersed across the globe. The largest individual customer account receivable accounts for approximately 10% of trade receivables.

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<b>Analysis of trade receivables by age</b>	<b>2007</b>	<b>2006</b>
Undue trade receivables	7,478	6,399
Trade receivables 1-60 days overdue	1,940	2,746
Trade receivables 61-180 days overdue	902	1,018
Trade receivables more than 180 days overdue	280	116
<b>Total</b>	<b>10,600</b>	<b>10,279</b>

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The credit risk related to investments and derivative contract parties is low, as the contracting party's credit rating has to be high according to the Group's risk management policy.

**Interest rate risk**

The Group does not have significant liabilities. Items exposed to interest rate risk include the fair value interest rate risk connected with the company's long-term product development loans, which is relatively low. The interest rate risk of available-for-sale investments is low as well, since their time to maturity is generally rather short.

The Group can raise both fixed and variable rate loans.

Due to the balance sheet structure of the Group, the management of interest rate risk is focused on investments. The Group's profit and cash flow from operating activities are essentially independent of market interest rate fluctuations.

**Capital structure management**

The goal of capital structure management is to secure the continuity of operations, support the company's growth targets and ensure increase in shareholder value. The structure can be managed through decisions on, e.g., distribution of dividends, acquisition of the Company's own shares and share issues.

The Company monitors the development of its capital structure through equity ratio and net gearing.

The purpose is to maintain a solid equity ratio and moderate net gearing. At the end of 2007, the Company's equity ratio was 67.5% (63.4% in 2006). Net gearing in 2007 amounted to -94.8% (-95.2% in 2006).

**30. Events after the balance sheet date**

The company's management is not aware of any significant events after the balance sheet date that would have affected the financial statements data.

## PARENT COMPANY'S INCOME STATEMENT, FAS 1.1.2007-31.12.2007

1,000 euros	2007	2006
Net sales	45,526	39,392
Change in inventories of finished goods and in work in progress (+/-)	-16	27
Other operating income	4,337	1,636
Materials and services	-2,585	-2,240
Personnel expenses	-17,511	-15,832
Depreciation and value adjustments	-1,148	-1,140
Other operating expenses	-9,912	-8,647
Operating profit (loss)	18,691	13,196
Financial income and expenses	627	326
Profit (loss) before extraordinary items	19,318	13,522
Extraordinary items	0	1,319
Profit (loss) before appropriations and taxes	19,318	14,841
Appropriations	40	-57
Income taxes	-4,828	-3,163
<b>Net profit (loss) for the period</b>	<b>14,530</b>	<b>11,621</b>

## PARENT COMPANY BALANCE SHEET, FAS 31.12.2007

1,000 euros	2007	2006
<b>ASSETS</b>		
<b>Fixed assets and other long-term investments</b>		
Intangible assets	1,787	2,027
Tangible assets	1,229	1,119
Long-term investments	3,042	3,061
<b>Total fixed assets and long-term investments</b>	<b>6,058</b>	<b>6,207</b>
<b>Current assets</b>		
Inventories	44	60
Short-term receivables	12,286	13,256
Marketable securities	24,871	18,448
Cash and cash equivalents	803	1,230
<b>Total current assets</b>	<b>38,004</b>	<b>32,994</b>
<b>TOTAL ASSETS</b>	<b>44,062</b>	<b>39,201</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	678	678
Share premium account	8,893	8,893
Legal reserve	1,323	1,323
Treasury shares	-221	-221
Profit from the previous periods	8,676	6,062
Net profit (loss) for the period	14,530	11,621
<b>Shareholders' equity total</b>	<b>33,879</b>	<b>28,356</b>
<b>Accumulated appropriations</b>	<b>157</b>	<b>197</b>
<b>Provisions</b>	<b>0</b>	<b>833</b>
<b>Liabilities</b>		
Long-term liabilities	0	217
Short-term liabilities	10,026	9,598
<b>Liabilities total</b>	<b>10,026</b>	<b>9,815</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>44,062</b>	<b>39,201</b>

## PARENT COMPANY CASH FLOW STATEMENT, FAS 1.1.-31.12.2007

1,000 euros	2007	2006
<b>Cash flow from operating activities:</b>		
Profit (loss) before extraordinary items:	19,318	13,522
Adjustments:		
Depreciation according to plan	1,148	1,140
Other operating income and expenses (not received/paid)	-56	-131
Financial income and expenses	-627	-326
Other adjustments	-3,309	152
Cash flow before change in working capital	16,474	14,357
Change in working capital:		
Increase (-) / decrease (+) in non-interest-bearing short-term receivables	1,459	-1,838
Increase (-) / decrease (+) in inventories	16	-27
Increase (+) / decrease (-) in non-interest-bearing short-term liabilities	-284	2,586
Cash flow from operations before financial items and taxes	17,665	15,078
Interest paid and payments of other financial expenses	-7	-10
Dividend received	259	115
Interest received	779	439
Other financial income and expenses	-590	-307
Income taxes paid	-3,946	-2,402
Cash flow before extraordinary items	14,160	12,913
<b>Net cash provided by operating activities (A)</b>	<b>14,160</b>	<b>12,913</b>
<b>Cash flow from investing activities:</b>		
Investments in tangible and intangible assets	-1,379	-2,385
Proceeds from sale of tangible and intangible assets	242	112
Increase (-) / decrease (+) in loans receivable	24	-283
Cash flow from sale of discontinued operations	2,346	0
<b>Net cash (used in) provided by investing activities (B)</b>	<b>1,233</b>	<b>-2,556</b>
<b>Cash flow from financing activities:</b>		
Repayments of long-term debt	-389	-591
Dividends paid and other distribution of profit	-9,007	-2,702
<b>Net cash (used in) provided by financing activities (C)</b>	<b>-9,396</b>	<b>-3,293</b>
<b>Increase (+) / decrease (-) in cash and cash equivalents (A+B+C)</b>	<b>5,997</b>	<b>7,064</b>
Cash and cash equivalents at beginning of year	19,677	12,613
<b>Cash and cash equivalents at end of year</b>	<b>25,674</b>	<b>19,677</b>



## CALCULATION OF FINANCIAL INDICATORS

Equity ratio, % =	$\frac{\text{Shareholders' equity}}{\text{Balance sheet total} - \text{Advances received}}$	x 100
Net gearing, % =	$\frac{\text{Interest-bearing liabilities} - \text{Cash and cash equivalents}}{\text{Shareholders' equity}}$	x 100
Return of investment, % =	$\frac{\text{Profit before extraordinary items} + \text{Financial expenses}}{\text{Balance sheet total} - \text{Non-interest-bearing liabilities (average for the year)}}$	x 100
Return on equity, % =	$\frac{\text{Profit before extraordinary items} - \text{Taxes}}{\text{Shareholders' equity (average for the year)}}$	x 100
Earnings per share =	$\frac{\text{Profits attributable to equity holders of the parent company}}{\text{Average number of shares}}$	
Equity / share =	$\frac{\text{Shareholders' equity}}{\text{Number of shares at the end of the period}}$	
Dividend to earnings ratio, % =	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$	x 100
Effective dividend yield, % =	$\frac{\text{Dividend per share}}{\text{Share price at the end of the year}}$	x 100
Price / earnings ratio =	$\frac{\text{Share price at the end of the year}}{\text{Earnings per share}}$	
Market capitalization =	Number of shares at the end of the period X share price at the close of the period	

# BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFITS

Tekla Corporation's Board proposes to the Annual General Meeting, to be held on March 19, 2008,  
that a dividend of 0.50 euros per share be distributed for the financial period 2007,  
in total 11,258,300 euros. No dividend shall be paid on the 69,600 shares held by the company.

Espoo, February 6, 2008

Heikki Marttinen, Chairman of the Board

Ari Kohonen, President and CEO

Esa Korvenmaa

Olli-Pekka Laine

Erkki Pehu-Lehtonen

Juha Kajanen

# AUDITORS' REPORT

## To the shareholders of Tekla Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Tekla Corporation for the period 1.1. – 31.12.2007. The Board of Directors and the President have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, 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 parent company's financial statements, report of the Board of Directors and 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 financial statements and the report of the Board of Directors are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements and in the report of the Board of Directors, 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 President 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 President of the parent company can be discharged from liability for the period audited by us.

The proposal by the Board of Directors regarding the distributable funds is in compliance with the Companies' Act.

Espoo, 27 February 2008

**PricewaterhouseCoopers Oy**  
Authorized Public Accountants

Markku Marjomaa  
Authorized Public Accountant

## BOARD OF DIRECTORS 2007



*From the left: Ari Kohonen, Timo Keinänen, Heikki Marttinen, Olli-Pekka Laine, Erkki Pehu-Lehtonen, Juha Kajanan and Esa Korvenmaa.*

**Heikki Marttinen, M.Sc.  
(Econ. and Business Administration)**

Chairman of the Board since 2001,  
Board member since 2000  
b. 1946  
Strategic Management Consultant  
Ownership 31.12.2007: –

**Olli-Pekka Laine, M.Sc. (Engineering)**

Deputy Chairman of the Board and  
Board member since 2003  
b. 1948  
Managing Director of Tapiola Pension  
Ownership 31.12.2007: 10,000 shares

**Ari Kohonen M.Sc. (Engineering),  
B Sc. (Econ.)**

Board member since 2003  
b. 1955  
Tekla Corporation's President  
and CEO since 2004  
Ownership 31.12.2007: 8,596,020  
shares through Gerako Oy

**Esa Korvenmaa, M.Sc. (Engineering)**

Board member since 2005  
b. 1954  
Managing Director of  
Cisco Systems Oy, Finland  
Ownership 31.12.2007: –

**Erkki Pehu-Lehtonen, M.Sc.  
(Mech. Engineering)**

Board member since 2006  
b. 1950  
President and CEO, Pöyry Plc  
Ownership 31.12.2007:  
related persons 2,000 shares

**Timo Keinänen, M.Sc. (Econ.)**

Deputy member of the Board since  
2004  
b. 1960  
Tekla's CFO as of August 2003  
Ownership 31.12.2007: 5,000 shares

**Juha Kajanan,  
Licentiate in Technology**

Representative of the personnel  
as of 16.2.2006  
b. 1965  
Development Manager  
Ownership 31.12.2007: 1,250 shares

**Pirjo Lundén, M.Sc. (Engineering)**

Deputy to the representative  
of the personnel for the period  
2007 – 2008  
b. 1969  
Training Manager  
Ownership 31.12.2007: 450 shares

## TEKLA MANAGEMENT TEAM 2008



*Back row from the left: Petri Raitio, Risto Rätty, Kai Lehtinen, Harald Lundberg and Heikki Multamäki. Front row from the left: Timo Keinänen, Anneli Bergström, Ari Kohonen and Leif Granholm.*

**Ari Kohonen, M.Sc.(Engineering) and B.Sc.(Econ.)**

Tekla's President and CEO as of 1.1.2004, Board member since 2003  
b. 1955  
Ownership 31.12.2007: 8,596, 020 shares through Gerako Oy

**Anneli Bergström M.Sc. (Computer Science)**

Vice President, Human Resources since 2003, in the Management Team since 2006  
b. 1952  
Ownership 31.12.2007: 40,000 shares

**Leif Granholm, M.Sc. (Engineering)**

Senior Vice President, Country Director of Tekla Sweden since 2004, in the Management Team since 2003  
b. 1955  
Ownership 31.12.2007: 14,600 shares

**Timo Keinänen, M.Sc. (Econ.)**

Deputy member of the Board since 2004  
b. 1960  
Tekla's CFO as of August 2003  
Ownership 31.12.2007: 5,000 shares

**Kai Lehtinen, M.Sc. (Engineering)**

Senior Vice President, Infra & Energy business area and in the Management Team since 2007  
b. 1966  
Ownership 31.12.2007: 800 (+ related persons 1,200) shares

**Harald Lundberg, M.Sc. (Engineering)**

Vice President, CIO since 2004, in the Management Team since 2006  
b. 1963  
Ownership 31.12.2007: -

**Heikki Multamäki, M.Sc. (Engineering)**

Executive Vice President since 1966, Business Development, in the Management Team since 1985  
b. 1949  
Ownership 31.12.2007: 44,000 shares

**Petri Raitio**

Senior Vice President, Technology and Architecture since 2008, in the Management Team since 2003  
b. 1966  
Ownership 31.12.2007: 10,000 shares

**Risto Rätty, M.Sc. (Engineering)**

CEO's Deputy and Executive Vice President, Building & Construction business area since 2001, in the Management Team since 1994  
b. 1961  
Ownership 31.12.2007: 50,000 shares

# CORPORATE GOVERNANCE

Governance in Tekla Corporation complies with the provisions of the Finnish Companies Act, Tekla's Articles of Association and, as of July 1, 2004, the Corporate Governance Recommendation prepared by HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers.

Governance and operation of Tekla are managed by the General Meeting, the Board of Directors and the President and CEO. The Board of Directors supervises the company's profit development, governance and organization on behalf of shareholders. Tekla's President and CEO is responsible for operative activity on the corporate level, assisted by the Tekla Management Team.

For a more detailed description of Tekla's Corporate Governance, please visit the company web site at [www.tekla.com](http://www.tekla.com) > Investors > Corporate Governance

## GENERAL MEETING

The General Meeting is the highest decision-making body of the company. For instance, it adopts the company's income statement and balance sheet and decides on the distribution of profits, appointment of Board members and auditors as well as their fees.

Tekla Corporation's Annual General Meeting (AGM) 2007 was held on March 15, 2007. The authorizations given to the Board are described in this Annual Report on page 15.

The Board did not use the authorizations given by the AGM during 2007.

## BOARD OF DIRECTORS

Tekla's governance and proper organization of operation is the responsibility of the Board of Directors, consisting of a minimum of three and maximum of five actual members and one deputy member. The members of the Board are elected by the Annual General Meeting. The Board elects a Chairperson from among its members. According to the Articles of Association, a representative

of the personnel plus a personal deputy may also be elected to the Board. See also introduction of the Tekla Board of Directors on page 60.

> The Tekla Annual General Meeting 2007 elected the following five persons to the board: Heikki Marttinen (Chairman), Olli-Pekka Laine (Deputy Chairman), Ari Kohonen, Esa Korvenmaa and Erkki Pehu-Lehtonen. Timo Keinänen was chosen as the deputy member.

Additionally, Juha Kajanen was chosen by Tekla's personnel as their representative and Pirjo Lundén as her personal deputy.

- > Of the members Heikki Marttinen, Olli-Pekka Laine, Esa Korvenmaa and Erkki Pehu-Lehtonen were independent Board members.
- > The Board of Directors of Tekla Corporation held 10 meetings in 2007, and the average attendance was 95 percent.
- > According to the decision by the AGM of 2007, the members of Tekla Board were paid 2,700 euros (chairman) or 1,800 euros (member) per month. In addition, their travel expenses were reimbursed according to Tekla's travel policy.

- The members of the Board, who are employed by the Tekla Group, were not paid any fees for their board work.
- The members of the Board had no other benefits, nor were they paid any fees in the form of Tekla shares or share-related rights.

## BOARD COMMITTEES

Being rather small, the Board works effectively in close co-operation and meets regularly, whereby it has not been considered necessary to establish any separate committees.

## PRESIDENT AND CEO

The President and CEO manages the company's operative activity according to the instructions and orders given by the Board. He manages and controls the operation of Tekla and its business areas, prepares the issues to be discussed by the Board and is responsible for their execution.

M.Sc.(Eng.), Bachelor of Econ. Ari Kohonen has been Tekla Corporation's President and CEO as of January 1, 2004. According to his employment contract, Ari Kohonen will retire at the age of 60, unless otherwise agreed. Should Tekla terminate Kohonen's employment, he is entitled to an extra pay corresponding to 12 month's salary.

President's fees and other benefits are reported by financial period. In 2007 Ari Kohonen was paid a total of 275,638.60 euros in remuneration (mobile phone benefit included).

The President had no other benefits, nor was he paid any fees in the form of Tekla shares or share-related rights. The personnel's incentive system is applied also to the President.

## MANAGEMENT TEAM

The Management Team assists the President and CEO in e.g. preparing the company's strategy, operating principles and other issues shared by the business areas and the Group. The Tekla Management Team consists of the President and CEO and the Directors of the key business areas and support functions. The Management Team met regularly at least once a month during 2007. Introduction of the Tekla Management Team on page 61 in this report.

## AUDIT

It is the purpose of the statutory audit to verify that the financial statements give true and fair information on the company's result and financial position in the financial period. The company's auditor gives a statutory auditor's report to the shareholders in connection with the company's financial statements. Reports on audits carried out during the financial period are given to the Board. The auditor is elected by the General Meeting.

The AGM of 2007 chose as Tekla Corporation's auditor PricewaterhouseCoopers Oy, with Markku Marjomaa, A.P.A, as the responsible auditor.

The auditors of the parent company and subsidiaries were paid a total of 98,349 euros in 2007. The sum includes 69,845 euros for audit and 28,504 euros for IFRS, taxation and other consulting.



## INTERNAL CONTROL

In accordance with the Companies Act, the supreme responsibility for the organization of the control over accounting and financial administration lies with the company's Board. Ultimate responsibility for the organization of accounting and financial administration lies with the President.

In defining the extent and contents of the external audit, the fact that the company has no internal control organization is taken into account.

## INSIDERS

Tekla complies with the Guidelines for Insiders issued by the Helsinki Stock Exchange, supplemented by the company's own guidelines.

As of 1.1.2006 Tekla's public insiders include members and deputy member of the Board, President and CEO, Executive Vice Presidents, members of the Tekla Management Team and the auditors. List of Tekla's public insiders can be found on company's web site at [www.tekla.com](http://www.tekla.com) > Investors > Corporate Governance > Insiders.

The permanent and project-specific insiders belong to Tekla's company specific insiders.

Tekla's all insider registers are kept in the company headquarters in Espoo, Finland.

Tekla's communication manager is responsible for the insider management. The assistant to Tekla's President and CEO is responsible for the insider registers.

# OTHER INFORMATION

## RELEASES

All stock exchange releases and announcements, as well as flagging notifications Tekla Corporation has published in 2007, are available on the company's Internet site at [www.tekla.com](http://www.tekla.com) > Investors > Releases > 2007

## INTERIM REPORTS IN 2008

- Financial Statements 2007 bulletin on Thursday, February 7, 2008
- Interim Report 1-3/2008 on Thursday, April 24
- Interim Report 1-6/2008 on Friday, August 8 and
- Interim Report 1-9/2008 on Thursday, October 23

## ANNUAL GENERAL MEETING 2008

Tekla Corporation's Annual General Meeting 2008 will be held on Wednesday, March 19, 2008 at Tekla headquarters in Espoo. The invitation to the meeting has been published as a stock exchange release on February 25, 2008.

The decisions of the AGM will be found after the meeting on the company's internet site at [www.tekla.com](http://www.tekla.com) > Investors > Corporate Governance > Shareholder meetings