Tekla Corporation Annual Report 2006

TEKLA

www.tekla.com

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		IFRS			FAS		
Million euros		2006	2005	2004	2004	2003	2002
SCALE OF OPERATIONS:							
Net sales		**49.78**	37.95	37.89	37.89	39.81	41.47
Change, %		**31.2**	0.2	-	-4.8	-4.0	5.8
Exports and international operations		**37.44**	27.29	21.49	21.49	20.73	21.36
Change, %		**37.2**	27.0	-	3.7	-3.0	-4.8
% of net sales		**75.2**	71.9	56.7	56.7	52.1	51.5
Balance sheet total		**39.75**	28.59	33.53	32.91	35.71	43.11
Research and development expenses	1)	**7.98**	7.86	9.14	9.14	10.25	12.08
% of net sales		**16.0**	20.7	24.1	24.1	25.8	29.1
Investments in property, plant and equipment		**1.33**	1.30	0.84	0.84	1.34	5.58
% of net sales		**2.7**	3.4	2.2	2.2	3.4	13.4
Personnel, on average		**324**	299	368	368	428	456
Net sales / employee (1,000 euros)		**153.6**	126.9	103.0	103.0	93.0	90.9
Personnel expenses / employee (1,000 euros)		**70.7**	66.3	58.5	58.3	54.7	54.7
PROFITABILITY:							
Operating profit (loss)		**13.62**	6.39	-0.80	-1.47	-9.45	-3.50
% of net sales		**27.4**	16.8	-2.1	-3.9	-23.7	-8.4
Profit (loss) before extraordinary items		**13.77**	7.08	-0.96	-1.60	-9.32	-3.18
% of net sales		**27.7**	18.7	-2.5	-4.2	-23.4	-7.7
Profit (loss) before appropriations and taxes		**13.77**	7.08	-0.96	-1.60	-9.32	-3.18
% of net sales		**27.7**	18.7	-2.5	-4.2	-23.4	-7.7
Return on equity (ROE), %		**48.5**	28.3	-0.1	-4.6	-33.0	-8.2
Return on investment (ROI), %		**63.1**	32.7	-3.2	-5.8	-29.9	-8.0
Operating profit (loss) / employee (1,000 euros)		**42.0**	21.4	-2.2	-4.0	-22.1	-7.7
FINANCING AND FINANCIAL POSITION:							
Shareholders' equity		**24.72**	17.21	23.79	23.31	24.17	33.44
Interest-bearing liabilities		**0.69**	1.34	1.76	1.57	2.02	2.29
Non-interest-bearing liabilities		**14.34**	10.04	7.98	7.90	9.38	7.28
Equity ratio, %		**63.4**	61.1	71.8	72.0	69.0	78.4
Net gearing, %		**-95.2**	-81.2	-78.5	-89.2	-50.6	-40.0
SHARE RELATED DATA:							
Earnings per share (euros)		**0.45**	0.26	0.00	-0.05	-0.42	-0.13
Equity per share (euros)		**1.10**	0.76	1.06	1.04	1.07	1.49
Dividend per share (euros)	2)	**0.40**	0.12	0.00	0.00	0.00	0.00
Dividend (1,000 euros)	2)	**9,007**	2,702	0	0	0	0
Dividend to earnings ratio, %		**88.9**	46.2	0.0	0.0	0.0	0.0
Effective dividend yield, %		**5.1**	3.5	0.0	0.0	0.0	0.0
Price / earnings (P/E)		**17.5**	13.2	-	-38.5	-4.6	-12.2
Share prices, euros							
- period's lowest		**3.38**	1.85	1.71	1.71	0.98	1.50
- period's highest		**7.90**	3.60	2.80	2.80	2.15	4.12
- period's average		**5.24**	2.87	2.16	2.16	1.46	3.54
- on December 31		**7.88**	3.42	1.87	1.87	1.93	1.58
Market capitalization		**177.43**	77.01	42.11	42.11	43.46	35.58
Share turnover (in 1,000s)		**13,742**	8,026	3,901	3,901	2,269	6,533
Share turnover, %		**61.0**	35.6	17.3	17.3	10.1	29.0
No. 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 no. of issue-adjusted shares		**22,516,600**	22,516,600	22,516,600	22,516,600	22,516,600	22,516,631

1) The calculation principles of research and development expenses were specified in 2003-2004.
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 52.

REVIEW BY THE BOARD OF DIRECTORS 2006

Financial year in brief

- Tekla Group's consolidated net sales were 49.78 (37.95) million euros. The growth in net sales was approximately 31 percent.
- Operating result was 13.62 (6.39) million euros.
- International operations accounted for 75 (72) percent of net sales.
- The main business area Building & Construction continued its strong growth. B&C's net sales amounted to nearly 36 million euros, meaning a growth of approximately 42 percent compared to the previous year. Tekla Structures software, developed and marketed by B&C was sold to more than 80 countries. The total amount of sold licences exceeded 10,000 in the fall of 2006.
- In 2006, 40 years had passed since the establishment of Tekla. The anniversary was mainly celebrated by working. A festive seminar was arranged for Finnish customers and other significant stakeholders in Espoo at the end of September. This event also saw the publication of Tekla's 40th anniversary history book.
- Tekla Corporation's Board will propose to the Annual General Meeting, to be held March 15, 2007, that a dividend of 0.20 euros plus an extra dividend of 0.20 euros due to the anniversary be distributed for the financial period 2006. This translates into a dividend of 0.40 euros per share and a total dividend payment of 9,006,640 euros.

BUSINESS ENVIRONMENT

Tekla develops and markets software products and related services that make customers' core business more effective. 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 solutions make customers' core business processes more effective, enable their further development and enhance customers' competitiveness.

The trends in the building industry have remained favorable in nearly all key market areas. Demand for modeling systems is still on the rise, and product modeling is strengthening its foothold in structural design and other phases of the building process. The strengthening of Tekla's market position continued during 2006.

As for the energy industry, there is continued interest in network information systems also outside the Nordic countries and the Baltic states. The high price of energy improves the profitability of energy companies and increases IT investment opportunities. In the Nordic countries, there is particular demand for network information systems that provide operative support during storms and other failure situations. The aging of electricity networks and improvement in reliability and quality emphasize the significance of network systems from the point of view of property management and maintenance.

Demand for geographic information systems for the public sector is steady in the European market. Growth is anticipated in the developing regions of Eastern Europe. In Finland, increasing regional collaboration and requirements for making municipal operations more efficient are laying the foundation for the development of information systems in this sector. Tekla's market position is strong in large and medium-sized Finnish municipalities.

NET SALES AND RESULT

Tekla's net sales were 49.78 (37.95) million euros. The growth of net sales was 31.2 percent. The operating result was 13.62 (6.39) million euros. Profit before taxes amounted to 13.77 (7.08) million euros.

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

Net sales, million euros				Share of net sales, %	
1.1.– 31.12.	**2006**	**2005**	**Change**	**2006**	**2005**
Building & Construction	35.88	25.19	10.69	72.1	66.4
Energy & Utilities	7.39	6.29	1.10	14.8	16.6
Public Infra	4.28	4.23	0.05	8.6	11.1
Defence	2.23	2.24	-0.01	4.5	5.9
Others	0.00	0.00	0.00	0.0	0.0
Total	**49.78**	**37.95**	**11.83**	**100.0**	**100.0**

Operating result, million euros			
1.1.–31.12.	**2006**	**2005**	**Change**
Building & Construction	12.77	6.54	6.23
Energy & Utilities	0.52	-0.48	1.00
Public Infra	0.44	0.28	0.16
Defence	0.32	0.14	0.18
Others	-0.43	-0.09	-0.34
Total	**13.62**	**6.39**	**7.23**

PROFITABILITY

Return on investment (ROI) was 63.1 (32.7) percent and return on equity (ROE) 48.5 (28.3) percent. Earnings per share were 0.45 (0.26) euros and equity per share at the end of the period was 1.10 (0.76) euros.

FINANCIAL POSITION

The consolidated balance sheet totaled 39.75 (28.59) million euros. Equity ratio was 63.4 (61.1) percent. Liabilities totaled 15.03 (11.38) million euros. Liquid assets stood at 24.24 (15.31) million euros, constituting 61.0 (53.6) percent of the balance sheet total.

INVESTMENTS

Gross investments in 2006 amounted to 1.33 (1.30) million euros, consisting of normal acquisitions of hardware, software and equipment.

BUSINESS AREAS

Building & Construction

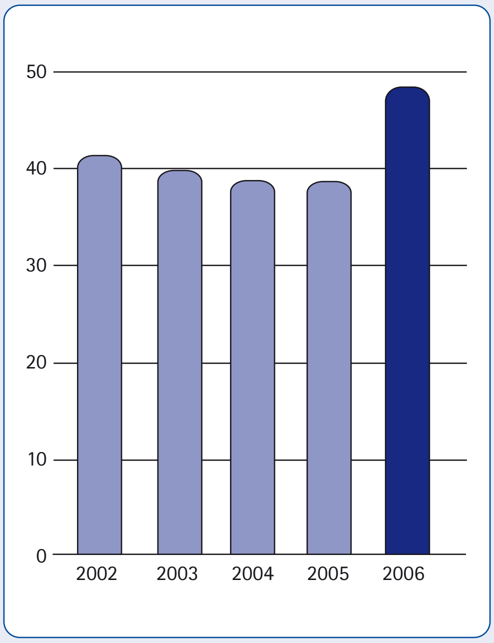
Tekla's Building & Construction business area (B&C) develops and markets the Tekla Structures software product for model-based design of steel and concrete structures as well as the management of fabrication and construction.

The net sales of B&C amounted to 35.88 (25.19) million euros for 2006. Net sales increased by approximately 42 percent compared to the previous year. Operating profit nearly doubled, reaching 12.77 (6.54) million euros.

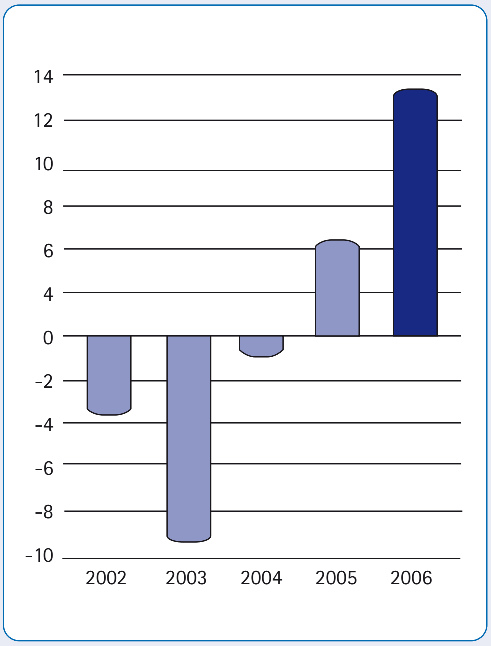
The business area's product offering (Tekla Structures) comprises several standardized modules. In the software product business, costs are relatively fixed and costs from additional sales quite low. B&C's operating profit percentage for the reporting period was 35.6 (26.0).

International operations accounted for 94 (94) percent of B&C's net sales. Tekla Structures users could be found

Tekla Group's net sales, million euros



Tekla Group's operating result, million euros



in more than 80 countries. North America, the United Kingdom and France were still the largest markets. With regard to B&C's key market areas, the highest proportional growth in net sales was seen in the Middle East, India, the Far East and the Nordic countries.

By far the most of B&C's net sales were still due to the product offering for structural steel engineering. Several customers using the new precast concrete product were also won during the year. The number of Tekla Structures licenses sold exceeded the 10,000 mark in October 2006.

Consolis, the leading manufacturer of structural precast concrete elements in Europe, signed a framework agreement on the purchase of Tekla Structures licenses late in the summer. The agreement was a strategic choice for the Consolis Group, as Consolis announced its decision to take the software into use as a central design tool.

Mammut Group, a group of building and construction companies operating in the Middle East, announced in June that it will invest heavily in Tekla Structures. After the software is fully in use at Mammut in 2007, the Group will be the largest Tekla Structures user worldwide in terms of number of licenses.

At the beginning of 2006, the US-based, globally operating construction company Bechtel acquired a significant number of new Tekla Structures licenses to supplement its previous licenses.

The trends in the building industry were favorable throughout the reporting period, and they are expected to continue that way in 2007 as well. The profitability of the business area is estimated to remain at a good level. In order to facilitate long-term growth, B&C's personnel resources will be further increased.

Energy & Utilities

The Energy & Utilities (E&U) business area's software products (Tekla Xpower, Tekla Xpipe) offer energy distribution companies and water utilities solutions that improve their business and operative efficiency and competitiveness. E&U's business comprises mostly sales of additional licenses and services to the existing customer base.

The net sales of E&U amounted to 7.39 (6.29) million euros for 2006. Net sales increased by 17.5%. E&U's operating result for the reporting period was 0.52 (-0.48) million euros. International operations accounted for 49 (51) percent of net sales. E&U's operating profit percentage for the reporting period was 7.0 (-7.6).

Several Tekla Xpower system expansions were delivered to Finnish customers during the year. Tekla Xpower orders were delivered to new customers in Sweden, as were system expansions to existing customers. Two system expansion deliveries took place in the Baltic states at the beginning of the year, and a new district heating customer was won. The Tekla Xpower expansion project in Malaysia proceeded and additional licenses were sold. Demand for Tekla Xpipe picked up towards the end of the year.

Public Infra

The Public Infra (PI) business area's information systems (Tekla Xcity, Tekla Xstreet) make municipalities' operations more effective in the technical sector and infrastructure management.

The net sales of PI amounted to 4.28 (4.23) million euros in 2006. PI's operating result was 0.44 (0.28) million euros. International operations accounted for 7 (5) percent of net sales. PI's operating profit percentage for the reporting period was 10.3 (6.6).

Tekla Xcity system expansions were delivered to several customers in Finland. Agreements on the use of regional services were signed with several Finnish customers. The eModel project, connected with managing the environment, started with a few Finnish cities.

New business area Infra & Energy

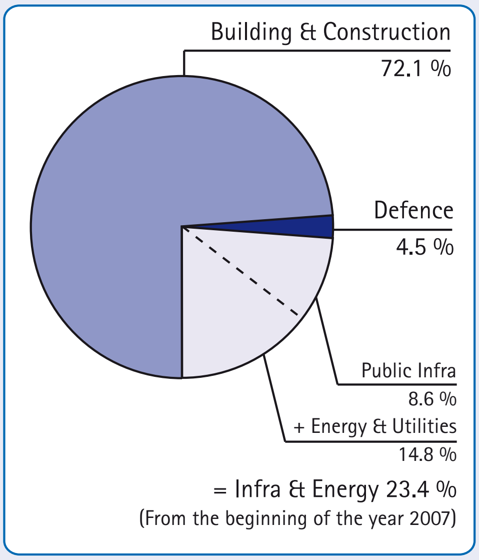
At the beginning of 2007, the Energy & Utilities and Public Infra business areas merged into a new business area, Infra & Energy. Infra & Energy focuses on development and sales of model-based software solutions that support customers' core processes. Its key customer industries are energy distribution, infrastructure management and water supply. With the restructuring, Tekla aims to ensure a more comprehensive software offering

Building & Construction
offers the **Tekla Structures** BIM (Building Information Modeling) system for the building industry. The model-based 3D software covers the entire structural design process from conceptual design to detailing and management of fabrication and construction. Its innovative tools provide new possibilities to design and create an intelligent structural model of any size or complexity with ease and precision. Tekla Structures allows real-time collaboration between users across organizations and project phases. Tekla Structures has thousands of users in more than 80 countries.

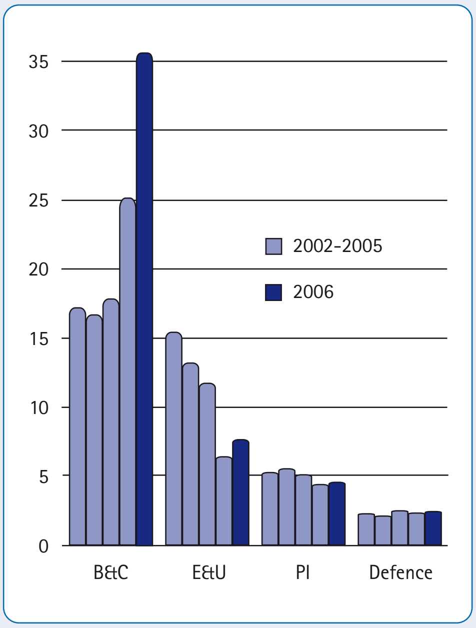
At the beginning of 2007, the Energy & Utilities and Public Infra business areas merged into a new business area, **Infra & Energy**. Infra & Energy focuses on development and sales of model-based software solutions that support customers' core processes. Its key customer industries are energy distribution, infrastructure management and water supply. The business area's products are the Tekla Xpower and the Tekla Xpipe network information systems which are in use in more than 70 electricity distribution companies in northern Europe and in nearly 20 water utilities in Finland and Sweden respectively. Additionally, there are the Tekla Xcity municipal information system and the Tekla Xstreet civil engineering system. They are used in more than 40 cities and consultants serving local authorities in Finland and Sweden.

The **Defence** business area develops reconnaissance, command and control systems in close cooperation with the Finnish Defence Forces. In February 2007 Tekla announced having signed a letter of intent with the Finnish company Patria on sale of Tekla Defence.

Net sales by business area, 2006, %



Net sales by business area, million euros



for its customer industries as well as improve its internal efficiency in product development and maintenance.

The new business area's offering is expected to meet market demand in all of its customer industries, with continued brisk sales of additional and service sales to existing customers. New customers are expected from among Swedish energy companies as well as Finnish and Swedish water utilities. Business opportunities in Eastern Europe are being explored in cooperation with local partners. The customer base in the infrastructure management sector is expected to expand with the adoption of regional services.

Defence

The Defence business area develops reconnaissance, command and control systems in close cooperation with the Finnish Defence Forces.

The business area's net sales for 2006 amounted to 2.23 (2.24) million euros. Its operating result was 0.32 (0.14) million euros. Profitability was at a good level; the business area's operating profit percentage was 14.3 (6.3).

The Defence business developed favorably during 2006, and the volume of orders in hand increased notably towards the end of the year. The business area has promising prospects. On 9.2.2007 Tekla announced having signed a letter of intent with the Finnish company Patria on the sale of Tekla Defence.

RESEARCH AND PRODUCT DEVELOPMENT

Research and product development is a significant competence block in a software house. Around a third of Tekla's personnel are engaged in research and product development.

During the last three years, Tekla has integrated Microsoft .NET technology into the software platform that forms the basis of Tekla's products. Several products making good use of this integration have already been released, for example in the fields of mobile and browser use. The end of June 2006 saw the release of Tekla Structures 12.0, the first product version using application programmability with .NET technology. The most significant innovation in the product version is its open application programming interface to the different functions and information in the application. With this interface, users and third parties may better adapt Tekla Structures for their own specific needs.

During the second half of 2006, product development for the building sector focused on the next main version of Tekla Structures, which will address the country-specific characteristics of structural steel modeling, for instance.

Main versions of the Tekla Xpower and Tekla Xpipe software products were delivered to customers at the end of the year. In 2006, product development focused particularly in reforming the user interface and improving usability.

Development of the Tekla Xcity and Tekla Xstreet software products was conducted in close cooperation with customers. With regard to Tekla Xcity's product development, a development project of the WebMap Internet map server was carried out. The data transfer development project carried out within Tekla Xstreet as a part of Tekes' (the Finnish Funding Agency for Technology and Innovation) Infra technology program was completed in March.

RISK MANAGEMENT

The purpose of Tekla's risk management is to detect, analyze and aim to control possible threats and risks connected with operations. Group-level policies and guidelines define the principles and key content of risk management with regard to certain risks. Risks are monitored, coordinated and managed on the group level, but each unit is responsible for managing risks of its own activity.

Tekla takes business risks connected primarily with strategy and objectives. The company aims to avoid risks that jeopardize or damage the continuity of operation. The business risks are limited by the Board's and the Management team's active and interactive work in developing strategies. Risks are minimized by means of insurance or transferring them by agreement.

Tekla's financial risks comprise of currency, liquidity, credit and interest rate risks. Currency risks are managed by hedging net payment flow in the most important foreign currencies. Investing the liquid assets is done with minimal risk according to principles decided by the Board. The notes to the financial statements include a more detailed description of the financial risks.

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

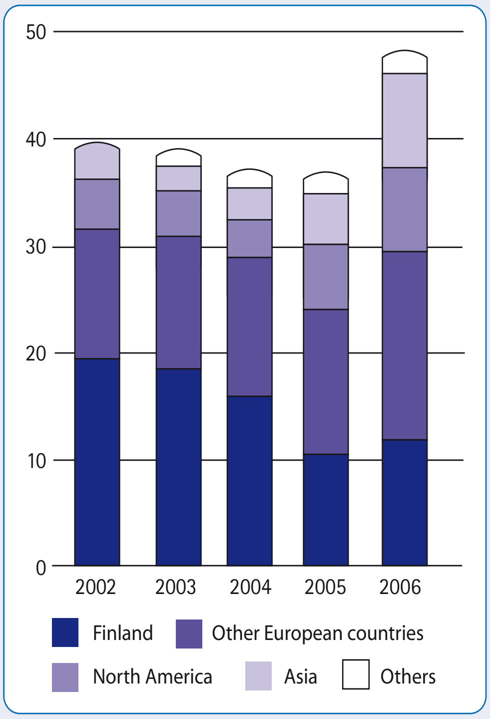
The Group personnel averaged 324 in 2006 (2005: 299, 2004: 368); on average 107 (2005: 95, 2004: 98) worked outside Finland. In these figures, the number of part-time staff has been converted to correspond to full-time work contribution. At the end of 2006, Tekla personnel totaled 365 (2005: 324, 2004: 309) including part-time staff, of whom 123 (2005: 100, 2004: 99) worked outside Finland. The number of employees increased by 12.7 percent in 2006. New employees were recruited for all functions, with a particular focus on product development.

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

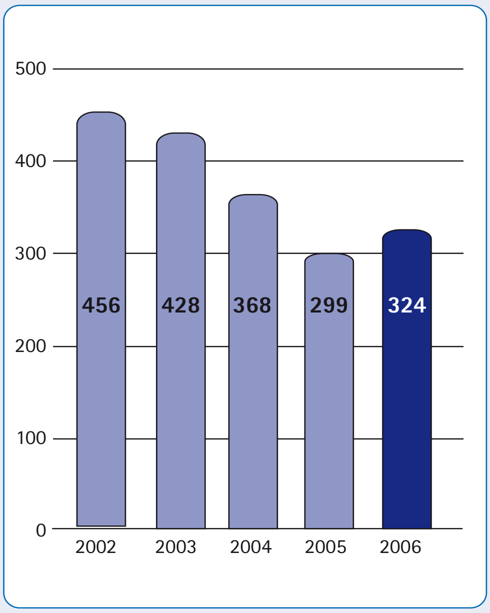
The company has a compensation and incentive system applied to all employees, and the Tekla Board of Directors decides on its principles on an annual basis. They are connected with the achievement of the previous year's operative and financial goals as well as share price development. Tekla has no valid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

In 2006 salaries totaled 18.7 (2005: 15.8 and 2004: 17.5) million euros.

Net sales by market area, million euros



Personnel, average



Senior management

Members of the Tekla Management Team in 2006 were Ari Kohonen, President and CEO, Heikki Multamäki, Executive Vice President (responsible for Energy & Utilities), Risto Räty, Executive Vice President (Building & Construction), Petri Raitio, Senior Vice President (Software Production), Leif Granholm, Senior Vice President (Country Director of Tekla Sweden), Harald Lundberg, Vice President (Information Management), Anneli Bergström, Vice President (Human Resources), and Timo Keinänen, CFO.

Harri Nurmi, Director of the Corporate Planning unit and member of the Tekla Management Team, resigned from the company on October 31, 2006.

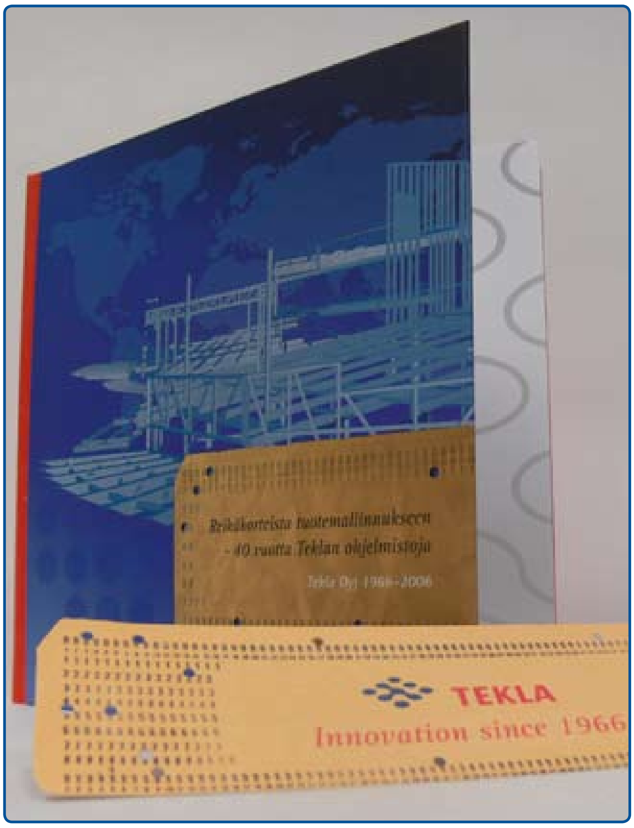
As of the beginning of 2007, Kai Lehtinen, Director responsible for the new Infra & Energy business area, was appointed as Senior Vice President and member of the Tekla Management Team. Heikki Multamäki, former Director of the Energy & Utilities business area, continues as Tekla's Executive Vice President and member of the Tekla Management Team, and is responsible for Tekla's business development.

Regional offices

With the expansion of the Building & Construction business area's international business, a liaison office was established in Mumbai, India, in the spring of 2006. As a part of B&C's organizational reform in the Nordic countries, Tekla opened an office in Denmark.

The Norwegian office, which focused on E&U operations, was closed down in the fall, and its functions were transferred to the parent company.

Tekla currently has own offices in 12 countries.



Tekla's history "From punch cards to product modeling – 40 years of Tekla software" was published in September 2006.

TEKLA'S ANNIVERSARY

In 2006, 40 years had passed since the establishment of Tekla. The anniversary was mainly celebrated by working. A festive seminar was arranged for Finnish customers and other significant stakeholders in Espoo at the end of September. This event also saw the publication of Tekla's 40th anniversary history book.

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 → Investors → Corporate Governance.

ANNUAL GENERAL MEETING 2006

Tekla Corporation's Annual General Meeting on March 16, 2006 adopted the financial statements, consolidated income statement and balance sheet for 2005. The Annual General Meeting also discharged the CEO and the Board members from liability. The AGM accepted the Board's proposal whereby a dividend of 0.12 euros per share be distributed for 2005.

Board of Directors

Ari Kohonen, Esa Korvenmaa, Olli-Pekka Laine (Vice Chair) and Heikki Marttinen (Chair) were re-elected Board members and Timo Keinänen as deputy Board member. Erkki Pehu-Lehtonen was elected as a new member to the Board. Kaija Komulainen-Laakso was the Tekla personnel representative on the Board until September 15, 2006, and Juha Kajanen as of September 16, 2006.

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 increase of the company's share capital in a directed issue of new shares for the Board and personnel of the company and the personnel of its subsidiaries so that a maximum of 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 1,000,000.
- 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 1,069,600 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 2007 but not longer than one year from the Annual General Meeting's decision, i.e. until March 16, 2007.

With regards to the authorizations it was noted in the AGM, that the new authorizations do not include option programs. The authorization concerning an option program given by the AGM of 2005 has not been used. Hence Tekla Corporation has no valid option programs.

The Board did not use the authorizations given by the AGM during 2006.

DIVIDEND AND DISTRIBUTABLE FUNDS

The parent company's distributable funds amount to 17,462,484 euros, of which the profit for the financial period is 11,620,727 euros.

The Board will propose to the Annual General Meeting on March 15, 2007, that the distributable funds be used as follows:

> distribution of a dividend of 40 cents per share, totaling	9,006,640 euros
> carried over in shareholders' equity	8,455,844 euros
	17,462,484 euros

No substantial changes have taken place in the company's financial position after the financial period. The company's liquidity is good, and the proposed distribution of profit does not compromise the company's solvency in the Board's view.

EVENTS AFTER THE REPORTING PERIOD

A new business area, Infra & Energy, started operation at the beginning of 2007 as a result of the merging of the Energy & Utilities and Public Infra business areas. The merger has been described in more detail earlier in this report.

According to Tekla's stock exchange release of February 9, 2007, a letter of intent has been signed with the Finnish company Patria on sale of Defence business area.

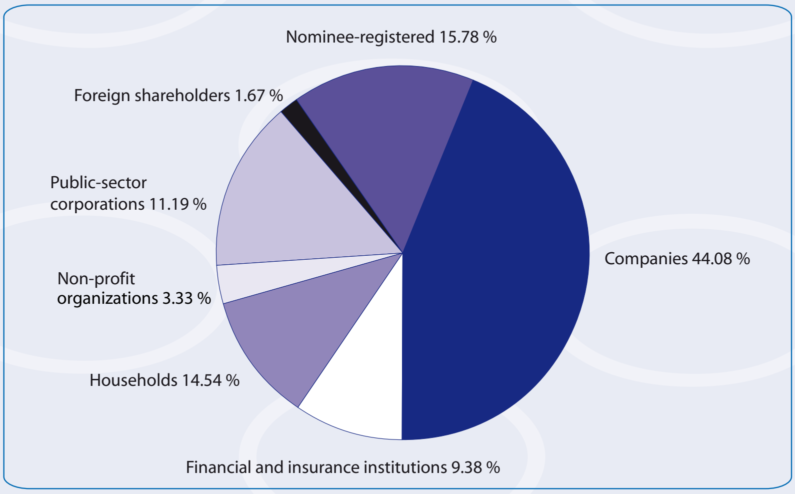
OUTLOOK FOR 2007

As for 2007, Tekla's Board of Directors estimates net sales to increase by some 15 percent. The number of personnel is expected to continue growing. The operating result of the continuing businesses is estimated to improve from 2006. Major part of net sales and profit will be generated in the Building & Construction business area in the future as well.

The largest shareholders 31.12.2006

	No of shares	Share of shares and votes,%
Gerako Oy	8,596,020	38.06
(Nominee-reg.) Nordea Bank Finland	2,877,757	12.74
Tapiola Pension	1,029,000	4.56
Etera Mutual Pension Insurance Company	816,400	3.61
(Nominee-reg.) OMXBS / Skandinaviska Enskilda Banken	670,374	2.97
Ilmarinen Mutual Pension Insurance Company	608,370	2.69
Mutual Fund FIM Forte	500,000	2.21
Ereka Oy	480,000	2.13
Mutual Fund FIM Fenno	379,700	1.68
Mutual Fund Sampo Europe	280,000	1.24
Ten largest, total	16,237,621	71.89
Others	6,348,579	28.11
Total	**22,586,200**	**100.00**

Ownership breakdown by sector 31.12.2006



Ownership breakdown by number of shares, 31.12.2006

	No of shareholders	%	No of shares	%
1-1,000	1,896	75.33	794,022	3.52
1,001-10,000	537	21.33	1,622,494	7.18
10,001-100,000	59	2.34	1,589,677	7.04
100,001-500,000	19	0.76	3,982,086	17.63
500,001-1,000,000	3	0.12	2,095,144	9.28
1,000,001 -	3	0.12	12,502,777	55.36
Total	**2,517**	**100.00**	**22,586,200**	**100.00**

SHARES AND SHARE CAPITAL

The total number of Tekla Corporation shares at the end of December 2006 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 548,448 euros on December 31, 2006. 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 2006 was 7.90 (3.60) euros, the lowest 3.38 (1.85) euros. The average quotation was 5.24 (2.87) euros. On the last trading day of the year, trading closed at 7.88 (3.42) euros. The share price increased by some 130 percent during the financial period.

A total of 13,741,585 (8,026,165) Tekla shares changed hands at Helsinki Stock Exchange during 2006, amounting to 60.8 (35.5) percent of the entire share capital.

CHANGES IN OWNERSHIP STRUCTURE (FLAGGING ANNOUNCEMENTS)

Fidelity International, one of the world's biggest asset management companies, and its subsidiaries became Tekla shareholders in January. According to a flagging announcement, Fidelity's funds acquired 10 percent of Tekla Corporation shares on January 27, 2006. At the end of October, it was announced that Fidelity International's and its subsidiaries' holdings had decreased to 9.78 percent on October 19, 2006.

According to a flagging announcement, Tekla's long-term majority shareholder Gerako Oy sold shares on January 27, 2006, and its shareholding in Tekla decreased from more than 50 percent to some 38 percent.

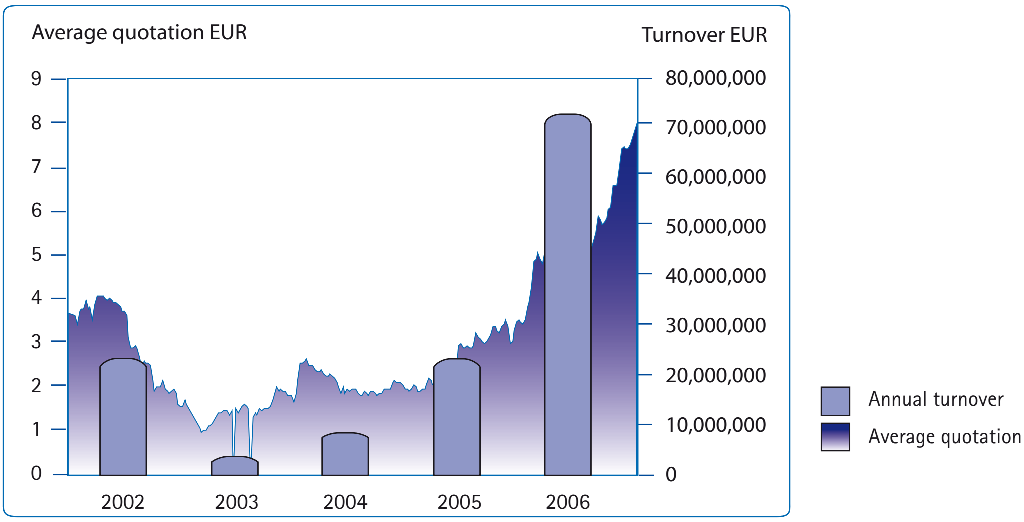
Tapiola Group issued a notification on May 5, 2006, that the total holdings of the entity consisting of Tapiola General Mutual Insurance Company, Tapiola Mutual Life Assurance Company, Tapiola Corporate Life Insurance Company Ltd. and the investment funds managed by Tapiola Fund Management Company had decreased to under 5 percent from 6.86 percent.

Nominee registered and foreign owners held 17.45 (5.29) percent of all shares at the end of 2006.

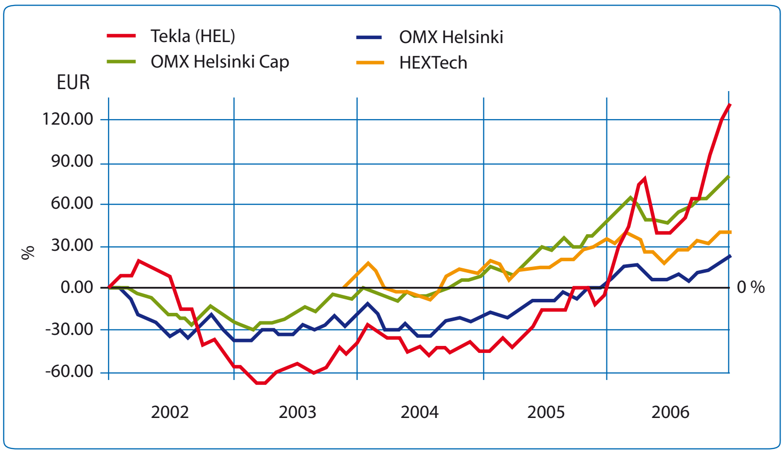
OWNERSHIP OF THE MANAGEMENT

The Board of Directors and the CEO owned or controlled 8,614,270 shares of Tekla Corporation at year's end. These shares represented 38.3 percent of share capital and votes.

SHARE TURNOVER AND AVERAGE QUOTATION 2002 – 2006



OMX INDICES AND SHARE PRICE 2002 – 2006



BASIC FACTS ON SHARE

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

CONSOLIDATED INCOME STATEMENT, IFRS 1.1.–31.12.2006

1,000 euros

	Note	1.1. - 31.12.2006	1.1. - 31.12.2005
Net sales	1, 2	49,782	37,950
Other operating income	3	1,025	485
Change in inventories of finished goods and work in progress		27	–208
Raw materials and consumables used		–2,008	–1,627
Employee compensation and benefit expense	4	–22,904	–19,811
Depreciation	5	–1,193	–1,092
Other operating expenses	6	–11,114	–9,307
Operating profit		13,615	6,390
Financial income	8	1,064	1,156
Financial expense	8	–906	–470
Profit before taxes		13,773	7,076
Income taxes	9	–3,609	–1,275
Net profit for the period		**10,164**	**5,801**
Attributable to			
Equity holders of the parent company		10,164	5,801

Earnings per share calculated from the profits attributable to equity holders of the parent company:

Earnings per share (EUR)	0.45	0.26

There is no dilution effect on the earnings.

CONSOLIDATED BALANCE SHEET, IFRS 31.12.2006

1,000 euros	Note	31.12.2006	31.12.2005
Assets			
Non-current assets			
Property, plant and equipment	11	1,818	1,857
Goodwill	12	101	101
Intangible assets	12	505	452
Other financial assets	13	300	300
Receivables	16	562	0
Deferred tax assets	14	356	675
		3,642	**3,385**
Current assets			
Inventories	15	60	33
Trade and other current receivables	16	11,755	9,799
Current income tax assets		3	3
Other financial assets	13	18,597	11,704
Cash and cash equivalents	17	5,692	3,661
		36,107	**25,200**
Assets total		**39,749**	**28,585**
Equity and liabilities			
Capital and reserves attributable to the equity holders of the parent			
Share capital	18	678	678
Share premium account	18	8,893	8,893
Legal reserve	18	1,325	1,325
Treasury shares	18	-221	-221
Translation differences	18	-205	-46
Fair value reserve	18	101	36
Retained earnings		14,153	6,545
		24,724	**17,210**
Non-current liabilities			
Provisions	21	477	492
Interest-bearing liabilities	22	268	690
		745	**1,182**
Current liabilities			
Trade and other payables	23	12,640	9,346
Current income tax liabilities		860	10
Provisions	21	355	188
Current interest-bearing liabilities	22	425	649
		14,280	**10,193**
Liabilities total		**15,025**	**11,375**
Equity and liabilities total		**39,749**	**28,585**

CONSOLIDATED CASH FLOW STATEMENT, IFRS 1.1.–31.12.2006

1,000 euros	1.1. - 31.12.2006	1.1. - 31.12.2005
Cash flows from operating activities		
Profit (loss) before income taxes	13,773	7,076
Adjustments for:		
Depreciation	1,193	1,092
Employee benefits	0	–87
Financial income and expenses	–183	–89
Other adjustments	91	45
Cash flow before working capital changes	14,874	8,037
Changes in working capital:		
Change in trade and other current receivables	–3,111	–3,770
Change in inventories	–27	208
Change in trade and other payables	3,496	2,186
Change in provisions	153	–42
Net cash from operating activities	15,385	6,619
Interest paid	–22	–31
Interest received	109	161
Income taxes paid	–2,462	–80
Net cash flows from operating activities	**13,010**	**6,669**
Cash flows from investing activities		
Investments in property, plant and equipment	–1,325	–1,004
Proceeds from sale of property, plant and equipment	128	16
Purchases of available-for-sale financial assets	–48,637	–50,014
Proceeds from sale of available-for-sale financial assets	43,836	56,415
Interest received from available-for-sale financial assets	398	431
Net cash flow from investing activities	**–5,600**	**5,844**
Cash flows from financing activities		
Return of capital	0	–12,384
Payment of dividend	–2,702	0
Repayments of borrowings	–591	–374
Payment of finance lease liabilities	–59	–136
Net cash used in financing activities	**–3,352**	**–12,894**

	1.1. - 31.12.2006	1.1. - 31.12.2005
Net decrease in cash and cash equivalents	**4,058**	**-381**
Cash and cash equivalents at beginning of the period	3,721	4,102
Cash and cash equivalents at end of the period	**7,779**	**3,721**

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	3,661	4,102
Available-for-sale financial assets, cash equivalents	60	0
Cash and cash equivalents according to cash flow statement at beginning of the period	3,721	4,102
Cash and cash equivalents according to balance sheet at end 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 end of the period	7,779	3,721

STATEMENT OF CHANGES IN EQUITY, IFRS

1, 000 euros

Equity attributable to equity holders of the parent company

	Share capital	Share premium account	Reserve fund	Treasury shares	Acc.transl. differences	Fair value reserves	Retained earnings	Total
Balance January 1, 2005	**678**	**21,442**	**1,323**	**-221**	**-85**	**63**	**586**	**23,786**
Translation differences			0		39		-5	34
Available-for-sale investments						-27		-27
Transfer to / from retained earnings		-165	2				163	0
Return of capital		-12,384						-12,384
Net profit for the period							5,801	5,801
Balance December 31, 2005	**678**	**8,893**	**1,325**	**-221**	**-46**	**36**	**6,545**	**17,210**
Balance January 1, 2006	**678**	**8,893**	**1,325**	**-221**	**-46**	**36**	**6,545**	**17,210**
Translation differences			0		-159		146	-13
Available-for-sale investments						65		65
Payment of dividend							-2,702	-2,702
Net profit for the period							10,164	10,164
Balance December 31, 2006	**678**	**8,893**	**1,325**	**-221**	**-205**	**101**	**14,153**	**24,724**

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 company whose software solutions are developed for making customers' core business more effective in building and construction, energy distribution and the public sector. The company's model-based software products and related services are used in more than 80 countries.

The Board of Directors of Tekla Corporation has authorized the 2006 financial statements for issue on February 8, 2007.

Tekla's long-term majority shareholder Gerako Oy sold shares on January 27, 2006, and its shareholding in Tekla decreased from more than 50 percent to some 38 percent. Thus, Tekla Corporation is no longer part of the Gerako Group.

BASIS OF PREPARATION

In preparing the financial statements, the IAS and IFRS standards and SIC and IFRIC interpretations effective on December 31, 2006 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) 1606/2992.

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, 2006:

- IAS 21 (Amendment), The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
- IFRIC 6, Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement and IFRS 4 (Amendment), Insurance Contracts - Financial Guarantee Contracts
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IAS 39 (Amendment), the Fair Value Option
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement (Cash Flow Hedge Accounting of Forecast Intragroup Transactions)
- IAS 19 (Amendment), Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures
- IFRS 6, Exploration for and Evaluation of Mineral Resources
- IFRIC 4, Determining Whether an Arrangement Contains a Lease
- IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The adopted standards have not had substantial impact on the Group's financial statements for 2006.

The following new standards, interpretations and amendments to existing standards have been published before December 31, 2006. Tekla has not adopted these new or amended standards in its financial statements for 2006. These are not estimated to be significant with regard to the Group's operation.

- IFRS 8, Operating Segments (effective on January 1, 2009 *)
- IFRIC 12, Service Concession Arrangements (effective on January 1, 2008 *)
- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective on March 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)
- IFRS 7, Financial Instruments: Disclosures (effective on January 1, 2007)
- IAS 1 (Amendment), Presentation of Financial Statements: Capital Disclosures (effective on January 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. Although these estimates are based on the management's best knowledge, 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 pre-transition 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 include cash and bank deposits that can be withdrawn on demand. In the cash flow statement, cash and cash equivalents contain the liquid investments whose remaining maturity at date of purchase is below 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 business 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. 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 such 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. 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

Based on Tekla's stock option programs in 2000 and 2002, options were issued to employees of the company and its subsidiaries.

Each warrant entitled the holder to subscribe for one share, with a nominal value of 0.03 euros. The subscription period for all the warrants ended on October 31, 2005, but they were not used to subscribe for Tekla Corporation shares.

Tekla has applied the exemption compliant with the transitional regulations of the IFRS 1 standard and has not recognized options issued before November 7, 2002 through profit and loss, as the options of the option program were available prior to January 1, 2005.

DIVIDENDS AND RETURN OF CAPITAL

Dividends distributed by the Group are recognized during the period in which shareholders have approved the dividend to be distributed.

Tekla Corporation's Extraordinary General Meeting in June 2005 accepted the Board of Directors' proposal that the company's share premium fund be decreased and that the sum be distributed entirely to shareholders as return on invested restricted capital in relation to each shareholder's ownership in the company. The return of capital took place in November 2005. The share premium account in the balance sheet was reduced by an amount corresponding to the return of capital.

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.

Energy & Utilities supplies energy distribution companies and water utilities with solutions that improve their business and operative efficiency and competitiveness.

Public Infra offers municipalities information systems for the technical sector.

Defence develops reconnaissance, command and control systems in close cooperation with the Finnish Defence Forces.

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.

Business segments **2006**

(1000 EUR)	Building & Construction	Energy & Utilities	Public Infra	Defence	Unallocated items	Group
External sales						
License sales	22,724	2,021	853	0	0	25,598
Maintenance sales	10,833	3,434	1,659	77	0	16,003
Other sales	2,326	1,934	1,768	2,151	2	8,181
External sales total	35,883	7,389	4,280	2,228	2	49,782
Net sales	35,883	7,389	4,280	2,228	2	49,782
Operating profit	12,772	521	438	323	–439	13,615
Unallocated items						–3,451
Profit (loss) for the period						10,164

(1000 EUR)	Building & Construction	Energy & Utilities	Public Infra	Defence	Unallocated items	Segment's int. items	Total
Segment assets	9,907	1,181	1,435	967	26,570	–310	39,750
Segment liabilities	8,535	1,336	894	536	4,035	–310	15,026
Segment depreciation	386	143	80	58	526	0	1,193
Segment investments	586	137	76	63	463	0	1,325

Business segments **2005**

(1000 EUR)	Building & Construction	Energy & Utilities	Public Infra	Defence	Unallocated items	Group
External sales						
License sales	15,547	1,507	709	0	0	17,763
Maintenance sales	8,646	3,188	1,536	76	0	13,446
Other sales	996	1,598	1,983	2,164	0	6,741
External sales total	25,189	6,293	4,228	2,240	0	37,950
Net sales	25,189	6,293	4,228	2,240	0	37,950
Operating profit	6,543	–485	284	144	–96	6,390
Unallocated items						–589
Profit (loss) for the period						5,801

(1000 EUR)	**Building & Construction**	**Energy & Utilities**	**Public Infra**	**Defence**	**Unallocated items**	**Segment's int. items**	**Total**
Segment assets	7,253	1,592	1,101	630	18,282	–273	28,585
Segment liabilities	5,273	1,428	919	504	3,524	–273	11,375
Segment depreciation	324	143	71	58	496	0	1,092
Segment investments	229	210	77	39	589	0	1,144

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 2006

(1000 EUR)	Finland	Rest of Europe	North America	Asia	Others	Group
Net sales	12,344	18,076	8,268	8,959	2,135	49,782
Segment assets	29,640	4,562	4,078	1,470	0	39,750
Investments	1,091	106	105	23	0	1,325

Geographical segments 2005

	Finland	Rest of Europe	North America	Asia	Others	Group
Net sales	10,656	14,411	6,220	4,938	1,725	37,950
Segment assets	19,876	4,118	3,315	1,276	0	28,585
Investments	895	204	26	19	0	1,144

2. Long-term projects

	2006	2005
Income recognized	623	141
Not recognized	0	324
Revenues recorded prior to billings, incl. in receivables	240	141
Advances received	-238	-222
Receivables / liabilities from long-term contracts	**2**	**-81**

In 2006, long-term projects consisted of one project in the Energy & Utilities business area and two projects in the Public Infra business area. In 2005, long-term projects consisted of one project in the Energy & Utilities business area and one project in the Public Infra business area.

3. Other operating income

	2006	2005
Sales gains from property, plant and equipment	6	7
Product development grants	579	269
Rental income	326	130
Others	114	79
Total	**1,025**	**485**

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.

4. Employee benefits expense

	2006	2005
Salaries	18,663	15,791
Pension expenses -defined contribution plans	2,696	2,231
Other personnel expenses	1,545	1,789
Total	**22,904**	**19,811**

Group headcount

	2006	2005
Personnel, on average	324	299
Personnel, end of period,	365	324
of whom part-time	26	33

Information on the executive compensation and benefits is presented in Note 26. Related party transactions.

5. Depreciation and amortization

	2006	2005
Intangible assets		
Intangible rights	17	18
Other intangible assets	233	237
Tangible assets		
Machinery and equipment	943	837
Total	**1,193**	**1,092**

6. Other operating expenses

	2006	2005
Rental expenses	2,371	2,271
Travel expenses	1,879	1,272
IT expenses	778	761
Marketing expenses	1,335	1,067
Others	4,751	3,936
Total	**11,114**	**9,307**

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.

7. Research and development expenses

The income statement includes 7.98 million euros of research and development expenses recognized as expense in 2006 (7.86 million euros in 2005).

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

8. Financial income and expenses

Financial income	2006	2005
Interest income		
From available-for-sale investments	409	498
Other interest income	76	28
Foreign exchange gains	383	630
Foreign exchange forward contract value changes		
– not in hedge accounting	196	0
	1,064	**1,156**

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 13. Available-for-sale financial assets).

Financial expense		
Interest expenses	–17	–23
Foreign exchange losses	–805	–286
Foreign exchange forward contract value changes		
– not in hedge accounting	–13	–43
Other financial expenses	–71	–118
	–906	**–470**
Exchange rate differences, total	**–239**	**301**

9. Income taxes

	2006	2005
Current tax	–3,320	–69
Taxes for prior periods	30	1
Deferred taxes	–319	–1,207
Total	**–3,609**	**–1,275**

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	13,773	7,076
Taxes calculated with the domicile's tax rate	–3,581	–1,840
Utilisation of previously unrecorded tax losses	498	479
Deferred tax asset recorded on previous years' losses	91	200
Deferred tax asset recorded on provisions	40	177
Tax losses for which no deferred tax asset was recorded	–217	–292
Effect of consolidation	–343	–43
Effect of differing foreign tax rates	–50	–11
Effect of non-deductible expenses/non-taxable income	–45	57
Others	–2	–2
Income taxes in the income statement	**–3,609**	**–1,275**
Effective tax rate	26 %	18 %

10. 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.

	2006	2005
Profits attributable to equity holders of the parent company	10,164	5,801
Weighted average number of shares outstanding during the period	22,516,600	22,516,600
Basic earnings per share (EUR/share)	0.45	0.26

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

11. Property, plant and equipment

	2006	2005
	Machinery and equip.	Machinery and equip.
Cost January 1	6,466	5,943
Exchange differences	–28	42
Additions	985	1,034
Disposals	–522	–553
Cost December 31	**6,901**	**6,466**
Accumulated depreciation January 1	4,609	4,231
Exchange differences	–26	43
Accumulated depreciation on disposals	–443	–502
Depreciation for the year	943	837
Accumulated depreciation December 31	**5,083**	**4,609**
Net book amount December 31	**1,818**	**1,857**

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

	2006	2005
	Machinery and equip.	Machinery and equip.
Cost December 31	145	351
Accumulated depreciation December 31	–53	–197
Net book amount December 31	**92**	**154**

12. Goodwill and intangible assets

Goodwill	2006	2005
Cost January 1	494	494
Cost December 31	**494**	**494**
Accumulated amortization January 1	393	393
Accumulated amortization December 31	**393**	**393**
Net book amount December 31	**101**	**101**

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, 2006	183	3,071	3,254
Exchange differences	0	−13	−13
Additions	0	340	340
Disposals	0	−2,255	−2,255
Cost December 31, 2006	**183**	**1,143**	**1,326**
Accumulated amortization January 1, 2006	129	2,673	2,802
Exchange differences	0	−12	−12
Accumulated amortization on disposals	−1	−2,218	−2,219
Amortization for the year	17	233	250
Accumulated amortization December 31, 2006	**145**	**676**	**821**
Net book amount December 31, 2006	**38**	**467**	**505**
Cost January 1, 2005	183	2,965	3,148
Exchange differences	0	12	12
Additions	0	110	110
Disposals	0	−16	−16
Cost December 31, 2005	**183**	**3,071**	**3,254**
Accumulated amortization January 1, 2005	111	2,443	2,554
Exchange differences	0	−1	−1
Accumulated amortization on disposals	0	−6	−6
Amortization for the year	18	237	255
Accumulated amortization December 31, 2005	**129**	**2,673**	**2,802**
Net book amount December 31, 2005	**54**	**398**	**452**

13. 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 409 thousand euros of interest income and sales gains were recognized for these investments in 2006 (498 thousand euros in 2005).

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

	2006	2005
Measured at cost		
Shareholdings	300	300
Total	**300**	**300**

Short-term

		2005
Measured at fair value		
Bonds	18,547	11,646
Other shares	50	58
Total	**18,597**	**11,704**

During the financial year 2005, Tekla Corporation returned capital to shareholders in the amount of 12.38 million euros. The return of capital was in part funded with available-for-sale financial assets.

14. Deferred tax assets and liabilities

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
Total	**712**	**–297**	**415**
Deferred tax liabilities:			
Other items	0	–7	–7
Accumulated depreciation difference	–37	–15	–52
Total	**–37**	**–22**	**–59**
Deferred tax assets, net	**675**	**–319**	**356**

Change in deferred taxes in 2005:

	31.12.04	Recognized in the income statement	31.12.05
Deferred tax assets:			
Tax losses	1,893	–1,364	529
Provisions	0	177	177
Other items	43	–37	6
Total	**1,936**	**–1,224**	**712**
Deferred tax liabilities:			
Accumulated depreciation difference	–53	16	–37
Total	**–53**	**16**	**–37**
Deferred tax assets, net	**1,883**	**–1,208**	**675**

The Group companies had a total of 6.37 million euros of tax losses on December 31, 2006 (7.91 million euros in 2005) 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 (in 2005 0.71 million euros). 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.

15. Inventories

	2006	2005
Work in progress	32	29
Finished goods	28	4
Total	**60**	**33**

16. Receivables

Current receivables	**2006**	**2005**
Trade receivables	10,562	8,560
Other receivables	164	117
Prepaid expenses and accrued income	1,029	1,122
Total	**11,755**	**9,799**
Prepaid expenses and accrued income		
Product development and other grants	429	486
Receivables from long-term contracts	2	0
Accrued sales income	118	296
Financial assets at fair value through profit or loss	58	0
Other items	422	340
Total	**1,029**	**1,122**
Allowances for doubtful accounts deducted from trade receivables	121	142
Non-current receivables		
Trade receivables	562	0

The non-current trade receivable consisted of one customer receivable in the Building & Construction business area.

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

17. Cash and cash equivalents

	2006	2005
Cash at bank and in hand	5,692	3,661

18. Share capital and reserves

	Number of shares	Share capital	Share premium acct	Reserve fund	Treasury shares
1.1.2005	**22,586,200**	**678**	**21,442**	**1,323**	**-221**
Translation differences				0	
Transfer to/from retained earnings			-165	2	
Return of capital			-12,384		
31.12.2005	**22,586,200**	**678**	**8,893**	**1,325**	**-221**
Translation differences				0	
31.12.2006	**22,586,200**	**678**	**8,893**	**1,325**	**-221**

The number of shares is 22,586,200 (22,586,200 in 2005). 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 2005). All issued shares have been fully paid. The maximum share capital of the Group is 1.80 million euros (1.80 million euros in 2005).

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.

19. Share-based payment

An Extraordinary General Meeting on May 16, 2000 and the Annual General Meeting on March 21, 2002 authorized the Board of Directors to decide on the issue of option rights to staff members of the company and its subsidiaries. A total of 1,500,000 option warrants were issued, divided into four 375,000 warrant tranches.

Each warrant entitled the holder to subscribe for one share, with a nominal value of 0.03 euros. The subscription period for all the warrants ended on October 31, 2005, but they were not used to subscribe for Tekla Corporation shares.

20. 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. Due to this change, Tekla has recognized as income a previous provision made in 2004 and 2005 and included a non-recurring item in the amount of 72 thousand euros in the operating profit for 2005 (468 thousand euros in 2004).

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.

21. Provisions

	Loss-making contracts	Provision for pensions	Total
1.1.2006	**600**	**80**	**680**
Additions of provisions	150		150
Utilized provisions		-7	-7
Change of unutilized provisions		9	9
31.12.2006	**750**	**82**	**832**
Non-current provisions	477		477

Loss-making contracts

The Group has a non-cancellable lease agreement for a building that the Group no longer uses in its business. The Group has been able to sublet a part of the premises, but the rental income does not cover the rental expenses paid by the Group. The provision for loss-making contracts is based on an estimate of the net losses in the remaining period of lease. The provision will be utilized in full during the remaining period of lease, ending on September 30, 2009.

Provisions for pension obligations

Provisions for pension obligations consist of provisions for unemployment pension obligations of employees dismissed in 2003. Change of unutilized provisions is due to changes in the calculation principles of unemployment pensions and Tekla Corporation's decreased share in the liability.

22. Interest-bearing liabilities

The Group's interest-bearing 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.

	2006	2005
Non-current		
Other liabilities	217	606
Finance lease liabilities	51	84
Total	**268**	**690**
Current		
Other liabilities	389	591
Finance lease liabilities	36	58
Total	**425**	**649**

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.

	2006	2005
The non-current liabilities mature as follows:		
2007	0	473
2008	268	217
Total	**268**	**690**

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

EUR	217	606
SEK	51	84
Total	**268**	**690**

The currency mix of the current interest-bearing liabilities is as follows:

EUR	389	627
SEK	36	22
Total	**425**	**649**

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

Other liabilities	1.00 %	1.00 %
Finance lease liabilities	5.26 %	5.49 %

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

	2006	2005
Other liabilities	1.00 %	1.00 %
Finance lease liabilities	5.52 %	3.39 %

The finance lease liabilities will mature as follows:

Finance lease liabilities - total amount of minimum lease payments

In one year	40	64
1–5 years	52	104
Total	**92**	**168**

Finance lease liabilities - present value of minimum lease payments

In one year	36	58
1–5 years	51	84
Total	**87**	**142**
Future finance charges	5	26

23. Trade and other payables

	2006	2005
Advances received	727	412
Trade and other payables	1,272	678
Other liabilities	1,575	1,499
Accrued liabilities and deferred income		
Accrued salaries and social expenses	4,391	3,391
Accrued sales income	3,873	2,748
Accrued liabilities related to long-term contracts	0	81
Financial assets at fair value through profit or loss	0	43
Other items	802	494
Total	**9,066**	**6,757**
Total	**12,640**	**9,346**

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

24. Other lease agreements

The Group as lessee

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

	2006	2005
Premises		
In one year	1,732	1,665
1–5 years	1,644	2,698
After five years	0	146
Total	**3,376**	**4,509**
Others		
In one year	459	439
1–5 years	411	416
Total	**870**	**855**

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 2006 includes rental expenses paid based on other lease agreements in the amount of 2.7 million euros (2.6 million euros in 2005).

The Group is still the lessee of its previous office premises. The minimum rental expenses for these buildings amounted to 431 thousand euros in 2006 (426 thousand euros in 2005). The minimum rental income of sublease contracts signed were 326 thousand euros in 2006 (130 thousand euros in 2005). The Group has a 750 thousand euros provision for these agreements (600 thousand euros in 2005, Note 21).

The Group as lessor

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

	2006	2005
In one year	276	282
1–5 years	411	684
Total	**687**	**966**

25. Other contingent liabilities

Collateral given for own commitments	2006	2005
Business mortgages		
(as collateral for bank guarantee limit)	505	505
Pledged funds	82	32
Other contingent liabilities		
Guarantees	66	264
Total	**653**	**801**

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	58	-43
Nominal values of underlying securities	3,855	2,076

26. 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 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, 2006, Gerako Oy held 38.06% of Tekla Corporation, and it is domiciled in Finland.

Transactions with related parties

Purchases and sales of goods and services	2006	2005
Gerako Oy		
purchases of services	74	46
reimbursed expenses	16	0
Outstanding balances for purchases and sales of services		
Gerako Oy		
trade payable	5	5
trade receivable	1	0

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

Management remuneration*

	2006	2005
Salaries and other short-term employee benefits	1,378	1,003
Termination benefits	182	173
Post-employment benefits	389	305

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

27. FINANCIAL RISK MANAGEMENT

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.

LIQUIDITY RISK

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 risk is next to non-existent.

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

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 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 in focused on investments. The Group's profit and cash flow from operating activities are essentially independent of market interest rate fluctuations.

28. Events after the balance sheet date

A new business area, Infra & Energy, started operation at the beginning of 2007 as a result of the merging of the Energy & Utilities and Public Infra business areas.

A letter of intent was signed concerning the transfer of the project business oriented Defence business to the Finnish company Patria according to a stock exchange release published on February 9, 2007. Completion of the transaction is subject to final agreement and a Due Diligence process.

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

PARENT COMPANY INCOME STATEMENT, FAS 1.1.2006–31.12.2006

1,000 euros	**2006**	**2005**
Net sales	39,392	29,600
Change in inventories of finished goods and in work in progress (+/-)	27	-208
Other operating income	1,636	1,057
Materials and services	-2,240	-1,903
Personnel expenses	-15,832	-13,710
Depreciation and value adjustments	-1,140	-883
Other operating expenses	-8,647	-6,409
Operating profit (loss)	13,196	7,544
Financial income and expenses	326	940
Profit (loss) before extraordinary items	13,522	8,484
Extraordinary items	1,319	0
Profit (loss) before appropriations and taxes	14,841	8,484
Appropriations	-57	62
Income taxes	-3,163	-2
Net profit (loss) for the period	**11,621**	**8,544**

PARENT COMPANY BALANCE SHEET, FAS 31.12.2006

1,000 euros	2006	2005
ASSETS		
Fixed assets and other long-term investments		
Intangible assets	2,027	1,028
Tangible assets	1,119	981
Long-term investments	3,061	3,056
Total fixed assets and long-term investments	6,207	5,065
Current assets		
Inventories	60	33
Short-term receivables	13,256	9,604
Marketable securities	18,448	11,620
Cash and cash equivalents	1,230	993
Total current assets	32,994	22,250
TOTAL ASSETS	**39,201**	**27,315**

SHAREHOLDER'S EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	678	678
Share premium account	8,893	8,893
Legal reserve	1,323	1,323
Own shares	-221	-221
Profit from the previous periods	6,062	221
Net profit (loss) for the period	11,621	8,544
Shareholders' equity total	28,356	19,438
Accumulated appropriations	**197**	**141**
Provisions	**833**	**679**
Liabilities		
Long-term liabilities	217	606
Short-term liabilities	9,598	6,451
Liabilities total	9,815	7,057
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**39,201**	**27,315**

PARENT COMPANY CASH FLOW STATEMENT, FAS 1.1.–31.12.2006

1,000 euros	2006	2005
Cash flow from operating activities:		
Profit (loss) before extraordinary items:	13,522	8,484
Adjustments:		
Depreciation according to plan	1,140	883
Other operating income and expenses (not received/paid)	-131	142
Financial income and expenses	-326	-940
Other adjustments	153	-20
Cash flow before change in working capital	14,358	8,549
Change in working capital:		
Increase (-) / decrease (+) in non-interest-bearing short-term receivables	-1,838	-3,532
Increase (-) / decrease (+) in inventories	-27	208
Increase (+) / decrease (-) in non-interest-bearing short-term liabilities	2,586	1,046
Cash flow from operations before financial items and taxes	15,079	6,271
Interest paid and payments of other financial expenses	-10	-13
Dividend received	115	156
Interest received	439	522
Other financial income and expenses	-307	308
Income taxes paid	-2,402	-2
Cash flow before extraordinary items	12,914	7,242
Net cash provided by operating activities (A)	**12,914**	**7,242**
Cash flow from investing activities:		
Investments in tangible and intangible assets	-2,385	-900
Proceeds from sale of tangible and intangible assets	112	7
Increase (-) / decrease (+) in loans receivable	-283	
Other investments		-300
Net cash (used in) provided by investing activities (B)	**-2,556**	**-1,193**
Cash flow from financing activities:		
Return of capital		-12,384
Repayments of long-term debt	-591	-374
Dividends paid and other distribution of profit	-2,702	
Net cash (used in) provided by financing activities (C)	**-3,293**	**-12,758**
Increase (+) / decrease (-) in cash and cash equivalents[1])(A+B+C)	**7,065**	**-6,709**
Cash and cash equivalents at beginning of year	12,613	19,322
Cash and cash equivalents at end of year	**19,678**	**12,613**

CALCULATION OF FINANCIAL INDICATORS

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

Net gearing, % = $\dfrac{\text{Interest-bearing liabilities - Cash and cash equivalents}}{\text{Shareholders' equity}} \times 100$

Return on investment, % = $\dfrac{\text{Profit before extraordinary items + Financial expenses}}{\text{Balance sheet total - Non-interest-bearing liabilities (average for the year)}} \times 100$

Return on equity, % = $\dfrac{\text{Profit before extraordinary items - Taxes}}{\text{Shareholders' equity (average for the year)}} \times 100$

Earnings per share = $\dfrac{\text{Profits attributable to equity holders of the parent company}}{\text{Average number of shares}}$

Equity per share = $\dfrac{\text{Shareholders' equity}}{\text{Number of shares at the end of the period}}$

Dividend to earnings ratio, % = $\dfrac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

Effective dividend yield, % = $\dfrac{\text{Dividend per share}}{\text{Share price at the end of the year}} \times 100$

Price / earnings ratio = $\dfrac{\text{Share price at the end of the year}}{\text{Earnings per share}}$

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 15, 2007, that a dividend of 0.40 euros per share be distributed for the financial period 2006, in total 9,006,640 euros. No dividend shall be paid on the 69,600 shares held by the company.

Espoo, February 8, 2007

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 January 1 – December 31, 2006. 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, 28 February 2007

PricewaterhouseCoopers Oy
Authorized Public Accountants

Markku Marjomaa
Authorized Public Accountant

BOARD OF DIRECTORS 2006

From the left: Ari Kohonen, Timo Keinänen, Heikki Marttinen, Olli-Pekka Laine, Erkki Pehu-Lehtonen, Juha Kajanen 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 31.12.2006: 7,000 shares

Olli-Pekka Laine,
M.Sc. (Engineering)
Deputy Chairman of the Board and
Board member since 2003
b. 1948
Managing Director of Tapiola Pension
Ownership 31.12.2006: 10,000 shares

Ari Kohonen
M.Sc. (Engineering), B Sc. (Econ.)
Board member since 2003
b. 1955
Tekla Corporation's President
and CEO as of 1.1.2004
Ownership 31.12.2006: 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 31.12.2006: -

Erkki Pehu-Lehtonen,
M.Sc. (Mech. Engineering)
Board member since 2006
b. 1950
President and CEO, Pöyry Plc
Ownership 31.12.2006: -

Timo Keinänen, M.Sc. (Econ.)
Deputy member of the Board
since 2004
b. 1960
Tekla's CFO as of 1.8.2003
Ownership 31.12.2006: 8,000 shares

Juha Kajanen,
Licentiate in Technology
Representative of the personnel
as of 16.9.2006
b. 1965
Group Manager, PI Platform
Ownership 31.12.2006: 1,250 shares

TEKLA MANAGEMENT TEAM 2007

Back row from the left: Petri Raitio, Risto Räty, 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 31.12.2006: 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 31.12.2006: 48,000 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 31.12.2006: 24,600 shares

Timo Keinänen, M.Sc. (Econ.)
CFO and in the Management Team since 1.8.2003, deputy member of the Board since 2004
b. 1960
Ownership 31.12.2006: 8, 000 shares

Kai Lehtinen, M.Sc. (Engineering)
Senior Vice President, Infra & Energy business area and in the Management Team since 2007
b. 1966
Ownership 31.12.2006: 800 (+ related persons 2,700) shares

Harald Lundberg, M.Sc. (Engineering)
Vice President, CIO since 2004, in the Management Team since 2006
b. 1963
Ownership 31.12.2006: -

Heikki Multamäki, M.Sc. (Engineering)
CEO's Deputy and Executive Vice President since 1996, Business Development Director since 2007, in the Management Team since 1985
b. 1949
Ownership 31.12.2006: 112,400 shares

Petri Raitio
Senior Vice President, Software Production and in the Management Team since 2003
b. 1966
Ownership 31.12.2006: 20,000 shares

Risto Räty, M.Sc. (Engineering)
Executive Vice President, Building & Construction business area since 2001, in the Management Team since 1994
b. 1961
Ownership 31.12.2006: 118,000 (+ related persons 16,200) shares

CORPORATE GOVERNANCE

GENERAL

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 > 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. See also Annual General Meeting.

Tekla Corporation´s Annual General Meeting (AGM) 2006 was held on March 16, 2006. The authorizations given to the Board are described in this Annual Report on page 12.

The Board did not use the authorizations given by the AGM during 2006.

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 55;

- The Tekla Annual General Meeting 2006 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, Kaija Komulainen-Laakso was chosen by Tekla's personnel as their representative and Juha Kajanen as her personal deputy.
- Of the members Heikki Marttinen, Olli-Pekka Laine, Esa Korvenmaa and Erkki Pehu-Lehtonen are independent Board members.
- The Board of Directors of Tekla Corporation held 12 meetings in 2006, and the average attendance was 90 percent.
- According to the decision by the AGM of 2006, 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. The President is also the Chair of the Tekla Management Team.

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 2006 Ari Kohonen was paid a total of 236,137.64 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 meet regularly circa twice a month during 2006. Introduction of the Tekla Management Team on page 56 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 2006 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 107,768 euros in 2006. The sum includes 68,550 euros for audit and 39,218 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 Exchanges, supplemented by the company's own guidelines. According to Tekla's insider rules, stock investments in Tekla are long-term. Insiders are not allowed to deal with the company's shares for 14 days before the publication of interim reports and financial statements.

As of 1.1.2006 Tekla's public insiders include members and deputy member of the Board, President and CEO, CEO's deputy, members of the Tekla Management Team, business area responsible directors and the auditors. Tekla's insider registers are kept in the company headquarters in Espoo. The list of Tekla's public insiders can be found on company's Internet site. The list of public insiders is updated after each change without undue delay.

OTHER INFORMATION

RELEASES

All stock exchange releases and announcements as well as flagging notifications Tekla Corporation has published in 2006, are available on the company's Internet site at www.tekla.com > Investors > Releases > 2006

INTERIM REPORTS IN 2007

> Financial Statements 2006 bulletin;	9.2.2007
> Interim Report 1-3/2007;	27.4.2007
> Interim Report 1-6/2007;	3.8.2007
> Interim Report 1-9/2007;	26.10.2007

ANNUAL GENERAL MEETING 2007

The Annual General Meeting of Tekla Corporation will be held on 15.3.2007 at Tekla headquarters in Espoo. The invitation to the meeting has been published as a stock exchange release on 16.2.2007.

The decisions of the AGM will be found after the meeting on the company's Internet site at www.tekla.com > Investors > Corporate Governance > Shareholder meetings