

FINANCIAL
STATEMENTS
BULLETIN
2019

Cinia



General information about the company

Cinia is a Finnish data communications and information technology conglomerate providing a network and software services. Cinia acts as a telecommunications operator and produces wide range of IT expert and connectivity services, as well as development services for IT-intensive systems and software. Cinia operates its own telecommunications networks and networks owned by its customers. As a rule, Cinia's customers are socially important service providers.

The group consists of the parent company Cinia Oy and three subsidiaries owned by the parent company: C-Lion1 Oy, Cinia Cloud GmbH and Netplaza Oy.

Cinia operates in the Finnish and international connectivity and telecommunications operator markets, as well as in the software and software solution services markets. Competition on the market is fierce and technology and services are changing rapidly.

Structure and financial arrangements

Operationally and in terms of management, Cinia's business operations were divided for the financial year 2019 into the two business lines: Network Services, which provides connectivity and network services, and Software Solutions, which provides software services and solution services.

The purpose of Cinia Cloud GmbH, a subsidiary of Cinia Cloud Ltd established in Germany on 16 April 2015, is to carry out administrative tasks to ensure compliance with the German legislation in carrying out the Cinia Group's business operations. For example, the company owns or leases ICT rooms for Cinia's data transmission network in Germany.

Main events during the financial year

Net sales of the Cinia conglomerate increased from 2018 by approximately EUR 4,5 million (+9,8%). Net sales increased in nearly all services, particularly in Netplaza Oy and in international connectivity services.

In the year 2019, Cinia established a number of associated companies. In June, a joint project company was established with the Russian company Megafon to prepare for the construction of an Arctic subsea cable, and in October the company Adola was founded with the fund management company DIF for the development of the Finnish fibre-optic network.

Cinia continued to focus on expanding its business operations in international connectivity services. An important part of Cinia's international connectivity service operations was its investment in the 2015–2018 period in the C-Lion1 subsea cable system. The Hanko branching unit will be taken into production in the first half of 2020.

International connectivity services are still in the growth phase, and sales have developed as expected. During the financial year, Cinia expanded its international network and opened new route alternatives to Stockholm and a number of other locations in Northern Europe. As Europe and Russia grow, and as the connectivity needs between them continue to increase, the new connections will strengthen Cinia's position as a company operating between east and west and between the Nordic countries and Central Europe.

Demand for software services remained high. During the financial year, the order backlog and profitability strengthened significantly as a result of new projects won. Demand for continuous product development services was also strong, particularly in healthcare, transport and logistics customers.

Assessment of the financial position and key indicators

Consolidated financial statements include the following companies: Cinia Oy (the parent company), C-Lion1 Oy, Cinia Cloud GmbH and Netplaza Oy, and Cinia Oy's non-operating subsidiaries until 15 October 2019.

Cinia Group's turnover in 2019 was EUR 50.14 million. Operating profit was positive at EUR 3.39 million. Sal-

ary costs were activated on the balance sheet as part of the fixed costs of procurement and manufacturing. The activation of the salary costs is presented in the income statement on the line indicating production for the group's own use. Gross investments during the financial year were EUR 6.3 million (2018: EUR 10.9 million). Investments include EUR 0.5 million in work of the group's own personnel.

Key figures representing the Group's financial position and results:

Cinia Group (EUR million)	2019	2018	2017
Netsales	50.14	45.68	40.64
Operating profit/loss	+3.39	+2.21	+1.76
Operating profit, % of net sales	6,9 %	4,8 %	4,3 %
Return on equity % (ROE)	4,3 %	2,2 %	0,7 %
Return on investment % (ROI)	4,4 %	2,8 %	2,1 %
Equity ratio (%)	48,1 %	45,2 %	45,4 %

Parent company Cinia Ltd (EUR million)	2019	2018	2017
Net Net sales	40.59	41.20	4.49
Operating profit/loss	2.12	2.47	-0.93
Operating profit, % of net sales	5,2 %	6,0 %	-20,8 %
Return on Equity % (ROE)	3,7 %	6,1 %	-3,1 %
Return on investment % (ROI)	3,7 %	5,6 %	0,1 %
Equity ratio (%)	47,6 %	44,6 %	38,0 %

ROE, ROI and operating profit % of net sales have been calculated in accordance with the general instructions of the Accounting Board.

Calculation formulas for key figures:

Operating profit-% =	100x	$\frac{\text{Operating profit}}{\text{Netsales}}$
ROE =	100x	$\frac{\text{income before extraordinary items - taxes}}{\text{equity + minority interests (average)}}$
ROI =	100x	$\frac{\text{income before extraordinary items + interest and other financial costs}}{\text{balance sheet on 31 December - interest-bearing liabilities (average)}}$
Equity ratio =	100x	$\frac{\text{equity + minority interests}}{\text{balance sheet on 31 December - advances received}}$

Corporate security and risk management

Risk management is part of Cinia's strategy process and mode of governance. It is implemented according to the yearly calendar as described in the company's security policy. Based on the risk reports, action plans are prepared for managing the major risks, and their implementation is monitored by the executive team and the Board of Directors. The security and risk management team acts as a preparatory body for the group's executive team.

Carefully prepared technology selections, skills in rapidly developing new service products and the ability to recruit and maintain competent and motivated employees are Cinia's key success factors.

Due to the nature of its operations, particularly in network services, Cinia has set high operational requirements for systems and the network infrastruc-

ture. Reliability and availability are improved by means of process development, continuous system updates and redundant connection routes.

Cinia has no significant interest or foreign currency risk. To control credit risks associated with customers, Cinia checks the credit rating of its new customers at the tendering stage and negotiates full or partial advance payments for long-term network leases.

The Board of Directors is responsible for the organisation of internal control, internal auditing and risk management. The internal auditing of Cinia companies is carried out under the supervision of Cinia Oy's Board of Directors and CEO with the help of audit committee.

Social responsibility

Cinia's goal is to integrate social responsibility as a part of its day-to-day business operations, in its management, development and customer solutions. Cinia find it important to operate in an environmentally sustainable way, and continuously pay attention to its own energy consumption and the material efficiency.

Electricity consumption is a key factor when assessing the environmental impact caused by Cinia's industry. Different digitalisation solutions that improve operational efficiency can also have a significant impact on material efficiency within the industry.

Customers have already achieved significant results in reducing their environmental footprint with Cinia's products and services.

Cinia's sustainable development programme has chosen themes in which the company can most effectively make progress through its own expertise, services and products. Within the scope of these the-

mes, Cinia has set operational targets to increase the positive impact of its entire business operations in cooperation with its customers.

The focus areas of Cinia's approach to corporate responsibility are cyber security, safeguarding the reliable functioning of society, responsibility as an employer, financial responsibility and responsible communications. Another important focus area for developing operations in the coming years is the psychological and physical wellbeing of personnel.

Key factors in Cinia's tax management are identifying and avoiding tax risks. The tax effects of business decisions are identified, but decisions are made on grounds of expediency. Taxes are paid to the applicable country based on the business operations in question. In the financial year 2019, Cinia paid nearly all its income taxes in Finland.

Scope of research and development activities

During the financial period, EUR 1.3 (2018: 0.9) million were recognised in the profit as personnel costs associated with investments in business development activities. These R&D projects included the Arctic

Link cable project, data security and expansions to the national and international network.

Personnel

The goal of Cinia's human resources strategy is to make continued progress towards achieving the company's business goals. For a company that provides services and specialist consultation, employees are our most important asset. The main goals of the HR strategy are to ensure the availability of personnel and their commitment to the company, motivation and continuous development.

In 2019, the Cinia Group employed an average of 279 people (2018: 261 people). During the financial period 2019 parent company Cinia employed an average 239 people (2018: 244 people).

Salaries and fees recognised during the financial period:

EUR million	2019	2018
Cinia Ltd	14,3	14,7
Cinia Group	16,2	15,5

The company's management and auditors

Between 1 January and 28 March 2019, members of Cinia Ltd's Board of Directors were Esko Aho (chairman), Hanna Maria Sievinen, Heidi Koskinen Janne Yli-Äyhö and Karri Alameri.

Between 29 March and 31 December 2019, members of Cinia Ltd's Board of Directors were Esko Aho (chairman), Hanna Maria Sievinen, Janne Yli-Äyhö, Annika Ekman and Vesa Aho. Hanna Maria Sievinen was vice-chairman between 1 January and 31 December 2019.

Ari-Jussi Knaapila was the president and CEO of Cinia Ltd.

Between 1 January and 31 December 2019, members of C-Lion1 Ltd Board of Directors were Ari-Jussi Knaapila (chairman), Anna Latvala, Tarja Oinonen-Rouvali and Taneli Vuorinen.

C-Lion1 Ltd does not have any managing director.

Between 1 January and 31 December 2019, members of Netplaza Ltd's Board of Directors were Ari-Jussi Knaapila (chairman), Jorma Hanhimäki, Taneli Vuorinen, Tarja Oinonen-Rouvali and Anna Latvala.

Tommi Linna was the CEO of Netplaza Ltd.

Salaries and fees (EUR) thousand	2019	2018
Boards of Directors of the Cinia Ltd	122,1	94,9
Board of Directors of Cinia Group	129,6	99,3
CEO's of Cinia Group	378,4	360,1

Cinia Ltd's auditor was Oy BDO Ltd, with Ari Lehto, Authorised public Accountant, being responsible for auditing.

The company's shares

Cinia has 1,289,856 (2018: 1,289, 856) shares.

All shares provide their holders with equal rights to dividends and the company's assets.

Shareholders and holdings of Cinia: The Finnish State (through the Ministry of Transport and Communications, 77.528%), Ilmarinen Mutual Pension Insurance Company (11.236%), OP Financial Group's Pohjola Insurance (11.236%).

C-Lion1 has two series of shares: A and B series. The company has one A share and 200,000 B shares. Both series of shares provide their holders with equal voting rights.

Netplaza has 115,140 (115,140) shares, of which the company holds 1,000 shares.

Outlook for 2020

Cinia continues to focus on its key business: data network and software development services. Secure and reliable high-speed and high-capacity data connections provide a solid foundation for Finnish society. Cinia will also increase its value by investing part of its profit in preparing for the construction of national and international data infrastructure in the long term.

Strengthening Finland's trunk network and international network connections remains one of Cinia's most significant data network projects, which we are carrying out together with the joint ventures we have established.

As a result of the business acquisition, the establishment of the joint ventures and other measures taken to support growth, the company's turnover in 2020 can develop positively. However, unusually large uncertainties are already associated with the market development and intensifying competition. We aim to maintain our level of profitability by continuing to keep our costs well under control. We will use part of our operating profit to finance growth by increasing R&D and sales activities.

Volumes of connection services in telecommunications will continue to increase. Due to price erosion, however, euro-denominated growth will be low. Therefore, we need to gain a higher market share in the fierce competition in order to increase our turnover. A technological shift towards software-controlled corporate network solutions will speed up the markets and give Cinia new opportunities to strengthen its position in this segment.

We expect competition over solution and software development services, customers and employees to be fierce. Even though total markets in our selected segments are increasing, keeping up with market growth and maintaining profitability require constant successes in the development of operations and capabilities.

Key events after financial period

On 1 February 2020, Cinia acquired all shares in NDC Networks Oy.

Through this acquisition, Cinia strengthens its ability to develop wireless data transmission services and IoT solutions for demanding environments, such as the energy sector, transport and logistics, defence and security, as well as heavy industry.

There have been no significant changes in the Cinia's financial position after the financial period.

Consolidated income statement

EUR million	1.1.-31.12.2019	1.1.-31.12.2018
NET SALES	50,14	45,68
Increase (+) / decrease (-) in finished and unfinished product stocks	0,12	-0,25
Production for own use	0,59	0,44
Other operating income	0,13	0,96
Materials and services	-15,42	-14,00
Personnel expenses	-19,41	-18,80
Depreciation and amortisation	-5,85	-5,33
Other operating expenses	-6,90	-6,48
OPERATING PROFIT (LOSS)	3,39	2,21
Financial income and expenses	-0,99	-1,02
PROFIT (LOSS) BEFORE TAXES	2,39	1,19
Income tax	-0,42	-0,21
Changes in deferred taxes	-0,17	-0,05
PROFIT (LOSS) FOR THE PERIOD	1,80	0,93

Consolidated balance sheet

EUR million			
NON-CURRENT ASSETS		31.12.2019	31.12.2018
INTANGIBLE ASSETS			
Intangible assets		19,81	18,96
Tangible assets		67,78	68,22
Investments		0,07	0,07
TOTAL NON-CURRENT ASSETS		87,66	87,25
CURRENT ASSETS			
Inventories		0,77	0,51
Non-current receivables			
Other receivables		4,60	4,84
Current receivables			
Trade receivables		11,50	6,29
Other receivables		1,80	2,72
Cash in hand and at bank		7,07	7,48
TOTAL CURRENT ASSETS		25,74	21,84
Total assets		113,40	109,09

Consolidated balance sheet

EUR million		
Equity and liabilities	31.12.2019	31.12.2018
EQUITY		
Share capital	1,68	1,68
Other reserves		
Reserve fund	1,67	1,67
Reserve for invested unrestricted equity	19,00	19,00
profit (loss) from previous periods	17,73	17,26
profit (loss) for the period	1,80	0,93
TOTAL EQUITY	41,89	40,54
MINORITY INTERESTS	1,00	1,00
OBLIGATORY PROVISIONS	0,18	0,20
LIABILITIES		
Non-current		
Loans from shareholders	10,00	10,00
Loans from financial institutions	20,79	23,97
Advances received	21,61	15,37
Other liabilities	1,63	2,43
Current		
Loans from financial institutions, current loans	3,12	3,16
Advances received	2,54	1,87
Trade payables	2,74	2,78
Deferred tax liabilities	0,34	0,17
Other liabilities	7,57	7,59
TOTAL LIABILITIES	70,32	67,35
Total equity and liabilities	113,40	109,09

Consolidated cash flow statement

EUR million		
Cash flow from operating activities:	1.1.-31.12.2019	1.1.-31.12.2018
Operating profit (loss)	3,39	2,21
Adjustments to operating profit		
Depreciation according to plan	5,85	5,33
Other adjustments	0,04	0,06
Cash flow before change in working capital	9,28	7,61
Change in working capital:		
Change in current non-interest-bearing receivables, increase (-) / decrease (+)	-4,10	1,19
Change in inventories, increase (-) / decrease (+)	-0,26	0,29
Advances received, increase/decrease	6,24	-1,00
Change in current non-interest-bearing liabilities, increase (+) / decrease (-)	0,38	-0,57
Cash flow from operating activities before financial items and taxes	11,53	7,50
Interest and fees paid on other financial expenses	-0,61	-0,64
Interest received on business operations	0,02	0,02
Direct taxes paid (-)	-0,32	0,10
Cash flow from operating activities (A)	10,63	6,99
Cash flow from investment activities:		
Investments in tangible and intangible assets (-)	-5,13	-4,32
Capital gains from tangible and intangible assets (-)	-2,24	-2,27
Cash flow from investment activities (B)	-7,37	-6,58
Cash flow from financing:		
Change in current loans	-0,04	-0,02
Change in non-current loans	-3,18	-3,13
Dividends paid and other profit distribution (-)	-0,45	-0,13
Cash flow from financing (C)	-3,67	-3,28
Change in cash and cash equivalents (A + B + C), increase (+) / decrease (-)	-0,41	-2,87
Cash and cash equivalents at the beginning of the period	7,48	10,35
Cash and cash equivalents at the end of the period	7,07	7,48



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