

FINANCIAL
STATEMENTS
BULLETIN
2017

Cinia



GENERAL INFORMATION ABOUT THE COMPANY

Cinia is a Finnish data communications and IT conglomerate that offers network, software and cloud services. Cinia acts as a telecommunications operator and produces diverse IT expert and connection services, as well as development services for IT-intensive systems and software. Cinia operates its own communications networks or those owned by its customers.

To simplify the structure and administration of the Cinia Group and to improve efficiency, the Boards of Directors and shareholders of Cinia Group Ltd, Cinia Cloud Ltd and Cinia One Ltd decided to merge so that Cinia One Ltd and Cinia Cloud Ltd (as merging companies) merged into Cinia Group Ltd (as the receiving company) on 31 December 2017. Directly before the aforementioned merger, another merger was also carried out within the Cinia Group, whereby Cinia Solutions Ltd, a company belonging to the Cinia Group, merged in Cinia One Ltd, a subsidiary of Cinia Group Ltd, in the form of a subsidiary merger as defined in the Limited Liability Companies Act. Notifications of subsidiary merger plans were registered in the Trade Register on 27 August 2017.

The parent company Cinia Group Ltd changed its name to Cinia Ltd on 1 January 2018.

According to the decision issued by the Ministerial Committee on Economic Policy on 6 June 2017, Cinia Group Ltd transferred from the ownership of Governoria Oy under the direct ownership of the state in August 2017, and the Government ownership steering of Cinia Group Ltd transferred to the Ministry of Transport and Communications starting from 1 September 2017. In addition to the state, Cinia's shareholders are Ilmarinen and OP Group.

Cinia Group Ltd's shareholders and shareholding after the change of ownership (starting from 1 September 2017): State of Finland, c/o Ministry of Transport and Communications: 77.528%; Ilmarinen Mutual Pension Insurance Company: 11.236%; OP Insurance Ltd: 5.618%; and OP Pension Fund: 5.618%.

Notifications of subsidiary merger plans were registered in the Trade Register on 27 August 2017 and the closing accounts of the companies were prepared on 27 March 2018.

STRUCTURE AND FINANCIAL ARRANGEMENTS

From the points of view of business and management, operations were divided in Digital Infrastructure Services (DIS) offering network services and Digital Society Solutions (DSS) offering software and solution services. Expenses from the development of the Lioncloud service platform built in 2015–2017 are mainly reported in the figures of DIS, even though the development was led by the Group's development director.

C-Lion1 Ltd is a subsidiary of the Group. Cinia Ltd is the parent company of C-Lion1 Ltd starting from 1 January 2018 following the mergers. Cinia Ltd holds 99.9% of C-Lion1 Ltd, a company which owns the submarine communications cable between Finland

and Germany. Minority shareholders of C-Lion1 Ltd are the State of Finland, the Ministry of Transport and Communications, which holds one (1) A share. The A share includes a right deviating from holding rights and based on the Articles of Association to control and use two optical fibre pairs of the subsea cable.

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.

KEY EVENTS DURING THE FINANCIAL PERIOD

Net sales of the Cinia Group increased from 2016 by approximately EUR 4.3 million (+12%). Net sales increased in nearly all services, particularly in international connectivity services and software services.

The company continued the construction of a branch of the C-Lion1 submarine communications cable system in Hanko. The resulting second cable route to Finland safeguards the connection and shortens the distance from Europe to Finland and other Nordic countries.

Demand for software services remained high, and growth was mainly limited by the availability of personnel.

The company continued its investments in increasing business operations in international connectivity services and in launched cloud services.

The investment in the C-Lion1 subsea cable system made in 2015–2017 is an integral part of international connectivity services. International

connectivity services are still in the growth phase, and sales have developed as expected.

As network services stabilised, the decrease in the net sales of domestic connectivity services stopped and profitability improved.

The production operation of the cloud service started at the end of 2016 and the launch of the business continued in 2017. The cloud service is based on the Lioncloud service platform developed by Cinia, and the service offers a private cloud solution with high security features.

The title of the Service Desk of the Year is given to Finland's best SD team, and Cinia clinched the title in 2017. In addition to the HDI Support Center Standard 2014, the evaluation includes ITIL (the best practices in IT service management) and applicable parts of the ISO/IEC 20000 standard.

Cinia also received the Finnish Cyber Security Certificate in October.

ASSESSMENT OF THE FINANCIAL POSITION, AND KEY FIGURES

Consolidated financial statements cover Cinia Group Ltd (parent company), C-Lion1 Ltd and Cinia Cloud GmbH.

Net sales of the Cinia Group stood at EUR 40.64 million in 2017. The operating profit was EUR 1.76 mil-

lion. As part of fixed procurement and manufacturing costs, salary expenses have been activated on the balance sheet. This activation has been presented under manufacturing for enterprise's own use in the income statement.

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

Cinia Group (EUR million)	2017	2016	2015
Net sales	40,64	36,33	38,22
Operating profit/loss	+1,76	+1,39	-0,23
Operating profit, % of net sales	4,3 %	3,8 %	-0,6%
Return on equity (ROE), %	0,7 %	1,3 %	-1,5%
Return on investment (ROI), %	2,1 %	1,7 %	-0,3%
Equity ratio (%)	45,4 %	41,5 %	47,1%

Parent company Cinia Group Ltd (EUR million)	2017	2016	2015
Net sales	4,49	4,43	4,83
Operating profit/loss	-0,93	-0,84	-0,07
Operating profit, % of net sales	-20,8 %	-18,9 %	-1,4%
Return on equity (ROE), %	-3,1 %	-2,9 %	0,6%
Return on investment (ROI), %	0,1 %	0,0 %	0,7%
Equity ratio (%)	38,0 %	43,5 %	49,0%

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	$\frac{\text{operating profit}}{\text{net sales}}$
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	$\frac{\text{equity + minority interests}}{\text{balance sheet on 31 December - advances received}}$

INVESTMENTS

Gross investments during the financial period stood at EUR 7.0 million (2016: EUR 22.1 million).

Investments include EUR 0.2 million in work carried

out by the Group's personnel. The Hanko branch of the C-Lion1 subsea cable accounts for approximately half of work activation.

INTERNAL CONTROL AND INTERNAL AUDITING

The Board of Directors is responsible for the arrangement of internal control, internal auditing and risk management. The internal audit of companies

belonging to the Cinia Group is conducted under the supervision of Cinia Group Ltd's Board of Directors and CEO. In 2017, the internal audit focused on the sales process.

CORPORATE SECURITY AND RISK MANAGEMENT

Risk management comprises part of Cinia's strategy process and governance. It is carried out in accordance with the annual calendar defined in the company's security policy. On the basis of risk reports, action plans are prepared to control the most significant risks. The fulfilment of these plans 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.

Due to the nature of its operations, particularly in network services, Cinia has set high operational requirements for systems and the network infrastructure. Cinia continuously maintains and improves its network infrastructure. Reliability and availability are improved by means of process development, con-

tinuous 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.

On 3 May 2017, Cinia Group Ltd received the Facility Security Clearance (FSC). It is based on the security clearance legislation entered into force at the beginning of 2015. FSC is given to Finnish companies that are able to securely process the confidential information of their public sector customers.

SOCIAL RESPONSIBILITY

Cinia's goal is to add social responsibility as part of its day-to-day activities: management, development and customer solutions. Cinia's positive social impact comes from its data communications and software services that improve the energy and 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. Using Cinia's products and services, Cinia's customers have already achieved significant results in reducing their own environmental footprint.

To integrate social responsibility more closely into Cinia's business activities, Cinia adopted a new management model for sustainable development in 2016. It is based on UN Sustainable Development Goals. Cinia's sustainable development programme covers the goals, the fulfilment of which Cinia can best support through its expertise, products and services. The

UN Sustainable Development Goals selected are: 1) Good health and wellbeing; 2) Affordable and clean energy; and 3) Industry, innovation and infrastructure.

Around these themes, the company set operational and indirect goals in 2017 in order to increase its positive impact together with its customers.

The mental and physical capacity of the personnel and the development of wellbeing, generated through trust and appreciation, have been set as one of the near future's focus areas of operational development.

Key factors in Cinia's tax management are the identification and elimination of tax risks. Cinia identifies the tax impact of business decisions, but makes its decisions as it deems to be purposeful. Cinia pays its taxes in the country, in which they are supposed to be paid on the basis of business operations.

SCOPE OF RESEARCH AND DEVELOPMENT

As investments in operational development, personnel costs of EUR 0.7 million (2016: EUR 1.0 million) were recognised in R&D activities during the financial period. R&D projects included market surveys and

other surveys conducted before any R&D activities as well as the development of business models and structures.

PERSONNEL

The goal of Cinia's personnel strategy is to contribute to the fulfilment of the company's business goals. Being a service and expert company, the personnel form Cinia's most important asset. The main goal of the personnel strategy is to secure the avail-

ability of the personnel and their commitment to the company, motivation and continuous development.

In 2017, the company employed an average of 225 people (2016: 212 people).

Salaries and fees recognised during the financial period:

EUR million	2017	2016
Cinia Group	13,4	12,7

THE COMPANY'S MANAGEMENT AND AUDITORS

Between 1 January and 9 October 2017, members of Cinia Group Ltd's Board of Directors were Esa Rautalinko (chairman), Timo Kankuri, Hanna Maria Sievinen, Karri Alameri, Marko Hyvärinen and Ari Rahkonen.

Between 10 October and 31 December 2017, members of the Board of Directors were Esko Aho (chairman), Karri Alameri, Hanna Maria Sievinen, Heidi Koskinen and Janne Yli-Äyhö.

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

During the 2017 financial period, the Board of Directors of Cinia One Ltd consisted of managers of its parent company Cinia Group Ltd. Between 1 January and 31 December 2017, members of Cinia One Ltd's Board of Directors were Ari-Jussi Knaapila (chairman) and Tarja Oinonen-Rouvali.

Ari-Jussi Knaapila was the managing director of Cinia One Ltd.

During the 2017 financial period, the Board of Directors of Cinia Solutions Ltd consisted of managers of its parent company Cinia Group Ltd. Between 1 January and 31 December 2017, members of Cinia Solutions Ltd's Board of Directors were Ari-Jussi Knaapila (chairman), Tarja Oinonen-Rouvali and Jari Mäkijärvi.

Tero Jokinen was the acting managing director of Cinia Solutions Ltd.

During the 2017 financial period, the Board of Directors of Cinia Cloud Ltd consisted of managers of its parent company Cinia Group Ltd and members of the parent company's Board of Directors. Between 1 January and 25 October 2017, members of Cinia Cloud Ltd's Board of Directors were Timo Kankuri (chairman), Ari-Jussi Knaapila, Hanna Maria Sievinen and Marko Hyvärinen. Between 26 October and 31 December 2017, members of the Board of Directors were Hanna Maria Sievinen (chairman), Ari-Jussi Knaapila, Tarja Oinonen-Rouvali and Anna Latvala.

Taneli Vuorinen was the managing director of Cinia Cloud Ltd.

During the 2017 financial period, the Board of Directors of C-Lion1 Ltd consisted of managers of its parent company Cinia Group Ltd and members of the parent company's Board of Directors. Between 1 January and 25 October 2017, members of C-Lion1 Ltd's Board of Directors were Timo Kankuri (chairman), Ari-Jussi Knaapila, Hanna Maria Sievinen and Marko Hyvärinen. Between 26 October and 31 December 2017, members of the Board of Directors were Hanna Maria Sievinen (chairman), Ari-Jussi Knaapila, Tarja Oinonen-Rouvali and Anna Latvala.

Cinia Cloud Ltd does not have any managing director.

Salaries and fees (EUR thousand)	2017	2016
Boards of Directors of the Cinia Group*	148,5	148,1
Managing directors of the Cinia Group**	450,4	402,7

Cinia Group Ltd's auditor was Oy Tuokko Ltd, with Jari Miikkulainen, Authorised Public Accountant, being the main auditor and Janne Elo, Authorised Public Accountant, being responsible for auditing.

OUTLOOK FOR 2018

Cinia will focus on its current key operations and invest in building the socially significant data transmission infrastructure. Cinia's secure and reliable high-capacity data connections provide Finnish companies with an effective base for global real-time business operations. Significant near-future data network projects include the cable project in the Northeast Passage and the supporting Finnish backbone network.

Finland is situated along the short route between Europe and Asia, which makes Finland an important hub for data connections. The cable connection in the Northeast Passage can significantly strengthen Finland's position by offering a new high-speed connection between Europe and Asia. This would decrease the reliability risk associated with data connections between Europe and Asia, which is highly important for banks and stock exchanges, online shops and the advancement of the Internet of Things (IoT), 5G and robotics.

Extending digitalisation more broadly to different parts of society lays a strong foundation for Cinia's digital infrastructure and digital solution development. Cinia has a strong position in the solution areas of healthcare, agriculture, IoT and transport. In these segments, Cinia has excellent opportunities to further develop its solution development operations.

As a result of activities carried out in previous years, the company's net sales in 2018 are expected to develop positively. Cinia can develop its profitability through the good management of cost levels. However, the aim is to invest part of operational income in financing growth by developing services and increasing sales and marketing activities.

Cinia's network expansions offer more opportunities in international network leasing and connectivity services. Active sales in international markets will also increase demand for domestic network services. Transit connections between Europe and Asia via Finland are an important source of growth for Cinia's network services.

SHARES

Cinia Group Ltd has 1,289,856 shares (2016: 1,289,856 shares). All shares provide equal rights to dividends and the company's assets.

C-Lion1 Ltd has two series of shares, A and B series. The company has one A share and 200,000 B shares.

A and B shares provide equal rights to vote. The A share provides the right to control and use two optical fibre pairs. The right to privileged dividends provided by the A share was removed by the unanimous decision of shareholders on 1 February 2018.

KEY EVENTS AFTER THE FINANCIAL PERIOD

On 1 February 2018, Cinia's shareholders decided to change shareholder agreements and articles of association so that C-Lion1 Ltd returned the investment in equity of EUR 9,000,000 (invested unrestricted equity fund) to the holder of the A share (State of Finland, Ministry of Transport and Communications) which invested the same amount (invested unrestricted equity fund) in Cinia Ltd. This arrangement removed the priv-

ileged dividend provided by the A share. The A share still provides the right to control two optical fibre pairs. The share capital of C-Lion1 Ltd and shareholdings and votes of Cinia Ltd remained unchanged.

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

CONSOLIDATED INCOME STATEMENT

EUR million	1.1.–31.12.2017	1.1.–31.12.2016
NET SALES	40,64	36,33
Increase (+) / decrease (-) in finished and unfinished product stocks	-0,35	-0,14
Production for own use (+)	0,27	0,37
Other operating income	0,05	0,58
Materials and services (-)	-12,57	-11,65
Personnel expenses (-)	-16,02	-15,26
Depreciation and amortisation (-)	-4,82	-3,74
Other operating expenses (-)	-5,44	-5,11
OPERATING PROFIT (LOSS)	1,76	1,39
Financial income and expenses (+/-)	-1,41	-0,88
PROFIT (LOSS) BEFORE TAXES	0,35	0,51
Income tax (-)	-0,02	-0,07
Changes in deferred taxes	-0,06	0,08
PROFIT (LOSS) FOR THE PERIOD	0,27	0,52

CONSOLIDATED BALANCE SHEET

EUR million	31.12.2017	31.12.2016
NON-CURRENT ASSETS		
Intangible assets	14,73	12,54
Tangible assets	67,50	67,42
TOTAL NON-CURRENT ASSETS	82,23	79,96
CURRENT ASSETS		
Inventories	0,80	1,10
Non-current receivables		
Other receivables	4,94	5,17
Current receivables		
Trade receivables	6,92	8,42
Other receivables	3,15	3,20
Cash in hand and at bank	10,35	13,46
Total current assets	26,16	31,34
Total assets	108,38	111,31

CONSOLIDATED BALANCE SHEET

EUR million	31.12.2017	31.12.2016
Equity and liabilities		
EQUITY		
Share capital	1,68	1,68
Other reserves		
Reserve fund	1,67	1,67
Reserve for invested unrestricted equity	10,00	10,00
Profit (loss) from previous periods	17,13	16,87
Profit (loss) for the period	0,27	0,52
TOTAL EQUITY	30,75	30,75
MINORITY INTERESTS	10,00	10,00
OBLIGATORY PROVISIONS	0,12	0,13
LIABILITIES		
Non-current		
Loans from shareholders	10,00	20,00
Loans from financial institutions	26,90	25,00
Advances received	16,37	11,45
Other liabilities	0,81	0,41
Current		
Loans from financial institutions, current loans	3,10	2,50
Advances received	2,19	1,67
Trade payables	2,80	1,88
Deferred tax liabilities	0,12	0,06
Other liabilities	5,22	7,47
TOTAL LIABILITIES	67,51	70,43
Total equity and liabilities	108,38	111,31

CONSOLIDATED CASH FLOW STATEMENT

EUR million		
Cash flow from operating activities:	1.1.-31.12.2017	1.1.-31.12.2016
Operating profit (loss) (+/-)	1,76	1,39
Adjustments to operating profit (+/-):		
Depreciation according to plan	4,82	3,74
Other adjustments	-0,13	0,10
Cash flow before change in working capital	6,44	5,23
Change in working capital:		
Change in current non-interest-bearing receivables, increase (-) / decrease (+)	1,72	-6,07
Change in inventories, increase (-) / decrease (+)	0,30	0,17
Advances received, increase/decrease	4,93	
Change in current non-interest-bearing liabilities, increase (+) / decrease (-)	-0,83	4,88
Cash flow from operating activities before financial items and taxes	12,56	4,22
Interest and fees paid on other financial expenses	-1,03	-0,91
Interest received on business operations	0,02	0,04
Direct taxes paid (-)	0,01	-0,34
Cash flow from operating activities (A)	11,57	3,01
Cash flow from investment activities:		
Investments in tangible and intangible assets (-)	-6,91	-21,75
Capital gains from tangible and intangible assets	0,00	0,49
Cash flow from investment activities (B)	-6,91	-21,26
Cash flow from financing:		
Change in current loans	0,60	0,00
Change in non-current loans	-8,10	11,91
Dividends paid and other profit distribution (-)	-0,26	0,00
Cash flow from financing (C)	-7,76	11,91
Change in cash and cash equivalents (A + B + C), increase (+) / decrease (-)	-3,10	-6,35
Cash and cash equivalents at the beginning of the period	13,46	19,81
Cash and cash equivalents at the end of the period	10,35	13,46