

# CORENET OY

REPORT BY THE BOARD OF DIRECTORS  
AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR  
1 JAN. – 31 DEC. 2008

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YHDISTÄVÄ TEKIJÄ



# REPORT BY THE BOARD OF DIRECTORS

## Overview

We started the accounting period on the theme “Now is the time for growth” with the intention of achieving strong growth in sales, focusing on customers outside the railway environment. Strong economic growth at the start of the accounting period boosted demand for telecommunication, maintenance and construction services, and the accounting period turned out to be one of the periods providing the most work for Corenet in the company’s history. At the end of the accounting period, the credit crisis originating in the United States did not yet have any practical effect on Corenet’s operations.

The Telecommunication Solutions unit expanded its customer base with the addition of four important customers outside the railroad environment. The new telecommunication customers are Finnish Customs, Finavia, Fortum and Fingrid. Fingrid, the Finnish main electricity grid network, transferred from TDC as the result of a corporate restructuring. The largest delivery project in the railroad environment was the GSM-R base station connections, the construction of which was nearly completed.

The largest external site of the Project Operations unit was the work related to Vuosaari access control. The unit also worked on several construction contracts in railroad tunnels and the train WLAN project of VR Limited.

Cooperation continued successfully with our partner TDC in construction, monitoring and management services for wireless local networks. The Accessibility Services unit provided these services as a subcontractor of TDC for the Basic IT project of the City of Espoo and for Samlink’s local networks for local savings and cooperative banks.

Customer satisfaction reached 8.1 in the January 2009 customer satisfaction survey, which is a good level for the industry (2008: 8.2; 2007: 8.3).

## Profit of operations and key indicators

The accounting period 1 January–31 December 2008 was good for the company. Sales increased by 19.9% (2007: 5.9; 2006: 1.7) compared with the previous year. Corenet’s sales during the 1 January–31 December 2008 accounting period stood at EUR 37.6 million (2007: 31.4; 2006: 29.6).

The company’s profitability remained at a good level. Operating profit for the period was EUR 5.4 million (2007: 5.8; 2006: 6.1), the operating margin was 14.4% (2007: 18.4; 2006: 20.8) and return on equity was 19.0% (2007: 22.4; 2006: 24.8).

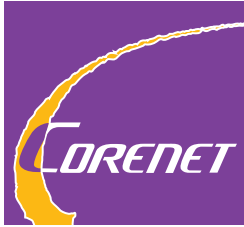
Corenet’s solvency as measured by the solvency ratio was 67.0% (2007: 74.7; 2006: 76.4) and liquidity as measured by the quick ratio was 1.4 (2007: 1.4; 2006: 2.0) which also remained at a good level.

## Investments

The company invested EUR 7.3 million (2007: 5.2; 2006: 2.6) in the national telecommunication networks it owns and controls. The investments focused on access networks for new customers, GSM-R base station connections and IP networks used in data transfer. The accounting period’s gross investments stood at EUR 8.0 million (2007: 6.5; 2006: 3.2).

## Development

As in previous years, development efforts focused on the development of processes and production platforms. Development focused in particular on the development of mobile supervision of work and a platform for administrative and monitoring services. Investments in development operations during the accounting period were EUR 0.9 million (2007: 1.7; 2006: 0.5).



## **Personnel and management**

In 2008, the company employed an average of 220 people (2007: 207; 2006: 200). Salaries and wages in 2008 totalled EUR 10.4 million (2007: 9.2; 2006: 8.3).

The Board of Directors included Teuvo Sivunen (Chairman), Petteri Nissinen (until 12 March 2008), Esa Parjanen (from 12 March 2008), Veikko Vaikkinen, Rauno Vallin (until 12 March 2008), Juhani Raatikainen (from 12 March 2008) and Taneli Vuorinen. The company's Managing Director was Jouko Tervo.

The total amount of salaries and wages paid out in 2008 was EUR 10.2 million.

Corenet Oy's auditor is KPMG Oy Ab, and the responsible auditor is Jorma Nurkkala, Authorised Public Accountant, Chartered Public Finance Auditor.

## **Environmental matters**

Corenet Oy's environmental report is included in the environmental section of VR Group's Annual Report.

## **Outlook for 2009**

The financial crisis is increasingly starting to affect the real global economy, which is under threat of deterioration or even a recession lasting several years. This will reduce the turnover and results of companies in the manufacturing and service industries. As the financial positions of companies and consumers deteriorate, their incentive to invest and their level of investments decrease. The public sector is investing in the basic infrastructure of society in order to stimulate the economy and this is expected to alleviate the effect of the economic recession on Corenet's order book and financial position.

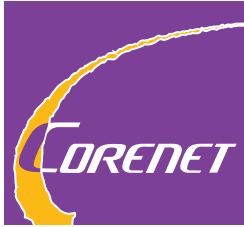
The 2009 sales target, EUR 38.0 million, is 1.1 per cent higher than the actual sales during the period under review. The total sales of the period under review include the exceptionally large sales of Project Operations, which will decrease significantly during the current accounting period. The decrease in the sales of Project Operations must be compensated for through the sales growth of other businesses. Achieving the targeted growth in sales is challenging in a market undergoing intense competition.

The development of the company's operations will continue this year, with the emphasis on improving customer-orientation and the level of service experienced by the customer. The management system will be developed and at the same time there will be an emphasis on the quality of supervisory work. The level of investments implemented will be relatively high, but at a lower level than during the previous year. The need to reform several long-term service agreements this year poses a particular challenge.

## **Board's proposal for the distribution of profit**

The company's distributable equity amounted to EUR 16,280,515.45, of which the profit for the period makes up EUR 3,263,460.85. The Board of Directors proposes to the Annual General Meeting that EUR 2,000,000 be distributed in dividends and EUR 14,280,515.45 be left in the shareholders' equity.

There have been no material changes in the company's financial position after the end of the accounting period. The company's liquidity is good and the Board of Directors does not believe that the proposed distribution of profit poses a threat to the company's solvency.



## PROFIT AND LOSS ACCOUNT, BALANCE SHEET, AND SOURCE AND APPLICATION OF FUNDS

### PROFIT AND LOSS ACCOUNT

	1 Jan. - 31 Dec. 2008	1 Jan. - 31 Dec. 2007
<b>Turnover</b>	<b>37 631 884,55</b>	<b>31 362 530,45</b>
Inventories of work in progress increase (+)/decrease (-)	1 327 966,43	308 707,58
Production for own use	7 066 671,16	5 607 263,11
Other operation income	12 652,66	7 130,92
Materials and services	19 487 452,72	12 656 086,54
Personnel expenses	13 162 826,66	11 462 271,01
Depreciation	3 844 126,15	3 667 427,67
Other operating expenses	4 128 151,50	3 716 173,89
<b>Operating profit</b>	<b>5 416 617,77</b>	<b>5 783 672,95</b>
Financial income and expenses	-3 309,00	93 233,54
<b>Profit before appropriations and taxes</b>	<b>5 413 308,77</b>	<b>5 876 906,49</b>
Appropriations	-985 510,84	285 331,23
Direct taxes	-1 164 337,08	-1 611 201,02
<b>Profit for the financial period</b>	<b>3 263 460,85</b>	<b>4 551 036,70</b>



## BALANCE SHEET

	1 Jan. - 31 Dec. 2008	1 Jan. - 31 Dec. 2007
<b>Assets</b>		
Non-current assets		
Intangible assets	403 393,26	419 263,37
Tangible assets	<u>20 305 506,02</u>	<u>16 151 644,97</u>
	20 708 899,28	16 570 908,34
Current assets		
Inventories	3 773 831,35	2 174 110,02
Long-term receivables	1 285 206,02	1 515 418,96
Short-term receivables	9 750 192,50	7 623 582,58
Cash in hand and at banks	<u>3 654,01</u>	<u>0,00</u>
	14 812 883,88	11 313 111,56
	<u>35 521 783,16</u>	<u>27 884 019,90</u>
<b>Liabilities and shareholder's equity</b>		
Shareholder's equity		
Share capital	1 681 879,26	1 681 879,26
Reserve fund	1 673 469,87	1 673 469,87
Retained earnings	13 017 054,60	10 466 017,90
Profit for the financial period	<u>3 263 460,85</u>	<u>4 551 036,70</u>
	19 635 864,58	18 372 403,73
Accumulated appropriations	3 256 770,56	2 271 259,72
Statutory appropriations	950 000,00	900 000,00
Non-current liabilities	2 269 686,76	295 897,83
Current liabilities	9 409 461,26	6 044 458,62
	<u>35 521 783,16</u>	<u>27 884 019,90</u>



## SOURCE AND APPLICATIONS OF FUNDS

OPERATIONS	1 Jan. - 31 Dec. 2008	1 Jan. - 31 Dec. 2007
<b>Operating profit</b>	5 416 617,77	5 783 672,95
Depreciation according to plan	3 844 126,15	3 667 427,67
Change in long-term advances paid	235 165,94	-416 006,68
Change in long-term advances received	-26 211,07	-106 473,74
Change in other provisions	<u>50 000,00</u>	<u>0,00</u>
<b>Cash flow before change in working capital</b>	9 519 698,79	8 928 620,20
<b>Change in working capital</b>		
Change in short-term receivables	-1 789 141,66	-1 745 213,38
Change in current liabilities	3 510 791,86	1 476 489,34
Change in inventories	<u>-1 599 721,33</u>	<u>-624 445,22</u>
<b>Cash flow from the change in working capital</b>	121 928,87	-893 169,26
<b>Financial items and taxes</b>		
Interest received	24 824,64	93 585,95
Interest paid	-28 133,64	-352,41
Taxes paid	<u>-1 471 789,22</u>	<u>-1 393 186,11</u>
<b>Cash flow from financial items and taxes</b>	-1 475 098,22	-1 299 952,57
<b>CASH FLOW FROM OPERATIONS</b>	<b>8 166 529,44</b>	<b>6 735 498,37</b>
<b>Investments</b>		
Purchase of fixed assets	-7 982 117,09	-6 502 503,81
Sale of fixed assets	<u>0,00</u>	<u>287 349,74</u>
<b>Cash flow from investment activities</b>	-7 982 117,09	-6 215 154,07
<b>CASH FLOW BEFORE FINANCING</b>	<b>184 412,35</b>	<b>520 344,30</b>
<b>Financing</b>		
Change in long-term receivables	-4 953,00	0,00
Change in current liabilities	2 000 000,00	0,00
Change in short-term receivables	-175 805,34	2 479 655,70
Distribution of dividends	<u>-2 000 000,00</u>	<u>-3 000 000,00</u>
<b>Cash flow from financing</b>	-180 758,34	-520 344,30
<b>CHANGE IN FINANCIAL ASSETS</b>	<b>3 654,01</b>	<b>0,00</b>
Assets transferred to Group investment account on 1 Jan.	629 950,02	3 109 605,72
Change in investments	<u>175 805,34</u>	<u>-2 479 655,70</u>
Assets transferred to Group investment account on 31 Dec.	805 755,36	629 950,02
Assets on 1 Jan.	0,00	0,00
Change in Assets	<u>3 654,01</u>	<u>0,00</u>
Assets on 31 Dec.	3 654,01	0,00



## INDICATORS

		2008	2007	2006	2005	2004	2003	2002	2001	2000
<b>Operations</b>										
Turnover	M€	<b>37,6</b>	31,4	29,6	29,1	29,8	27,8	26,8	26,0	25,5
Change in turnover	%	<b>19,9</b>	5,9	1,7	-2,3	7,2	3,7	3,1	2,0	2,8
Balance sheet total	M€	<b>35,5</b>	27,9	25,1	24,6	21,1	18,6	16,9	15,0	14,6
Gross investments	M€	<b>8,0</b>	6,5	3,2	6,1	4,0	3,0	2,4	2,9	2,4
- as % of turnover	%	<b>21,3</b>	20,7	10,7	21,0	13,6	10,8	9,0	11,2	9,3
Personnel, average		<b>220</b>	207	200	204	210	206	200	197	188
<b>Profitability</b>										
Operating profit	M€	<b>5,4</b>	5,8	6,1	5,8	6,8	5,5	4,0	3,1	2,4
- as % of turnover	%	<b>14,4</b>	18,4	20,5	19,8	22,9	19,6	14,9	12,0	9,2
Profit	M€	<b>3,3</b>	4,6	4,4	4,1	4,4	3,8	3,1	2,4	1,9
Return on investment (ROI)	%	<b>23,0</b>	28,1	31,0	33,2	46,8	43,1	36,5	32,5	26,4
Return on equity (ROE)	%	<b>19,0</b>	22,4	25,4	26,4	34,7	31,5	26,7	24,1	19,2
<b>Solvency</b>										
Solvency ratio	%	<b>67,0</b>	74,7	76,4	72,3	76,7	77,8	74,6	71,7	71,0
<b>Liquidity</b>										
Quick Ratio		<b>1,4</b>	1,4	2,0	1,5	1,9	2,2	1,9	1,4	1,4