

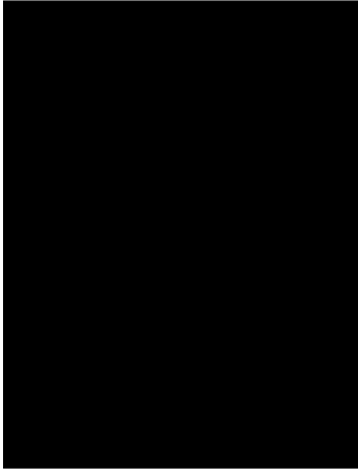






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***Pekka Vennamo***  
***President and CEO***  
***PT Finland Ltd***

1994 was the PT Finland Group's first year as an incorporated company. Incorporation took place by turning each of the business sectors of the former state business enterprise into a limited company. This was done to improve the marketing management of operations and to highlight the importance of profitability throughout all the Group's sectors.

The incorporation process went extremely well, with no interruptions to business. Working together with our personnel, we have almost completed the process of solving the many problems which arose from changing the employment relationship of our personnel from state to private sector contracts. The changes involved have neither hampered customers, nor have there been any major interruptions to services.

Operations have proved to be flexible in the Group's new form as a limited company. All the goals which had been set relating to incorporation were implemented during the Group's first year. This has significantly improved the ability both of the Group and of its subsidiary companies to face the increasing challenges brought about by open competition.

The operating result of the PT Finland Group for 1994 was good, around FIM 980 million (before taxes and a single pension fund transfer of FIM 308 million). Contributory factors underlying this result were a strong upswing in the national economy and new services, especially the favourable trend in sales of mobile communications services. Furthermore, the rise in costs caused by increased volumes remained at a reasonable level. This also contributed to our good performance.

Around FIM 360 million of the profit will be used for dividends and taxes, FIM 200 million of this sum will be paid by

subsidiaries as Group contributions. The profit is also sufficient for us to develop operations and make necessary investments. Group solvency remains good.

The Group's major trend of development in 1994 was internationalisation and the year saw a major expansion in international activities. Whilst most of our international partnership companies are so young that they are still at the basic investment stage, they nevertheless made an overall positive contribution to the Group result in 1994.

One of the Group's major goals was to maintain the high level of technology. Development was also favourable in this field.

As a whole, 1994 saw PT Finland Ltd and all its business subsidiaries - Finland Post Ltd, Telecom Finland Ltd, Avancer Ltd and PT-Automotive Services Ltd - successfully adapt to their new corporate form and the changing market climate.

I would like to thank the personnel of all companies within the PT Finland Group for their good work in 1994. Our combined efforts - which should certainly not be underrated - have helped us lay a solid foundation for the future.

I would also like to thank our customers for their confidence in our ability to produce modern, high-quality, reasonably priced telecommunications and transport services. Your confidence inspires us to work harder than ever for the benefit of all our partners.

Pekka Vennamo  
President and CEO

The PT Finland Group is a communications group providing postal and telecom services. These services are produced and developed by two of the Group's subsidiaries, Finland Post Ltd and Telecom Finland Ltd. Avancer Ltd, which provides data processing services, and PT-Automotive Services Ltd, which provides vehicle leasing, maintenance and repair services, consolidate the Group's structure. PT Finland Ltd is the Group's parent company.

PT Finland Ltd is a limited company owned fully by the Finnish State. The company began operations on 1.1.1994 when it took over the business of the Posts and Telecommunications of Finland. At the same time, the Finnish P&T's assets were transferred to PT Finland Ltd and the PT Pension Fund, operative from 1.1.1994. PT Finland Ltd incorporated its operations on 1.1.1994.

The incorporation of the Finnish P&T saw a continuation of developments to make our business more market-oriented. This process had started during the Finnish P&T's four years as a State business enterprise. Being a limited company enables faster,

more flexible decision-making processes and improves customer-oriented operations. Incorporation also enhances the prospects of PT Finland Ltd in the face of increasing competition in the postal and telecommunications business.

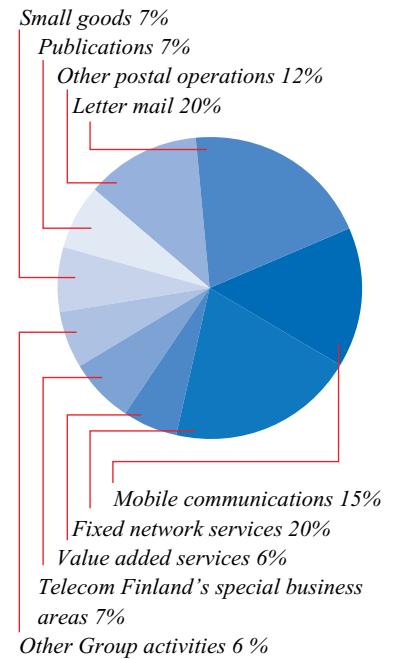
**Business philosophy**

The PT Finland Group is Finland's leading company in the postal and telecommunications sector. It operates competitively and enterprisingly in the changing communications and transport markets, where success depends on customer-oriented operations and a constant ability to innovate.

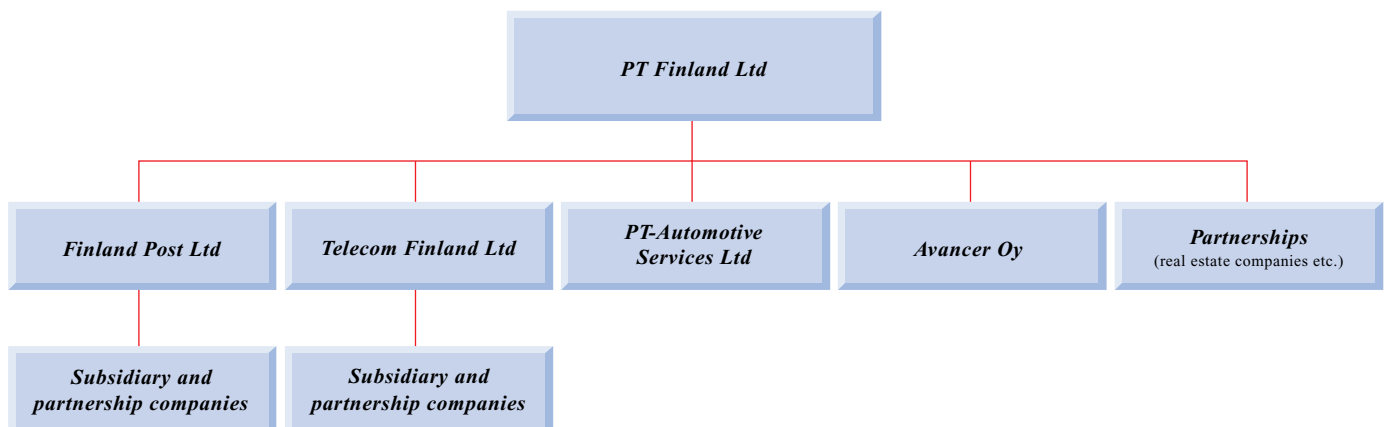
The Group companies utilise their top-quality expertise, acquired in domestic operations, in their international business. For their part, foreign activities strengthen and benefit basic operations at home.

The activities of the PT Finland Group promote social prosperity and the customers' interest, by providing services which rank among the best in the world at a reasonable price.

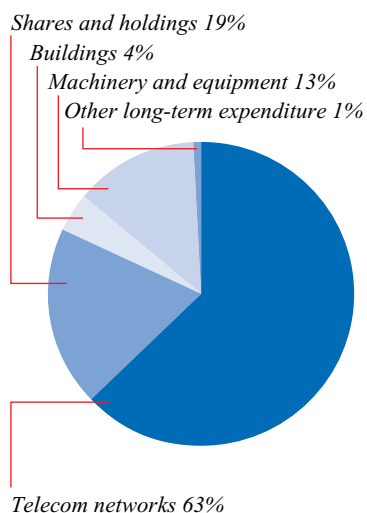
**Net sales by product division 1994**



**PT Finland Group**



**Investments by assets 1994**



**PT Finland Ltd**

PT Finland Ltd consists of the Group Administration and the Board of Directors. The company is responsible for the goals set by its owner for the Group's business. Furthermore, the company is responsible for the Group's strategic management and dealing with the Group's centralised functions, in particular finance and a uniform personnel policy.

As the Group's parent company, PT Finland Ltd decides Group structure, which it is responsible for developing, and monitors and assesses the practicality of operation as regards Group structure. PT Finland Ltd seeks to ensure the operating conditions of subsidiaries in both the short and long term.

The entire Group's financing, with regard to the capital, money and foreign exchange market is focused on the Group Finance Unit, a business support unit. Finance operations ensure the group has adequate liquidity. The PT Pension Fund is one of the Group's sources of finance.

Personnel administration ensures that the Group has a skilled and enthusiastic staff, capable of team work. Recruitment activities are dealt with centrally using an individual group employer's association model.

**Business operations**

**Finland Post Ltd** is Finland's leading conveyor of information and small goods and articles. Its customers consist of all Finnish households, companies and organisations. Finland Post's core business sectors are letters, direct marketing, transporting small goods, conveying publications, and providing banking services. The company is responsible for producing the basic services relating to postal traffic and for ensuring that these are available throughout the country. Finland Post has international connections to around 200 countries.

**Telecom Finland Ltd** is a national telecommunications company providing a full range of telecommunications services,

**Group performance highlights**

	1994	1993	Change %
<b>Net sales, MFIM</b>	9 801	9 711	1.0
<b>Operating margin, MFIM</b>	2 529	2 666	-5.1
<b>Operating margin, % of net sales</b>	25.8	27.4	
<b>Result after financial items, MFIM</b>	1 162	936	24.1
<b>Balance sheet total, MFIM</b>	9 977	10 320	-3.2
<b>ROI, %</b>	16.0	13.7	
<b>Equity ratio, %</b>	73.7	64,0	
<b>Gross investments, MFIM</b>	1 925	1 733	11.1
<b>Personnel at end of financial year</b>	33 191	33 202	

*The calculation of financial ratios appears on page 47.*

acting as a network operator and producing and providing telecom services to large corporations, small and medium sized companies and consumer customers. Telecom Finland's business sectors are fixed network services, mobile telecommunications services, value added services and special business areas. Telecom Finland has numerous partnership companies abroad which are expanding their operations.

**PT-Automotive Services Ltd** carries out competitive vehicle operations, which ensure uninterrupted transport services for Finland Post and Telecom Finland throughout the country.

**Avancer Ltd** is a data processing company providing consultancy, application and operating services in its specialist fields.

Customers of Avancer Ltd and PT-Automotive Services Ltd include both companies and public administrations.

The PT Finland Group also practices its activities in numerous Finland Post and

Telecom Finland subsidiaries and partnership companies, in Finland and abroad.

**Board of Directors of  
PT Finland Ltd 1.1.1995**

**Sakari Salminen**, Chairman, Counsellor of Industry

**Markku Talonen**, Deputy Chairman, President and Chairman of the Board of Directors of Instrumentarium Oy.

**Liisa Joronen**, Chairman of the Board of Directors of SOL Siivouspalvelu Oy

**Johannes Koroma**, Managing Director of the Confederation of Finnish Industry and Employers

**Pekka Vennamo**, President and CEO of PT Finland Ltd

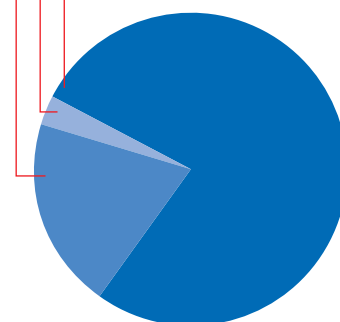
**Corporate management of  
PT Finland Ltd**

**Pekka Vennamo**, President and CEO

**Pekka Luukkainen**, Executive Vice President

**Personnel by sector as at 31.12.1994**

Telecom Finland 20%  
Other companies 3%  
Finland Post 77%



**Group performance highlights 1994**

	<i>Net sales MFIM</i>	<i>Operating margin MFIM</i>	<i>Operating margin, % of net sales</i>
<b>PT Finland Ltd</b>	163	47	28.8
<b>Finland Post Ltd subgroup</b>	4 854	448	9.2
<b>Telecom Finland Ltd subgroup</b>	5 041	1 927	38.2
<b>PT-Automotive Services Ltd</b>	315	91	28.9
<b>Avancer Ltd</b>	133	18	13.5
<b>Intragroup sales</b>	-705		
<b>PT Finland Group</b>	9 801	2 529	25.8



**Aulis Salin**  
**President and CEO**  
**Telecom Finland Ltd**

*Telecom Finland has played an important role in the "know-how cluster" consisting of various telecommunications companies and organisations.*

***A Year of Changes***

For Telecom Finland Ltd, 1994 was a year of significant changes. The ongoing opening of competition reached all the way to our traditional foundations - long-distance and international calls. From the business point of view, this meant a reduction in excess of half a billion Finnish marks in our net sales. However, the total reduction in net sales amounted to only 200 million marks as we were able to recoup most of our losses through increased income from other services, notably mobile telephony.

Another reason for our satisfactory result in 1994 was the fact that, already at the beginning of the decade, we had adjusted the number of our personnel to meet the impending competitive situation. All of us at Telecom Finland can take pride in the results we have achieved and in the fact that we, alone of all the telecommunications companies in this country, have adapted ourselves to open competition in our traditionally strong areas. Our net sales will show a clear growth already in 1995.

1994 will also pass into history as Telecom Finland's first year of operation as a limited company, and as a year of strong growth in our international activities.

***Top products at reasonable prices***

The structures and operational modes of telecommunications in Finland differ radically from equivalent systems elsewhere in Europe. Since the commercialisation and internationalisation of telecommunications,

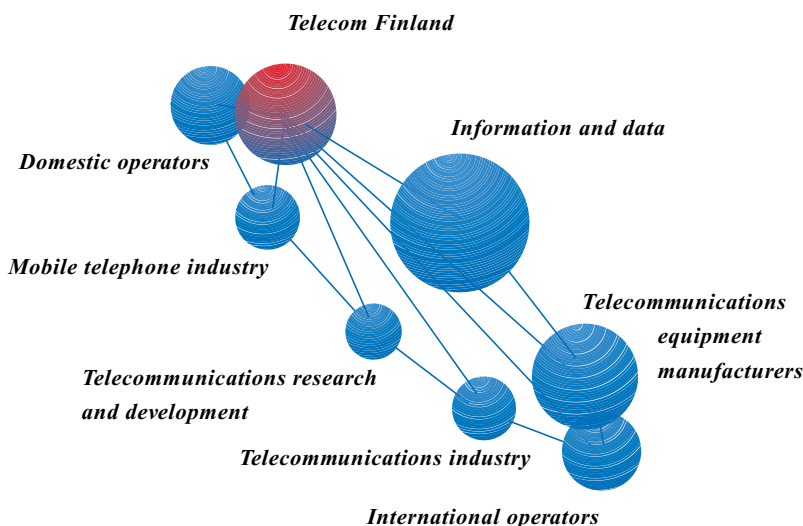
together with Finland's membership in the European Union, will strongly affect the Finnish telecommunications market later in this decade, it is worth examining the situation today.

It is no exaggeration to say that Finnish customers are offered top class telecommunications services at reasonable - even extremely economical - prices. Furthermore, the customers have a wide choice between competing telecommunications services; something thus far rare in the rest of Europe.

In the field of mobile telephone services, Telecom Finland is recognised as a pioneer in Europe and around the world. The mobile phone penetration rate in Finland and the rest of the Nordic countries is still the highest in the world. This early development in mobile telephony gave the Nordic equipment manufacturers a head start which they have skilfully turned into a competitive edge as the mobile market has become globalised.

Network digitalisation, which will present many new opportunities in basic telephone services, has advanced steadily and will encompass even the most remote areas in the next few years. Alongside the digitalisation a strong growth is taking place in voice and data based value added services as well as broadband services. One characteristic of the Finnish telecoms market is the offering of tailor-made service packages to corporate customers. Acute awareness of customer requirements is increasing in importance as a competitive factor.

In the future, too, Finland will rely on high-quality, moderately priced telecommunications services. The outlook is good, but the commercialisation and internationalisation of telecommunications, together with new technological developments, present us with major new challenges. The ongoing integration of telecommunications, computer technology, information and entertainment services will eventually create a completely new kind of communications infrastructure. This will also enable the transfer of several new types of information services - in the form of voice, text, images or data - as an integrated service package, and through a single distribution channel, to companies as well private households.





### ***Added growth from international markets***

Until recently telecommunications services everywhere have been provided on a national monopoly basis. We are currently moving through a transition period, towards competitive, international telecommunications service markets. Telecom Finland has strived to participate in the opening of new markets in its neighbouring areas. We are shareholders in the national telecommunications companies of Estonia and Latvia, as well as in several mobile telephone companies in North-West Russia and the Baltic countries. In Sweden we have started marketing services modelled after our Finnish service concepts, which will initially be offered to national companies with international operations.

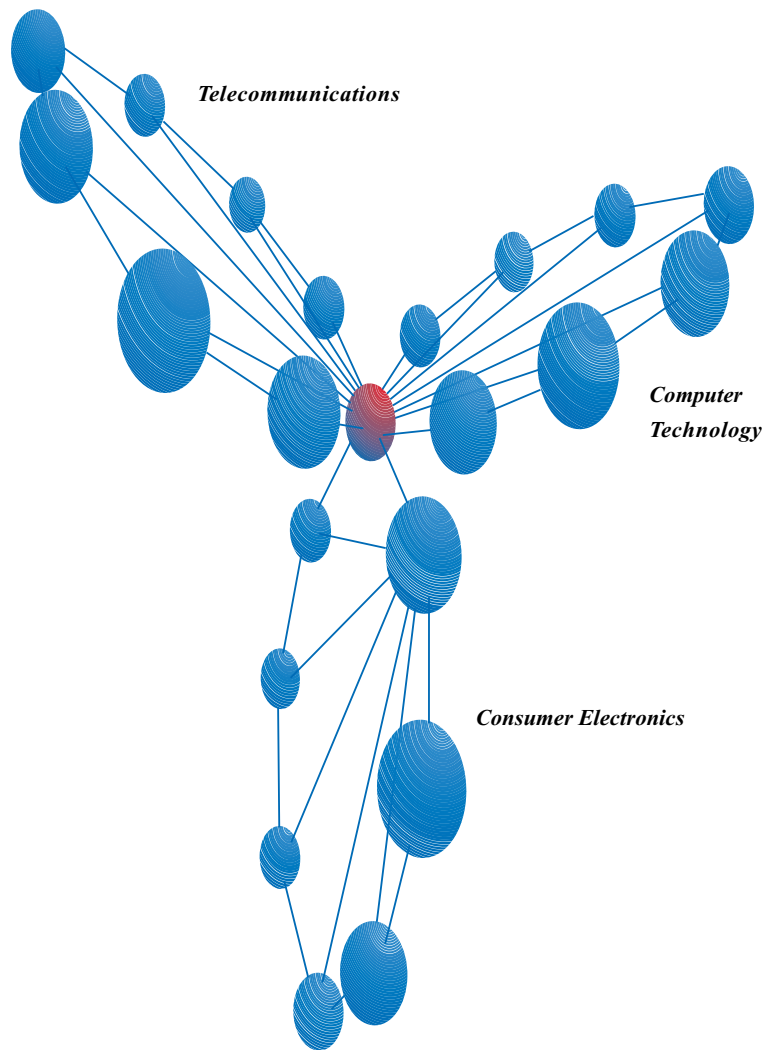
Telecom Finland also has ventures in areas further from Finland. With the exception of our Brussels office, they are all based on the export of mobile telecommunications expertise. The Brussels office is a bridgehead into western Europe, where it markets Telecom Finland's services in a manner similar to our Swedish concept.

The experiences gained so far from international operations and export activities have been encouraging. There is a clear demand for our expertise. Outside the areas adjacent to Finland, we will proceed with mobile network operations and with advanced solutions, specifically targeted for advanced markets.

### ***Finland a forerunner in competition***

For many decades, the situation in Finnish telecommunications was exceptional compared to the rest of Europe. In addition to the nationally operating, state-owned PTT - today's Telecom Finland Ltd - the most densely populated regions of Finland have had their own local, subscriber-owned telephone companies. This led to the birth of duopoly type competition in the mid-1980s, first in data transmission, and eventually in almost every area of telecommunications.

In terms of open competition, 1994 was a significant year. Competition has now been extended to all voice services in the fixed network. In mobile telephony, vigorous



competition began with the introduction of GSM service. The competition also works in practice: Finnish subscribers can freely select the network through which they make their long-distance, international or mobile calls.

The only significant service in Finland with limited competition is local telephony. Problems concerning access networks, the portability of subscriber numbers, and the owner-user relationships in local telcos, are powerful obstacles to open competition. The speedy introduction of full competition would bring many benefits to Finnish companies and households.

Telecom Finland's position in the international market place would also be enhanced if local competition were introduced in Finland earlier than in the other EU countries. In reality, the introduction of competition within a reasonable time frame will inevitably require adopting the principle of Open Network Provision, as well as eliminating the other restrictive factors mentioned earlier.

Having joined the EU at the beginning of 1995, Finland is now one of the co-developers of a European model in tele-

***Technological development will lead telecommunications towards closer integration with the computer and communications clusters. At the same time the traditional divisions will change according to choices made in the market place.***



**Juhani Korpela**  
**Secretary General**  
**Ministry of Transport and**  
**Communications**



**Matti Purasjoki**  
**Director General**  
**Office of Free Competition**



**Jorma Ollila**  
**President and CEO**  
**Nokia Corporation**

*“Telecommunications holds a key position in the information society, as stated in the Bangemann Report published by the EU Commission. Sound competition is the only guarantee of success in establishing an information society. Competition ensures that the services offered are of high quality and cost-efficiently produced. Finland has already passed the deregulatory phase in which many EU countries are today struggling. Now we must focus on the increased development of different kinds of services. Telecom Finland plays an important role in telecommunications both within Finland and in the international arena.”*

*“Finland is a forerunner in European telecommunications deregulation. It seems clear, however, that the EU Commission is striving to implement even more open competition, even faster than before.”*

*“The telecommunications cluster is one of the growth areas in Finnish industry. The opening of domestic competition has helped Nokia create increasingly efficient, customer oriented products, which have succeeded in international competition.*

*Close, confidential cooperation between the equipment manufacturers and telecommunications operators benefits Finnish customers by offering them better, more versatile telecommunications services.”*

communications competition. Finland's unique telecoms features will eventually decrease in scale. Telecom Finland regards the competitive model being developed by the EU as positive and believes that it holds great international potential. We believe our expertise and development potential to be sufficient to help us maintain our position as Finland's leading telecommunications company, and to continue our strong internationalisation in selected market segments.

***Growing importance of skilled, quality conscious personnel***

We provide our services through increasingly intelligent networks. At the same time our business development is orienting itself more and more towards customers and markets. Our services will in the future be more versatile and will bring more value to the customers. All of these changes ask for new capabilities and increased self-development from the personnel of Telecom Finland.

In the future more and more of our customers will be located in southern or western Finland, or in other countries. Meeting the challenges of the future with our present personnel means that many more Telecom Finland employees will have to move to new locations.

For the personnel of Telecom Finland, the basic challenge will be to maintain their present levels of income while increasing customer satisfaction in all customer segments. These goals can be met when every employee performs his/her tasks in the best possible way while also renewing and developing the work processes where he/she is involved. In particular we must increase our capabilities for cooperation, in order to utilise Telecom Finland's strengths to the fullest degree and thus serve our customers even better than before. We have already come a long way - Telecom Finland is in many ways regarded as a model enterprise, both in Finland and internationally.

Aulis Salin  
President and CEO

# Telecom Finland Organisation

## Organisation of Telecom Finland Ltd 1.1.1995

Telecom Finland's organisation consists of four business divisions, a sales and marketing division, and a unit which develops and coordinates the company's international ventures. Each business division forms a unified strategic entity. The divisional directors are responsible

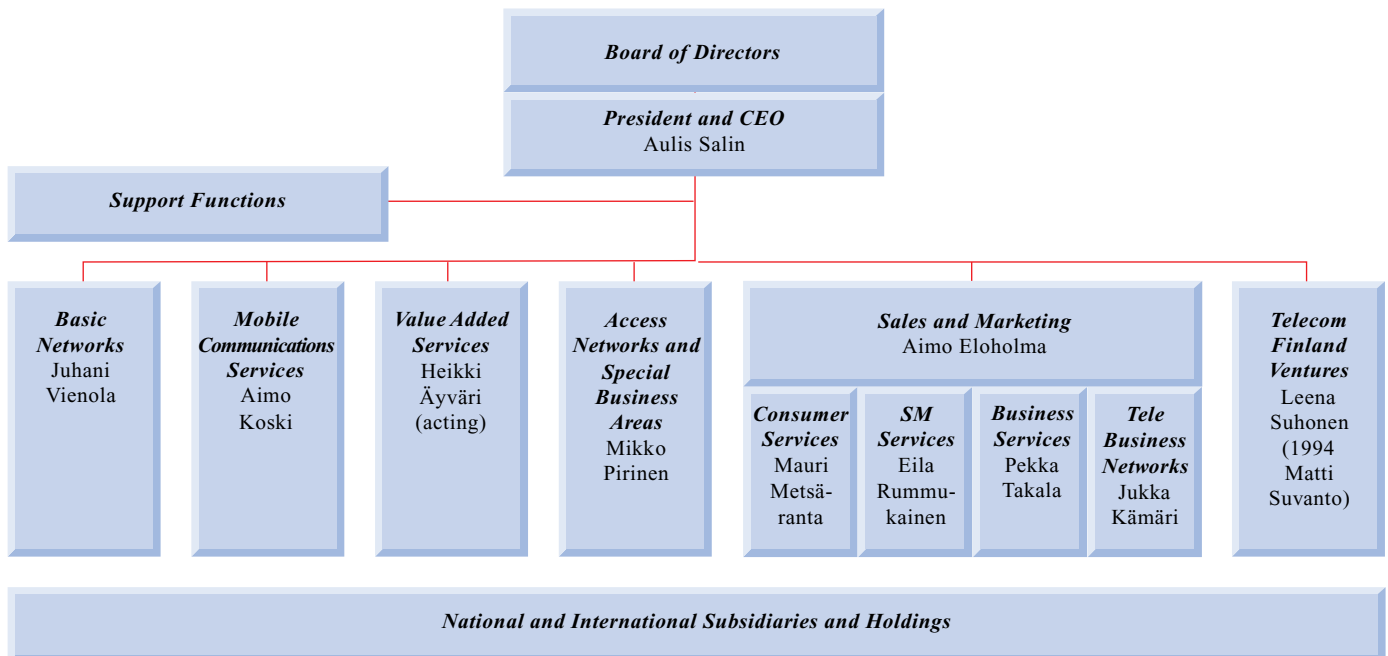
for strategic development of the division's main market segments, both in Finland and internationally.

The four business divisions are: Basic Networks, Mobile Communications Services, Value Added Services, and Access Networks and Special Business Areas.

Telecom Finland's subsidiaries and joint-stock companies carry out business

operations in various market segments.

Telecom Finland operates as a matrix organisation, where the processes of the various business divisions are integrated with the processes of marketing units and the international operations unit Telecom Finland Ventures.



## Largest subsidiaries and holdings of Telecom Finland Group

### Subsidiaries:

Yritysverkot Oy (Tele Business Networks)  
 TYV Tele Yritysviestintä Oy (Tele Business Communications)  
 Mobitele Oy  
 Infonet Finland Oy  
 Systek Oy  
 Lippupalvelu Oy (Ticket Services)  
 Telecon Oy  
 Telecom Finland International N.V./S.A.  
 Easy Call Ermes Hungary Rt  
 Tele Balti A/S

A/O Fintelecom  
 Telegate Sweden AB

### Holdings:

*National:*  
 GSM-Viestimet Oy  
 Suomen Keltaiset Sivut Oy (Yellow Pages Finland)  
 Transmast Oy

### International:

Baltic Tele AB  
 - Eesti Telefon A/S

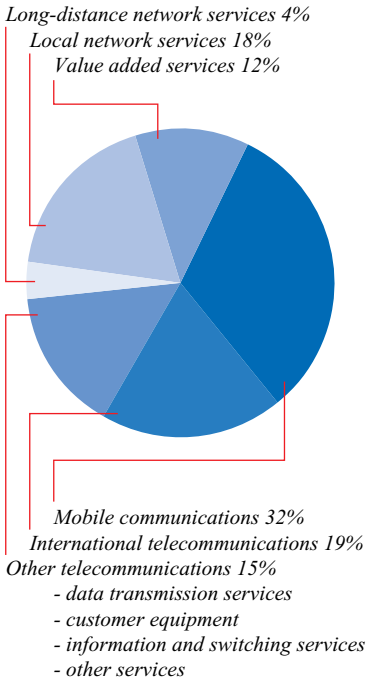
Esdata AB  
 Estonian Paging Ltd  
 Estonian Mobile Telephone Co.  
 Latvian Mobile Telephone Ltd  
 Lenfincom  
 North-West GSM Ltd  
 Tele-North Ltd  
 Türkcell İletişim Hizmetleri A.S.  
 Tilts Communications A/S  
 - Lattelekom Ltd

### Others:

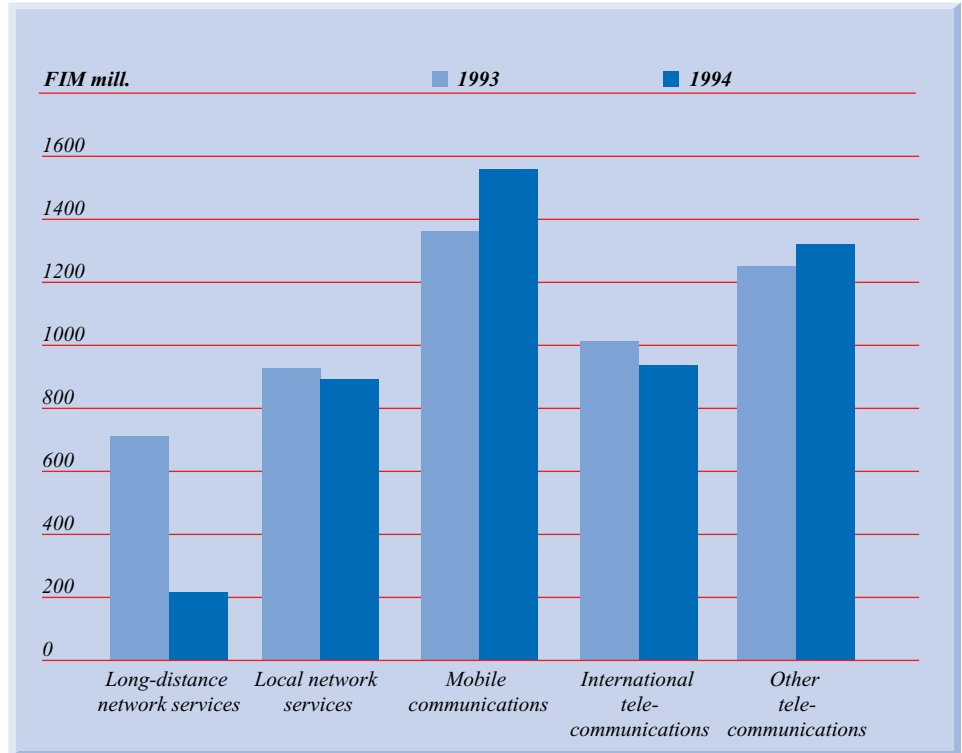
Pannon GSM

## National Comparisons

### Business distribution of Telecom Finland Ltd



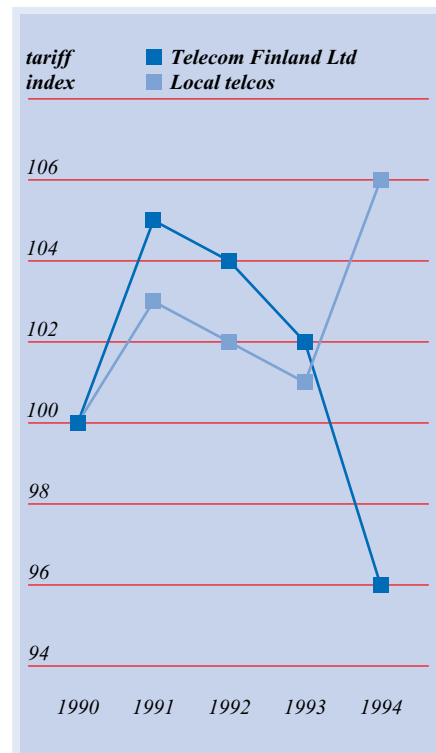
### Distribution of net sales of Telecom Finland Ltd 1993-1994



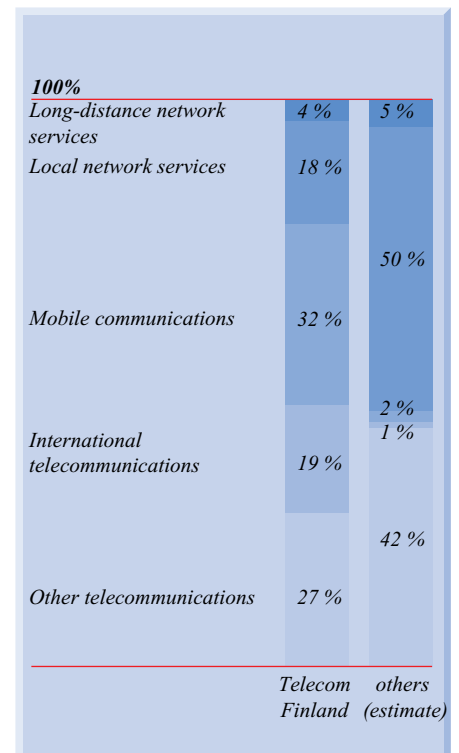
### Telecom Finland Ltd key figures 1994

Net sales, FIM mill.	4 927
Profit after financing items, FIM mill.	610
Investments, FIM mill.	1 555
Fixed assets, FIM mill.	4 116
Balance sheet total, FIM mill.	5 872
Operating margin, % of net sales	38
Return on investments (ROI), %	15
Investments' internal-financing ratio, %	120
Equity ratio, %	62

### Comparison of local call prices in Finland 1990-1994 (real tariffs)

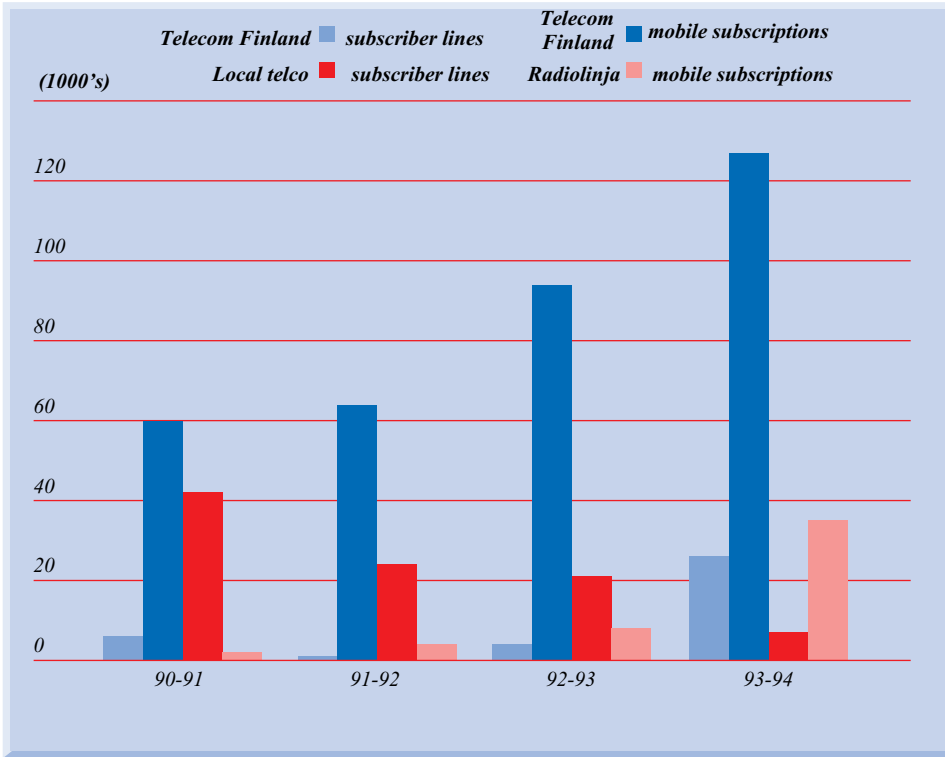


### Estimated distribution of telecommunications operators' total net sales 1994

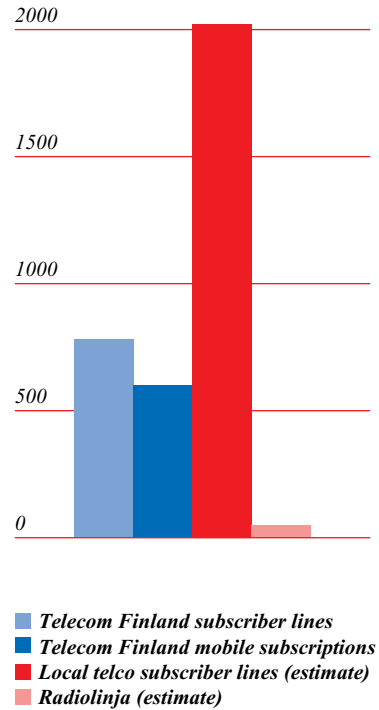




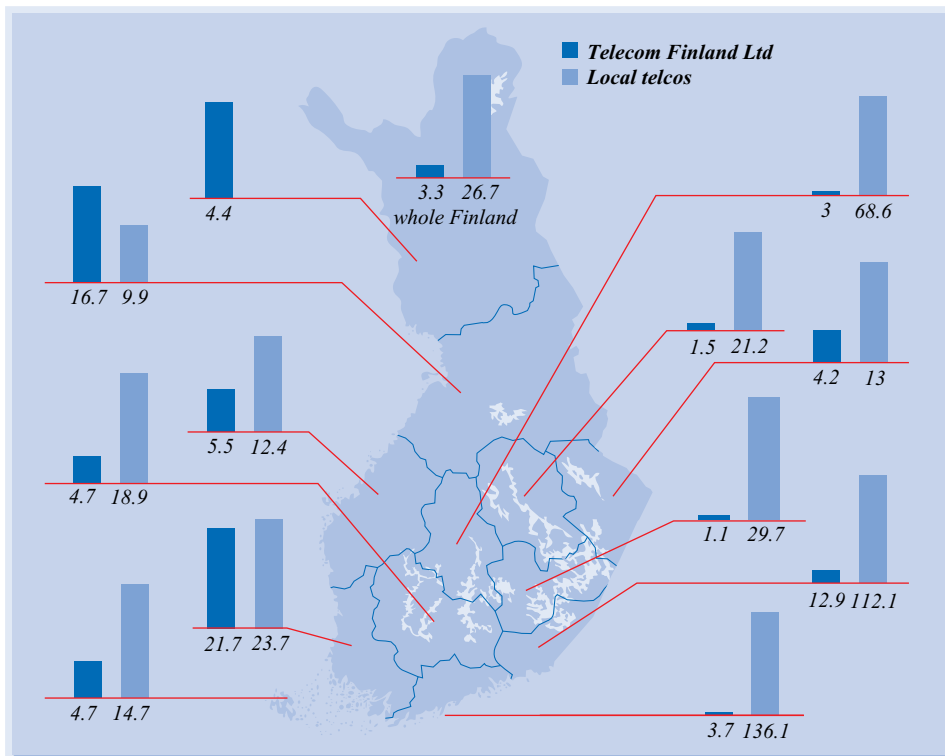
Volume and development of subscriber lines in Finland 1990-1994



Volume of subscriber lines 1994 (1000's)

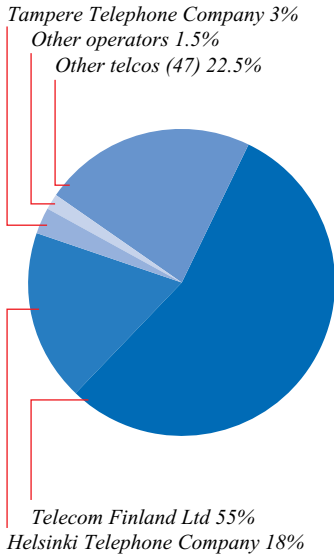


Subscriber lines / km<sup>2</sup> in Finland 1993

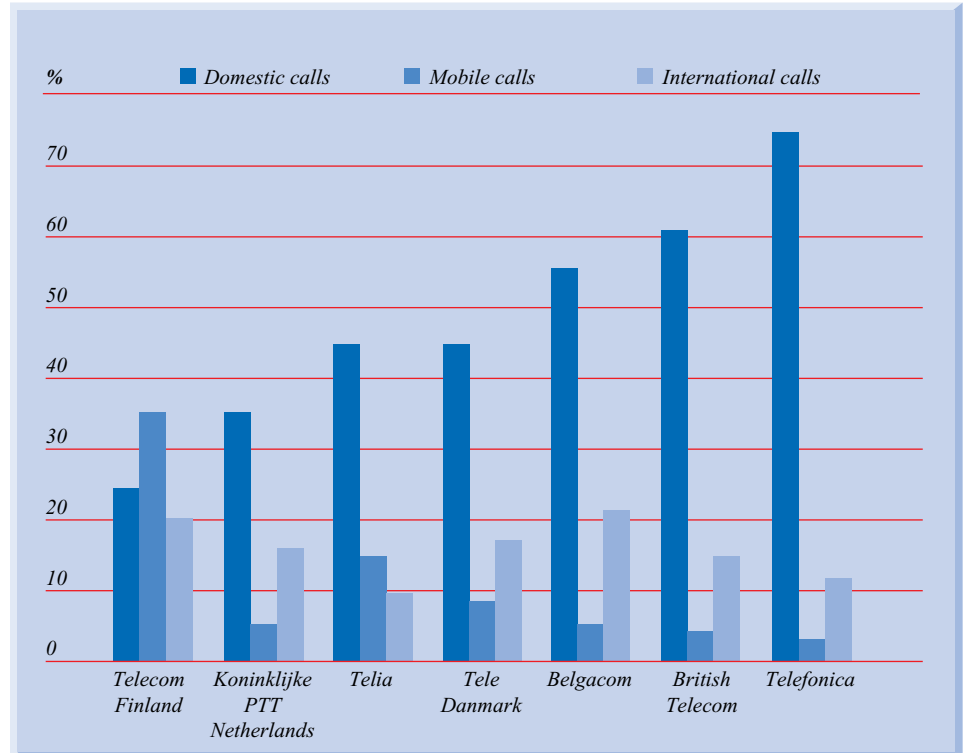


## National and International Comparisons

**Estimated market shares of Finnish telecommunications operators 1993**  
(total market value FIM 9290 million)

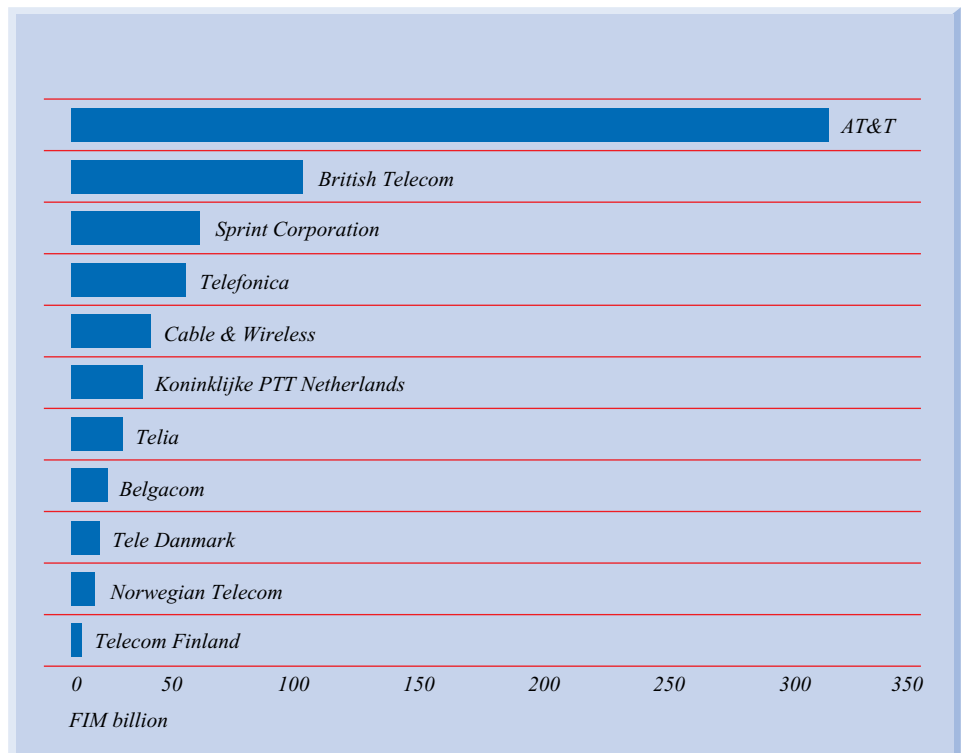


**Revenue structure of some international operating companies**



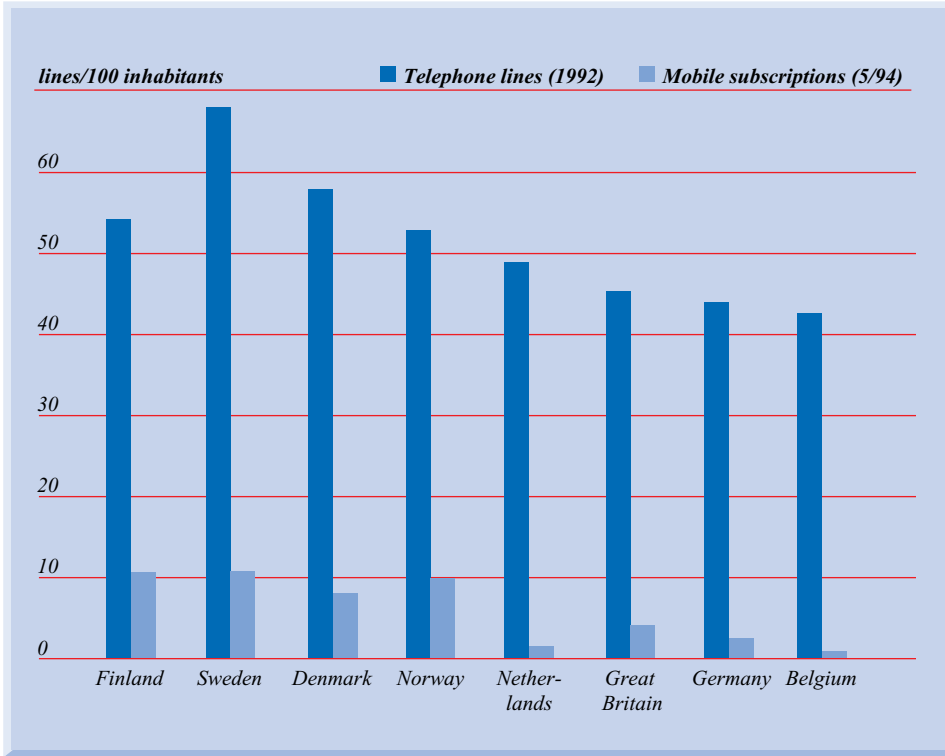
(source: James Capel Telecoms in Europe November 1994)

**Net sales of Telecom Finland Ltd compared to some international operators 1993 (FIM billion)**



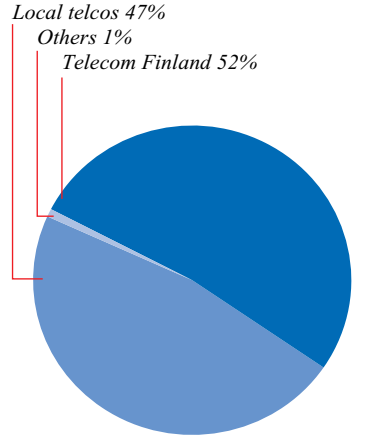
(source: MDIS Publications December 1994)

**Penetration of telephone lines and mobile subscriptions in some countries**

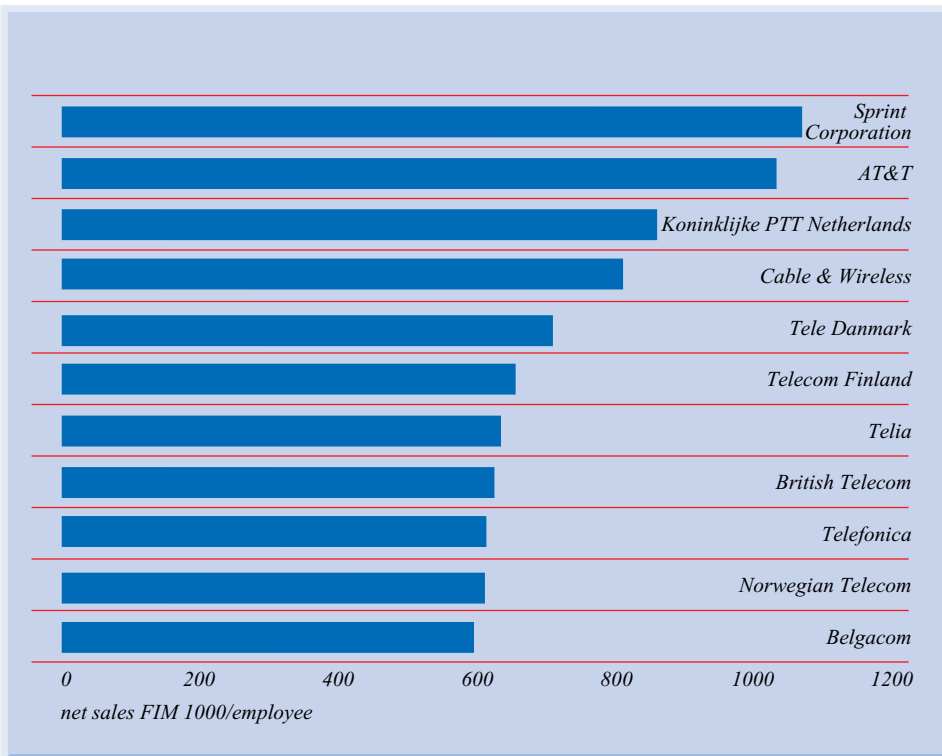


(source: LM Telecommunications Statistics 1994)

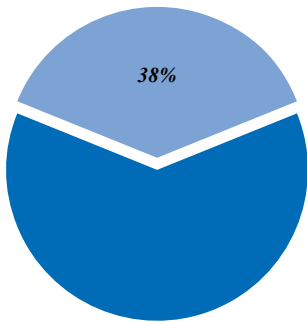
**Estimated market shares of telecommunications operators in Finland 1994**



**Net sales/employee of Telecom Finland Ltd compared to some international operators**



Share of Consumer Services  
in total net sales of  
Telecom Finland Ltd



### Consumer Services in brief

#### **Calls:**

Local calls

Long-distance calls

International calls

Mobile calls

#### **Messaging services:**

Voice mail

Paging

Pocket Number

Digi-Plus services

Telemessage

NMT Voicemail

#### **Other products and services:**

Subscriber lines

Pocket Connection

Finland Direct

Public telephones

Telecom Finland phone cards

Service numbers and number  
enquiry services

Telegram services, printed  
messages, express messages

Electronic mail

Cable TV

Directories

Service and maintenance

### **Advanced services for more and more consumers**

Telecom Finland offers its consumer customers basic telephone services for domestic and international requirements. In 1994, basic telephone services accounted for almost 80% of all telecoms services purchased by consumer customers.

Nationally, Telecom Finland provides local call services in all the areas where it has built local networks. So far, local services have been offered in a limited way in the local telcos' operating areas, as constructing the necessary access networks is both cumbersome and, at present price levels, too costly to be justified. Telecom Finland hopes to see the obstacles to open competition removed as soon as possible, so that consumers and entrepreneurs around Finland will be free to choose the services and service providers they prefer.

Today, consumers are not content with basic telephone services alone. Customers often also need to stay accessible, to be able to receive messages or to make mobile calls when travelling in Finland or abroad. To fulfil these needs, Telecom Finland offers customers a public phone booth network, mobile telephone services, paging, voice mail, Pocket Number, Pocket Connection and various combinations of services. With the help of Telemedia products, consumers can conveniently purchase various expert, advisory etc. services. Already more than two-thirds of all mobile phones are bought for residential use and demand for mobile phones is growing constantly.

### **Added versatility**

The consumer market is undergoing a significant change. The mobile phone is becoming the primary telephone and fixed subscriber lines are used more and more for purposes other than receiving or making phone calls.

Computers have become increasingly common in private households. Many customers are already able to access various global databases and electronic mail systems

via Telecom Finland's networks. The range of services offered to consumers is growing constantly. At Telecom Finland one development area has been multimedia services, which combine the possibilities offered by television, computers and telecommunications networks. Through multimedia customers can access, select or purchase numerous products and services in entertainment and other areas. This development depends on the ready availability of adequate phone and cable TV capacity for the service providers. In this area, Telecom Finland has an opportunity to create special expertise which will be in demand also outside the domestic market place.

### **A year of improved customer care**

Telecom Finland invests vigorously in improved customer care. The goal is to make it as easy as possible for customers to deal with Telecom Finland. Toll-free numbers such as 9800-11011 enable customers to contact Telecom Finland around the clock, every day of the year.

Special attention is paid to the speed, quality and cost efficiency of customer care and services. The employees are trained to provide optimum solutions for various customer needs. Telecom Finland strives to establish good, long-lasting relations with its customers.

### **Increased market presence benefits customers**

At the end of 1994, Telecom Finland's share of the residential subscriber market was around 40%. This was clearly greater than the company's share of local subscriber lines. Telecom Finland's goal is to have one Finn out of every two as its customer by the year 2000.

By the end of the year, Telecom Finland had established local telephone services in eight cities which had formerly been served by local telcos. These cities are Helsinki, Turku, Tampere, Lahti, Mikkeli, Kuopio, Oulu and Pori.

The number of Telecom Finland mobile



subscribers is already almost the same as the number of local subscriber lines. In 1995, mobile subscriptions are expected to continue their strong growth and to surpass the number of local subscribers.

Telecom Finland has a sound reputation in the development and commercialisation of new high-tech solutions and services. Telecom Finland was the first company in the world to introduce successful new services such as its 9700 premium rate numbers. As a national operator, the Company also has the technological and human resources necessary to carry out adequate research and development.

**Quality services through concentrated marketing**

Telecom Finland's services and related products such as telephones, mobile phones, fax machines, answering machines and phone cards are distributed through TeleRing

stores and numerous other electronics stores under franchise or resale agreements. At the end of the year the TeleRing chain comprised 31 stores around the country. Of these, 14 were owned by Telecom Finland while the others operated according to franchising principles. Franchising has proved to be a successful mode of operation.

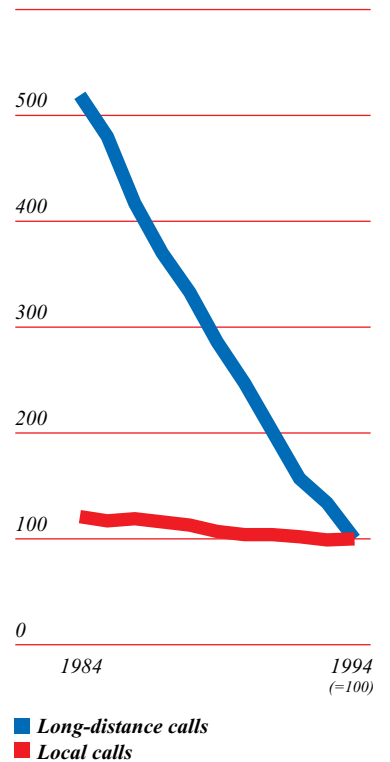
Cable TV services are offered by Telecom Finland in many cities and smaller communities. Telecom Finland is the country's second largest cable TV operator.

Customers needing to contact someone, or wishing to forward messages, are assisted by Telecom Finland's information and operator services. As telecommunications systems grow ever more versatile, the users will require more and more supplementary services. Customers using advanced systems will be offered various advisory and help-desk services, software and consumer electronics products.



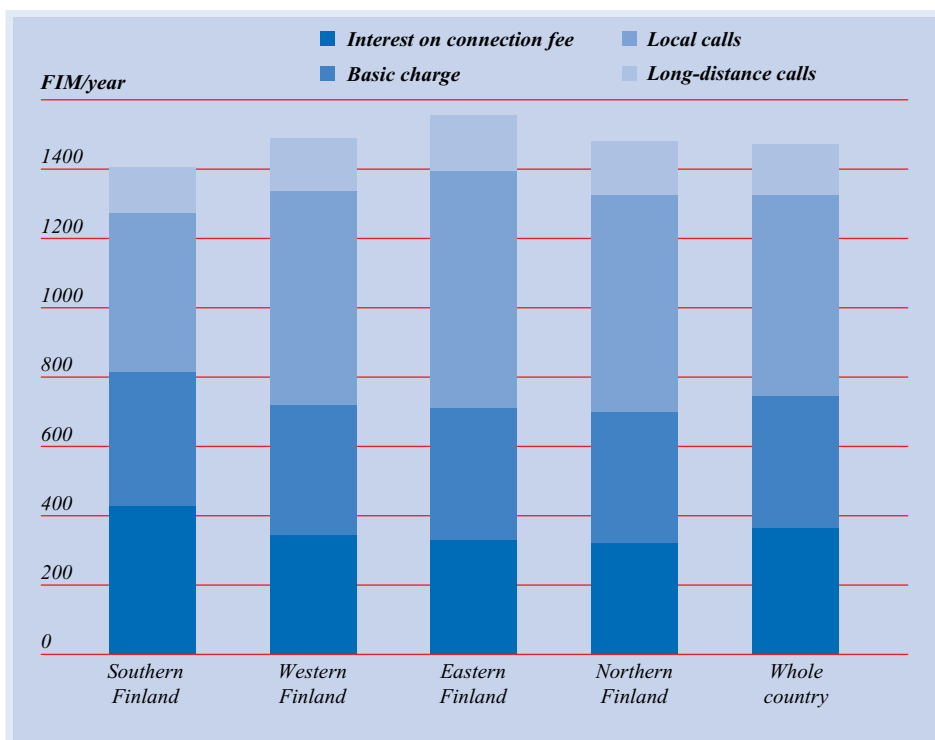
*Telecom Finland's public phones are found around the country e.g. in R-Kiosks, railway stations and trains, post offices, Neste Kide service stations and Cumulus hotels.*

*Price trends of long-distance and local calls at fixed prices in 1994 (3-min. call)*



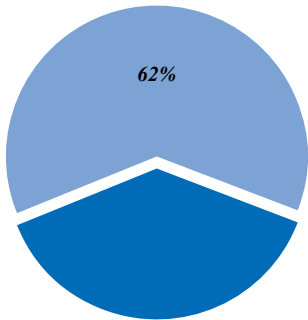
*The prices of long-distance calls have declined by approx. 80% since 1984. At the same time local call prices have declined by approx. 15%.*

*Annual costs for fixed subscriber line of a typical residential customer*

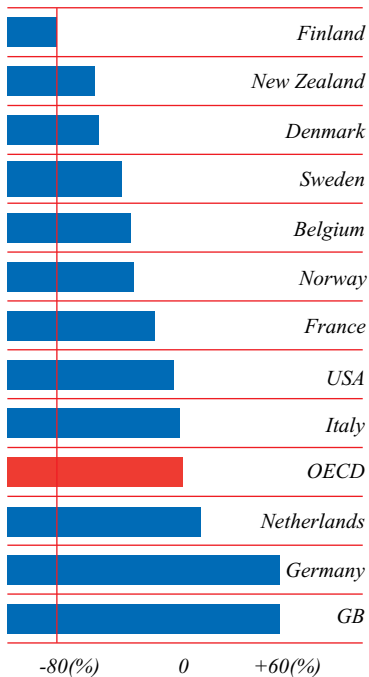


(source: LM Publications V 9/95 Price level of Finnish telecommunication tariffs 1994)

**Share of Business Services in total net sales of Telecom Finland Ltd**



**Price comparison of packet switched data transmission in some countries**



*(source: OECD basket price comparison January 1994)*

**The OECD basket price comparison in January 1994 showed that Finnish companies can utilise the most economical data transmission prices in the world.**

***Serving companies and entrepreneurs***

Telecom Finland has provided systematic service to large corporations for many years in the areas of voice and data. In addition to cost efficient basic services, the company has successfully created service packages, tailor-made to meet specific requirements, which enhance the business processes of the client corporations. In their telecommunications solutions, more and more customers look for the kind of quality and reliability made possible by the latest technology and new network architectures.

***Telecommunications as part of business routine***

Telegate is a concept for companies developed by Telecom Finland, whereby a company's business processes and related telecommunications functions are considered as a whole. Together the customer and Telecom Finland specify the required telecoms services and implement them in a cost efficient way. Telegate services include many network services and data transfer services such as DataNet, Datapak, FastNet, PBX systems and voice services. At the leading edge stands ATM, Telecom Finland's data transfer technique for interconnecting corporate LAN networks.

Privatel service connects mobile phones



to corporate exchanges so that the mobile phones operate as extensions of desk-top phones, with abbreviated dialling. Privatel, one of the company's spearhead products, is proof of the need of companies to integrate mobile and fixed line communication.

Companies are also offered several intelligent network services, such as Corona international call service, by which an internationally located company's calls to Finland or other destinations are billed according to Telecom Finland's low prices.

***Focus on interactive services***

Telemedia services are based on the latest creative possibilities offered by telecommunications. Through Telemedia, companies can enhance their corporate processes.

Telemedia services are developing at a fast pace. Services based on the use of the telephone are today supplemented by new elements such as open networks, graphic terminals, fast connections to service suppliers' data banks, and interactive TV applications which bring totally new dimensions to home television.

Today Telemedia includes numerous interactive services by which a company can handle its customer care, subscription service or marketing, while enhancing its own accessibility. Telemedia also makes it possible to create new business activities, for example with separately priced telephone services (0220-, 0600- and 0700 numbers). Using these services a company can distribute its information products via the telecommunications network while Telecom Finland takes care of the users' billing in a

***The Tapiola Insurance Group offers its customers a national service number, with callers paying only the cost of a local call. An intelligent network routes calls to the nearest Tapiola office or, in case the number is engaged, to another office.***

cost efficient way.

Telecom Finland's market share of separately priced calls is approximately 70% in the intelligent network and approximately 90% in 0800 services.

Telemedia also includes fax, conference and E-mail services, as well as TeleSampo, Telecom Finland's electronic market place which enables customers equipped with a PC and a modem to access numerous electronic information and entertainment services, including the immensely popular Internet.

**Beyond the home market**

As Telecom Finland's customers grow increasingly international, network and service solutions must correspondingly be extended to areas beyond the Finnish market place. Telecommunications services have, by nature, always reached across national boundaries. In Finland, such services have been provided by Telecom Finland in both voice and data communications.

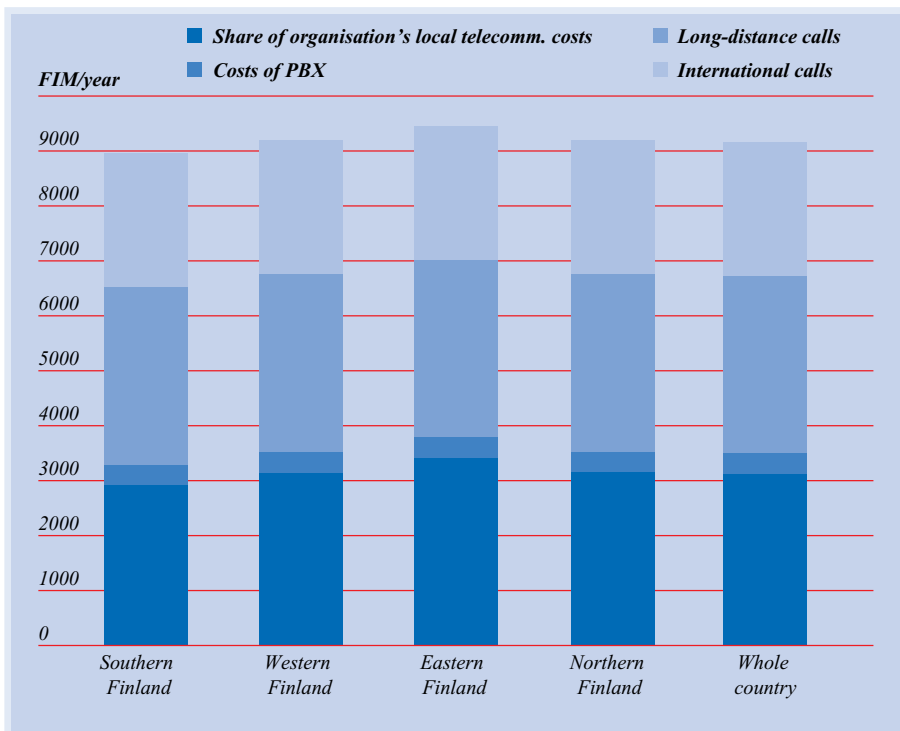
Telecom Finland markets its business services particularly in areas important for Finnish companies: Sweden, Central Europe, the Baltic countries, St Petersburg and Moscow.

To ensure global service coverage, Telecom Finland works closely with numerous international operators. For several years already, the company's partner in high-quality data communication has been the American Infonet Corp., for whom Telecom Finland has also developed advanced products for use around the world. Joint service agreements with other partners are also under discussion.

**Market leader in private branch exchanges**

1994 saw a turnaround in the long stagnant market for private branch telephone exchanges (PBXs). In the middle of the year, Telecom Finland delegated all PBX business to its subsidiary, Tele Business Communications.

*Annual fixed line network costs of a typical business customer*



(source: LM Publications V 9/95 Price levels of Finnish telecommunication tariffs 1994)

**Examples of business-to-business services**

**Telemedia services:**

Service numbers by which companies can handle their product billing along with their phone bills (9600, 9700, 0200, 0600, 0700)

Service numbers with low call thresholds (e.g. toll-free 9800, 0800)

Personal and automatic telephone services.

Fax services

Conferencing services

E-mail services

TeleSampo electronic market place

**Telegate services:**

Local and long-distance calls

Vipgate

FastNet

DataNet

Datapak

Privatel for interconnection of mobile phones and PBXs

PBX systems (Meridian, ISDX)

Text transmission services

**Other services:**

RValve surveillance system

Mobinet radio services

Mobitex and Euteltracs for communication in moving vehicles

Inmarsat satellite service,

including worldwide Messenger service

Maritime VHF



*One of the year's new products was a billing system based on equal monthly instalments, which specifies the billing according to call type categories.*

In the second half of the year, Telecom Business Communications achieved the position of market leader in the delivery of PBXs. This was aided by the improved market environment, more closely focused sales activities, the excellent products imported by Telecom Finland, including Northern Telecom's Meridian exchange and GPT's ISDX exchange, and a concept utilising both exchange and network characteristics. This concept included the nationwide corporate telephone numbers first taken into use in 1994. Telecom Finland's market share in PBXs was almost 50%.

***Better products for small and medium sized companies***

Based on the results of wide ranging market research, Telecom Finland started developing telecommunications solutions specifically designed for the needs of small and medium sized (SM) companies. A new solution introduced during the year, known as SM Tele-solution, was well received. The concept provides SM companies with a flexible, tailor-made service entity.

The success of the new approach is pointed out by improved sales figures and the fact that Telecom Finland's present SM customers have a markedly more positive attitude towards the company than non-customers.

Telecom Finland's wide range of prod-

ucts and services is supported by product development, which utilises proven service concepts created for large corporations.

***SM sector aims to increase market share***

Taking into account local, long-distance and mobile calls, Telecom Finland's share of the national SM market in 1994 was around 60%. This was considerably greater than the company's share of local subscriber lines. The aim is to increase this share even further.

Most of the telephone traffic in SM companies consists of local calls. Telecom Finland's share of local calls in Finland was 28%. Even though the monopolies of local telcos act as a major restraint to free competition in local networks, Telecom Finland aims to increase its local market share considerably. To do this, Telecom Finland will extend its services to new areas, above all to the eight designated industrial and urban centres where, thanks to its telex, data and large volume customers, the company already has a partly ready infrastructure.

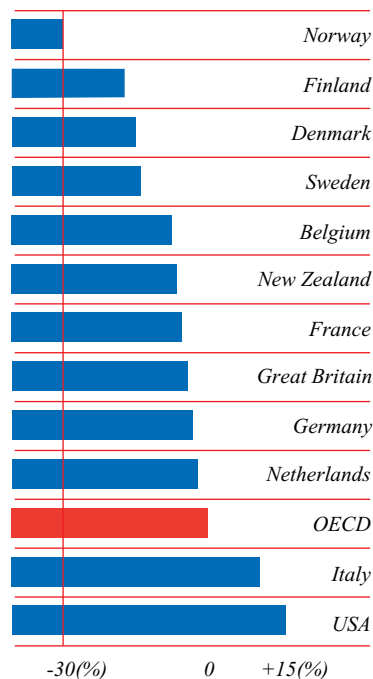
At the same time, Telecom Finland also intends to maintain, or even increase, its present market shares in its traditional operating areas. In these areas, Telecom Finland maintains a solid position as a service supplier for large volume customers. The growth will centre on offering services specifically geared to the needs of SM companies. Here, the greatest potential is seen in data transfer and mobile telephone services.

***Best choice for business customers***

Companies where data is vital for business and needs to be transferred in large quantities, can realise great savings in their telecommunications expenditures.

By optimising the possibilities offered by modern telecommunications, companies can gain large savings in other costs, as resources are released for operations related directly to business.

**Price comparison of international calls in some countries**



(source: OECD basket price comparison January 1994)

***The OECD comparison showed that companies in Finland were offered the second lowest international call prices in the world. The same study showed Finland to rank sixth lowest in terms of domestic call prices.***

Telecom Finland's services make it possible to create new service functions or business activities, based entirely on telecommunications. Toll-free 0800 numbers make it easy for customers to contact companies. Premium rate 0600 and 0700 numbers enable a wide range of variously priced services which are invoiced through Telecom Finland's regular phone bills.

### ***Big changes in markets and commerce***

During 1994, the competitive factors governing basic telephone services changed radically. The effect of new operating licences in local, long-distance and international calls was felt most strongly in the corporate market. It also had a direct effect on the prices of basic telephone services, which are generic in nature.

In the first half of 1994, the prices of long-distance calls fell by almost 50% on average. In international calls, the reduction was considerably smaller, averaging 5-10%. In local calls, the effect of competition on call prices will be seen in the next few years, as the last obstacles to real competition are hopefully removed.



Product differentiation and development, and understanding the requirements of business customers, have become important competitive factors. Active, correctly timed selling and well-controlled distribution channels must also be added to the list.

### ***Specific targeting produces results***

Telecom Finland has targeted its products successfully to the industrial sector. One reason has been the decentralisation of Finnish industry around the country, which has given a competitive advantage to the nationally operating Telecom Finland. 1994 was marked especially by the strong internationalisation of Finnish industry, together with a major increase in export activities. Compared to its competitors, Telecom Finland is excellently positioned to serve Finnish export companies.

A significant proportion of Finnish public administrations, in particular the State administration, are customers of Telecom Finland. These customer relations have even grown stronger. In the municipal sector, Telecom Finland's success has not been as marked. However, the ongoing changes in municipal operations and services are considerably enhancing the company's position as a service provider for this sector.

In banking and commerce, structural changes, coupled with Telecom Finland's success in these sectors in recent years, present added possibilities for increased market shares.

***Telecom Finland offers its customers around-the-clock accessibility.***

***Outokumpu Ltd utilises many services provided by Telecom Finland. The group's national operations - and in the future its international ones - are all connected to the same corporate network.***

### ***Examples of services for small and medium sized companies***

*Telesolution for SM companies*

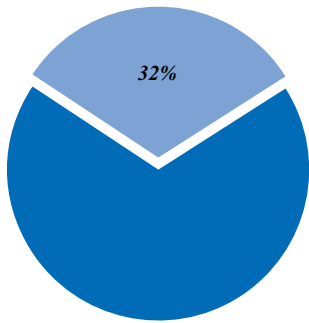
- local, 101 long-distance, 990 international and mobile calls
- rationalised billing
- discounts according to payment method and call volume

*Other services:*

- Tele Pocket Number
- Pocket Connection
- Personal Contact Number
- Personal Contact Fax
- SM Connection
- Paging services
- TeleSampo
- E-mail
- Telecard
- 0800 and 0700 services
- Phone and video conferencing
- Fax services
- Voice mail
- Data services



*Share of Mobile Communications Services in total net sales of Telecom Finland Ltd*



***Telecom Finland's mobile communications services***

*Mobile telephone services*

- *ARP*
- *NMT 450*
- *NMT 900*
- *GSM*

*Paging services*

*Mobile satellite services*

- *Inmarsat*
- *Euteltracs*

*Mobinet*

*RVALVE*

*Mobitex*

*Maritime radio services*

***Forerunner in mobile communications***

Telecom Finland is a forerunner in mobile communications, and the only company in Finland offering a full range of mobile services. The last twenty years have seen the creation of four mobile telephone networks: ARP, NMT 450, NMT 900 and GSM. Telecom Finland has played a pioneering role in the development of all these networks.

The most significant mobile products are Nordic NMT services and the global GSM network. These are complemented by Telecom Finland's advanced paging, satellite and dedicated network services.

***Record growth in all networks***

1994 was a record year in the sale of mobile phone subscriptions, with over 150,000 new customers joining Telecom Finland's networks. Almost two-thirds of this growth took place in the NMT networks, while the remainder opted for Telecom Finland's GSM. At the end of the year, Telecom Finland counted over 600,000 customers in its mobile networks. The most popular of the mobile networks was NMT 900, which counted over 350,000 customers, while NMT 450 counted almost 200,000.

Especially strong growth was seen in GSM, where the number of customers increased almost six-fold from the previous year. At year's end, Telecom Finland commanded a 60% share of the Finnish GSM market.



***Success through cooperation***

From the beginning, Telecom Finland's model for developing its mobile communications services has been based on cooperation with mobile equipment manufacturers, importers and sales organisations. Telecom Finland's NMT-GSM Expert dealers, in tight competition with other dealers, vigorously market mobile phones and NMT-GSM subscriptions and services in almost all urban centres. Cooperation between Telecom Finland and the Expert dealers, based on mutual respect and joint goals, has continued for over ten years. New forms of cooperation are found in keeping up with the market trends.

Telecom Finland has procured its mobile network systems and equipment from the leading mobile manufacturers: Nokia and Ericsson. Joint efforts with manufacturers have also supported the global success of the industry as a whole. The Finnish telecommunications cluster owes its existence to the cooperation between Telecom Finland, the industry and the private marketing sector.

***Customer satisfaction first and foremost***

The customers form the basic foundation of Telecom Finland's mobile operations. The company's mobile telephone products and services, subscriptions and supplementary services, are designed to fulfil - even surpass - the customers' expectations.

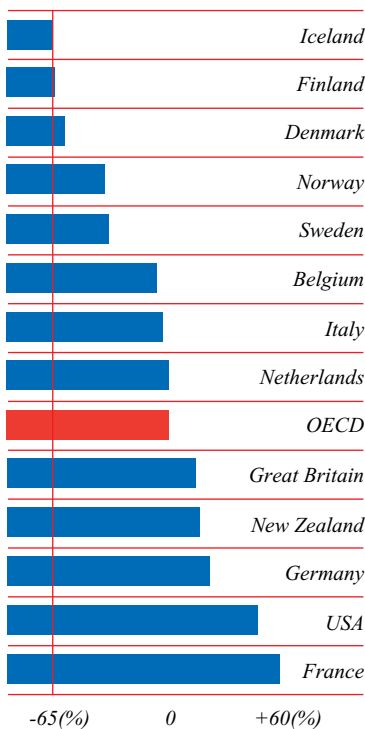
Telecom Finland monitors the needs and satisfaction of its customers, as well as the quality of its network. Constant efforts are made to develop and improve the mobile network operations. Telecom Finland's GSM network has, from the beginning, been designed for handheld phones. Today, almost 100% of all new GSM phones are handheld models.

Another point of focus has always been the quality of customer care. The skills and efficient information systems of Telecom Finland's customer care personnel ensure

***GSM offers secure, flexible voice and data transfer services.***



**Comparison of mobile call prices in some countries**



(source: OECD basket price comparison January 1994)

**The OECD basket price comparison showed Finland to have the second lowest mobile call prices in the world.**

### **Private users a strong growth sector in 1994**

During the twenty-year history of mobile communications, the number of subscribers has grown immensely. At the same time, the customer profile and calling habits have also changed. The early users of mobile phones were company managers and professional people whose main interest was to save time. In the last few years, private users like students, pensioners and housewives have discovered the mobile phone. Already more than half of all new subscribers are private individuals. The accessibility and freedom afforded by mobile phones are seen as positive values, making life easier and more comfortable.

Among the young people, mobile phones are already surpassing fixed-line phones in popularity. The increased use of mobile phones by private subscribers owes itself to cheaper phones, better services, and economical call prices. In Finland, the prices of mobile calls are among the lowest in the world.

At the end of 1994, the number of subscriptions in Telecom Finland's mobile phone networks exceeded 600,000, an increase of one third from the previous year. Of the new mobile phones, over 90% were handheld models, now also available also for the NMT 450 network. Companies and entrepreneurs still comprise around 75% of all mobile phone users, but today two out of every three mobile phones are bought for private use. Clearly, the mobile phone is becoming a key means of communication for private individuals. Studies show that, in 1994, some twenty per cent of all working-



age Finns used a mobile phone in their work duties or leisure activities. Finland's mobile phone penetration rate of around 14 per cent is among the highest in the world.

### **Value added corporate services**

Telecom Finland develops and markets many value added services designed to enhance corporate activities. One example is Privatel service, by which a company's mobile phones are connected to its central exchange as extension numbers. Besides lowering costs, this enables the use of abbreviated dialling numbers. Other useful corporate services are Call Forwarding, Voicemail, Secretary Services and Corporate Cell which improves mobile reception within a company's premises. In 1994, Telecom Finland also introduced the transfer of text and data via mobile phones.

Corporate requirements direct increased input towards tailor-made solutions. When developing services for the future, Telecom makes more and more use of intelligent network technology - an area where it is one of the world's leading operators. One application of the future is the wireless office. Already today, Telecom Finland's mobile clientele includes companies who have replaced their traditional fixed-line exchange with a mobile solution.

### **Trend from fixed lines to mobile**

Today, the development is pointing increasingly towards mobile communications and personal communication systems. More and more often, the same mobile phone serves people equally at work and in their leisure activities. As a result, the distinction between mobile phones used at work or at leisure is growing less clear. In the future, everyone will have their own, personal means of mobile communication - a mobile phone. Time will tell whether the term telephone will one day simply refer to mobile phones.

**Inmarsat satellite services provide global coverage.**



**Telecom Finland's international mobile roaming agreements**

(brackets indicate areas without agreements where use is already possible)

**NMT 450:**

Sweden, Norway, Denmark, Iceland, Estonia, Latvia, Lithuania, (Poland, St Petersburg, Moscow, some neighbouring areas of Russia)

**NMT 900:**

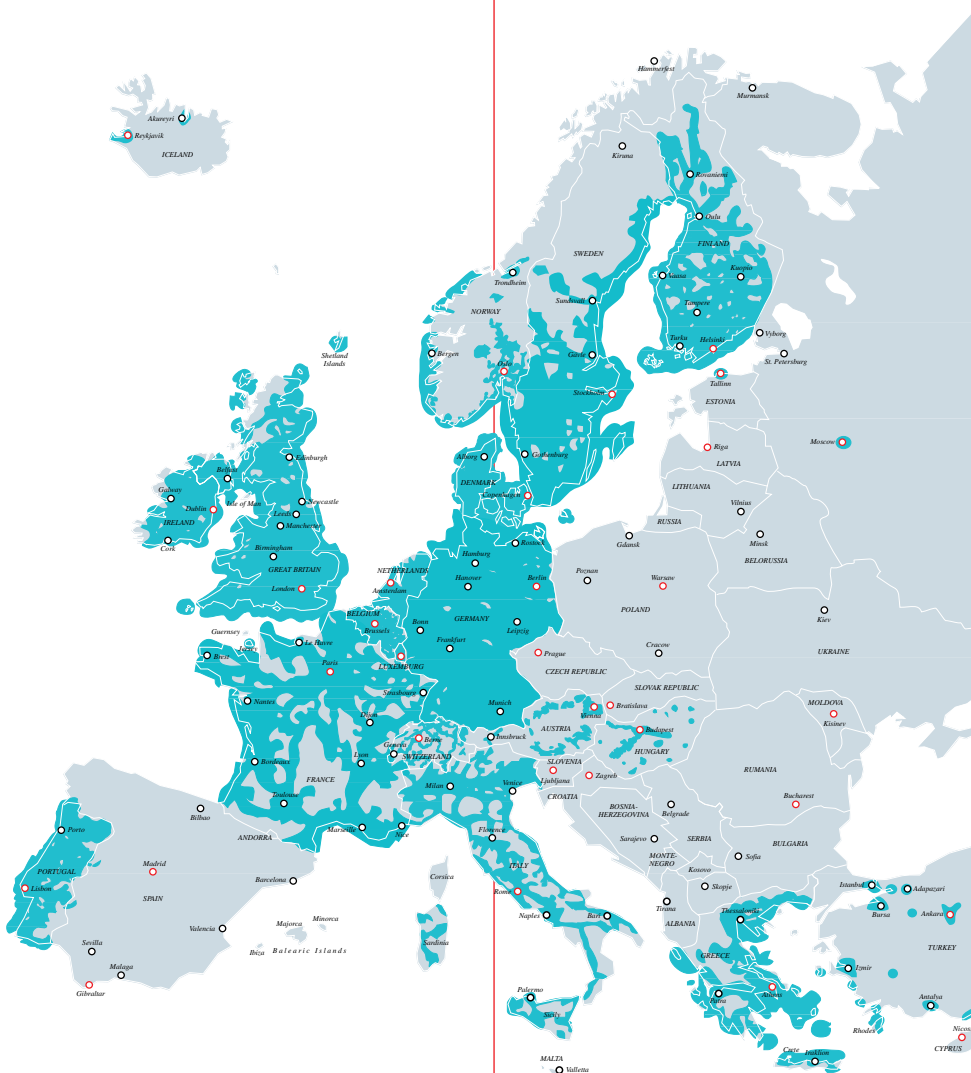
Sweden, Norway, Denmark, Switzerland, Holland, Estonia, (Greenland)

**GSM:**

Europe: Netherlands, Belgium, Ireland, Great Britain, Italy, Austria, Greece, Latvia, Luxembourg, Norway, Portugal, France, Sweden, Germany, Switzerland, Denmark, Turkey, Hungary, (Russia/St Petersburg), Estonia

Other countries: United Arab Emirates, Australia, South Africa, Hong Kong, Singapore

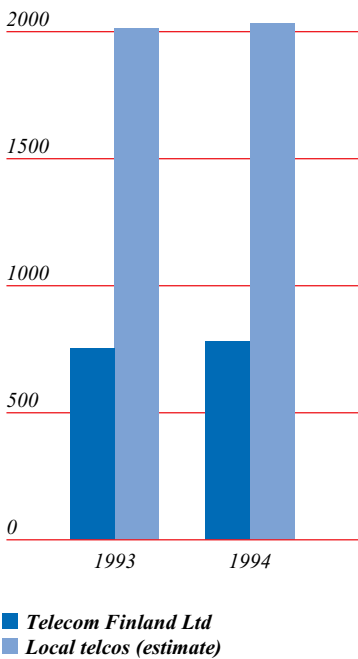
Coming soon: Spain, Philippines, Indonesia, Iceland, Kuwait, Cyprus, Lebanon, Lithuania, Malaysia, Morocco, Qatar, Thailand, New Zealand



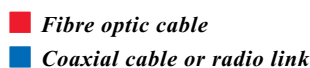
**GSM coverage according to plan, July 1994. The coverage area shown depicts total operator coverage, not inter-operator roaming agreements.**



**Telephone subscriber lines of Telecom Finland Ltd and local telcos (1000's) 1993-1994**

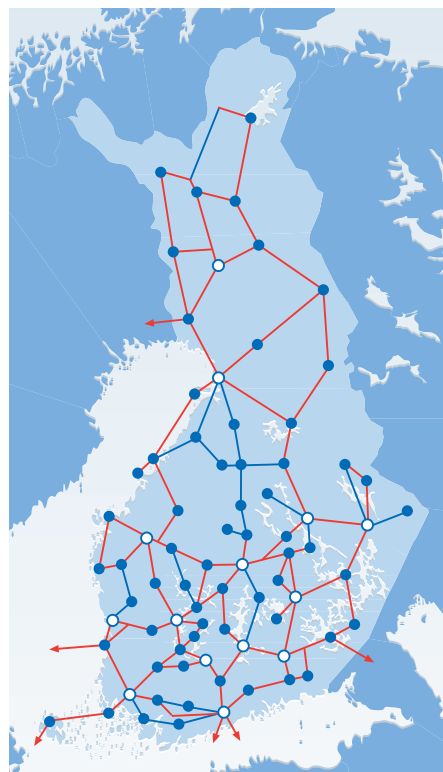


**Telecom Finland's basic network 1995**



**Broadband networks - new information infrastructure**

When information is processed in digital form, it can be transferred via digital networks. This decade has seen the start of a change reaching deep into corporations and society as a whole, centering around the new infrastructure for information, communication and entertainment: the broadband telecommunications network. The changes are as momentous as they have been in physical transport during this century: the transition from steam trains to motor vehicles and road transport changed the structures of industry and society. Competing railway operations merged with each other, a highway infrastructure was built for the use of everyone, thousands of new companies were created for transporting people and goods. The transport sector became user oriented: the motor car was born. Similar trends are now seen in telecommunications network infrastructures.



**Network digitalisation on schedule**

Digitalisation of Telecom Finland's long-distance network was completed by the end of 1993, as scheduled and, by the end of 1994, 84% of the subscribers were connected to digital exchanges. Telecom Finland's network will be digitalised completely by the end of 1996, making it possible to offer every customer narrowband digital services like itemised billing, call forwarding, call waiting and individual service agreements. ISDN will also become available to everyone. In 1995, Telecom Finland will offer ISDN connections to a narrow customer segment.

**Digital networks into broadband**

Telecom Finland's network is going broadband. In 1994, broadband SDH technology was extended to the major urban areas, and in 1995 it will cover the whole country. SDH enables the introduction of the Information Superhighway, with its fast ATM (asynchronous transfer mode) services. In autumn 1994, Telecom Finland became the first operator in the world to introduce a commercial ATM network. Initially, ATM is used for corporate connections, but later it will be offered to other customers also. Telecom Finland's broadband network utilises fibre optic cables, which already cover the whole country. During 1994, Telecom Finland installed 2,500 km of fibre optic cable, bringing the nationwide total to 13,000 km of optical cables containing 160,000 km of optical fibre.

**Customer oriented services via intelligent networks**

Modern, computer-controlled production is capable of cost-efficient, customer-oriented mass tailoring. In telecommunications networks, this type of customer-specific computer management is known as an intelligent network platform. Telecom Finland's intelligent network is based on a unique, multi-vendor environment which makes it possible to offer services more developed than those found in a single-

vendor environment.

Services based on intelligent networks include, as an example, corporate virtual networks connecting a company's offices, toll-free or premium-rate telephone numbers such as 0800-1, 0600-1, 0700-1 etc., and various calling card and messaging services. In addition to generic intelligent networks, it is also easy to implement customer-specific services like information and banking, or services designed for small and medium sized companies. In the future, customers can tailormake service packages that suit them the best.

**Centralised network management: better service, efficiency, quality**

Telecom Finland has centralised the management of its networks to the Network Management Centre, located in Jyväskylä. The Centre supervises the operation of Telecom Finland's digital transmission systems and exchanges, with fault control

and repairs carried out on a round-the-clock basis. In case of network faults, automatic double-securing reroutes transmission traffic past faulty network sections.

In network maintenance, Telecom Finland has raised its cost efficiency by 10% through the development of expert systems. Centralised collection of service information became possible in 1994, and in 1995 the billing information, too, can be centrally collected.

Through high quality network management, Telecom Finland is able to offer companies reliable, efficient services in voice and data.



*Telecom Finland's networks, both in Finland and in neighbouring areas, are managed centrally by the Network Management Centre, located in Jyväskylä.*

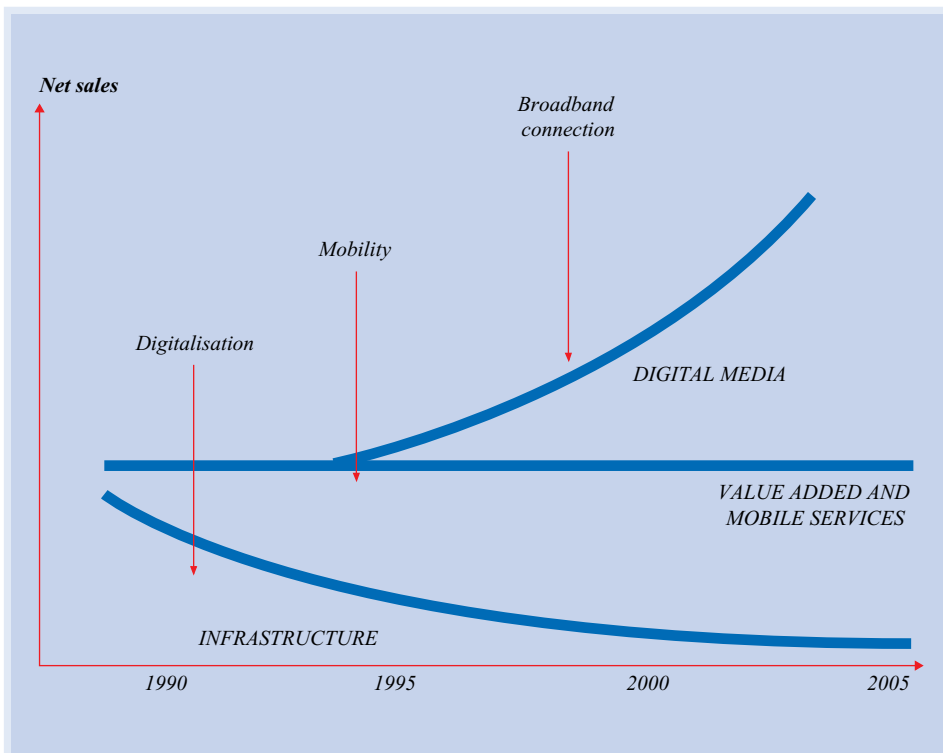


*Most of Telecom Finland's local network customers live in rural areas. Despite the low penetration rate of local subscriber lines, Telecom Finland's local calls are priced similarly to the urban telcos.*



*In 1994 Telecom Finland installed 2,500 km of fibre optic cable, bringing the nationwide total to 13,000 km of optical cables containing 160,000 km of optical fibre.*

**Variations in value of service products**





*In Turkey, Telecom Finland and a Turkish partner are constructing a GSM network which will initially serve the country's urban areas and main roads.*

### ***Telecom Finland is an international forerunner in many services:***

- *First in Europe, second in the world to offer public interconnection of router based LAN networks*
- *First in Europe, second in the world to offer fast, packet switched Frame Relay*
- *First in the world to provide commercial ATM service*
- *Lowest priced ATM service in the world*
- *First in Europe to offer multiple price 9700 service*
- *First in the world to offer Privatel service connecting corporate exchanges and mobile phones*

### ***Internationalisation speeds up***

In recent years, Telecom Finland has extended its operations to international markets. The main target areas have been the newly emerged markets in eastern Central Europe, North-West Russia and the Baltic countries, and the well developed corporate markets in western Europe. Mobile network operations have also been established elsewhere, namely in Hungary, Turkey and Lebanon.

In the western European market place, Telecom Finland mainly serves corporate customers who have business operations in Finland and western Europe. In neighbouring Sweden, Telecom Finland views the market as an extension of its own, domestic market place.

In addition, Telecom Finland utilises its geographical position and advanced national networks by serving as a gateway for international telecoms operators. Telecom Finland also markets various expert services, business concepts, network planning and engineering skills to its joint venture partners and other companies.

### ***Joint venture concept***

Telecom Finland's model for extending its operations to international arenas has mainly been to establish joint ventures with local partners and other western companies. In total, Telecom Finland has invested approximately FIM 350 million in its international joint ventures and subsidiaries.

Compared in terms of finance and other resources to other international operators, Telecom Finland is a small company. Consequently, the company focuses on projects where the success factors and profitability centre on special expertise. Returns from investments in international companies are sought by transferring Telecom Finland's expertise to these companies, thus adding value to their business operations. The companies are provided with expert services, as well as solutions and technologies related to production, sales and distribution.

The goal for the future is that, by the year 2000, Telecom Finland will derive around one-third of its net sales from international business operations.

### ***Amidst vast new markets***

Telecommunications is the fastest growing sector of commerce in the world. The imposition of free competition within the EU in 1998 will significantly improve Telecom Finland's business possibilities. The value of the European telecommunications market is estimated to be around FIM 600 billion. In terms of technological status, the European market will compete directly with the telecoms and information markets of the United States and Japan. Those markets are characterised by rapid developments in both quality and quantity, and by vigorous competition between rival operators of telecoms and information services. The EU market is an intra-European market in telecommunications as in other sectors, which means that new European players are sure to enter the Finnish telecoms scene. At the same time, Telecom Finland will have the opportunity to enter the deregulated European markets.

In eastern Europe, the introduction of market economy principles has opened up a vast new business area for Telecom Finland as well as other international companies. The main consideration is the building of a new infrastructure. This requires a heavy, long-term investment programme. Establishing business operations in eastern Europe involves relatively high risks, as the rules of market economy have not yet been fully implemented.

The future of telecommunications looks so promising that companies are inspired to make investments and look for business opportunities in the international telecoms market. As the telecoms market is commercialised and as, in Europe, it turns intra-European in nature, companies in the telecoms sector must regard their national operations from an international perspective in order to maintain their competitive positions.



***Basic service in neighbouring areas, mobile and value added globally***

In the developed markets of Europe, Telecom Finland focuses on operations in which it holds special expertise and a competitive edge. Telecom Finland's greatest strengths lie in mobile telephony and advanced corporate services based on Europe's leading network and technology platforms. Other strengths include the commercialisation of new services, as well as the command of customer care and marketing in a competitive environment. Sweden is a good example of how Telecom Finland has set out to expand its home market, by utilising its advanced technologies and offering services equal to those in the Finnish market.

In the Baltic countries, Telecom Finland offers both basic and mobile services, while in North-West Russia the focus is mainly on mobile services. Telecom Finland's competitive edge in these regions comes from their proximity to Finland, coupled with the ongoing busy commercial activities between Finnish, Baltic and Russian companies. The St Petersburg region, in particular, holds



great potential for offering services to corporate customers.

The market for Telecom Finland's mobile services is global. The company offers its mobile services through cooperation with local operators, by providing expertise in operations and business management or, if required, by licensing mobile products.

Success in the international markets requires a strong position in the domestic market. Telecom Finland commands a strong presence, based on its technological expertise, in the Finnish market for mobile services and corporate solutions. The elimination of obstacles preventing free competition in local networks, as planned by the EU, would improve Telecom Finland's competitive position and enhance the company's potential for success in the developing markets of Europe.

***Expertise and experience add value to partnerships***

On a European scale, Telecom Finland has long experience of operating in an openly competitive situation. Telecom Finland aims at establishing long-lasting partnerships. The telecoms sector relies increasingly on alliances between operators, service providers, manufacturers, high-tech companies, finance institutions, investors, and other related companies and organisations.

As the starting point for collaboration with other companies, Telecom Finland holds that joint business operations bring added value to the customers, owners and business partners. Partnerships can be based on joint ownership or on various kinds of cooperation agreements.

***In Latvia, Telecom Finland and Cable & Wireless of the UK are establishing a basic telecommunications infrastructure by constructing a fixed line network and a GSM network.***



***In Hungary, Telecom Finland is involved in the construction of a GSM network and holds equity in an ERMES pan-European paging venture.***



***The gigantic markets of the St Petersburg area are a key investment target of the future.***

*Western Europe*

*Brussels, Belgium*

**TELECOM FINLAND**

**INTERNATIONAL (TFI) S.A.**

*Subsidiary and representative office*

- assessment and consultation of corporate telecommunication services
- implementation and management of corporate network solutions
- value added telecommunication services
- shareholds in joint ventures

*Stockholm, Sweden*

**TELEGATE SWEDEN AB**

*Subsidiary*

- corporate data transfer services
- corporate voice and telemedia services

*Baltic region*

*Tallinn, Estonia*

**ESTONIAN MOBILE**

**TELEPHONE CO.**

*Joint venture of Telecom*

*Finland, Telia of Sweden and*

*Estonian Telephone Co.*

- NMT 450 mobile services nationwide
- NMT 900 mobile services in Tallinn

**ESDATA A/S**

*Partnership*

- corporate telecommunication services

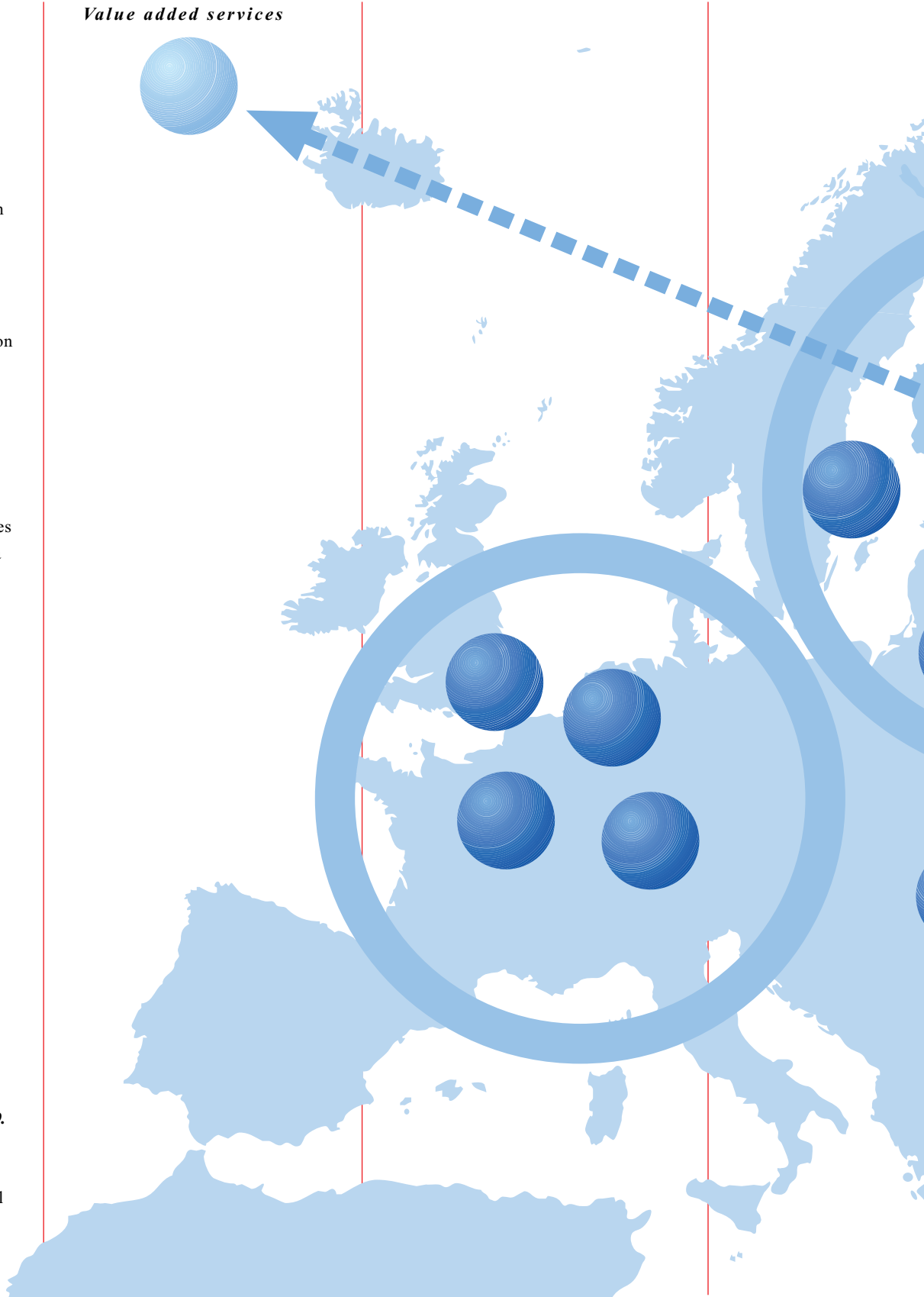
**ESTONIAN TELEPHONE CO.**

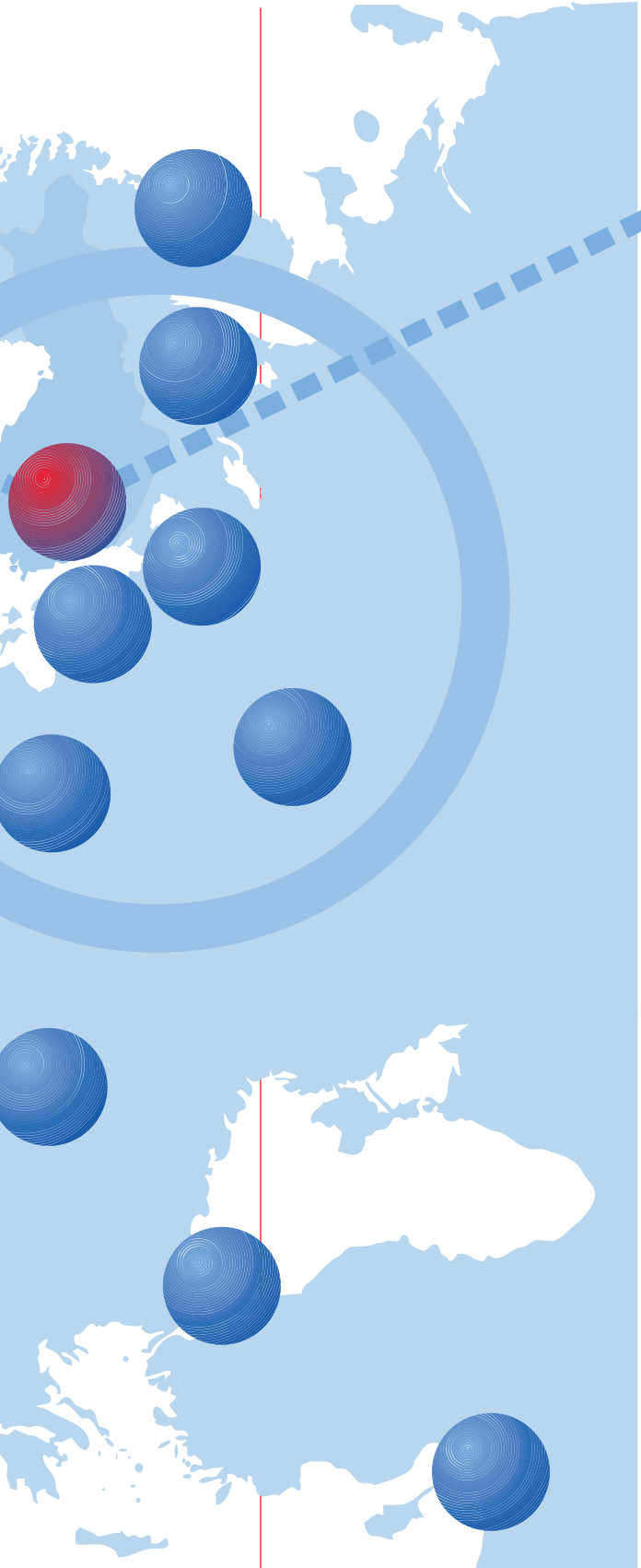
*National telecommunications*

*operator*

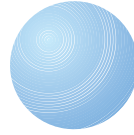
- customer support and regional marketing
- Estonian Paging Ltd
- paging service

*Value added services*





*Transit traffic*



*Riga, Latvia*

**LATVIAN MOBILE TELEPHONE CO.**

*Joint venture of Telecom Finland, Telia of Sweden and three Latvian telecoms operators*

- NMT 450 mobile services
- international connections

**TILTS COMMUNICATIONS**

*Joint venture of Telecom Finland and Cable & Wireless*

- Modernisation and operation of Latvian telecommunications network

*Russia*

*St Petersburg region*

**LENFINCOM**

*Telecommunications operator in St Petersburg region*

- international connections
- international packet switched data services
- international 64 kbit/s connections

**NORTH-WEST GSM**

- GSM services in St Petersburg and Leningradskaja Oblast

**LENINGRADSKAJA OBLAST**

- NMT 450 services

**PETERSBURG**

**DIRECTORIES LTD**

- corporate telephone directories

*Murmansk region*

**TELE-NORTH LTD**

*NMT 450 cooperation in the Kola Peninsula*

- mobile telephone services and corporate connections
- connecting traffic between Murmansk and Finnish Lapland

*Karelian Republic*

**NMT 450 service**

- international connections

*Moscow*

**INFOCOM**

*Data transfer cooperation in Moscow area*

- international data transfer services from Moscow
- marketing of Infonet services

*Others*

*Budapest, Hungary*

**PANNON GSM**

- GSM network in Hungary

*Beirut, Lebanon*

**LIBANCELL s.a.l.**

*Joint venture*

- GSM network operation

*Istanbul, Turkey*

**TÜRKCELL İLETİSİM HİZMETLERİ A.S.**

- GSM network in Turkey

## *Important Events in 1994*

### ***Limited company 1.1.1994***

For Telecom Finland, one of the key events of 1994 was the incorporation of the state-owned Posts and Telecommunications of Finland on January 1st, 1994, and the subsequent foundation of Telecom Finland Ltd as a subsidiary of PT Finland Ltd. This event was a natural continuation of the corporate reforms started in 1990.

Telecom Finland's corporate form clarifies the role of its owner, the State. It is in the interests of the state to obtain an optimum return for its investment, and to increase the shareholder value of the company.

A common form of corporate organisation around the world, the limited company model facilitates corporate cooperation and the formation of partnership agreements, while also speeding up business operations. In the market place, the company is seen more and more clearly as a company which must provide good service to its customers in order to produce shareholder value for its owners.



***Telecom Finland played a key role in ensuring efficient communications at the 1994 European Athletics Championships in Helsinki.***

### ***Welcoming competition***

1994 was an important year in terms of new competition. All forms of telephone service are now subject to competition. In mobile telephony, too, competition became a reality in the increasingly popular GSM service. In Finland, the competition also works in practice: Finnish subscribers can freely select the network through which they make their long-distance, international or mobile calls.



***Nicholas Argyris, Director of DGXIII of the European Commission, speaking at a strategic seminar organised by Telecom Finland in Helsinki 31.10.1994.***

During the year, Telecom Finland started offering local network services in eight cities: Helsinki, Turku, Tampere, Lahti, Mikkeli, Kuopio, Oulu and Pori. The services were targeted primarily at corporate customers. Nevertheless, the extension of local network competition requires added openness in the use of terminal networks and the free portability of subscriber numbers.

In 1994, the most spectacular local network project implemented by Telecom Finland was the provision of all telecommunication services for the European Athletics Championships in Helsinki. The organisers were provided with paging terminals, fax machines, tailor-made dedicated networks, and thousands of mobile and fixed-line telephones. Telecom Finland's FastNet data transfer solutions played an integral role in ensuring trouble-free communications. In addition, Telecom Finland provided the satellite connections for transmitting the Championships to international TV networks.

### ***EU membership enhances operational possibilities***

The preparations made during 1994 for Finland's membership in the European Union also caused Telecom Finland to adapt itself for the expected membership.



The company was particularly pleased by the intention, announced by the EU Commission, to declare the entire telecommunications sector subject to free competition by the beginning of 1998. Free international competition will present Telecom Finland with considerable new business possibilities within the EU. Finland's membership in the EU also strengthens Telecom Finland's role as a gateway for telecommunications between east and west.

***Accelerated international activities***

Important international undertakings in 1994 included the start-up of subsidiaries in Sweden and the Benelux area, infrastructure projects in Estonia, Latvia and North-West Russia, and GSM projects in Turkey and Lebanon.

In Sweden, the newly established Telegate Sweden Ab began the marketing of value added corporate solutions. In Brussels, Telecom Finland International S.A. offers assesment and consultation on corporate telecom services, plans, implements and manages network solutions, and markets value added services.

In Estonia and Latvia, Telecom Finland works with its partners in the construction of digital fixed-line and GSM networks. The Estonian network will be supplemented at an early stage with many advanced services.

In North-West Russia, Telecom Finland is also providing a local communications platform through the introduction of GSM technology.



*In Turkey and Lebanon, Telecom Finland and its joint venture partners are building infrastructures based on mobile communications technology.*

***Record growth in mobile networks***

For Telecom Finland's mobile sector, 1994 was the best year ever in terms of new customers. Over 150,000 new subscribers joined Telecom Finland's mobile networks. Of this amount, two-thirds selected NMT while the remaining 50,000 opted for GSM. At year's end, Telecom Finland's mobile networks counted over 600,000 subscribers.

Among the mobile networks, NMT 900 was clearly the most popular, with over 350,000 subscribers, while NMT 450 counted almost 200,000 users.

Especially strong growth was seen in Telecom Finland's GSM network, where the number of subscribers grew by almost six times from the previous year. At the end of the year, Telecom Finland held a market share of 60% in GSM subscriptions. This makes Telecom Finland the only operator in the world with a clear market majority in both NMT and GSM networks.

In mobile phone usage, 1994 was the year of women and young people. Over 90% of all new mobile phones are handheld models, which are now also available for the NMT 450 network. Companies and entrepreneurs still account for around 75%



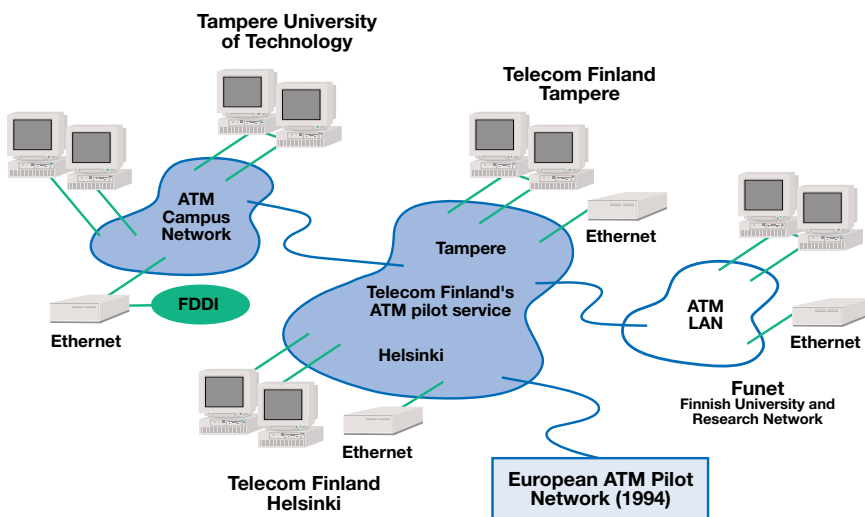
*Telecom Finland's GSM works even in Australia.*

*Telecom Finland's subsidiaries in Sweden and Belgium offer solutions for the advanced, vigorously competitive markets of western Europe. Thanks to today's fast, reliable communications, even an interim report for a pan-European corporation can be finalised in a matter of days.*

## Important Events in 1994

of all mobile phone users, but two out of every three new mobile phones are bought by private users. Clearly, the mobile phone is turning into an important tool of communication for ordinary consumers.

The GSM network is predicted to expand at a steadily accelerating rate: in 1995 GSM will account for more than half of all new mobile subscriptions. In Finland, GSM already covers almost the whole of southern Finland, and all of the major roads to the north. Internationally, GSM is available throughout most of Europe, as well as in



*Telecom Finland's ATM network provides high-quality, high-speed connections in demanding data transfer applications.*

many other areas important for Finnish subscribers.

### **High-speed ATM enables multimedia connections**

Telecom Finland was the first operator in the world to introduce a commercial network based on asynchronous transfer mode (ATM). ATM makes it possible to transfer data, images and voice at one thousand times the rate of normal telecommunications networks. For Telecom Finland, the high transmission speed means added capacity for the integration of corporate networks.

Initially, Telecom Finland's ATM network was in trial use between the Universities of Technology in Helsinki and Tampere. Commercial ATM service began in 1994.

The customers are mainly companies whose transmission speeds or volumes place great demands on network architectures.

As an important added benefit to the customers, Telecom Finland applies the world's lowest prices on its ATM service.

### **A year of improved customer care**

As a limited company, Telecom Finland's finds it possible to offer even better service to the customers. As a result, in 1994 the company invested strongly in the development of its customer care functions. During the year, Telecom Finland introduced a new billing system for small and medium sized companies. Known as the SM Telesolution, the new system collates all local, long-distance, international and mobile calls into a single bill, with volume discounts awarded for specific categories of calls.

Customers receive full itemisation of all calls per category and, with all charges added up on one bill, it is possible to gain considerable savings in payment traffic and working hours. It is also possible to collate the phone bills from various regional offices in a single, centralised bill.

*Billing based on equal monthly instalments brings considerable savings for the customers. Thanks to a price guarantee, the prices of long-distance and international calls remain the same during the duration of the agreement, while price decreases and special offers are passed on automatically to client companies.*



*Telecom Finland's mobile telephone services division has a highly efficient network of dealers who believe strongly in joint, customer oriented operation.*



Customers also found it easier to deal with Telecom Finland, thanks to a one-call-one-stop principle, which stipulated that customers should be served fully during the course of a single phone call. One example is the toll-free customer care number 9800-7000, operated by Telecom Finland's mobile telephone services, which serves over one million callers every year.



*Telecom Finland's GSM customers can use their phones in over 20 countries around the world, with more and more countries joining the list.*

Telecom Finland's national switchboard number, 920401, can be accessed everywhere in Finland for the price of a local call.

#### **Results through enterprise**

A large portion of the success of Telecom Finland's mobile communications division results from teamwork between Telecom Finland and its independent, enterprising mobile phone dealers. Almost 80% of all new mobile phones for Telecom Finland's network are sold by some 270 independent dealers. These Expert dealers also serve as



customer care specialists who, for example, can open a new connection while the customer waits.

Telecom Finland has also successfully promoted its TeleRing chain of stores, intended primarily for small and medium sized companies and private consumers. The TeleRing chain includes 14 stores owned by Telecom Finland, as well as 17 stores operated on a franchising principle. The company has also signed resale agreements with numerous electronics stores.

#### **Important national network solutions**

Examples of national network agreements signed by Telecom Finland during 1994 include those with Automatia Pankkiautomaatit Ltd, a company owned by several banks (KOP, SYP, PSP and OKO), and Rautaruukki Ltd.

In the autumn, the cash dispensers of Automatia Pankkiautomaatit Ltd were connected to Telecom Finland's network. The dispensers, totalling 2 500 units, handle some 250-300 million transactions every year. Connecting the dispensers into a single network brings considerable savings for the banks involved.

An important corporate agreement was also signed with Rautaruukki Ltd, involving all of the corporation's local, long-distance and international calls as well as data transfer services. The network is utilised by around 50 corporate offices in Finland and abroad. Rautaruukki's NMT and GSM mobile phones are also connected to the corporate PBX network.

*Telecom Finland's expertise is called for in many international joint ventures. Here, a joint agreement has just been signed with Cable & Wireless of the UK for construction of the Latvian telecommunications network.*



*The mobile phone is fast becoming a common means of communication in Finland, where the mobile penetration rate is already among the highest in the world.*



1994 was the first year of operation of Telecom Finland Ltd. The company continues the telecommunications business of the former Posts and Telecommunications of Finland.

Telecom Finland Ltd belongs to the PT Finland Group. The company is wholly owned by PT Finland Ltd. The Telecom Finland Group consists of Telecom Finland Ltd and its Group and affiliate companies.

#### **1994 operations**

In view of the changed market situation, operations as a whole showed a better-than-expected trend, both in terms of net sales and profit. Local and long-distance telephone traffic was opened to competition at the beginning of the year and international traffic on July 1, 1994. A supplementary 9 per cent tax was imposed on telecommunications services from January 1, 1994.

Group net sales for 1994 amounted to FIM 5 041 million. Net sales of Telecom Finland Ltd totalled FIM 4 927 million.

The total market for long-distance telephone traffic declined from FIM 700 million to FIM 500 million as a result of price reductions. The company's net sales from long-distance telephone traffic for 1994 amounted to around FIM 200 and, measured by net sales, the company reached a market share of approximately 45 per cent. Service profitability levels slipped, since the costs involved in producing the service are largely fixed and the telecommunications tax was not passed on to long-distance telephone charges.

Competition in local telephone traffic has in practice been restricted to large volume customers. In other customer segments the ownership of the subscriber connection represents the biggest barrier to true competition. Net sales remained almost at the 1993 level.

In international telephone traffic, the reduction in prices was less pronounced than in long-distance services. The company's net sales in this sector were around FIM 80 million below the 1993 level and, measured by net sales, the company reached a market

share of approximately 90 per cent.

The mobile telephony market grew particularly strongly in 1994. Competition intensified in GSM services with the advent of lower-priced GSM phones. Around 150,000 mobile telephone connections were sold, representing an increase in total mobile connections of around a third. GSM connections accounted for around 30 per cent of sales. The company's estimated share of sales of GSM services is around 60 per cent.

Operations abroad expanded markedly with the establishment, in partnership with Cable & Wireless Ltd and the Latvian telecommunications administration, of a joint company called Lattelekom which will develop and operate telephone networks in Latvia. In Hungary, mobile operations were complemented with paging services with the establishment of the subsidiary EasyCall ERMES Hungary Rt in Budapest. Via its subsidiaries, the company participated in the establishment and operation of a mobile telephone company in Lebanon. Operations were also expanded in Sweden, mainly to corporate customers. As at December 31, 1994, FIM 341 million was invested in foreign companies' equity.

Around 4 per cent of net sales was used for research and development during the year under review.

#### **Capital expenditure and finance**

Group capital expenditure in fixed assets in 1994 amounted to FIM 1 609 million, or 31.9 per cent of net sales. Significant capital expenditure included expansion of telephone networks and investments in foreign operations via Group and partnership companies.

The Group's financial position and liquidity remained good. The equity ratio at the end of the financial year was 62 per cent.

#### **1994 result**

Group operating margin in 1994 was FIM 1 927 million. Net financial expenses totalled FIM 71 million and extraordinary income and expenses FIM -254 million.



The most significant items of extraordinary expenditure were a Group contribution to the parent company of FIM 182 million and FIM 75 million to meet a shortfall in pension obligations from previous years. The net profit for the period after taxes of FIM 67 million was FIM 246 million.

Net profit of Telecom Finland Ltd for the financial year was FIM 225 millions.

#### ***Board of Directors, CEO and auditors***

The members of the company's Board of Directors as of January 1, 1994 are Pekka Vennamo, Chairman, Erkki Bäckman, Pekka Luukkainen, Eero Pilkama, Aulis Salin, Pirjo Tammilehto and Kari Vilkmán. The President and CEO is Aulis Salin.

The company's auditors are Tilintarkastajien Oy - Ernst & Young, Authorized Public Accountants, Markku Heikkinen, Juhani Korpela and Jan-Peter Paul.

#### ***Personnel and salaries***

At the end of the financial year the Group employed a total of 6 569 persons. The average number of persons employed by the Group during the year was 6 780.

Salaries and fees paid by the Group during the financial year totalled FIM 1 033 million, of which 3 million was paid to the members of the Board and the CEOs.

The employee total of the parent company declined from 6 547 to 6 341 persons, and was on average 6 444.

During the financial year the parent company paid a total of FIM 1,011,150,187.45 in salaries, fees and part-fees, of which remunerations paid to the members of the Board and the CEO amounted to FIM 795,700.00.

#### ***Group structure***

In November 1994, Maksuverkot Oy merged with Telecom Finland Ltd.

During the financial year, the following companies became Group companies of Telecom Finland Ltd: EasyCall ERMES Hungary Rt, Oy Finnsatel Ab, System Oy

and TYV Tele Yritysviestintä Oy (Tele Business Communications).

#### ***Operational outlook***

Growth prospects remain promising in the mobile telephony markets, both in Finland and abroad. Net sales are forecast to grow in the current financial year compared to 1994.

Telecom Finland's competitiveness in mobile telephone operations is based on cost-efficiency, winning technology and a thorough knowledge of our customers, creating a solid basis for success in this area in the coming years.

The markets for fixed-connection services and value-added services are growing more slowly and competition is making profit margins relatively thin. Cost-efficiency, a high level of technical and product skills and customer awareness are vital competitive tools.

The European Union is removing barriers to competition and will open fixed-line networks to service operators in 1998. Telecom Finland is keen to encourage this trend in Finland and in Europe as it will mean alluring opportunities for the company and the Finnish telecommunications industry as a whole in the European telecommunications and information technology markets.

# Telecom Finland Group Income Statement

1.1 - 31.12.1994

	<i>FIM million</i>
<i>Net sales</i>	<b>5,041.4</b>
<i>Increase (+) or decrease (-) in inventories of finished goods</i>	10.9
<i>Share of profits of affiliate companies</i>	30.3
<i>Other operating income</i>	63.2
 <i>Operating expenses, total</i>	 <b>3,218.7</b>
Materials and consumables:	
Purchases during the financial year	392.5
Increase (-), decrease (+) in inventories	23.0
External services	730.6
Personnel costs	1,197.7
Rental costs	203.7
Other operating expenses	671.2
 <i>Operating margin</i>	 <b>1,927.1</b>
 <i>Depreciation on fixed assets and other long-term expenses</i>	 1,216.1
 <i>Operating profit</i>	 <b>711.0</b>
 <i>Financial income and expenses, total</i>	 <b>-70.6</b>
Interest income from long-term financial assets	3.2
Interest income from short-term financial assets	18.0
Other financial income	7.5
Exchange rate differences	-21.0
Interest expenses	-78.0
Other financial expenses	-0.3
 <i>Profit before extraordinary items, provisions and taxes</i>	 <b>640.4</b>
 <i>Extraordinary income and expenses, total</i>	 <b>-254.0</b>
Extraordinary income	19.2
Extraordinary expenses	-273.2
 <i>Profit before provisions and taxes</i>	 <b>386.4</b>
 <i>Increase (-) or decrease (+) in difference in depreciation</i>	 -74.1
<i>Direct taxes</i>	
for the financial year	-66.7
 Minority interest	 0.2
 <i>Group net profit for the financial year</i>	 <b>245.8</b>

1.1 - 31.12.1994

*FIM million*

<b>OPERATIONS</b>	
<b><i>Funds generated from operations, total</i></b>	<b>1,561.1</b>
Operating profit	711.0
Depreciation	1,216.1
Financial income and expenses	-70.6
Extraordinary items	-254.0
Others	25.3
Taxes	-66.7
<b><i>Change in working capital, total</i></b>	<b>281.4</b>
Inventories, increase (-), decrease (+)	33.9
Current receivables, increase (-), decrease (+)	-82.5
Non-interest-bearing short-term liabilities, increase (+), decrease (-)	330.0
<b><i>CASH FLOW FROM OPERATIONS</i></b>	<b>1,842.5</b>
<b><i>INVESTMENTS, TOTAL</i></b>	<b>-1,553.3</b>
Capital expenditure	-1,609.2
Disposal of fixed assets	55.9
<b><i>CASH FLOW BEFORE FINANCING ITEMS</i></b>	<b>289.2</b>
<b><i>FINANCING ITEMS, TOTAL</i></b>	<b>-92.5</b>
Long-term receivables, increase (-), decrease (+)	-0.1
Long-term loans, increase (+), decrease (-)	-302.4
Short-term loans, increase (+), decrease (-)	210.0
<b><i>LIQUID RESERVES, INCREASE (+), DECREASE (-)</i></b>	<b>196.7</b>
<b><i>LIQUID RESERVES</i></b>	
Liquid reserves 31.12.	446.4
Liquid reserves 1.1.	249.7
<b><i>CHANGE IN LIQUID RESERVES</i></b>	<b>196.7</b>

# *Telecom Finland Group Balance Sheet*

31.12.1994

<i>ASSETS</i>	<i>FIM million</i>
<b><i>FIXED ASSETS AND OTHER LONG-TERM</i></b>	
<b><i>FINANCIAL ASSETS, TOTAL</i></b>	<b><i>4,151.3</i></b>
<b><i>Intangible assets, total</i></b>	<b><i>102.0</i></b>
Establishment and pre-incorporation expenses	0.1
Intangible rights	54.3
Goodwill	11.5
Other long-term expenditure	36.1
<b><i>Tangible assets, total</i></b>	<b><i>3,660.2</i></b>
Land and water	46.1
Buildings	582.3
Machinery and equipment	195.4
Telephone networks	2 676.2
Other tangible assets	36.0
Advance payments and construction in progress	124.2
<b><i>Securities and other long-term financial assets, total</i></b>	<b><i>389.1</i></b>
Shares and holdings	389.0
Loan receivables	0.1
<b><i>INVENTORIES AND CURRENT ASSETS, TOTAL</i></b>	<b><i>1,811.7</i></b>
<b><i>Inventories, total</i></b>	<b><i>62.9</i></b>
Materials and consumables	36.3
Work in progress	11.8
Finished goods	11.0
Advance payments	3.8
<b><i>Receivables, total</i></b>	<b><i>1,562.4</i></b>
Trade receivables	839.2
Loan receivables	47.6
Deferred assets	394.4
Other receivables	281.2
<b><i>Cash and bank balances</i></b>	<b><i>186.4</i></b>
<b><i>ASSETS, TOTAL</i></b>	<b><i>5,963.0</i></b>



## *Telecom Finland Group Balance Sheet*

31.12.1994

<i>SHAREHOLDERS' EQUITY AND LIABILITIES</i>	<i>FIM million</i>
<b><i>SHAREHOLDERS' EQUITY, TOTAL</i></b>	<b><i>3,643.7</i></b>
<i>Restricted equity, total</i>	<i>3,375.0</i>
Share capital	1,650.0
Reserve fund	1,725.0
<i>Non-restricted equity, total</i>	<i>268.7</i>
Other non-restricted equity	22.9
Profit for the financial year	245.8
<b><i>MINORITY INTEREST</i></b>	<b><i>5.6</i></b>
<b><i>PROVISIONS, TOTAL</i></b>	<b><i>76.8</i></b>
<i>Accumulated difference in depreciation</i>	<i>74.1</i>
<i>Voluntary provisions</i>	<i>2.7</i>
<b><i>VALUATION ITEMS</i></b>	<b><i>0.3</i></b>
<b><i>LIABILITIES, TOTAL</i></b>	<b><i>2,236.6</i></b>
<i>Long-term liabilities, total</i>	<i>656.9</i>
Loans from financial institutions	0.8
Loans from pension funds	2.1
Other long-term liabilities	654.0
<i>Current liabilities, total</i>	<i>1,579.7</i>
Loans from financial institutions	0.3
Loans from pension fund	0.2
Advances received	14.5
Accounts payable	484.6
Deferred liabilities	863.2
Other current liabilities	216.9
<b><i>SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL</i></b>	<b><i>5,963.0</i></b>

# Telecom Finland Ltd Income Statement

1.1 - 31.12.1994

	<i>FIM million</i>
<i>Net sales</i>	4,927.2
<i>Increase (+) or decrease (-) in inventories of finished goods</i>	10.9
Other operating income	64.5
 <b><i>Operating expenses, total</i></b>	 <b>3,122.8</b>
Materials and consumables:	
Purchases during the financial year	375.4
Increase (-), decrease (+) in inventories	22.4
External services	701.0
Personnel costs	1,159.1
Rental costs	198.7
Other operating expenses	666.2
 <b><i>Operating margin</i></b>	 <b>1,879.8</b>
 <i>Depreciation on fixed assets and other long-term expenses</i>	 1,204.0
 <b><i>Operating profit</i></b>	 <b>675.8</b>
 <b><i>Financial income and expenses, total</i></b>	 <b>-65.4</b>
Dividend income	4.4
Interest income from long-term financial assets	3.1
Interest income from short-term financial assets	17.1
Other financial income	7.5
Exchange rate differences	-21.3
Interest expenses	-76.0
Depreciation on investments	-0.2
 <b><i>Profit before extraordinary items, provisions and taxes</i></b>	 <b>610.4</b>
 <b><i>Extraordinary income and expenses, total</i></b>	 <b>-252.5</b>
Extraordinary income	5.3
Extraordinary expenses	-257.8
 <b><i>Profit before provisions and taxes</i></b>	 <b>357.9</b>
 <i>Increase (-) or decrease (+) in difference in depreciation</i>	 -68.6
<b><i>Direct taxes</i></b>	
for the financial year	-64.0
 <b><i>Net profit for the financial year</i></b>	 <b>225.3</b>

1.1 - 31.12.1994

*FIM million*

<b>OPERATIONS</b>	
<b>Funds generated from operations, total</b>	<b>1,528.2</b>
Operating profit	675.8
Subscriber connection charges	24.8
Depreciation	1,204.0
Financial income and expenses	-65.3
Extraordinary items	-252.5
Others	5.4
Taxes	-64.0
<b>Change in working capital, total</b>	<b>267.6</b>
Inventories, increase (-), decrease (+)	35.0
Current receivables, increase (-), decrease (+)	-54.8
Non-interest-bearing short-term liabilities, increase (+), decrease (-)	287.4
<b>CASH FLOW FROM OPERATIONS</b>	<b>1,795.8</b>
<b>INVESTMENTS, TOTAL</b>	<b>-1,501.0</b>
Capital expenditure	-1,554.5
Disposal of fixed assets	53.5
<b>CASH FLOW BEFORE FINANCING ITEMS</b>	<b>294.8</b>
<b>FINANCING ITEMS, TOTAL</b>	<b>-105.1</b>
Long-term receivables, increase (-), decrease (+)	-0.1
Long-term loans, increase (+), decrease (-)	-315.0
Short-term loans, increase (+), decrease (-)	210.0
<b>LIQUID RESERVES, INCREASE (+), DECREASE (-)</b>	<b>189.7</b>
<b>LIQUID RESERVES</b>	
Liquid reserves 31.12.	419.5
Liquid reserves 1.1.	229.8
<b>CHANGE IN LIQUID RESERVES</b>	<b>189.7</b>

# *Telecom Finland Ltd Balance Sheet*

31.12.1994

<i>ASSETS</i>	<i>FIM million</i>
<hr/>	
<i>FIXED ASSETS AND OTHER LONG-TERM</i>	
<i>FINANCIAL ASSETS, TOTAL</i>	<i>4,116.3</i>
<i>Intangible assets, total</i>	<i>94.8</i>
Intangible rights	49.4
Goodwill	14.8
Other long-term expenditure	30.6
<i>Tangible assets, total</i>	<i>3,613.6</i>
Land and water	45.9
Buildings	578.6
Machinery and equipment	157.6
Telephone networks	2,671.5
Other tangible assets	36.0
Advance payments and construction in progress	124.0
<i>Securities and other long-term</i>	
<i>financial assets, total</i>	<i>407.9</i>
Shares and holdings	407.8
Loan receivables	0.1
<i>INVENTORIES AND CURRENT ASSETS, TOTAL</i>	<i>1,755.6</i>
<i>Inventories, total</i>	<i>50.6</i>
Materials and consumables	35.8
Work in progress	11.0
Advance payments	3.8
<i>Receivables, total</i>	<i>1,545.5</i>
Trade receivables	843.6
Loan receivables	45.3
Deferred assets	390.6
Other receivables	266.0
<i>Cash and bank balances</i>	<i>159.5</i>
<i>ASSETS, TOTAL</i>	<i>5,871.9</i>



## *Telecom Finland Ltd Balance Sheet*

31.12.1994

<i>SHAREHOLDERS' EQUITY AND LIABILITIES</i>	<i>FIM million</i>
<b><i>SHAREHOLDERS' EQUITY, TOTAL</i></b>	<b>3,625.1</b>
<i>Restricted equity, total</i>	<b>3,375.0</b>
Share capital	1,650.0
Reserve fund	1,725.0
<i>Non-restricted equity, total</i>	<b>250.1</b>
Other non-restricted equity	24.8
Profit for the financial year	225.3
<b><i>PROVISIONS, TOTAL</i></b>	<b>68.6</b>
<i>Accumulated difference in depreciation</i>	68,6
<b><i>LIABILITIES, TOTAL</i></b>	<b>2,178.2</b>
<i>Long-term liabilities, total</i>	<b>637.0</b>
Other long-term liabilities	637.0
<i>Current liabilities, total</i>	<b>1,541.2</b>
Advances received	13.8
Accounts payable	500.1
Deferred liabilities	816.7
Other current liabilities	210.6
<b><i>SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL</i></b>	<b>5,871.9</b>

The financial statements of Telecom Finland Ltd have been prepared in accordance with the principles observed in the financial statements of the PT Finland Group. The accounting principles are detailed in the annual report of the PT Finland Group.

The financial statements have been drawn up in accordance with the Accounting Act and Ordinance and the Companies Act. The financial statements are in Finnish marks.

Since Telecom Finland Ltd became operative on 1.1.1994, no comparative figures are given for the previous year.

### **Extraordinary income and expenses**

Extraordinary income and expenses include all items not coming under production proper.

### **Fixed assets**

Fixed assets have been entered at original acquisition costs deducted by the cumulative depreciation according to plan. The non-cash value at 1.1.1994 of property transferred on incorporation is considered as being the original acquisition cost.

Depreciation according to plan has been made based on estimated useful life:

Buildings	2.5 - 6.7%
Machinery and equipment	8.0 - 30.0%
Telephone networks	25.0 - 40.0%

Land and water areas have not been depreciated.

### **Telephone connection charges**

Telephone connection charges, which are a form of capital, paid to Telecom Finland Ltd as at 1.1.1994 have been entered in the restricted equity reserve fund. Further connections made in 1994 have been entered in unrestricted equity capital.

### **Pension arrangements**

The statutory Employees' Pensions Act (TEL) pension security of companies incorporated from P&T and the additional pension security for long-term employees of the P&T agreed in connection with incorporation are insured by the PT Pension Fund.

A payment of FIM 75 million to meet retroactive additional pension obligations has been entered in extraordinary expenditure, after which the pension obligation for retroactive additional pensions at the incorporation stage has been fully met.

### **Scope of the Group financial statements and accounting principles**

The Group financial statements include Telecom Finland Ltd and all its trading Group and partnership companies.

Partnership companies owned via partnership companies are not generally included in Group financial statements. An exception here are Eesti Telefon A/S and Transmast S.P.b.

The Group financial statements have been drawn up using the acquisition cost principle. Where a price exceeding the shareholders' equity has been paid for the shares of subsidiaries, this is entered as goodwill on consolidation, and is depreciated in equal amounts over five years. Companies acquired during the financial year have been included in the Group financial statements from the date of acquisition and merged companies up until the date of merger.

Intragroup transactions, internal receivables and payables and intragroup distribution of profit have been eliminated. Unrealized margins on intragroup deliveries have not been eliminated, but this has no significant effect on the Group profit or non-restricted equity.

Minority interests have been separated from the Group's liabilities and shareholders' equity and the Group profit and are entered as a separate item.



Partnership companies have been combined using the capital share principle.

Figures for foreign Group companies have been converted into Finnish marks at the Bank of Finland's official exchange rate on the date of the financial statements. Exchange rate differences occurring in the conversion of the equity of foreign subsidiaries have been included in non-restricted equity.

Because the Group was formed on 1.1.1994, subsidiaries' retained earnings, depreciation of goodwill from previous years, dividends from subsidiaries and the share of partnership companies' retained earnings have been entered exceptionally in extraordinary income and expenses.

The official financial statements include information as required by the Finnish Companies Act and the Accounting Act.

### ***CALCULATION OF FINANCIAL RATIOS***

$$\text{Return on investment (ROI), \%} = 100 \times \frac{\text{profit before extraordinary items, reserves, taxes + interest and other financial expenses}}{\text{balance sheet total - non-interest bearing liabilities (average during the year)}}$$

$$\text{Equity ratio, \%} = 100 \times \frac{\text{shareholders' equity + minority interests + reserves + valuation items}}{\text{balance sheet total}}$$

The Group was formed in 1994. Gross investments and personnel in 1993 do not include subsidiaries and holdings.

## *Notes to the Financial Statements*

	<i>Group 1994</i>		<i>Parent company 1994</i>	
<b><i>Net sales by market area</i></b>	<b><i>FIM million</i></b>	<b><i>%</i></b>	<b><i>FIM million</i></b>	<b><i>%</i></b>
Finland	4,945.8	98.1	4,864.6	98.7
Others	95.6	1.9	62.6	1.3
Total	5,041.4	100.0	4,927.2	100.0
<b><i>Other operating income</i></b>	<b><i>FIM million</i></b>		<b><i>FIM million</i></b>	
Proceeds from disposal of fixed asset	1.6		1.5	
Rental income	13.7		14.7	
Other operating income	47.9		48.3	
Total	63.2		64.5	
<b><i>Personnel costs</i></b>	<b><i>FIM million</i></b>		<b><i>FIM million</i></b>	
Wages and salaries	931.7		901.3	
Pension costs	122.4		118.0	
Other personnel costs	143.6		139.8	
Monetary value of fringe benefits <sup>*)</sup>	6.5		6.0	
Total	1,204.2		1,165.1	
<b><i>Production for own use</i></b>	<b><i>FIM million</i></b>		<b><i>FIM million</i></b>	
Materials	835.1		835.1	
External services	119.4		119.4	
Wages and salaries	89.1		89.1	
Pension costs	11.9		11.9	
Other personnel costs	9.4		9.4	
Rents	16.6		16.6	
Other costs	14.8		14.8	
Total	1,096.3		1,096.3	
<b><i>Depreciation according to plan</i></b>	<b><i>FIM million</i></b>		<b><i>FIM million</i></b>	
Establishment and pre-incorporation expenses	0.2		-	
Intangible rights	11.0		10.7	
Goodwill	-		3.7	
Other long-term expenditure	4.3		2.7	
Buildings	44.0		44.0	
Machinery and equipment	51.8		44.1	
Telephone networks	1,098.0		1 096.1	
Other tangible assets	2.7		2.7	
Goodwill on consolidation	4.1		-	
Total	1,216.1		1,204.0	
<b><i>Book depreciation, total</i></b>	1,290.2		1,272.6	
<b><i>Difference in depreciation for the financial year</i></b>	74.1		68.6	
<b><i>Difference in depreciation at the end of the financial year</i></b>	74.1		68.6	

<sup>\*)</sup> Not included in income statement costs

	<b>Group 1994</b>	<b>Parent</b>
	<b>FIM million</b>	<b>company 1994</b>
<b><i>Intragroup financial income and expenses</i></b>	<b><i>FIM million</i></b>	<b><i>FIM million</i></b>
Financial income from Group companies		
Dividend income	-	3.6
Interest income from short-term financial assets	-	13.3
Financial expenses paid to Group companies		
Interest expenses	-	75.7
<b><i>Extraordinary income and expenses</i></b>	<b><i>FIM million</i></b>	<b><i>FIM million</i></b>
Payment of pension shortfall from previous years	-75.3	-75.4
Group contributions made	-182.0	-182.0
Other extraordinary expenses	-15.9	-0.4
Other extraordinary income	19.2	5.3
Total	-254.0	-252.5

## Shares and Holdings

	No. of shares	Hold- ing %	Curr.	Nominal value FIM	Book value FIM	Cons. share of equity (FIM 1000)	Result for the year (FIM 1000)
<b>Group companies</b>							
Mobitele Oy, Tampere	10,000	100		1,000,000.00	10,031,440.00	2,077	231
Mobitele Trading Oy, Helsinki	2,000	100		200,000.00	544,133.40	544	-206
Oy Finnsatel Ab, Helsinki	42	100		21,000.00	21,272.00	57	13
Oy Yritysverkot Ab, Helsinki	400	100		2,000,000.00	4,185,320.00	8,908	3,129
Systek Oy, Helsinki	5,000	100		500,000.00	7,620,000.00	1,484	1,005
Telecon Oy, Helsinki	643	100		450,000.00	566,380.00	-329	626
TYV Tele Yritysviestintä Oy, Helsinki	1,000	100		1,000,000.00	10,047,281.68	12,352	2,341
Oy Lippupalvelu-Biljettjänst Ab, Helsinki	2,988	94.85		119,520.00	2,997,200.00	1,194	301
Infonet Finland Oy, Helsinki	90	90		2,250,000.00	2,250,000.00	2,349	54
KOY Pietarsaaren Isokatu 8, Pietarsaari	16,136	60.19		1,613,600.00	4,892,848.00	2,305	63
Fintelecom A/O, St Petersburg	100	100	RUR	1,500.00	8.38	70	-35
Tele Balti A/S, Tallinn	115	100	EEK	460,000.00	200,284.00	392	216
Telecom Finland Intern. N.V./S.A., Brussels		98	BEF	92,453,200.00	13,669,205.62	11,931	-1,210
Easy Call Ermes Hungary Rt, Budapest	54,900	54.9	HUF	109,800,000.00	5,534,964.45	4,491	-522
Telegate Sweden AB, Stockholm		100				3,179	-127
Telemedia Oy, Helsinki		100		15,000.00	203.00	0	0
Teletori Oy, Helsinki		100				0	0
<b>Total</b>					<b>62,560,540.53</b>		
<b>Partnership companies</b>							
GSM-Viestimet Oy, Helsinki	40	40		40,000.00	101,600.00	944	2,636
Johtotieto Oy, Helsinki	170	33.33		170,000.00	17,000.00	54	65
Radio- ja televisiotekniikan tutkimus Oy RTT	30	30		30,000.00	30,160.00	30	11
Suomen Keltaiset Sivut Oy, Helsinki	184	30.16		920,000.00	1,540,000.00	2,291	4,430
Transmast Oy, Helsinki	120	40		1,200,000.00	1,200,000.00	3,056	4,227
Russian Directories Holding Oy, Helsinki		-				140	0
Petersburg Directories Oy, Helsinki		-					
Baltic Tele AB, Stockholm	250	50	SEK	98,000,000.00	69,777,617.50	62,308	609
Baltic Mobitel A/O, St Petersburg	10,000	50					0
Tele-North Ltd, Murmansk		50	RUR	500,000.00	1,209,482.00		
Mobile Telephone Ltd, Novgorod	900	50	RUR	45,000,000.00	58,500.00		0
Lenfincom, St Petersburg		49	RUR	245,000.00	1,611,034.00	859	1,735
Estonian Paging Ltd, Tallinn	800	40	EEK	800,000.00	336,471.00	-125	-727
Türkcell İletişim Hizmetleri A.S., Istanbul	74,800	34	TL	74,800,000.00	18,806,729.79	5,670	-5,440
Estonian Mobile Telephone, Tallinn		24.5	MEEK	3.96	1,349,862.00	15,539	31,632
Latvian Mobile Telephone Ltd, Riga	2,695	24.5	USD	269,500.00	1,163,162.00	17,484	43,048
North-West GSM Ltd, St Petersburg		23.52			22,930,231.12	10,531	-552
Tilts Communications A/S, Copenhagen		27			134,142,819.13		
Eesti Telefon A/S		-				62,282	15,969
Esdata A/S, Tallinn		-				584	-136
<b>Total</b>					<b>254,274,668.54</b>		
<b>Other shares</b>							
Pannon GSM, Budapest		14	HUF	658,000,000.00	36,355,725.42		
Satellite operations					29,258,950.14		
Housing company shares					13,640,577.97		
Other companies (25)					6,804,294.78		
Telephone shares, transferrable connections etc.					4,948,604.00		
<b>Total</b>					<b>91,008,152.31</b>		
<b>TOTAL</b>					<b>407,843,361.38</b>		

# *Proposal by the Board of Directors and Auditors' Report*

## **PROPOSAL BY THE BOARD OF DIRECTORS FOR THE DISPOSAL OF THE PROFIT**

The net profit of Telecom Finland Ltd for the year is FIM 225,345,146.59.

The Board of Directors propose that no dividend be paid and that the profit for the year should be held in reserve.

Helsinki, 20 March 1995

Pekka Vennamo  
Chairman of the Board

Erkki Bäckman

Pekka Luukkainen

Eero Pilkama

Aulis Salin

Pirjo Tammilehto

Kari Vilkmán

## **AUDITORS' REPORT**

### ***To the shareholders of Telecom Finland Ltd***

We have audited the accounting, the financial statements and the corporate governance of Telecom Finland Ltd for the financial year of 1994. The financial statements, which include the report of the Board of Directors and the CEO, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the CEO. Based on our audit, we express an opinion on these financial statements and on corporate governance.

We have conducted the 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 corporate governance is to examine that the members of the Board of Directors and the

CEO have legally complied with the rules of the Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements.

The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the CEO of the parent company can be discharged from liability for the financial year audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Helsinki, 24 March 1995

Markku Heikkinen      Juhani Korpela

Tilintarkastajien Oy -  
Ernst & Young

Jan-Peter Paul

Jorma Jáske,  
Authorized Public Accountant

*Board of Directors of Telecom Finland Ltd*



*Pekka Vennamo, President and CEO  
PT Finland Ltd  
Chairman of the Board*



*Pekka Luukkainen, Executive Vice  
President, PT Finland Ltd  
Deputy Chairman*



*Aulis Salin, President and CEO  
Telecom Finland Ltd*



*Erkki Bäckman  
Director, Oy Hartwall Ab*



*Eero Pilkama  
President and CEO  
MTV Finland*




*Pirjo Tammilehto  
Chairman  
Telecommunications Union*



*Kari Vilkmán  
Chief Shop Steward  
Finnish Metalworkers' Union*





*Senior Executives*



*Aulis Salin*  
*President and CEO*



*Aimo Eloholma*  
*Sales and Marketing*



*Leena Suhonen*  
*Telecom Finland Ventures*



*Aimo Koski*  
*Mobile Communications Services*



*Heikki Äyväri*  
*Value Added Services*



*Mikko Pirinen*  
*Access Networks and Special  
Business Areas*




*Juhani Vienola*  
*Basic Networks*



*Hilikka Remes*  
*Human Resources*




*Kari Kosonen*  
*Finance*



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<b><i>President and CEO:</i></b>			
Aulis Salin	92040 3500	92040 3525	9400 400078
<b><i>Sales and Marketing:</i></b>			
Aimo Eloholma	92040 2014	92040 2093	9400 507599
<b><i>Telecom Finland Ventures:</i></b>			
Leena Suhonen	92040 2915	92040 3709	9400 200601
<b><i>Consumer Services:</i></b>			
Mauri Metsäranta	92040 3399	92040 3325	9400 544335
<b><i>Business Services:</i></b>			
Pekka Takala	92040 5580	92040 3864	9400 205259
<b><i>Small and Medium Sized Business Services:</i></b>			
Eila Rummukainen	92040 2071	92040 70421	9400 620120
<b><i>Value Added Services:</i></b>			
Heikki Äyväri	92040 3505	92040 3526	9400 507869
<b><i>Mobile Communications Services:</i></b>			
Aimo Koski	92040 3600	92040 3705	9400 400062
<b><i>Basic Networks:</i></b>			
Juhani Vienola	92040 2693	92040 2676	9400 404933
<b><i>Access Networks and Special Business Areas:</i></b>			
Mikko Pirinen	92040 3210	92040 3325	949 505755
<b><i>Human Resources:</i></b>			
Hilkka Remes	92040 3602	92040 3405	9400 463981
<b><i>Finance:</i></b>			
Kari Kosonen	92040 3507	92040 3526	9400 490270
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### *Central switchboard*

*Mon-Fri 07.30-17.30*

*- nationwide number, local call charge only*

*920401 (int. +358 20401)*

### *Toll-free numbers:*

*Mobile Communications Services 9800-7000*

*(int. +358-800-1-7000)*

*24 h*

*Business Services 9800-4700 (int. +358-800-1-4700)*

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*Consumer Services 9800-11011 (int. +358-800-1-11011)*

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