Annual report 1996

HELSINKI TELEPHONE COMPANY LTD

Contents

Financial reports

Helsinki Telephone Company Ltd will issue an interim report on the period from January 1 to April 30, 1997 in week 24 and an interim report on the period from January 1 to August 31, 1997 in week 42. These reports will be published in Finnish and Swedish.

This annual report of the Company is available in Finnish, Swedish, English and German. Annual and interim reports can be obtained from HPY Communications, tel. +358-9-6061.

Overview of the Group

Helsinki Telephone Company Ltd

Helsinki Telephone Company Ltd (HPY) is the largest privately-owned provider of telecommunication services in Finland. The Parent Company was founded on January 1, 1994, when the Helsinki Telephone Association's principal operations were privatized. The company is licensed to engage in local telecommunication operations in the entire Helsinki metropolitan area, which has over one million inhabitants. The entire fixed network infrastructure in the area, comprising 724,468 subscriptions at the end of 1996, is owned by Helsinki Telephone Company Ltd.

However, basic telecommunication services - managing existing subscriber lines and switching local calls - today represent only 30 % of the Parent Company's turnover.

The Helsinki Telephone Company Group is formed by Helsinki Telephone Company Ltd (the Parent Company) and its subsidiaries and associated companies. The latter are telecommunication companies handling national and international traffic and in which the Parent Company has a substantial holding. Other owners of these associated companies include other local telephone companies and, in certain cases, some of Helsinki Telephone Company customers.

The Helsinki Telephone Company Group offers its private and business customers a wide range of telecommunication services: local, long-distance and international calls, GSM mobile calls and data transmission. Helsinki Telephone Company provides these services both locally and, in cooperation with other Finnet companies, on a national or international level. In international voice and data transfer we work with international partners, such as Global One, one of the world's leading telecommunication operators.

Helsinki Telephone Company Ltd has an Executive Board, which consists of five of the company's top managers. The company also has a Supervisory Board, which in the group's present ownership arrangement is identical to that of the Helsinki Telephone Association. Because of the future share issue, certain rearrangements of the company's administrative bodies are expected during the next few months.

Helsinki Telephone Company Ltd rearranged its organization by forming three divisions or business units. One of the divisions is responsible for the sale and marketing of company products to private and business customers. Another division is responsible for data and radio services and Kolumbus information network services, and the third division deals with traffic and network products, R&D and international operations. The divisions have a matrix relationship with certain support functions, such as Finance, Logistics, Personnel Administration, and Communications.

In the spring of 1997, the functions responsible for private and business customers will become two independent divisions, with a third division for directory enquiry services.

Group structure

Helsinki Telephone Association

Helsinki Telephone Company Ltd

Main subsidiaries*

- Mäkitorppa Yhtiöt Oy
- Oy Heltel Ab
- Oy Comptel Ab
- Rahoituslinkki Oy
- HelsinkiTeleCom Deutschland GmbH

Main associated companies*

- Oy Datatie Ab
- Oy Finnet International Ab
- Kaukoverkko Ysi Oy
- Oy Radiolinja Ab
- Radiolinja Eesti Ab
- Oy Omnitele Ab
- Suomen Keltaiset Sivut Oy
- Finnet Logistiikka Oy

* Only the main companies included in the Group accounts

The business services centre in Pasila is one of HPY's three major office locations.

Helsinki Telephone Association

At present, Helsinki Telephone Association is the sole owner of Helsinki Telephone Company Ltd, but this will change as the result of a share issue scheduled for autumn 1997. Thus, new shareholders are expected to acquire about 15 % of the Company's overall stock.

All corporations and private individuals holding a Helsinki Telephone Association membership certificate and a subscription certificate are called members. There are about 414,000 members, 387,000 of which are private individuals. Each member owns at least one membership certificate. A holder of a membership certificate is entitled to a subscriber line in the telephone network and to using services of Helsinki Telephone Company Ltd. In total, members own about 550,000 membership certificates.

The administration of the Helsinki Telephone Association consists of a body of 60 representatives elected by the members, and an Executive Board of 9 directors appointed by the representatives.

The business operations of the Helsinki Telephone Association consist mainly of the management and leasing of real estate and the provision of certain personnel services.

A rapidly changing business environment

The new Telecommunications Act came into effect in August 1996, strengthening the position of individual service providers, for example, and laying down the terms for network leasing arrangements between operators. Even before that, customers could lease connections in order to use competing communication services, for example. Our competitors have also begun to build their own local network in what has traditionally been Helsinki Telephone Company Ltd's exclusive operating area. Wireless subscriptions represent a new field of competition, requiring several DCS standard radio networks in the metropolitan area.

The government has already submitted to Parliament a bill for a Telecommunications Markets Act, which is expected to come into force in the summer of 1997. The Act will lead to more extensive competition and ease the licence application procedure.

As a network owner and a major developer of services, Helsinki Telephone Company Ltd has an important role in building the Finnish information society of the future. In telephony, this will ultimately mean value added and functional benefit to customers and growing volume and profitability to operators.

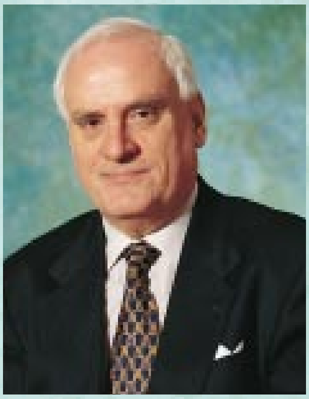
1996 in brief

Major events

- The teleoperator market grew by 10 %.
- A national area code reform was carried out in October.
- Digitalization of telephone exchanges in Helsinki Telephone Company Ltd's operating area was completed in August.
- The first ISDN product for private customers, called Home ISDN, was launched.
- Demand for wireless communications continued to be high. By December, Radiolinja had over 268,000 GSM subscriptions.
- Kolumbus networks maintained their strong position in Internet services.
- The Helsinki Telephone Association body of representatives decided in November on a share issue to expand the Company's ownership base.
- In November, Helsinki Telephone Company Ltd joined the environmental programme of European teleoperators, committing itself to the aim of sustainable growth. The company has initiated an environmental impact assessment project.

Key figures of the Group

	1996	1995	Change
Turnover (FIM million)	2 205,8	1 956,0	12,8 %
Profit from operations before depreciation (FIM million)	584,6	522,2	11,9 %
Operating profit (FIM million)	140,5	71,8	95,7 %
Profit before extraordinary items (FIM million)	114,2	38,5	196,6 %
Research and product development (FIM million)	46,8	31,2	50,0 %
Gross investments (FIM million)	585,9	584,6	0,2 %
Net investment, % of cash flow financing	86,7	86,0	
Equity ratio, %	52,0	52,0	
Personnel at year end 31.12.1996	3 553	3 578	-0,7 %



Kurt Nordman
Chief Executive
Officer

Chief Executive Officer's Review

The business result in 1996 surpassed our target: at the Group level, the profit was FIM 114 million before extraordinary items, appropriations and taxes, which nearly tripled the previous year's figure. Turnover grew by 12.8 %, attaining FIM 2,206 million.

As shown in the graph on the next page, HPY abandoned in 1994 the traditional non-profit business principle of Finnish mutual telephone companies. By reducing costs and expanding to new, profitable market segments - i.e. increasing our portfolio of efficient corporate networks and wireless connections and adding new features to the home user products, as well - we were able to make up for the effects of heavy competition and to improve our profits.

In the light of our concrete plans for future business operations, the Group has good growth prospects for this year with respect to both volume and profitability. Thus, my opinion is that it is clearly possible to achieve an increase in profits also in 1997.

We will continue to invest in technical infrastructure and services. In 1996, Helsinki Telephone Company made FIM 546 million's worth of investments, and on top of that procured equipment with a further FIM 100 million obtained by leasing arrangements.
The sum total for 1997 will be even higher, possibly reaching FIM 700 million.

In theory, one might expect a falling-off in infrastructure deployment since the digitization of telephone exchanges was succesfully completed last year, but in practice rapid growth in mobile communications will continue to require further large investments. Their share of all investments in 1997 will be approximately 25 %.

In the light of these figures, our earlier estimate of investments in the range of FIM 3,500 million over the five-year period 1996 - 2000 is still correct. This was a vital premise in the spring of 1996, when we began to plan for an ownership strategy involving new investors in Helsinki Telephone Company Ltd and for the implementation of this financing arrangement through a shares issue.

In their autumn meeting, the Board of Representatives of Helsinki Telephone Association approved the principles of a share issue and the relevant changes in the statutes of the Association. The new statutes were confirmed at a second hearing at the end of January 1997. It is surely no exaggeration to call the Representatives' decision a major landmark in the company's long history.

The past year has been quite eventful in other ways, too. There was a wide and often heated debate on new legislation concerning operator business and telecommunication markets. As a separate and very visible event, a major numbering reform took place in the national network. There were several large projects concerning technology and services, such as an expansion of the technical base of the Intelligent Network and a further consolidation of the operation of the national Finnet Centers serving corporate customers. As the achievements and trends are described in more detail in the following pages of this Annual Report, I will mention only a few special issues here.

The HPY Way, a strategy for enhancing the total quality of customer service which was launched two and a half years ago, is now continuously producing good results. According to surveys, user satisfaction has increased considerably, most notably among private customers. Similar surveys are also conducted among business customers to determine their views on HPY's service competence. In this case, however, there is also available more direct information on the improvement of quality of service, which can be observed in connection with deliveries of various service packages. These consist, increasingly, of integrated solutions covering all kinds of traffic, including mobile and international calls.

In accordance with present strategy, we are now placing an even greater emphasis on quality control and its status within the organization. We are also adopting a quality assessment procedure based on the indicators used for the Finnish Quality Award. The excellence of service must be maintained also when there are major changes in technology or in the content of our services.

HPY and the other private telephone companies have organized their deliveries of nationwide telecommunication services, as well as certain other functions, within the Finnet Group. Through this arrangement, all Finnet companies have been able to synchronize their participation in the efficient development of national telecommunication networks.

Because of changes in legislation and the increasing impact of competition law, however, Finnet companies have begun to consider afresh the goals and forms of their cooperation, discussing these in several working groups during the year. Now, at the end of February 1997, it appears that there is emerging final agreement on how to proceed. The telecommunications business is constantly changing, and all companies will now have to find individual as well as Group-based ways of adapting.

On a practical level, the strategies and visions of Helsinki Telephone Company are translated into business plans and investments programmes. Increasing profitability and enhancing service quality are primary objectives, as already mentioned, and these are furthermore based on the important realization that Finland is rapidly being transformed into a true Information Society. This will bring growth and profitability to our field of business, as new types of networks and services increase the volume of traffic and the value added.

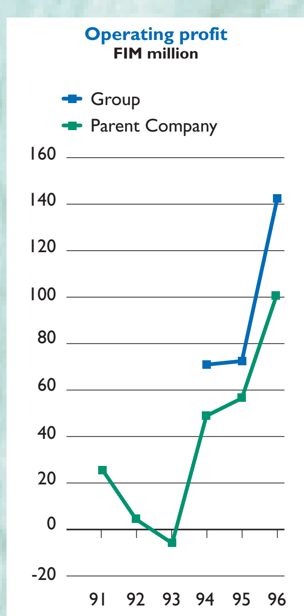
The networking of Finland and the resulting expansion of the telecommunications business contribute to sharpening Finland's image in Europe as a country with a highly advanced telecommunications technology. This has benefited Helsinki Telephone Company Ltd and its export effords directly. With a 115-year history as a private telephone company and a recent, strong experience of meeting competition in traditional operating areas, we are a unique company within the EU.

When this is combined with HPY's solid expertise in complex technology and its applications, our company can be seen as a serious professional partner for prospective new operators, i.e. in the deregulated German telecommunications market. HPY is currently discussing cooperation with several interested parties, and there could well be a breakthrough on this frontier in 1997.

Speaking about visions, it is necessary to mention a most important project called Helsinki Arena 2000. This is an attempt to get on to an early start with the most ambitious aspects of the Information Society. The project is set in the metropolitan area in general and the City of Helsinki in particular; and it is supported by a large consortium involving commercial and industrial companies and seven universities.

Each member of the consortium is developing its own individual applications and other products for the Arena project. The common aim of all parties is to widen the use of advanced networks and services by increasing the offering to the market and, at the same time, to gain significant benefits from growth in volume and synergy. In my view, this project is vital to the overall development of the Information Society and our expansion into the multimedia business.

Finally, I would like thank our customers for the confidence they have shown in HPY, which has been decisive for our growth in business volume and profits. Upholding of this confidence depends on the skills and service competence of our company's personnel. I convey my thanks to all employees at Helsinki Telephone Company for their excellent performance in 1996.



Sales and Marketing

The business unit is responsible for the sale and marketing of Helsinki Telephone Company Ltd's products to both private and business customers, the pertaining field operations and the directory enquiry services. The business unit is headed by Matti Mattheiszen, COO.

The Sales and Marketing division had a successful year in 1996, with turnover growing by 8 % from 1995's FIM 1,123 million to over FIM 1,212 million.

Towards private customers, our strategy is to increase the operating facilities of subscriber lines. "Home ISDN" is the first ISDN product aimed specifically at private customers. It provides the subscriber line with enough transfer capacity for advanced services, which means a growth in volume for the company. We have already received over 10,000 ISDN subscriptions. The demand for the Home Answerphone and Caller Display services and 999 Friends & Family special rates also grew rapidly.

The level of service for private customers rose considerably. Our Call Centers and installation services also provide free customer service in the evenings and on Saturdays. We have improved the organization of the data presented on customer bills and our shops have new interior design and more efficient technology. We have opened a new Intranet of our own for the data used in customer service. We have a new, improved customer feedback system.

Delivery times for subscriptions are shorter: a standard subscriber line is provided to a customer in three days, and an ISDN subscription in five days.

For business customers, the operation concept of Finnet Center launched in 1995 now covers the whole country. Basically, Finnet Center is a "control tower" located in Pasila, Helsinki, where a team of experts from various fields look after customers' telecom solutions irrespective of the customers' location or technology.

Some of the various Plus services are completely free to the customer.

The printing industry, for example, is one area where telecommunication has opened up new opportunities. Advertisements and articles are sent via the electronic distribution system built by HPY's Media unit to the printing houses connected to Kärkimedia Oy's network.

The strategy of the Corporate Service sector is to produce business-specific system solutions to business customers with the networks, terminals and operation concepts. In other words, Helsinki Telephone Company produces tailor-made telecommunication packages for each customer's needs and thus helps customers to improve their business operations.

This concept is applied to industry, commerce, service industries, banking, media, health care, public administration, municipalities and insurance companies. HPY market share of major corporate customers in the Helsinki metropolitan area is approximately s70 %.

The voice communication services of major corporate customers are increasingly based on the intelligent network technology which is used for Universal Corporate Numbers and the Diana 050 services. Universal Corporate Numbers improve companies' customer service, help to direct their telephone traffic and allow their customers to call them at local call rates. Universal Corporate Numbers are used by wholesalers, industrial enterprises and insurance companies. During the year, the most important users of Universal Corporate Numbers included Kesko, Valio, ABB, the Sampo Group and the Pohjola Group.

Fast corporate LANs and their interconnections were also strong growth areas. Postipankki and the OKOBANK Group purchased a service for interconnecting their LANs nationally and Nokia Group's new head office in Keilaniemi was provided with an ATM-based LAN. Several other companies were provided with national switching and data networks.

The Public Administration unit expanded delivery of service subscriptions to the Cities of Helsinki and Espoo. The products were called 'Helsinki Subscription' and 'Espoo Subscription'.

The Media unit adopted a new operation concept. An example is the delivery of an electronic distribution system for advertisements and articles to Kärkimedia Oy. The network covers both newspapers and several other interest groups, such as wholesalers and advertising agencies. The health care sector, too, was provided with a new business application: a controlled telecommunication network with information security and value added services.

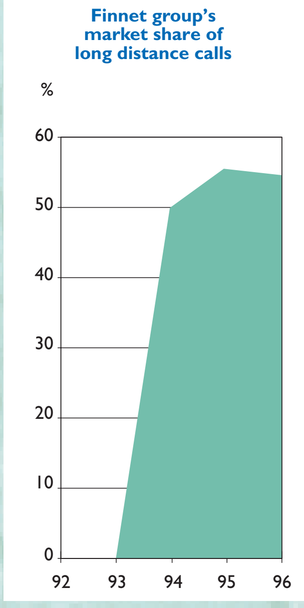
The operation concepts for the SME sector were clarified and we began to provide customers with telecommunication packages by including data and mobile (Diana 050) services to the existing services of the customer unit.

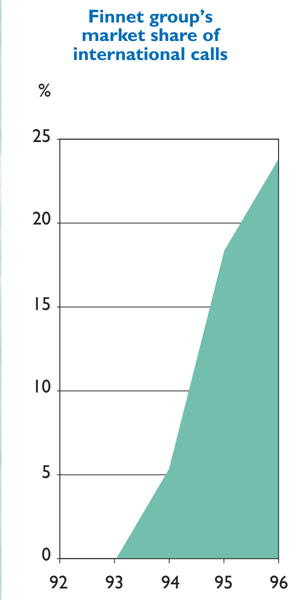
The market for directory enquiry services expanded.

The way ahead

The telecommunications market is expected to grow at 12-15 % a year for the rest of the 1990s, as telecommunications are an important means for both companies and public administration to enhance their operations and services. The demand for telecommunication services and package solutions will be intensified by the versatility of our operation and the extent of our customer services.

Helsinki Telephone Company's minimum goal in a situation where the number of new competitors is growing rapidly is to increase the volume of its business operations in pace with market growth. The competitive edge of Helsinki Telephone Company is undoubtedly the supply of overall telecommunication solutions and value added services for the needs of private and business customers in the most extensive telecommunications network in the area.





Data, Radio and Information Network Services

The business unit is responsible for the data and radio services and information networks of Helsinki Telephone Company Ltd, some of which cover the entire country. The business unit is also responsible for major development projects in the company's business operation. The business unit is headed by Jarmo Kalm.

1996 was a very good year for the business unit. Demand on the market grew more than we had expected and our turnover exceeded FIM 705 million; the increase was more than 16 % on the previous year's FIM 606 million.

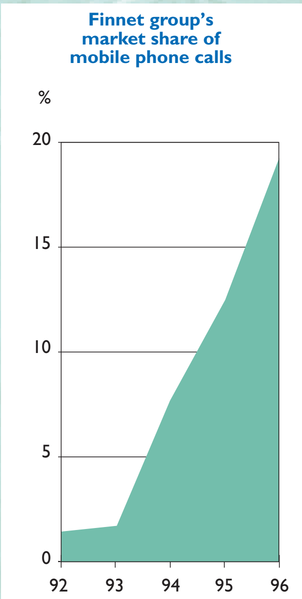
In radio services, the great demand for wireless communications continued, and by December Radiolinja had acquired over 268,000 subscriptions. Helsinki Telephone Company Ltd invested in Radiolinja's local network with about FIM 125 million during the year, which was FIM 15 million more than in 1995.

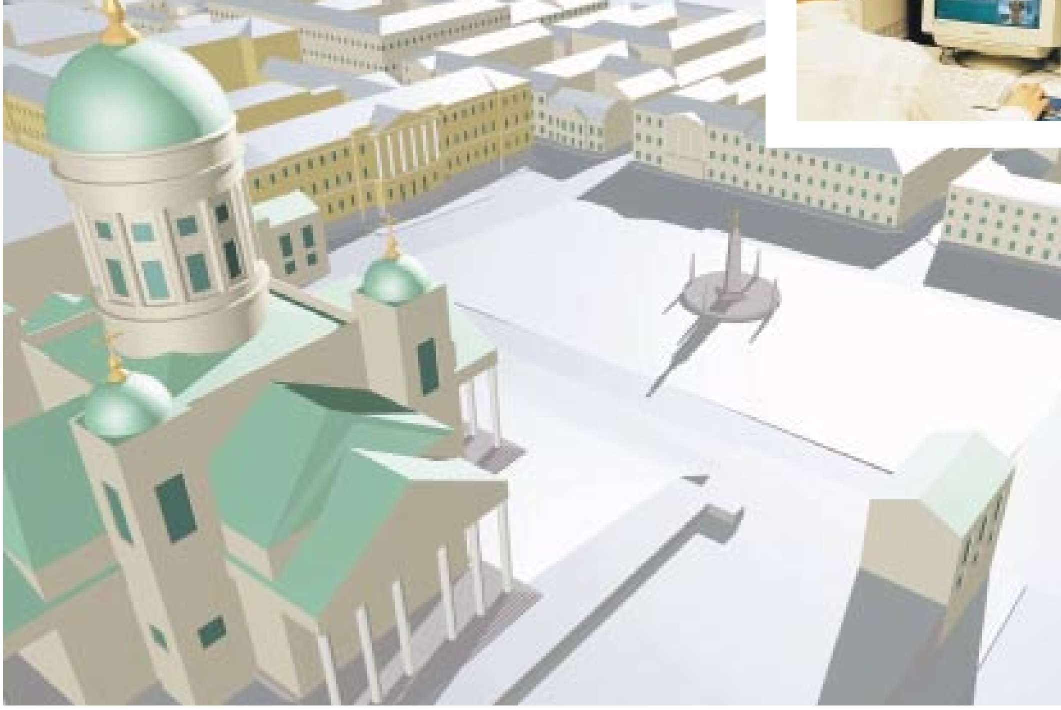
These investments served above all to increase the switching capacity of wireless traffic and to improve its quality. Measured by the amount of traffic, our share of the market is now 25 %. The majority of our customers consists of enterprises which are highly dependent on mobile communications.

The demand for LAN-to-LAN connection services for business customers had a significant effect on the productization within the business unit and on the increase in the unit's capacity. This demand emerged from the customers' need to connect the data transmission from their offices in different parts of the country or even the world into one telecommunication network for more efficient operation.

Internet, Intranet and Extranet services also experienced growing demand. Measured in minutes, Internet traffic via Helsinki Telephone Company Ltd doubled during 1996.

Internet traffic via the Kolumbus service is one of the company's important strategic areas.





The Arena 2000 project will produce a Virtual Helsinki with interactive services.

The Internet is one of the company's important strategic areas, as the use of the Internet - both via the company's Kolumbus service and via the services provided by other operators - increases the traffic in both data and wireless networks and in Helsinki Telephone Company's basic telephone network. Kolumbus Information Networks compete with two other equally large providers of Internet services and has the greatest turnover in the market.

Our success shows that we have the right strategy for expanding the market shares of radio, data and information network services. Helsinki Telephone Company began to invest in these new targets at an early stage well over ten years ago with data transmission. The same strategy was applied in 1988, when the GSM company Radiolinja Ltd was established. Helsinki Telephone Company Oy has invested in the Radiolinja shares as well as the Radiolinja networks, and today has a 47 % holding of the company.

Rearrangements of the fax business operations for more efficient operation were made in 1996, and the formerly centralized Fax unit was divided between other units. The Public Telephones unit was also adjusted to decreasing demand, which was caused by the growing number of mobile phones in particular.

One of the most important projects in business operation was the Helsinki Arena 2000 project launched in May and coordinated by Helsinki Telephone Company Ltd. Using multimedia-based broadband applications, the project will create a Virtual Helsinki with interactive services in cyberspace.

The project is supported by a large consortium, which includes the City of Helsinki, the Helsinki Chamber of Commerce, Helsinki Televisio, IBM, ICL Data, KT-Datacenter, Merita Bank, Nokia Telecommunications, Helsingin Sanomat, TT-Tieto and the leading metropolitan universities and institutes of arts and sciences. The final goal of the project is the year 2000, when Helsinki will be one of the European Culture Capitals and celebrate its 450th year under the theme "Knowledge, Technology and the Future". The Virtual Helsinki will be built in cyberspace in stages, adding one service after another.

Helsinki Telephone Company and the Finnish Fair Cooperation produced jointly a virtual version of the Office Technology Fair in 1996 as a pilot for the project proper. The experiment was very successful; the virtual fair was visited by 22,000 PC users, while the actual fair had 44,000 visitors. Also, the virtual model of downtown Helsinki was completed for the information networks ahead of schedule.

The way ahead

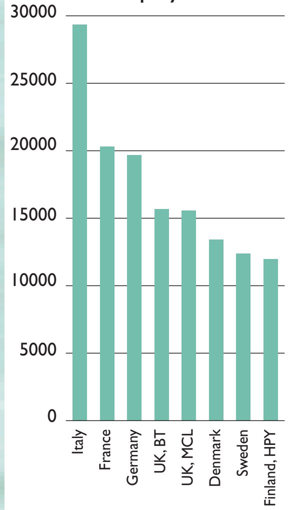
New foreign competitors will further intensify competition in 1997 for both radio, data and information network services. To manage the change in competition, we are developing our services, networks and overall cost efficiency.

In data services, this view is supported by the successful development of a national operation concept, which will be implemented by Datatie Oy.

In radio services, our company has a good position. We have completed our extensive basic investments in wireless networks and will now increase the capacity according to the demand and systematically raise the level of quality in data traffic.

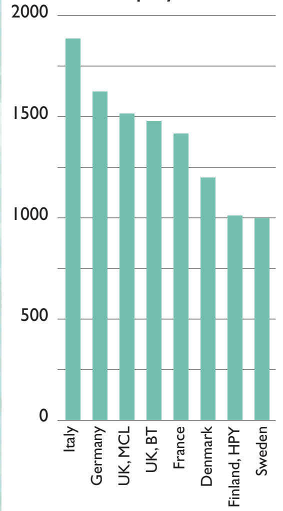
All in all, the company's view is that the volume and results of the business unit responsible for the data, radio and Kolumbus services will improve further in 1997.

Telephone expenses of a business customer in Europe
FIM per year



Source: "Analysis report: Cutting the cost"

Telephone expenses of a private customer in Europe
FIM per year



Source: "Analysis report: Cutting the cost"

Traffic and Network Products

Traffic and Network Products is responsible for the essential products, the technology and the maintenance of the capacity of Helsinki Telephone Company Ltd. The unit also includes R&D and international operations. The unit is headed by Jukka Alho.

For the Traffic and Network Products business unit, 1996 was a good year, despite the clear signs of rising competition in the market. The volume of call traffic in Helsinki Telephone Company Ltd's network grew by about 10 %, but because of a decrease in the rates, the net profit from the traffic did not grow as much.

The operation of basic telephone services - call traffic, subscriber lines and supplementary services for the phone traffic - saw an increase in profitability, which was brought about by adjustments in some of the rates, but also by more efficient operation and new products. Profitability was also improved by the completion of the digitalization of all the exchanges in Helsinki Telephone Company's area of operation.

In local-call traffic, Helsinki Telephone Company is the absolute market leader for private and business customers in the operating area. In long-distance calls sold in the company's operating area, we have a market share of about 60 % and in international calls 29 %. Our company conveys about 70 % of the telephone traffic within the radio and long-distance networks of major corporate customers. The traffic from the basic telephone network to wireless networks increased considerably with the growing number of mobile phones, and wireless networks are serious competitors to basic telephone traffic.

The profitability of traffic increased. Local-call traffic also brought in a small profit, and we intend to increase its profitability further. Profits from long-distance calls remained the same as in the previous year and profits from international calls increased by 25 %.

The last analog exchange was digitalized on 13 August, 1996 at 8:21 a.m.

Investments in wireless networks improved the switching capacity and improved the quality of the traffic. This is the Pasila tower, which is one of Helsinki's tallest buildings.

Nearly FIM 463 million were used for investments, mostly for completing digitalization of analog exchanges. The construction of a DCS 1800 cellular network in the Helsinki area was begun in 1996. There were also a growing number of GSM investments for Radiolinja. Because of the increase in mobile phone traffic and the recession in the building industry, construction of conventional copper line networks declined in comparison with previous years.

Research & Development

The company increased the development of Internet technology and its applications; this resulted in advanced applications with the latest solutions in the field by the multimedia laboratory. The most important areas in research and product development are the new telecommunication services, of which multimedia applications are a prime example. New, fast network technologies, such as ATM, were also prepared in order to make basic networks suitable for multimedia operations.

Other key areas in R&D were implementation of the latest versions of IN technology and the basic development of the new products involved. We also focused on the various alternatives in radio technology.

All in all, we concentrate on projects which will have a rapid impact on customer solutions and business operations. Many of the projects are carried out jointly with customers - for example, applications for the media industry and the European Infocities project, where the company participates together with the City of Helsinki.

International operations

The company expanded its participation in international projects, which has continued for several years. The criteria used for participation even in short-term projects are profitability and relevance to national competition strategies and technical know-how.

Comptel, a subsidiary of Helsinki Telephone Company Ltd, has gained a strong position in the growing international market, while Omnitele, an associate, works in international development and consultancy. Helsinki TeleCom Deutschland, a German subsidiary founded in 1995, also operates in consultancy and today has a solid position as an important partner in the German market, expecting further growth.

Helsinki Telephone Company Ltd has exported its know-how in the design and construction of GSM cellular networks to several European and Asian countries. In addition, Finnet International, an associated company, operates in the Baltic countries, and Mobinter, a subsidiary of the Mäkitorppa Group, in Russia.

R&D projects are an important means of participating in international activities. The HPY Research Center is involved in several EU research projects, which bring it both know-how and make it a valued project partner. We have first-class expertise in select, highly focused areas.

Cooperation with international network operators has increased. In 1996, Helsinki Telephone Company concluded a contract on retailing of international voice and data transmission and value added services with Global One, which is owned by Deutsche Telekom, France Telecom and Sprint International of the USA.

The way ahead

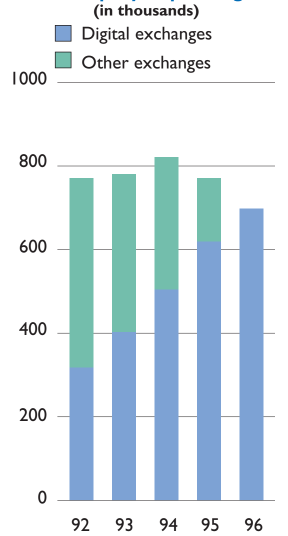
We will respond to the competition by improving our cost efficiency and focusing on product development and new technologies.

Network investments will continue to grow in 1997. Our own wireless network based on DCS technology will be operational by the summer of 1997. This network will be a new solution for local call traffic, and it will be closely integrated with the basic services of our company.

Helsinki Telephone Company has been preparing a broadband multimedia network for private customers in Helsinki. This project, officially launched in February 1997, certainly makes HPY one of the world's top network operators. The application is based on IP/ATM technology and is aimed at Internet users, video conferencing and teleworkers. HPY's partner in constructing the network is Nokia Telecommunications, which supplies the required technology.

In the European market, we are expanding the coverage of our own data transmission network with Finnet International. With all these international operations, we can also expect future investments in select targets abroad.

Telephone numbers connected to public exchanges in the company's operating area
(in thousands)



Subsidiaries

Mäkitorppa Yhtiöt Oy

The turnover of Mäkitorppa Yhtiöt Oy, the largest of Helsinki Telephone Ltd's subsidiaries, increased by 19 per cent to FIM 214 million (FIM 180.4 million in 1995). This figure comprised sales of mobile communication products, related services and accessories. Profits rose 23.9 per cent to nearly FIM 3 million. The company sold over 80,000 mobile phones, representing an increase of 90 per cent on 1995. Sales of Radiolinja GSM subscriptions more than doubled.

Despite continued rapid growth of volume, with prices falling the only way to boost profits is to increase the company's market share and operating range. An important growth area for Mäkitorppa consists of the foreign operations of its subsidiary Mobinter.

According to the company, the outlook for sales volume and profitability in 1997 is good.

Oy Heltel Ab

Heltel, a Helsinki Telephone Company subsidiary, specializes in importing, productization and marketing communication and information technology products. Its turnover rose 34 per cent during 1996, reaching FIM 127 million (compared with FIM 94.2 million in 1995). Operating profit, however, declined 19.7 per cent to FIM 4.3 million.

Stiffer competition in all product groups also eroded profits, as did investments made in data and service systems and laboratory equipment. According to Heltel's own analysis, a focusing on operative quality and efficiency, coupled with a favourable general trend in the sector, augurs well for the company in 1997.

Oy Comptel Ab

The subsidiary Comptel designs and supplies information technology for telecom companies. Turnover in 1996 was FIM 77 million, up 25 per cent on 1995 (FIM 61.1 million). Comptel reported an operating profit of FIM 10.2 million, the best result in its ten-year existence. Comptel's most successful export item is the MDS network management application for use in fixed and mobile networks.

The prospects for 1997 look good, as orderbooks are bulging. The company expects continued growth in the volume of sales and steady profitability.

Helsinki TeleCom Deutschland GmbH

For Helsinki TeleCom Deutschland, a subsidiary offering consulting services in Germany, 1996 was the first full financial year. Turnover attained FIM 5.5 million. The company settled into its business niche, and continued to expand its target market among Germany's municipal telecom companies. Helsinki TeleCom Deutschland bid for and won several consulting contracts in 1996. The German telecom sector is now Europe's largest, most demanding and fastest-growing market segment.

Associated companies

Oy Radiolinja Ab

Oy Radiolinja Ab, Helsinki Telephone Ltd's largest associate and the world's first GSM operator, increased its turnover by a prodigious 133 per cent to FIM 606 million. It thus showed a clear profit for the first time, well in advance of expectations.

The company has a strong position on the market, having more than doubled the number of GSM subscriptions in its network during 1996. Thanks to major investments in the network, capacity and coverage have steadily improved; with rapid growth in cellular communications expected to continue in 1997, this should enable the company to maintain its strong market position.

Oy Datatie Ab

Oy Datatie Ab recorded FIM 242 million in turnover, a 66 per cent increase on 1995. Profitability improved and the company was well in the black. In January 1996, the company took over all the services marketed under the Datatie brand, significantly increasing the range of services covered. According to the management, the outlook for 1997 is also favourable.

Kaukoverkko Ysi Oy

Kaukoverkko Ysi Oy, which handles the Finnet Group's domestic long-distance traffic, increased its turnover by 30 per cent to FIM 141 million. Profitability improved and the result was good. Despite tough competition, the company is hoping to further increase its volume and boost profits. 1997 is likely to be another good year.

Oy Finnet International Ab

Oy Finnet International Ab, affiliate handling the Finnet Group's international traffic, reported FIM 106 million in turnover for its third year of operation, representing an increase of 49 per cent on 1995. Profitability and result were good. The company managed to increase its market share despite competition from new service operators on the market. Despite the growing challenge posed by the competition, the outlook for 1997 remains good.

Oy Omnitele Ab

Oy Omnitele Ab specializes in designing and developing fixed and wireless communication networks and data networks for domestic and international markets. Turnover stood at FIM 42 million, up 27 per cent on 1995. Profitability improved and the result was very satisfactory. The outlook for 1997 is good.

Suomen Keltaiset Sivut Oy

Suomen Keltaiset Sivut Oy (Yellow Pages), the associate in charge of telephone directory advertising sales, attained FIM 42 million in turnover, a 13 per cent increase on 1995. Profitability declined, although the result was still good. The advertising market did not grow as much as expected in 1996, but both the company itself and sectoral analyses are predicting a revival in 1997, bringing higher volume and greater profits.

GSM 050 RADIOLINJA

Datatie FINNET GROUP

109 FRIENDS & FAMILY

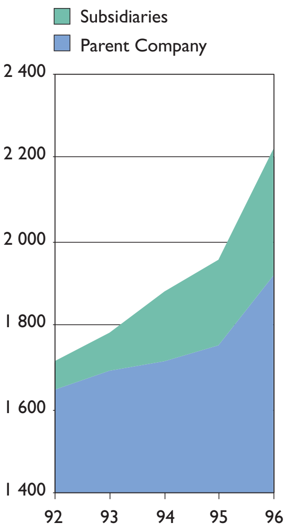
999 CALL INTERNATIONAL

OMNITELE FINNET GROUP

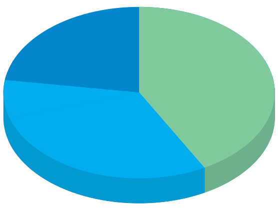
Report of the Executive Board

General

Group turnover
1992-96
FIM million



Parent Company
Breakdown for 1996
FIM 1 918,5 million



Traffic and subscriptions (41,9 %)

Installation, leasing and maintenance (35,9 %)

Other income (22,2 %)

Helsinki Telephone Company Ltd and its subsidiaries and associated companies form a Group which is licensed to operate in the telecommunications sector. In the following report, the cluster of companies headed by Helsinki Telephone Company Ltd is referred to as the Group, and Helsinki Telephone Company Ltd itself as the Parent Company. The entire share capital of Helsinki Telephone Company Ltd is owned by the Helsinki Telephone Association.

Turnover and result

The Group

Group turnover in 1996 was FIM 2,206 million, representing an increase of 12.8 % on the previous financial year (1995: FIM 1,956 million). With expenditure up 13.9 %, profit from operations before depreciation rose to FIM 585 million, an increase of 11.9 % on 1995 (FIM 522 million). Depreciation on fixed assets and other long-term expenditure amounted to FIM 442 million. Operating profit was FIM 140 million (FIM 72 million) and profit before extraordinary items, appropriations and taxes was FIM 114 million (FIM 39 million). The income statement shows a consolidated profit of FIM 51 million for the financial year (FIM 28.2 million).

The Parent Company

Parent Company turnover was FIM 1,918 million, 9.8 % up on 1995 (FIM 1,748 million). Net return on telephone traffic was 1.9 %. The main improvement was in data and company network services. The increases in equipment sales, proceeds from installation and other sales income also exceeded targets set.

Profit from operations before depreciation rose to FIM 531 million (FIM 494 million). Depreciation on fixed assets and other long-term expenditure was FIM 430 million. Operating profit was FIM 101 million (FIM 55 million) and profit before extraordinary items, appropriations and taxes was FIM 87 million (FIM 37 million).

A Group contribution of FIM 3 million from Oy Comptel Ab was entered under extraordinary income. A sum of FIM 51.1 million was entered under extraordinary expenses, fully covering pension liabilities carried over from previous years.

Subsidiaries

The parent company of the Mäkitorppa Group (Mäkitorppa) changed its name on December 27, 1996 from Mäkitorpan Autoradio Oy to Mäkitorppa Yhtiöt Oy. Mäkitorppa increased its market share and enlarged its operating area, attaining a turnover of FIM 214 million (+19%). In terms of volume, mobile phone sales went up 90 % on 1995. At the end of 1996, Mäkitorppa had 18 sales outlets in Finland. Operations in the Baltic countries and Russia represented a significant proportion of Mäkitorppa's turnover. Operating profit for the financial year was FIM 2.9 million (1995: FIM 2.5 million).

Oy Comptel Ab's income from exports continued to grow, mainly thanks to European operations. Several projects involving broad-ranging database applications were under way in Finland, including one making it possible to compile minutely itemized telephone bills on the basis of raw data obtained directly from calls made. Company turnover in 1996 stood at FIM 77 million (+25 %) and operating profit was FIM 10.2 million (FIM 4.4 million).

Oy Heltel Ab's turnover for the financial year was FIM 127 million (+34 %); network products accounted for most of the increase. Operating profit was FIM 4.3 million (FIM 5.3 million).

Helsinki TeleCom Deutschland GmbH extended its contacts with potential partners, seeking an active role on the newly deregulated German telecommunications market. So far, the volume of business is small, but the company has plenty of growth potential.

Associated companies

By the end of 1996, the Radiolinja network covered 98 % of the Finnish population. GSM subscriptions to the network more than doubled in the course of the year. As the number of actual calls made increased even more rapidly, the Radiolinja Group attained a turnover of FIM 606 million (+133 %) and FIM 33.6 million in operating profit. Oy Radiolinja Ab's subsidiary Radiolinja Eesti As, in which Helsinki Telephone Company Ltd has a 44 % holding, greatly enlarged its network, which covered some 90 % of the Estonian population by the end of the year.

Helsinki Telephone Company Ltd purchased Oy Radiolinja Ab shares for FIM 15.4 million during the financial year, including FIM 0.4 million's worth of 'A' shares.

The Kaukoverkko Ysi Group consists of Kaukoverkko Ysi Oy, the parent company, and Finnetcom Oy, its fully owned subsidiary. Kaukoverkko Ysi Oy handles the planning, construction, running and maintenance of the Finnet Group's domestic long-distance network. The company's operations have reached a stable level. Finnetcom Oy, which was founded in autumn 1995, continued to work on nationwide customer projects. Group turnover for the financial year amounted to FIM 141 million (+30 %) and operating profit was FIM 38 million.

The Suomen Keltaiset Sivut Oy Group comprises the parent company, Suomen Keltaiset Sivut Oy (Yellow Pages), and its fully owned subsidiary, Suomen Numeropalvelu Oy. The parent company invested during the financial year in electronic value-added products and an operative data system. Group turnover was FIM 42 million (+13 %) and operating profit FIM 1.6 million.

Oy Finnet International Ab continued to increase its market share of international long-distance traffic. During the financial year, the company founded a subsidiary called Linenet Oy to handle business transactions outside Finland. The parent company's turnover was FIM 106 million (+49 %) and its operating profit FIM 30.5 million.

Oy Datatie Ab has contracted with the Finnish telephone companies to produce all nationwide data services. It is also responsible for developing related products for the use of Finnet's customers. During the year under review, Datatie significantly expanded the national fibre optic network and transmission systems based on SDH technology. Company turnover for the financial year rose to FIM 242 million (+66 %) and operating profit was FIM 12.8 million.

Oy Omnitele Ab carries out both development and consultancy projects, the latter accounting for a growing proportion of operations. Omnitele works with businesses in more than 30 countries; among its Finnish clients are the Finnet companies. Turnover in Finland grew by 27 % and exports by 29 %. In total, turnover was FIM 42 million (+27 %) and operating profit FIM 3.3 million.

Investment and financing

Investments by the Group amounted to FIM 586 million in 1996 (1995: FIM 585 million).

Parent Company investment was FIM 546 million (FIM 564 million). A further FIM 100 million's worth of investments were financed by leasing (FIM 60 million).

The Group invested FIM 365 million in telecommunications infrastructure, FIM 23 million in real estate, FIM 66 million in lease equipment and FIM 16 million in shares of subsidiaries, associates and other companies. Other investment amounted to FIM 76 million.

The Parent Company financed 85 % of its investments (FIM 464 million) with funds generated from operations, FIM 48 million with long-term loans and the remaining FIM 35 million from its working capital. The Parent Company did not resort to re-borrowing from the pension fund in 1996. Short-term interest-bearing debts were reduced by FIM 10 million.

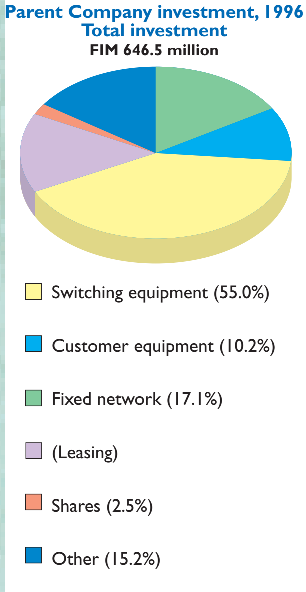
Research and development

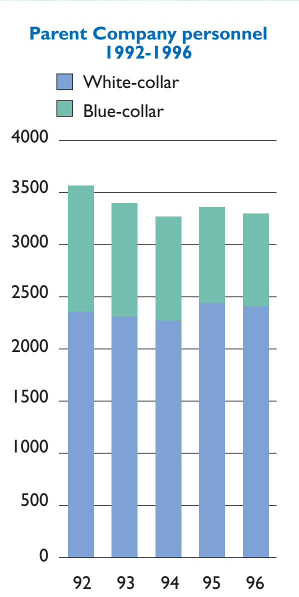
The Parent Company made a major effort to boost its R&D contribution to Internet technology and applications. The key role in this effort was played by Helsinki Telephone Company Ltd's Research Centre. The Research Centre's involvement in major international and Finnish projects provides a sound basis for introducing sophisticated network technologies in company operations.

The Company and its clients launched several joint research projects in 1996, including multimedia applications for the media sector and the European Infocities Project, in which Helsinki Telephone Company Ltd collaborated with the City of Helsinki. Towards the end of 1996, the Company made preparations for the introduction of an IP/ATM network; during 1997, the company will become one of the world's first teleoperators to begin construction of a broadband network for residential subscribers. The results of studies on the adaptability of broadband subscriptions to the company network are encouraging.

Other development work focused on the latest versions of an intelligent network and new, derived products. Investigation of the options available in RF technology continued. The character of the Company's R&D operations has become increasingly international over the past few years. The Company is a world leader in its specialized niches.

The Company spent FIM 46.8 million on research and development during the financial year (1995: FIM 31.2 million).





Governing bodies

Helsinki Telephone Company Ltd has a nine-member Supervisory Board and an Executive Board comprising the operative management. CEO Kurt Nordman is also Chairman of the Executive Board; the other members are Matti Mattheiszen (Deputy Chairman), Jukka Alho, Jarmo Kalm and Ann-Maj Majuri-Ahonen.

An extraordinary general meeting held on January 30, 1996 elected Erkki Helaniemi and Tuulikki Juusela to take the places vacated by Sven Wik and Martti Kiviranta on the Supervisory Board.

The Annual General Meeting was held on April 2, 1996. The Helsinki Telephone Association was represented at the meeting by the Association Board. The AGM re-elected the entire Supervisory Board.

The 1996 audit was carried out by Lasse Lehti and Leo Laitinmäki of SVH Coopers & Lybrand Oy, Authorized Public Accountants; Matti Pirnes and Anneli Lindroos served as deputy auditors.

The supervisory audit for 1996 was also done by SVH Coopers & Lybrand Oy.

The Supervisory Board held six meetings and the Executive Board 21 meetings in 1996.

Personnel

The Group had 3,553 employees at the end of 1996 (1995: 3,578). The average number of personnel employed by the Group during the financial year was 3,736; this figure includes trainees and temps.

The Parent Company had 3,457 employees on average during the financial year; this figure likewise includes trainees and temps. The company had 3,262 employees at year end, representing a reduction of 75 compared with December 1995.

Salaries and wages paid by the Group and Parent Company are shown in the annexes to the income statement.

The rapid changes taking place in the sector and the market situation were reflected in a shift in focus from manual skills to computer skills. During the year 299 vacancies were filled, almost half of them by means of internal transfers. For production reasons, the number of employees was cut down by 73.

The HPY Way Project continued in 1996. Aimed at boosting efficiency, quality and customer satisfaction, this project hatched several individual development schemes.

Outlook for 1997

At its autumn meeting on November 28, 1996, the Helsinki Telephone Association's body of representatives approved an enlargement of Helsinki Telephone Company Ltd's ownership base with a share issue targeted at Association members. The Association currently owns the entire Company stock, converted into book-entry securities on January 16, 1997. At this time, the number of shares was increased from 2,016 to 40,320,000, reducing the nominal share value to FIM 5.

The management arrangements of Helsinki Telephone Company Ltd and the Helsinki Telephone Association will be streamlined by a change due to take effect May 1, 1997, when the current Chief Executive Officer of the Company, Kurt Nordman, will take up a full-time post as Chairman of the Executive Board. Mr. Nordman will continue to act as Managing Director/CEO of the Association, and in this capacity he will also serve as Chairman of the Helsinki Telephone Association Group. The current Chief Operating Officer Matti Mattheiszen has been appointed to take Mr. Nordman's place as CEO of the Parent Company, and Jukka Alho and Jarmo Kalm have been appointed joint Chief Operating Officers.

The new Telecommunications Markets Act, which will come into force in summer 1997, will alter the operating environment for the telecommunications sector. The Act will provide greater freedom to telecom entrepreneurs and buttress their rights. The volume of competition in the various telecom sectors will continue to grow, but the management believes that the Group will rise to the challenge and maintain its position.

Economic growth is expected to pick up during 1997. In the telecommunications sector, mobile phone operations are still expanding fast. The Group's sustained investment in this and other growth areas is beginning to bear fruit, and an increase can be expected in both the volume and the profitability of operations.

The investment rate will remain high, as we need to establish adequate regional coverage and maintain our capability to introduce new services, such as wireless phone subscriptions and multimedia telecommunications applications.

Consolidated income statement

FIM million		1.1 - 31.12.1996	1.1 - 31.12.1995
Invoiced sales		**2,695.7**	2,428.9
Connection fees to other telephone companies		**-489.9**	-472.9
Turnover	(1)	**2,205.8**	1,956.0
Increase (+) or decrease (-) in inventories of finished goods		**2.1**	-0.5
Share of associated companies' profits		**31.4**	7.8
Other income from operations		**10.3**	20.7
Expenses	(2)		
Materials, supplies and products			
Purchases during the financial period		**427.2**	345.0
Increase (-)or decrease (+) in inventories		**-13.6**	-5.7
External services		**300.4**	215.2
Staff expenses	(3)	**695.2**	671.5
Rents		**80.5**	73.7
Other expenses		**175.3**	162.1
		-1,665.0	-1,461.8
Profit from operations before depreciation		**584.6**	522.2
Depreciation	(4)		
On fixed assets and other long term expenditure		**-442.3**	-448.7
On consolidation goodwill		**-1.8**	-1.7
Operating profit		**140.5**	71.8
Financial income and expenses	(5)		
Dividend income			0.2
Interest income from non-current investments		**2,0**	3.2
Other interest income		**24.0**	20.2
Other financial income		**0.4**	0.4
Interest expenses		**-50.2**	-54.3
Other financial expenses		**-2.5**	-3.0
		-26.3	-33.3
Profit before extraordinary items, appropriations and taxes		**114.2**	38.5
Extraordinary income and expenses	(6)		
Extraordinary expenses		**-51.2**	
Profit before appropriations and taxes		**63.0**	38.5
Taxes			
For the financial period		**-7.7**	-3.5
For previous financial periods		**0.3**	0.2
Change in deferred tax liability		**-4.0**	-5.9
Profit for the financial year before minority interest		**51.6**	29.3
Minority share of profit for the financial year		**-0.6**	-1.1
Consolidated profit for the financial period		**51.0**	28.2

Consolidated balance sheet

FIM million		31.12.1996	31.12.1995
Assets			
Fixed assets and other non-current assets	(7), (8)		
Intangible assets			
Intangible rights		**3.6**	3.3
Consolidation goodwill		**3.8**	5.7
Other long term expenditure		**76.9**	83.0
		84.3	92.0
Tangible assets			
Land and water		**41.6**	41.3
Buildings and structures		**494.8**	478.0
Telecommunications equipment and other machines and equipment		**1,434.1**	1,324.0
Prepayments and work in progress		**23.8**	28.1
		1,994.3	1,871.4
Securities and other non-current investments	(9)		
Interests in associated companies		**184.3**	143.0
Shares and holdings		**19.8**	19.2
		204.1	162.2
Current assets			
Stocks			
Raw materials and consumables		**52.3**	51.4
Work in progress		**8.7**	6.6
Finished products/goods		**28.8**	16.1
Prepayments		**17.3**	17.0
		107.1	91.1
Receivables	(10), (11)		
Trade receivables		**446.6**	537.9
Loan receivables		**26.3**	38.3
Prepaid expenses and accrued income		**60.9**	48.8
Other receivables		**9.4**	4.2
		543.2	629.2
Other current investments		**334.3**	320.2
Cash at bank and in hand		**21.8**	25.2
		3,289.1	3,191.3

FIM million		**31.12.1996**	31.12.1995
Liabilities and Equity			
Shareholders' equity	(12)		
Restricted equity			
Share capital		**201.6**	201.6
Reserve fund		**1,108.1**	1,108.1
		1,309.7	1,309.7
Unrestricted equity			
Subscription fees		**3.7**	3.2
Retained earnings		**346.5**	318.4
Profit for financial period		**51.0**	28.2
		401.2	349.8
Minority interests		**45.1**	45.1
Reserves			
Obligatory reserves	(13)	**1.5**	4.2
Liabilities			
Non-current	(14)		
Bonds		**6.5**	10.9
Loans from financial institutions		**20.6**	29.1
Pension loans		**721.4**	668.4
Deferred tax liability		**126.4**	122.3
		874.9	830.7
Current			
Trade payables		**230.3**	245.7
Accrued expenses and deferred income		**197.3**	143.2
Other current liabilities	(15)	**229.1**	262.9
		656.7	651.8
		3,289.1	3,191.3

Consolidated statement of source and application of funds

FIM million	1.1 - 31.12.1996	1.1 - 31.12.1995
Operations		
Cash flow financing		
Profit from operations before depreciation	**584.6**	522.2
Financial income and expenses	**-26.3**	-33.2
Extraordinary items	**-51.2**	
Income taxes	**-7.4**	-3.3
	499.7	485.7
Share of associated companies' profits	**-26.1**	-4.0
Change in working capital		
Inventories, increase (-)/ decrease (+)	**-16.0**	-6.6
Current receivables, increase (-)/ decrease (+)	**74.0**	-29.9
Non-interest bearing current liabilities, increase (+)/decrease (-)	**29.5**	79.9
	87.5	43.4
Total funds from operations	**561.1**	525.1
Investments		
Fixed asset investments		
Land and buildings	**46.3**	24.9
Exchanges and fixed networks	**365.5**	336.1
Telecommunications terminal equipment	**66.2**	71.5
Other machines and equipment	**59.9**	52.7
Shares ond other non-current expenditure	**48.0**	99.5
	585.9	584.7
Proceeds from sale of fixed assets	**-9.8**	-20.0
	576.1	564.7
Financial surplus/deficit	**-15.0**	-39.6
Financing		
Increase (-)/ decrease (+) in non-current trade receivables	**11.9**	23.3
Increase (+)/decrease (-) in non-current liabilities	**40.1**	-25.1
Increase (+)/decrease (-) in interest bearing current liabilities	**-27.2**	9.5
Increase in subscription fees	**0.6**	0.8
	25.4	8.5
Change in liquid assets according to this statement, increase (+)/decrease (-)	**10.4**	-31.1
Valuation items	**0.3**	0.2
	10.7	-30.9
Change in liquid assets according to the balance sheet, increase (+)/decrease (-)	**10.7**	-30.9

Parent Company income statement

FIM million		1.1 - 31.12.1996	1.1 - 31.12.1995
Invoiced sales		**2,408.4**	2,220.6
Connection fees to other telephone companies		**-489.9**	-472.9
Turnover	(1)	**1,918.5**	1,747.7
Increase (+) or decrease (-) in inventories of finished goods		**2.1**	-0.5
Other income from operations		**9.2**	20.4
Expenses	(2)		
Materials, supplies and products			
Purchases during the financial period		**213.0**	197.3
Increase (-) or decrease (+) in inventories		**-1.1**	-3.9
External services		**313.1**	229.7
Staff costs	(3)	**647.7**	636.2
Rents		**78.5**	72.9
Other expenses		**147.7**	141.6
		-1,398.9	-1,273.8
Profit from operations before depreciation		**530.9**	493.8
Depreciation on fixed assets and other long term expenditure	(4)	**-430.0**	-438.3
Operating profit		**100.9**	55.5
Financial income and expenses	(5)		
Dividend income		**9.6**	12.1
Interest income		**25.4**	20.7
Interest expenses		**-47.6**	-49.6
Other financial expenses		**-1.8**	-1.8
		-14.4	-18.6
Profit before extraordinary items, appropriations and taxes		**86.5**	36.9
Extraordinary income and expenses			
Extraordinary income	(6)	**3.0**	1.0
Extraordinary expenses		**-51.1**	
		-48.1	1.0
Profit before appropriations and taxes		**38.4**	37.9
Difference between book and planned depreciation, increase (-), decrease (+)	(4)	**-17.2**	-22.9
Taxes			
For the financial period		**-5.4**	-3.8
For previous financial periods		**0.2**	0.2
Profit for the financial period		**16.0**	11.4

Parent Company balance sheet

FIM million		31.12.1996	31.12.1995
Assets			
Fixed assets and other non-current assets	(7), (8)		
Intangible assets			
Other long term expenditure		**73.4**	77.0
Tangible assets			
Land and water		**20.1**	19.8
Buildings		**371.5**	375.1
Telecommunications equipment and other machines and equipment		**1,409.6**	1,300.8
Prepayments and work in progress		**23.7**	28.0
		1,824.9	1,723.7
Securities and other non-current investments	(9)		
Shares and holdings		**262.3**	246.8
Current assets			
Stocks			
Raw materials and consumables		**52.9**	51.7
Work in progress		**8.7**	6.6
Prepayments		**17.3**	17.0
		78.9	75.3
Receivables	(10), (11)		
Trade receivables		**422.3**	521.7
Loan receivables		**48.0**	16.5
Prepaid expenses and accrued income		**50.4**	41.1
Other receivables		**4.0**	2.8
		524.7	582.1
Other current investments		**334.1**	310.8
Cash at bank and in hand		**10.7**	13.0
		3,109.0	3,028.7

FIM million		**31.12.1996**	31.12.1995
Liabilities and Equity			
Shareholders' equity	(12)		
Restricted equity			
Share capital		**201.6**	201.6
Reserve fund		**1,108.1**	1,108.1
		1,309.7	1,309.7
Unrestricted equity			
Subscription fees		**3.7**	3.2
Retained earnings		**25.9**	14.5
Profit for financial period		**16.0**	11.4
		45.6	29.1
Appropriations and reserves			
Accelerated depreciation	(7)	**437.4**	420.2
Obligatory reserves	(13)	**0.9**	3.0
Liabilities			
Non-current			
Pension loans	(14)	**719.1**	665.1
Other non-current liabilities		**5.9**	11.9
		725.0	677.0
Current			
Trade payables		**204.4**	227.4
Accrued expenses and deferred income		**174.0**	128.2
Other current liabilities	(15)	**212.0**	234.1
		590.4	589.7
		3,109.0	3,028.7

Parent Company statement of source and application of funds

FIM million	1.1 - 31.12.1996	1.1 - 31.12.1995
Operations		
Cash flow financing		
Profit from operations before depreciation	**530.9**	493.8
Financial income and expenses	**-14.4**	-18.6
Extraordinary items	**-48.1**	1.0
Income taxes	**-5.2**	-3.6
	463.2	472.6
Change in working capital		
Inventories, increase (-)/ decrease (+)	**-3.6**	-4.8
Current receivables, increase (-)/ decrease (+)	**88.9**	-29.0
Non-interest bearing current liabilities, increase (+)/decrease (-)	**8.4**	79.4
	93.7	45.6
Total funds from operations	**556.9**	518.2
Investments		
Fixed asset investments		
Land and buildings	**22.5**	26.7
Exchanges and fixed networks	**365.5**	336.1
Telecommunications terminal equipment	**66.2**	71.5
Other machines and equipment	**52.9**	49.7
Shares and other non-current expenditure	**39.2**	80.2
	546.3	564.2
Proceeds from sale of fixed assets	**-3.1**	-13.1
	543.2	551.1
Financial surplus/deficit	**13.7**	-32.9
Financing		
Increase (-)/ decrease (+) in non-current receivables	**-31.5**	4.1
Increase (+)/decrease (-) in non-current liabilities	**48.0**	-6.5
Increase (+)/decrease (-) in interest bearing current liabilities	**-9.8**	3.6
Increase in subscription fees	**0.6**	0.7
	7.3	1.9
Change in liquid assets according to this statement, increase (+)/decrease (-)	**21.0**	-31.0
Change in liquid assets according to the balance sheet, increase (+)/decrease (-)	**21.0**	-31.0

Notes to the financial statements

Accounting principles

1. Scope of the consolidated financial statements

The consolidated financial statements include the Parent Company Helsinki Telephone Ltd and those companies in which the Parent Company holds more than 50 % of the voting rights either directly or indirectly. Those companies in which the votes held by the Parent Company are a minimum of 20 % and a maximum of 50 % and its holding exceeds 20 % are accounted for as associated companies. Subsidiaries dormant during the financial period or whose effect on the consolidated financial results and unrestricted equity is minor are not consolidated.

2. Consolidation principles

Intragroup transactions, internal profits on current and fixed assets, internal receivables and payables and the internal distribution of profit are eliminated.

Minority interests are separated from the consolidated financial results and from equity and posted as separate items in the income statement and balance sheet. The purchase cost method is used in the elimination of internal ownerships. The portion of the purchase cost of subsidiary shares exceeding shareholders' equity is entered as consolidation goodwill, and is expensed to income over a period of five years. The net of consolidation goodwill and any appropriations in the balance sheet of the acquired company are presented in the balance sheet.

Associated companies are consolidated using the equity method. The share of associated companies' profit for the financial period is calculated in proportion to the Group's holding and is presented as a separate item in the income statement under profit from operations before depreciation.

3. Comparability with the previous year

Accounting practice was altered in the 1996 financial statements so that the difference between book and planned depreciation and voluntary appropriations were divided in the consolidated financial statements into unrestricted equity and deferred tax liability. The figures for the previous year have been adjusted accordingly.

The grouping of expenses in the income statement has been further specified compared with the previous year. The figures for the previous year have been adjusted accordingly.

The internal profits on fixed assets in the consolidated financial statements have been eliminated. These profits were not eliminated in previous years because they were insignificant.

4. Turnover and other income from operations

Connection fees paid to other telephone companies are deducted from invoiced sales. Other income from operations includes gains from the sale of fixed assets and rental income from properties.

As a rule, sales by Group companies are entered as income at the time services are provided or equipment is invoiced. Long-term projects of the Parent Company and Oy Comptel AB are an exception; they are invoiced and entered as income on the basis of stage of completion. These are of limited significance, however, with respect to the consolidated financial results.

5. Valuation principles for current assets

Current assets are stated at variable cost, acquisition cost or the lower of the probable sale or replacement price.

6. Items denominated in foreign currency

The income statements of foreign subsidiaries are translated into Finnish markkas at the average monthly rate quoted by the Bank of Finland and the balance sheets at the rate on the closing day. The resulting translation difference is entered under unrestricted equity.

Transactions in foreign currency are entered during the financial period at the rate on the transaction day. Balance sheet items denominated in foreign currency are valued at the rate quoted by the Bank of Finland on the closing day.

7. Fixed assets and other non-current expenditure

The acquisition cost less accumulated planned depreciation is entered in the balance sheet as the book value of fixed assets and other non-current expenditure. Fixed assets manufactured and built by the company are stated at direct cost. No revaluations are included in the book values of fixed assets.

The difference between planned depreciation in the Parent Company's financial statements and book depreciation is entered as a separate item under appropriations in the income statement.The accumulated difference between actual and planned depreciation is entered under appropriations in the balance sheet. The difference between actual and planned depreciation in the consolidated financial statements is divided between unrestricted shareholders' equity and deferred tax liability. Planned straight-line depreciation on the acquisition cost is calculated on the basis of economic lives. The depreciation plans for fixed assets transferred from the Helsinki Telephone Association on January 1, 1994 were continued. Non-current expenditure, for which depreciation periods have been harmonized with the maximum depreciation allowed under the Business Taxation Act, are an exception.

The economic lives for additions made after January 1, 1994 are as follows:

Consolidation goodwill	5 years
Other non-current expenditure	5-10 years
Buildings	25-40 years
Exchange and fixed network equipment	10 years
Teleterminal equipment	4 years
Other machines and equipment	4-5 years

The exchange and fixed network equipment was transferred to Helsinki Telephone Company Ltd on January 1, 1994 and will be written off in eight years. Otherwise, the depreciation periods for fixed assets transferred from the Helsinki Telephone Association are as stated above.

8. Pension expenses

The pension commitments of Helsinki Telephone Company Ltd are funded by the Helsinki Telephone Association's pension fund. The Company also has its own direct pension liability, mainly for early, fixed-term pensions. The subsidiaries cover their pension liabilities by means of pension insurance. The costs of unfunded pension liabilities of the Associations's pension fund attributable to the Company and the prior period liability for the Company's direct pension commitments were entered in their entirety under extraordinary expenses.

9. Income taxes and deferred tax liability

Taxes for the financial period are matched and entered in the income statement. The change in the imputed deferred tax liability is entered in the consolidated financial statements. The deferred tax liability is calculated at the tax rate current when the financial statements are drawn up.

10. Leasing and rent expenses

The Parent Company has financed a significant part of its investment in telecommunications network equipment by means of financial leasing. In 1996 new financial leases amounted to FIM 100.2 million compared with FIM 60.1 million the previous year. Rent in the income statement comprises payment under financial leasing contracts for telecommunications network equipment, operating and maintenance lease costs and rent from premises, etc. Finance leasing costs amounted to FIM 34.8 million (1995: FIM 31.8 million) and other rent expenses to FIM 43.7 million (1995: 41.1 million).

The Group's leasing liabilities were FIM 250.9 million.

Notes to the financial statements

FIM million	**Group 1996**	Group 1995	**Parent Company 1996**	Parent Company 1995
1. Net sales				
Total invoiced sales (less value added tax and telecommunications tax)	**2,719.0**	2,448.5	**2,431.7**	2,239.9
Bad debts	**-23.3**	-19.6	**-23.3**	-19.3
Connection fees to other telephone companies	**-489.9**	-472.9	**-489.9**	-472.9
Turnover	**2,205.8**	1,956.0	**1,918.5**	1,747.7
By market				
Finland	**2,065.3**	1,862.6	**1,905.4**	1,731.3
Exports	**140.5**	93.4	**13.1**	16.4
Total	**2,205.8**	1,956.0	**1,918.5**	1,747.7
2. Capitalized expenditure for fixed assets manufactured by the Company				
Raw materials and supplies	**296.9**	297.8	**296.9**	297.8
External services	**80.8**	69.0	**108.0**	92.6
Staff expenses	**99.4**	96.0	**81.6**	77.8
Other expenditure	**7.4**	8.0	**2.9**	2.6
Total	**484.5**	470.8	**489.4**	470.8
3. Staff expenses				
Wages and salaries	**629.6**	601.3	**578.6**	560.1
Pension expenses	**94.9**	92.2	**86.2**	85.0
Statutory social expenses	**70.1**	74.0	**64.5**	68.9
	794.6	767.5	**729.3**	714.0
Capitalized under fixed assets	**-99.4**	-96.0	**-81.6**	-77.8
Staff expenses in the income statement	**695.2**	671.5	**647.7**	636.2
Benefits in kind	**9.8**	8.6	**7.2**	6.1
Salaries and emoluments paid during the financial period	**623.2**	597.5	**570.8**	556.2
Salaries and emoluments to the members of the Board of Directors and the Supervisory Board, including partial remuneration to the members of the	**6.0**	5.7	**2.8**	2.6
Executive Board and the managing directors	**0.3**	0.9	**0.2**	0.4

Pension agreement with management:
The retirement age for managing directors of Group companies is set at 60-65. The services of Parent Company managing directors have been purchased from Helsinki Telephone Company Ltd

FIM million	**Group 1996**	Group 1995	**Parent Company 1996**	Parent Company 1995
4. Planned depreciation				
Depreciation on consolidation goodwill	**2,5**	2.6		
Adjustment between appropriations and income	**-0.7**	-0.9		
Intangible rights	**0.4**	0.4		
Other non-current expenditure	**33.0**	30.3	**32.1**	28.9
Buildings	**29.1**	28.4	**24.6**	24.4
Telecommunicationss equipment and other machines and equipment	**379.8**	389.6	**373.3**	385.0
Total	**444.1**	450.4	**430.0**	438.3
Difference between actual and planned depreciation, increase (-)/decrease (+)				
Buildings			**4.4**	4.8
Telecommunications apparatus, machines and equipment			**-21.6**	-27.7
. Total			**-17.2**	-22.9

FIM million	**Group 1996**	Group 1995	**Parent Company 1996**	Parent Company 1995
5. Internal financial income and expenses				
Financial income from Group companies				
Dividend income			**2.0**	5.2
Interest income from non-current investments			**1.5**	
Interest income from current investments			**0.1**	1.4
Total			**3.6**	6.6
Financial expenses paid to Group companies				
Interest expenses			**1.3**	1.8
6. Extraordinary income and expenses				
Extraordinary income				
Group contribution			**3.0**	1.0
Extraordinary expenses				
Pension fund pension liability and liability from Company's direct pension commitments	**-40.9**		**-40.9**	
Stamp duty on loan contributed to the pension fund	**-10.3**		**-10.3**	
Total	**-51.2**		**-48.2**	1.0

Notes to the balance sheet

7. Intangible and tangible assets

	Group 1996	Group 1995	Parent Company 1996	Parent Company 1995
Intangible rights				
Acquisition cost Jan. 1	**5.8**	2.9		
Increases	**0.7**	2.9		
Acquisition cost Dec. 31	**6.5**	5.8		
Accumulated planned depreciation	**-2.9**	-2.5		
Book value Dec. 31	**3.6**	3.3		
Consolidation goodwill				
Acquisition cost Jan. 1	**14.3**	8.7		
Increases		5.6		
Acquisition cost Dec. 31	**14.3**	14.3		
Accumulated planned depreciation	**-9.2**	-6.6		
Book value Dec. 31	**5.1**	7.7		
Consolidated appropriations				
Acquisition value Jan. 1	**3.7**	3.5		
Increases		0.2		
Acquisition value Dec. 31	**3.7**	3.7		
Accumulated entries to income	**-2.4**	-1.7		
Book value Dec. 31.	**1.3**	2.0		
Other non-current expenditure				
Acquisition cost Jan. 1	**173.5**	128.8	**163.6**	123.3
Increases	**31.1**	45.0	**28.5**	40.3
Decreases	**-2.8**	-0.3		
Acquisition cost Dec. 31	**201.8**	173.5	**192.1**	163.6
Accumulated planned depreciation	**-124.9**	-90.5	**-118.7**	-86.6
Book value Dec. 31	**76.9**	83.0	**73.4**	77.0

FIM million	**Group 1996**	Group 1995	**Parent Company 1996**	Parent Company 1995
7. Intangible and tangible assets (contd.)				
Land and water				
Acquisition cost Jan. 1	**41.3**	27.0	**19.8**	19.7
Company acquisitions		14.2		
Increases	**0.3**	0.3	**0.3**	0.3
Decreases		-0.2		-0.2
Book value Dec. 31	**41.6**	41.3	**20.1**	19.8
Buildings				
Acquisition cost Jan. 1	**811.3**	641.7	**622.5**	611.8
Company acquisitions		158.6		
Increases	**46.0**	24.5	**21.0**	24.3
Decreases		-13.5		-13.6
Acquisition cost Dec. 31	**857.3**	811.3	**643.5**	622.5
Accumulated planned depreciation	**-362.5**	-333.3	**-272.0**	-247.4
Book value Dec. 31	**494.8**	478.0	**371.5**	375.1
Difference between actual and planned depreciation, Jan. 1			**155.8**	160.6
Decrease			**-4.4**	-4.8
Difference between actual and planned depreciation, Dec. 31			**151.4**	155.8
Telecommunications equipment and other machines and equipment				
Acquisition cost Jan. 1	**6,015.7**	5,546.9	**5,946.0**	5,497.1
Company acquisitions		11.2		
Increases	**496.0**	460.2	**484.6**	450.1
Decreases	**-6.4**	-2.6	**-2.5**	-1.2
Acquisition cost Dec. 31	**6,505.3**	6,015.7	**6,428.1**	5,946.0
Accumulated planned depreciation	**-5,071.2**	-4,691.7	**-5,018.5**	-4,645.2
Book value Dec. 31	**1,434.1**	1,324.0	**1,409.6**	1,300.8
Difference between actual and planned depreciation, Jan. 1			**264.4**	236.8
Increase			**21.6**	27.6
Difference between actual and planned depreciation, Dec. 31			**286.0**	264.4
Telecommunications equipment (exchanges and fixed networks) share of book value Dec. 31.	**1,191.8**	1,103.4	**1,191.8**	1,103.4
Prepayments and work in progress				
Acquisition cost Jan. 1	**28.1**	28.9	**28.0**	28.9
Increases	**9.3**	9.4	**9.3**	9.2
Decreases	**-13.6**	-10.2	**-13.6**	-10.1
Book value Dec. 31	**23.8**	28.1	**23.7**	28.0
Fixed asset investments				
Acquisition cost Jan. 1	**162.2**	180.9	**246.8**	199.9
Transfer to subsidiary shares		-37.4		
Increases	**42.5**	22.0	**16.1**	50.2
Decreases	**-0.6**	-3.3	**-0.6**	-3.3
Book value Dec. 31	**204.1**	162.2	**262.3**	246.8
8. Fixed asset tax values				
Land and water	**130.0**	132.2	**105.4**	106.8
Buildings	**485.1**	461.7	**340.1**	341.2
Shares and holdings				
Subsidiary shares			**101.6**	96.6
Other shares and holdings	**107.9**	70.5	**106.4**	68.9
Total	**723.0**	664.4	**653.5**	613.5

9. Shares and holdings

	Group owner-ship %	Group voting rights %	Shares owned by Parent Company: Parent Company owner-ship %	Shares owned by Parent Company: Number of shares	Nominal value FIM 1000	Book value FIM 1000	Profit/loss for financial period FIM million	Group share of shareholders' equity FIM million
Group companies								
Oy Comptel Ab	96 %	96 %	96 %	101	1,200	1,202	5.1	9.1
Helsinki TeleCom Deutschland GmbH	100 %	100 %	100 %	1	909	909	-0.6	-0.6
Oy Heltel Ab	63 %	63 %	63 %	200	2,000	2,000	2.9	6.3
Mäkitorppa Yhtiöt Oy	80 %	80 %	80 %	3,144	2,515	16,635	0.6	12.6
Mobinter Oy	80 %	80 %	0 %	0	0	0	1.1	1.9
Mobinter Baltic, SIA, Riga	80 %	80 %	0 %	0	0	0	0.4	0.4
Mobilen OAO, S:t Petersburg	68 %	68 %	0 %	0	0	0	-0.3	-0.1
Mobinest OU, Tallinn	80 %	80 %	0 %	0	0	0	0.0	0.1
Mäkitorppa Oy	80 %	80 %	0 %	0	0	0	0.0	0.4
Immobiliengesellschaft Mäkitorppa	80 %	80 %	0 %	0	0	0	0.3	2.1
Rahoituslinkki Oy	100 %	100 %	100 %	3	15	15	0.0	0.3
Kiinteistö Oy Kutomotie 16	100 %	100 %	100 %	15	15	15	-0.9	-0.9
Kiinteistö Oy Ratavartijankatu 3	64 %	64 %	64 %	5,753	28,765	70,126	-0.2	64.3
Kiinteistö Oy Rinnetorppa	100 %	100 %	50 %	5	50	1,345	0.0	2.9
Other companies (dormant)						406		
Total						92,653		
Associated companies								
Oy Datatie Ab	22 %	22 %	22 %	251	1,255	2,724	9.5	6.7
Oy Finnet International Ab	41 %	41 %	41 %	1,434	14,340	14,340	22.8	27.4
Finnet Logistiikka Oy	32 %	32 %	32 %	480	528	530	1.7	1.2
Oy Finnet Media Ab	35 %	35 %	35 %	1,053	1,053	1,053	0.1	1.1
Oy Finnet Ventures	42 %	42 %	42 %	42	840	840	0.0	0.8
Kaukoverkko Ysi Oy	34 %	34 %	34 %	336	336	336	28.1	16.5
Oy Omnitele Ab	29 %	29 %	29 %	351	351	351	2.3	1.5
Oy Radiolinja Ab	47 %	46 %	47 %	25,072	125,360	125,386	30.8	117.8
Radiolinja Eesti As	44 %	44 %	44 %	53	162	4,113	-9.2	0.0
Suomen Keltaiset Sivut Oy	30 %	30 %	30 %	184	920	1,540	1.1	4.1
Vantaan Yhteisverkko Oy	24 %	24 %	24 %	36	4	4		
Total						151,217		

The undepreciated goodwill included in the book value of associated companies on Dec. 31, 1996 was FIM 7.7 million.
The closing day for all associated companies was December 30, 1996.

Other shares and holdings owned by the Parent Company

	Parent Company owner-ship %	Number of shares	Nominal value FIM 1000	Book value FIM 1000
Computec Oy	18 %	750	750	750
Helsinki Halli Oy	less than 1 %	12	120	1,200
Innopoli Oy	less than 1 %	3,334	333	0
Luottokunta	less than 1 %	1	1	1
Merita Bank, A	less than 1 %	55,409	541	665
Pasilan Huolto Oy	1 %	10	0	0
Puhelinlaitosten Takaus Oy	3 %	1	1	1
Oy Rastor Ab	2 %	210	21	2
Kiinteistö Oy Mannerheimintie 168	3 %	1,407	1	3,452
Kiinteistö Oy Nekalanpuisto	3%	2,020	20	821
Kiinteistö Oy Pieni Roobertinkatu 7	8 %	1,332	1	7,734
Asunto Oy Castreninkatu 28	12 %	1,200	120	1,012
Heikintori Oy	2 %	2,394	239	922
Asunto Oy Helsingin Itämerenkatu	less than 1 %	205	0	219
Asunto Oy Herttalax	less than 1 %	96	48	44
Asunto Oy Korkeavuorenkatu 7	5 %	5	0	1,518
Asunto Oy Vantaan Keropuisto	3 %	279	29	91
Total				18,432
Total shares and holdings				262,302

FIM million	Group 1996	Group 1995	Parent Company 1996	Parent Company 1995
10. Receivables falling due in one year or later included under current assets				
Loan receivables	**15.7**	27.2	**39.3**	16.5
Other receivables	**0.5**	2.4		
Total	**16.2**	29.6	**39.3**	16.5
11. Receivables and payables/Group companies and associated companies				
Accounts receivable/Group companies			**1.8**	1.7
Accounts receivable/associated companies	**39.9**	34.7	**38.9**	34.7
Deferred receivables/Group companies			**3.5**	2.3
Deferred receivables/associated companies	**12.6**	6.3	**12.7**	6.3
Loan receivables/Group companies (current)			**9.1**	1.5
Loan receivables/Group companies (non-current)			**38.9**	15.0
Other receivables/Helsinki Telephone Company Ltd	**3.9**	2.6	**3.9**	2.6
Total	**56.4**	43.6	**108.8**	64.1
Other non-current liabilities/Group companies			**5.9**	11.9
Accounts payable/Group companies			**9.7**	10.3
Accounts payable/associated companies	**57.2**	51.7	**57.2**	51.7
Deferred liabilities/Group companies			**0.5**	1.1
Deferred liabilities/associated companies	**0.8**		**0.8**	
Other current liabilities/Group companies			**18.6**	6.1
Other current liabilities/Helsinki Telephone Association	**14.9**		**14.9**	
Total	**72.9**	51.7	**107.6**	81.1
12. Changes in shareholders' equity				
Share capital Jan. 1	**201.6**	201.6	**201.6**	201.6
Share capital Dec. 31	**201.6**	201.6	**201.6**	201.6
Reserve fund Jan. 1	**1,108.1**	1,108.1	**1,108.1**	1,108.1
Reserve fund Dec. 31	**1,108.1**	1,108.1	**1,108.1**	1,108.1
Total restricted equity	**1,309.7**	1,309.7	**1,309.7**	1,309.7
Subscription fees Jan. 1	**3.2**	2.4	**3.2**	2.4
Increase	**0.5**	0.8	**0.5**	0.8
Subscription fees Dec. 31	**3.7**	3.2	**3.7**	3.2
Retained earnings Jan. 1	**346.6**	318.9	**25.9**	14.5
Equity adjustment item	**-0.1**	-0.5		
Profit for financial period	**51.0**	28.2	**16.0**	11.4
Retained earnings Dec. 31	**397.5**	346.6	**41.9**	25.9
Unrestricted shareholders' equity	**401.2**	349.8	**45.6**	29.1
Shareholders' equity	**1,710.9**	1,659.5	**1,355.3**	1,338.8
Distributable shareholders' equity	**77.9**	37.6	**41.9**	25.9

FIM million	**Group 1996**	Group 1995	**Parent Company 1996**	Parent Company 1995
13. Obligatory reserves				
Warranty repairs and postinstallation work	**0.5**	3.3	**0.5**	3.0
Rent on vacant premises	**0.6**	0.8		
Other obligatory reserves	**0.4**	0.1	**0.4**	
Total	**1.5**	4.2	**0.9**	3.0
14. Non-current loans falling due in five years or later				
Pension loans	**721.4**	668.1	**719.1**	665.1
Loans from financial institutions	**5.5**			
Total	**726.9**	668.1	**719.1**	665.1
15. Interest-bearing current liabilities				
Employee deposits (with Pay office) (gross)	**86.7**	81.7	**86.7**	81.7
Employee loans (from Pay office)	**-6.0**	-6.8	**-6.0**	-6.8
Employee deposits (with Pay office) (net)	**80.7**	74.9	**80.7**	74.9
Amount due to pension fund		42.3		42.3
Other current interest-bearing liabilities	**46.4**	37.1	**33.3**	6.6
Total	**127.1**	154.3	**114.0**	123.8
16. Contingent liabilities				
For the Company and Group companies				
Mortgages	**261.0**	261.0	**261.0**	261.0
Guarantees			**39.6**	55.8
Pledges	**1.9**	1.9		
For others				
Mortgages	**0.4**	0.4	**0.4**	0.4
Guarantees	**24.1**	20.2	**24.0**	20.0
Other liabilities				
Repurchase	**21.0**	22.0	**20.6**	20.9
Leasing commitments	**250.9**	204.1	**248.0**	203.2
Other contingent liabilities	**0.5**	0.6		
Total				
Mortgages	**261.4**	261.4	**261.4**	261.4
Guarantees	**24.1**	20.2	**63.6**	75.8
Pledges	**1.9**	1.9		
Other contingent liabilities	**272.4**	226.7	**268.6**	224.1
Total	**559.8**	510.2	**593.6**	561.3
17. Unfunded pension liabilities				
In respect of Company's direct pension commitments		12.0		12.0
Pension fund liability deficit				
Statutory liability for employment pensions		11.5		11.5
Liability for supplementary pensions		28.9		28.9
Total		52.4		52.4

Main indicators of Group performance

Main indicators for the income statement	1996	1995	1994
Turnover, FIM million	2,205.8	1,956.0	1,879.3
Turnover, percentage change	12.8	4.1	5.5
Profit from operations before depreciation, FIM million	584.6	522.2	517.7
Profit from operations before depreciation. % of turnover	26.5	26.7	27.5
Operating profit, FIM million	140.5	71.8	70.1
Operating profit, % of turnover	6.4	3.7	3.7
Profit before extraordinary items and taxes FIM million	114.2	38.5	36.5
Profit before extraordinary items, % of turnover	5.2	2.0	1.9
Profit before taxes, FIM million	63.0	38.5	36.5
Profit before taxes, % of turnover	2.9	2.0	1.9
Research and development, FIM million	46.8	31.2	23,9
Research and development, % of turnover	2.1	1.6	1.3
Return on equity (ROE), %	5.9	1.8	1.6
Return on capital invested (ROI), %	6.4	3.8	4.2
Main indicators for the balance sheet			
Gearing ratio (%)	29.6	30.3	26.6
Liquidity (current ratio)	1.5	1.6	1.9
Equity ratio, %	52.0	52.0	53.8
Investments			
Gross investments, FIM million	585.9	584.7	521.8
Gross investments, % of turnover	26.6	29.9	27.8
Net investments, % of cash-flow financing	86.7	86.0	91.9
Personnel			
Personnel, average	3,736	3,734	3,656
Turnover/person, FIM thousand	589.6	523.8	514.0

Formulas for main indicators

Return on capital invested % (ROI) $= \dfrac{\text{Profit before extraordinary items, appropriations and taxes + financial expenses}}{\text{Balance sheet total - non-interest-bearing liabilities (average for the year)}} \times 100$

Return on equity % (ROE) $= \dfrac{\text{Profit before extraordinary items, appropriations and taxes - taxes}}{\text{Equity + minority share (average for the year) 1}} \times 100$

Gearing ratio (%) $= \dfrac{\text{Interest-bearing liabilities + prepayments - cash in hand and at banks}}{\text{Equity + minority share 1}} \times 100$

Equity ratio % $= \dfrac{\text{Equity + minority share 1}}{\text{Balance sheet total - prepayments}} \times 100$

Liquidity (current ratio) $= \dfrac{\text{Current assets + financial assets}}{\text{Short-term liabilities - prepayments}} \times 100$

Net investments, % of cash flow financing $= \dfrac{\text{Profit after income taxes plus depreciation}}{\text{Net investments}} \times 100$

1 Voluntary appropriations and the difference between realized (?) and planned depreciation was entered in the consolidated financial statements under profit for the financial year and shareholders equity on the one hand and under change in imputed (?) deferred tax liability on the other. Orders in hand were not presented, because this information is not essential due to the nature of the Group's business.

Proposal for distribution of the Parent Company profit

The consolidated unrestricted shareholders' equity according to the consolidated balance sheet on December 31, 1996 is FIM 401,231,000, of which FIM 77,917,000 is distributable.

The Parent Company's non-restricted shareholders' equity according to the balance sheet on December 31, 1996 is FIM 45,626,465.05.

The Executive Board proposes the following
to the Annual General Meeting:

– payment of a dividend on share capital of FIM 201,600,000	FIM 8,064,000.00
– retention in the profit and loss account	FIM 37,562,465.05
	FIM 45,626,465.05

Helsinki, March 5, 1997

Kurt Nordman,
Chairman of the
Executive Board
CEO

Matti Mattheiszen

Jukka Alho

Jarmo Kalm

Ann-Maj Majuri-Ahonen

Auditors' Report

To the shareholders of Helsinki Telephone Company Ltd

We have audited the accounts, the financial statements, and the corporate governance of Helsinki Telephone Company Ltd for the period January 1 to December 31, 1996. The financial statements prepared by the Executive Board and the Chief Executive Officer include the report of the Executive Board, the consolidated and Parent Company income statements, balance sheets and notes to the financial statements. Based on this audit, we express the following opinion on these financial statements and on corporate governance.

The audit was conducted in accordance with sound accounting practice. The bookkeeping and the accounting principles, content and presentation of the financial statements were thus examined in sufficient detail to obtain reasonable assurance about whether the annual accounts are free of material misstatement. The purpose of our audit of corporate governance was to establish that the members of the Supervisory Board and Executive Board and the Chief Executive Officer have legally complied with the rules laid down in the Finnish 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 Group's and the Parent Company's results from operations, as well as of their financial position. The Parent Company's profit for the financial period is FIM 15,972,491.45 and the Group's FIM 50,959,000. The financial statements and consolidated financial statements can be adopted and the members of the Executive Board and the Managing Director can be discharged from liability for the period audited by us. The proposal made by the Executive Board on how to deal with the retained earnings of the Parent Company is in compliance with the Companies' Act.

Helsinki, March 14, 1997

SVH Coopers & Lybrand Oy
Authorized Public Accountants

Henrik Sormunen
Authorized Public
Accountant

Lasse Lehti
Approved
Accountant

Leo Laitinmäki
Authorized Public
Accountant

Statement of the Supervisory Board

The financial statements and consolidated financial statements of Helsinki Telephone Company Ltd for the period January 1, 1996 to December 31, 1996, the auditors' report and the proposal by the Executive Board regarding disposal of the profit have been presented to the Supervisory Board. The Supervisory Board states that it has no comments on the material presented.

In its opinion, the Supervisory Board proposes that the financial statements and consolidated financial statements should be adopted and accepts the proposal by the Executive Board regarding the disposal of the profit for the period.

The Supervisory Board also states that all its members are due to resign at the conclusion of the Annual General Meeting.

Helsinki, March 7, 1997

Supervisory Board

Harri Holkeri
chairman of the Supervisory Board

Group Administration

Supervisory Board

Chairman
Harri Holkeri

Deputy Chairman
Reino Paasilinna

Raimo Ilaskivi

Carl Johan Adolfsson

(**Sven Wik**
until January 1, 1996)

Ingvar S. Melin

(**Martti Kiviranta**
until January 30, 1996)

Kari Piimies

Pekka Saarnio

Since January 1, 1996
Erkki Helaniemi

Since January 1, 1996
Tuulikki Juusela

Auditors

Regular
SVH Coopers & Lybrand Oy
Authorized
Public Accountants

Leo Laitinmäki
Authorized Public Accountant

Lasse Lehti
Approved Accountant

Deputies
Anneli Lindroos
Authorized Public Accountan

Matti Pirnes
Approved Accountant

Executive Board

Kurt Nordman
CEO and Chairman of the Executive Board

Matti Mattheiszen
Matti Mattheiszen COO, Sales and Marketing

Jukka Alho
Jukka Alho COO,Ttraffic and Network Products

Jarmo Kalm
COO,
Data, Radio and
Data Network Service

Ann-Maj Majuri-Ahonen
Executive Vice President, Finance

Other Executives

Jarmo Leiniö
internal services

Kalevi Suortti
public relations and communication

Johan Weckström
personnel

Personnel Representatives on the internal management board

Teuvo Käyhty

Helena Lehtonen

Kari Mäkikara

Seppo Saari

The executives and personnel representatives of Helsinki Telephone Ltd comprise the internal management board. In the front row, members of the Executive Board. From the left: Jarmo Kalm, Matti Mattheiszen, Ann-Maj Majuri-Ahonen, Kurt Nordman and Jukka Alho. In the back row from the left: Jarmo Leiniö, Johan Weckström, Kalevi Suortti, Teuvo Käyhty, Helena Lehtonen, Seppo Saari and Kari Mäkikara.

Contacts

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