ANNUAL REPORT

KT-DATACENTER

Annual report and interim reports:

The Annual Report of KT-Datacenter is published one week prior to the Annual General Meeting, which will be held on 18 April 1997 at our offices in Pitäjänmäki, Helsinki. The Group publishes an Interim Report quarterly. The first Interim Report will be published on week 21, the second on week 33 and the third on week 45. The Annual Report and the Interim Reports are published in Finnish, Swedish and English. Copies can be requested from Corporate Communications, phone +358-9-50 671 or through the Internet by selecting Feedback on our home page http://www.ktt.fi.

The market and market growth estimates presented in this Annual Report are based on the study "Finnish Information Technology Market 1995–98" by IDC Finland Oy, as well as on the company's own estimates.

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mission:

KT-Datacenter produces added value to its partners by satisfying their changing needs quickly and reliably. KT-Datacenter strives to improve the quality of their customer service as well as the efficiency and competitiveness of their operations through information technology.

operational guide-line

KT-Datacenter Group provides comprehensive information technology services: software products, hardware, operating and network services, and services relating to planning the use of information technology as well as the actual use. Business operations fall into three categories: hardware sales, operating and network services, and the software business. The Group's head office is located in Helsinki. KT-Datacenter Group operates in locations throughout Finland and has business operations in Estonia.

The Managing Director's REPORT

In 1996, the information technology business continued to grow. Demand grew most in the hardware business as well as expert and administrative services. Homes, data communications and services were the fastes growing market segments. The slowest growth took place in the public administration sector.

Competition remained fierce, and reorganisation within the business continued. International information technology companies strengthened their position in Finland.

KT-Datacenter Group's exceptional growth, exceeding that of the market, was generated through both organic growth and acquisitions of companies and businesses. Novosys Oy bought the entire stock of VTKK-Toimistojärjestelmät, a major office system vendor, and strengthened its position as the largest reseller in Finland. KT-Datacenter Ltd acquired several software business operations during the year, which made us the market leader in systems for real estate management as well as hospital financial and materials administration.

Jointly with VR Group we established a new company called VR-Data Oy, which will initially offer its services mainly to other companies of the VR Group. The intention is to expand the company's business operations to other organisations in the future.

Group turnover rose to more than one billion Finnmarks, 40% more than the year before. Profits also developed positively.

Growth was particularly vigorous in hardware sales. The turnover of Novosys followed, as it has done in previous years. In an environment of heavy demand, the reliability of hardware deliveries has become a crucial competitive factor. The opening of a new logistics centre by Novosys in August significantly improved hardware availability. During the year, a record number of computer systems was delivered. The consumer sector is still increasing in importance and already accounts for some ten percent of the entire information techology market. Novosys improved its position in the consumer market by opening new outlets.

Network monitoring and administration were the two areas of hardware and network related services where demand grew most. A number of new clients were acquired who outsourced their data processing operations, and many existing customers expanded the scope of their agreements with us.

The software business grew intensely. From the beginning of 1997, Finnish municipalities adopted a new accounting method, which increased the demand for accounting systems. Strong growth also took place in software-related expert services.

KT-Datacenter services focused mainly on those that have a connection with system availability and stability. Demand for expert services relating to hardware and operating environments is increasing. Data systems diversify and become more complicated. The customers are finding it increasingly difficult to manage their system entities that comprise numerous independent components.

Software development in 1996 had three clear focus areas: development of existing products, development of new-generation software frameworks and building Internet applications to work with existing products. New-generation software was developed for estate management and the management of municipal geographic information.

At the end of the year, we expanded our ownership base by arranging a directed share issue of 150,000 new shares. The issue was directed to KT-Datacenter staff and institutional investors separately. The staff issue was subscribed in full, and the investor issue was oversubscribed. This expansion of ownership provides a good base for further growth.

Purchasing information technology services today means purchasing reliability. KT-Datacenter Group specialises in providing comprehensive services. In order for these to work properly, it is of paramount importance that internal co-operation and internal service chains work well. During the year, a massive customer service and co-operation training programme was carried out with all staff members. Additionally, the “teaming“ process started by Novosys was expanded to the entire Group. The objective of teaming is to flatten the organisation, speed up decision-making and provide an environment encouraging seamless co-operation.

Our quality programme goes on. It is based on the criteria used for the National Quality Award. Novosys was awarded a quality certificate in February 1997, and the operation of Tukiset Companies is due to be certified during the present year.

The outlook for 1997 is good. Our objective is continued growth that exceeds business average, while at the same time improving our profitability. Changes in data systems brought about by the year 2000 as well as Finland’s possible membership in the European Economic and Monetary Union will increase demand for labour-intensive services. The proportion of services will also increase in hardware sales, which will have a positive effect on profitability.

I want to extend my warmest thanks to all of the Group’s clients and partners for another year of positive cooperation. Special thanks go to all staff for their flexibility and willingness to go the extra mile, without which we could never have achieved the growth we now enjoyed.

Jorma Kielenniva

Managing Director

Year of growth 1996

Novosys Oy bought the entire stock of the major-league office system vendor VTKK-Toimistojärjestelmät Oy.

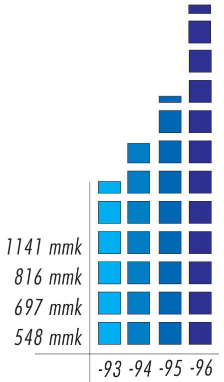
A new company, VR-Data Oy, was established jointly with the railway company VR Group. It started operations on 1 April, 1996.

Our ownership base was expanded by arranging a share issue of 150,000 shares. The issue was directed to KT-Datacenter management and staff, as well as institutional investors. The new capital thus raised will be used to strengthen KT-Datacenter's capital structure and to ensure possibilities for further growth.

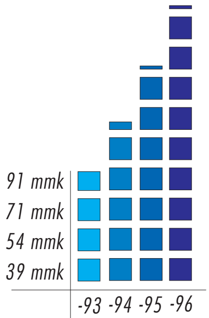
KT-Datacenter bought several software businesses during the year: estate management from Engel Group, materials administration from Tandem Finland Oy and estate management from Unic Oy, a member of Tieto Group.

The focus in marketing shifted predominantly to the corporate sector, where significant new business deals were won. Companies such as Keskus-Sato Oy, Polar-Yhtymä Oy, Pohjola-Yhtiöt, Puukeskus Oy, Telecom Finland Oy and Sampo Insurance Company signed co-operation agreements with KT-Datacenter Group.

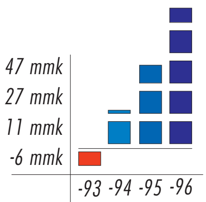
KT-Datacenter participated in several information technology projects funded by the European Commission.



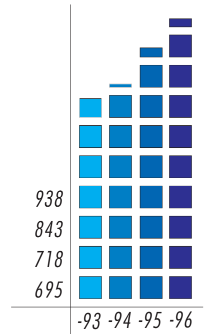
turnover FIM million



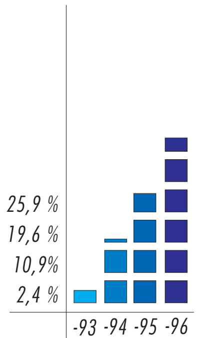
gross margin FIM million



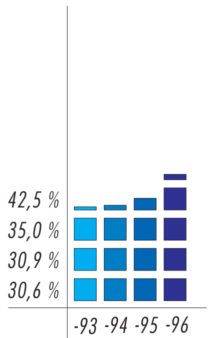
profit before extraordinary items, reserves and taxes FIM million



staff



return on investment %



solvency ratio

KT-Datacenter in figures

	1993	1994	1995	1996	
increase in turnover:	24	27	17	40	%
margin:	7	8	9	8	%
turnover per employee:	788	971	968	1216	FIM
gross margin per employee:	57	75	84	97	FIM
profit per share:	-5,6	4,3	15,3	26,9	FIM
equity per share:	71,9	75,4	89,7	137,1	FIM
dividend per share:	1,0	1,2	1,5	3,7	FIM

KT-Datacenter 25 YEARS

"The data processing business was a dynamic business for young and determined people even back then "

1997 marks the 25th anniversary of KT-Datacenter. Kunnallistieto Oy was entered in the Trade Register on 10 November, 1972. Both the information technology business and the company itself have undergone profound changes since those days. KT-Datacenter was formed through the merger of Kunnallistieto Oy with Ptk-tietokeskus Oy and entered in the Trade Register on 29 June, 1990. The overall objective of KT-Datacenter is and has been growth that exceeds the business average, and this objective has been achieved over and over again. The recession, and particularly the dwindling public administration investments in information technology were reflected in KT-Datacenter's profits in 1993, but after that year, growth has been intense. It has been accelerated by numerous acquisitions of companies as well as business operations. The turnover of KT-Datacenter on its first full financial year 1991 was FIM 409 million, and the company employed 660 people at year-end. On the threshold to our anniversary year, in 1996, we broke the one-billion-Finnmark barrier and employed nearly a thousand people. We intend to continue on the upward path – our target is to meet the year 2000 with a turnover of FIM 2 billion and 1,300 employees.

Offering FULL SERVICE

KT-Datacenter Group markets hardware and software, as well as various services related to the utilisation of information technology.

KT-Datacenter Ltd produces and markets software products and related consultation, implementation and training services. Among the parent company's services are also comprehensive operating, support, network and equipment services. Its product and technology development unit is responsible for the acquisition and development of new software products. Novosys Oy is a hardware reseller that also markets hardware-related services. Tukiset Companies specialises in administrative applications for small and medium-sized companies and other organisations.

The service organisation of KT-Datacenter Group produces added value to its customers through four business divisions. Competence centres are support units with the task to ensure that the operative units always have all the knowledge and all the skills that are needed to attain success.

Added value units

Business Development
Jorma Kielenniva

Sales
Matti Partanen

Product and Technology Development
Keijo Tuovinen

Quality
Matti Partanen

Logistics
Aila Lehtinen

Networking
Keijo Tuovinen

Administration
Aino Jokinen

Communications
Tarja Virmala

Board of Directors

Lauri A. Manninen, pj
Ilkka Hallavo
Jouko Juppala
Simo Lämsä
Christel von Martens
Marketta Nordman
Antti Salonen

Management Group

Jorma Kielenniva

Raimo Anttila
Aino Jokinen
Matti Partanen
Keijo Tuovinen
Osmo Wilska

Business Divisions

Software services
Osmo Wilska

Operating and network services
Raimo Anttila

Hardware sales
Raimo Anttila

KT-Datacenter Ltd.
Jorma Kielenniva

Novosys Oy
Raimo Anttila

Tukiset Companies Ltd.
Kari Kontula

Customer Services

Matti Partanen, Director

Large Account Sales
Matti Partanen (acting)

International activities
Juha Soini, Export Director

Product and Service Sales
Juha Soini (acting)

Heikki Väänänen, Quality Manager

Jukka Kotro, Development Manager

Software Services

Osmo Wilska, Director

Product Departments
Accounting Systems
Maija Sumi, Department Manager

Personnel Administration Systems
Pirjo Manninen, Department Manager

Health Care and Social Care
Kalevi Knaapi, Department Manager

Estate Management, Libraries and Technical Sector
Kari Vihavainen, Department Manager

Tukiset Products, Educational Institution Systems, Implementation and Training
Aila Lehtinen, Department Manager

Electronic Communications and Service Solutions, Task Management and Data Warehouse Solutions
Ritva Elonen, Department Manager

Institutional Kitchen Systems Baltic Data
Kimmo Koivisto, Managing Director

Customer-Specific Systems
Corporate Accounts
Pekka Pinnioja, Department Manager

Municipal Sector
Eero Kiiski, Department Manager

State Government
Osmo Wilska (acting)

Product and Technology Development

Keijo Tuovinen, Director

Product Development
Seija Yrjönen, Department Manager

Technology Development
Esko Kettunen, Department Manager

Operating and Network Services

Raimo Anttila, Director

Helsinki Region Service Centre
Timo Honkanen, Department Manager

Networking Services and Help Desk
Martti Airas, Department Manager

Printing and Mailing Services
Raija Koivisto, Department Manager

Regional Service Centres
Jarmo Ali-Kovero, Department Manager

Administration

Aino Jokinen, Administration Director

Pirjo Ahokas, Accounting Manager

Sirpa Wikholm, Controller

Communications

Tarja Virmala, Communications Manager

Novosys Oy

Raimo Anttila, Managing Director

Large Account Sales
Jari Lång, Sales Director

Small and Medium Sized Accounts
Markku Ahola, Sales Director

Technical Services
Jari Hahl, Systems Manager

Development
Ilmari Vallo, Development Manager

Administration
Jouni Parviainen, Director

Logistics
Kirsti Tuomola, Materials Manager

Tukiset Companies Ltd.

Kari Kontula, Managing Director

Mervi Lahti, Customer Service Manager

Marketing
Torbjörn Blomqvist, Marketing Manager

Product Development
Pertti Aalto, Product Development Manager

Report by the
BOARD OF DIRECTORS

Development of the business environment

The continuously favourable economic development in 1996 was reflected in the intense growth of the information technology market. Large organisations in particular invested in computer systems. The discharge of the accumulated demand that existed in the market was seen particularly in hardware sales and in increasing demand for expert and management services. The fastest growing sectors were the corporate and home sectors, whereas growth in the public administration information technology market was the slowest.

The decentralisation of data processing within organisations created pressures to outsource information technology operations, which increased the demand for hardware- and network-related services. The approach of the year 2000 and Finland's possible membership in the European Economic and Monetary Union already affected the growth of software services. The need for consultative services was increased by the efforts of organisations to develop their operations through the use of information technology.

Competition remained fierce. Centralisation and polarisation within the business continued. International information technology companies strengthened their position in the Finnish market.

The growth in the size of the market and particularly the increase in demand for labour-intensive services created a shortage of labour.

Turnover

Significant growth took place in consolidated turnover which exceeded the business average. Turnover grew by 39.8% over the year before and reached FIM 1,140.9 million. This growth is attributable partly to the growth of the business and of our market share, partly to acquisitions. Market share grew most in the corporate sector.

The turnover of the parent company increased by 16.7% over the previous year, amounting to FIM 349.4 million. The software turnover of Tukiset Companies also rose, but its total turnover diminished by 2.6% due to the discontinuation of hardware sales. The turnover of Novosys Oy grew by 47.0%.

Result and solidity

The result of the Group developed positively. The gross margin reached FIM 91.2 million, an improvement of 28.4% over the year before. Profit before reserves and taxes also improved considerably, now being FIM 47.3 million in contrast with the previous year's FIM 26.9 million.

The gross margin of the parent company improved 32.1% over the previous year and amounted to FIM 55.8 million. Its relative profitability, measured by the gross margin, rose from 14.1% to 16.0%. Profit before reserves and taxes grew from the previous year's FIM 11.0 million to FIM 23.2 million.

The parent company increased its share capital in June to FIM 24,934,940 by transferring FIM 9,350,580 from its reserve fund to the share capital. At the end of the year, the company's ownership base was expanded through a share issue of 150,000 shares at a nominal value of FIM 20 each. The share issue was directed to staff and institutional investors. The capital thus raised will be used to strengthen KT-Datacenter's capital structure which will enable continuing growth. The shares issued through both share issues will pay dividend for the financial year 1997. The Group's solvency ratio improved from 35.0% to 42.5%.

Investments and product development

Group net investments totalled FIM 54.3 million, of which the parent company accounted for FIM 44.8 million. Product development costs amounted to approximately 3% of consolidated turnover, while those of the parent company were approximately 8% of its turnover. The main emphasis in product development was in systems for the social sector and health care, financial administration and estate management. Product development was self-financed and entered as annual costs.

Structure of the Group and its development

KT-Datacenter Group includes KT-Datacenter Ltd, its subsidiaries Tukiset Companies Ltd and Novosys Oy, and the latter's subsidiary VTKK-Toimistojärjestelmät Oy.

Ercin Oy was merged with Tukiset Companies Ltd during the financial year. Novosys Oy purchased the stock of VTKK-Toimistojärjestelmät Oy in the beginning of January. KT-Datacenter Ltd bought 40% of the associate company VR-Data Oy in April.

KT-Datacenter Ltd bought the estate management systems businesses of Engel Oy in May and those of Unic Oy in December. The shares of the associate company Opti Inter-Consult Oy were sold in December.

In February, KT-Datacenter Ltd bought the entire stock of Baltic Data Oy.

Personnel and human resources development

The total number of employees of KT-Datacenter Group at year-end was 959. The average number of employees in the Group was 938. At year-end, the parent company workforce totalled 659, with an annual average of 652.

Wages, salaries and perquisites paid by the Group totalled FIM 179.7 million, of which FIM 2.0 million were paid to the Supervisory Board, the Board of Directors and the Managing Directors, and the remaining FIM 177.7 million to other staff.

In the parent company, wages, salaries and perquisites totalled FIM 124.3 million, of which FIM 0.9 million were paid to the Supervisory Board, the Board of Directors and the Managing Director, and the remaining FIM 123.4 million to other staff.

Human resources development focused on the maintenance of technical skills as well as the development of co-operative and customer service skills. The teaming process started in Novosys Oy was expanded to encompass the entire Group.

Outlook for 1997

The outlook for 1997 is good. Our objective is to continue growing faster than the business average, while at the same time improving our profitability. We expect the growth rate of hardware sales to continue, although at a slower pace. Hardware investments by large companies are expected to diminish, but the SME and consumer sectors promise significant growth. The technological advances in both software and hardware continue to accelerate and is expected to result in pressures to invest in information systems.

The fast technological development and the increasing dependence of companies on information technology are expected to increase demand for expert and support services related to equipment and networks. Pressures to outsource data processing operations are expected to increase. The change of the millennium and the operative development projects in companies seem to increase demand for consultative services. Finland's possible EMU membership will be likely to speed up investments in data systems.

Proposal by the Board of Directors of KT-Datacenter Ltd on the distribution of profit

According to the balance sheet, the consolidated unrestricted equity amounts to FIM 75,059,897.24. The unrestricted equity of KT-Datacenter Ltd as shown on its balance sheet is:

retained earnings from previous years	FIM 32,644,876.63
profit for the financial year	FIM 20,930,327.48
	53,575,204.11 mk

The Board proposes that a dividend of FIM 4,675,308.00, corresponding to 30% on equity at 1 January 1996, will be paid, and the remaining amount be transferred to retained earnings.

KT-Datacenter Ltd INCOME STATEMENT *(FIM thousands)*

		1.1.-31.12.1996	1.1.-31.12.1995
Turnover		**349 418**	299 302
Other operating income		**5 824**	2 321
Costs	Material and supplies	**6 181**	7 389
	Change in inventories	581	77
	External services	31 040	18 776
	Personnel expenses	161 784	142 944
	Rents	**17 114**	16 912
	Other costs	**82 725**	73 282
		299 425	259 380
Gross margin		**55 817**	42 243
Deprecation	Fixed assets and other long-term expenditure	**33 302**	31 974
Operating profit		**22 515**	10 269
Financial income and expenses			
	Dividend income	**50**	47
	Interest income	**3 307**	4 629
	Interest expenses	**-2 404**	-3 213
	Other financial expenses	**-236**	-506
		717	957
Profit before extraordinary items, reserves and taxes		**23 232**	11 226
Extraordinary income and expenses			
	Extraordinary income	**-**	640
	Extraordinary expenses	**-**	-836
		-	-196
Profit before reserves and taxes		**23 232**	11 030
Change in accelerated depreciation		**-5 204**	-8 526
Change in voluntary reserves		**10 321**	10 321
	Income taxes		
	Financial year	**-7 419**	-3 146
		-7 419	-3 146
Profit for the financial year		*20 930*	*9 679*

CONSOLIDATED INCOME STATEMENT (FIM thousands)

		1.1.-31.12. 1996	1.1.-31.12. 1995
Turnover		**1 140 919**	815 971
Other operating income		**5 904**	7 033
Costs	Material and supplies	**691 154**	449 864
	Change in inventories	**-15 623**	-16 051
	External services	**33 225**	19 301
	Personnel expenses	**230 410**	195 780
	Rents	**25 344**	23 265
	Other costs	**91 153**	79 870
		1 055 663	752 029
Gross margin		**91 160**	70 975
Depreciation	Fixed assets and other long-term expenditure	**40 925**	35 528
	Amortization of goodwill on consolidation	**1 774**	8 045
		42 699	43 573
Operating profit		**48 461**	27 402
Financial income and expenses			
	Dividend income	**50**	47
	Interest income	**2 879**	4 162
	Other financial income	**-**	26
	Equity earnings in associate companies	**334**	132
	Interest expenses	**-3 812**	-4 337
	Other financial expenses	**-579**	-890
		-1 128	-860
Profit before extraordinary items, reserves and taxes		**47 333**	26 542
Extraordinary income and expenses			
	Extraordinary income	**-**	673
	Portion of the result of associate companies	**-**	-110
	Extraordinary expenses	**-**	-181
		-	382
Profit before reserves and taxes		**47 333**	26 924
Change in accelerated depreciation		**-5 423**	-9 241
Change in voluntary reserves		**10 321**	10 321
Income taxes			
	Financial year	**-14 672**	-6 464
	Previous years	**-**	75
		-14 672	-6 389
Profit for the financial year		*37 559*	*21 615*

KT-Datacenter Ltd BALANCE SHEET (FIM thousands)

		31.12.1996	31.12.1995
Assets			
Fixed assets and other non-current investments			
Intangible assets			
	Intangible rights	**11 276**	11 912
	Goodwill	**7 028**	5 568
	Other long-term expenditure	**406**	405
		18 710	17 885
Tangible assets			
	Land	**2 029**	2 029
	Buildings	**33 080**	34 515
	Machinery and equipment	**62 666**	52 487
	Other tangible assets	**848**	691
		98 623	89 722
Financial assets			
	Shares	**16 216**	14 421
	Loan receivables	**5 000**	5 000
		21 216	19 421
		138 549	127 028
Current assets			
Inventories			
	Goods	**237**	818
Receivables			
	Accounts receivables	**40 595**	33 619
	Loan receivables	**13 342**	24 932
	Share issue receivables	**992**	-
	Deferred charges	**32 565**	9 096
		87 494	67 647
Investments			
Other investments		**14 125**	13 036
Cash and bank receivables		**60 225**	6 145
		162 081	87 646
		300 630	*214 674*
Liabilities			
Equity			
Restricted equity			
	Share capital	**24 935**	15 584
	Share issue	**3 000**	-
	Reserve fund	**58 003**	24 057
		85 938	39 641
Unrestricted equity			
	Retained earnings	**32 645**	24 836
	Profit for the financial year	**20 930**	9 679
		53 575	34 515
		139 513	74 156
Reserves			
Accelerated depreciation		**26 217**	21 013
Voluntary reserves		**10 321**	20 642
Obligatory reserves		**1 034**	3 438
		37 572	45 093
Liabilities			
Long-term debt			
	Convertible bond loans	**-**	3 997
	Loans from financial institutions	**-**	100
	Pension loans	**31 208**	33 561
	Other long-term debt	**-**	1 100
	Current portion of long-term debt	**-2 185**	-7 546
		29 023	31 212
Short-term debt			
	Loans from financial institutions	**-**	4 097
	Pension loans	**2 185**	2 349
	Advance payments	**2 819**	973
	Accounts payable	**42 559**	15 724
	Deferred credits	**39 014**	33 128
	Other short-term debt	**7 945**	7 942
		94 522	64 213
		123 545	95 425
		300 630	*214 674*

CONSOLIDATED BALANCE SHEET (FIM thousands)

		31.12.1996	31.12.1995
Assets			
Fixed assets and other non-current investments			
Intangible assets			
	Intangible rights	**11 124**	11 453
	Goodwill	**11 931**	13 353
	Goodwill on consolidation	**4 656**	2 515
	Other long-term expenditure	**406**	405
		28 117	27 726
Tangible assets			
	Land	**2 029**	2 029
	Buildings	**33 080**	34 515
	Machinery and equipment	**74 363**	62 063
	Other tangible assets	**848**	696
		110 320	99 303
Financial assets			
	Shares in associate companies	**4 756**	2 554
	Other shares	**3 396**	3 403
		8 152	5 957
		146 589	132 986
Current assets			
Inventories			
	Goods	**58 842**	43 219
Receivables			
	Accounts receivables	**134 889**	109 088
	Loan receivables	**1 404**	1 662
	Share issue receivables	**992**	-
	Deferred charges	**31 489**	10 886
		168 774	121 636
Investments			
	Other investments	**14 125**	13 036
Cash and bank receivables		**65 850**	11 001
		307 591	188 892
		454 180	*321 878*
Liabilities			
Equity			
Restricted equity			
	Share capital	**24 935**	15 584
	Share issue	**3 000**	-
	Reserve fund	**58 003**	24 057
		85 938	39 641
Unrestricted equity			
	Retained earnings	**37 501**	17 756
	Profit for the financial year	**37 559**	21 615
		75 060	39 371
		160 998	79 012
Reserves			
Accelerated depreciation		**27 248**	21 824
Voluntary reserves		**15 103**	23 755
Obligatory reserves		**1 034**	3 438
		43 385	49 017
Liabilities			
Long-term debt			
	Convertible bond loans	**-**	3 997
	Loans from financial institutions	**787**	500
	Pension loans	**43 245**	46 504
	Other long-term debt	**-**	1 100
	Current portion of long-term debt	**-3 027**	-8 852
		41 005	43 249
Short-term debt			
	Loans from financial institutions	**-**	4 497
	Pension loans	**3 027**	3 255
	Advance payments	**3 242**	2 634
	Accounts payable	**129 662**	76 685
	Deferred credits	**57 188**	50 208
	Other short-term debt	**15 673**	13 321
		208 792	150 600
		249 797	193 849
		454 180	321 878

KT-Datacenter Ltd FUNDS STATEMENT *(FIM thousands)*

	1.1.-31.12.96	1.1.-31.12.95
Source of funds		
Income		
Gross margin	**55 817**	42 243
Obligatory reserves	**-2 404**	-3 001
Financial income	**3 357**	4 676
Income from sale of fixed assets	**2 459**	365
Other income (net)	**-**	-196
	59 229	44 087
Financial income		
Share issue	**46 297**	-
	105 526	*44 087*
Application of funds		
Distribution of profits		
Interest on liabilities	**2 640**	3 719
Taxes	**7 419**	3 146
Dividends	**1 870**	1 558
Capital expenditure		
Fixed assets	**47 282**	32 353
Return of capital		
Decrease in long-term liabilities	**7 550**	7 823
	66 761	*48 599*
Change in financial assets	**75 016**	-11 635
Change in inventories	**-581**	-77
Change in short-term liabilities	**-35 670**	7 200
	38 765	*-4 512*

CONSOLIDATED FUNDS STATEMENT (FIM thousands)

	1.1.-31.12.96	1.1.-31.12.95
Source of funds		
Income		
Gross margin	**91 160**	70 974
Obligatory reserves	**-2 404**	-3 001
Financial income	**2 929**	4 236
Income from sale of fixed assets	**3 060**	1 028
Other income (net)	**-**	-163
	94 745	73 074
Financial income		
Share issue	**46 297**	-
	141 042	*73 074*
Application of funds		
Distribution of profit		
Interest on liabilities	**4 391**	5 228
Taxes	**14 672**	6 389
Dividends	**1 870**	1 558
Capital expenditure		
Fixed assets	**57 359**	47 591
Return of capital		
Decrease in long-term liabilities	**8 068**	13 892
	86 360	*74 658*
Change in financial assets	**103 076**	-6 319
Change in inventories	**15 623**	16 050
Change in short-term liabilities	**-64 017**	-11 315
	54 682	*-1 584*

NOTES to the financial statements (FIM thousands)

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include all Group companies and all associate companies, with the exception of Kiinteistö Oy Rukavarri and Suomen Tietoverkkopalvelu Oy, which do not engage in business operations and have only a minor effect on the consolidated profit. The consolidation has been performed using the acquisition cost method where the portion of the price paid for the shares of the subsidiaries which exceeds the equity of the subsidiaries is recorded under goodwill on consolidation.

The associate companies of the Group are Suomen Tietoverkkopalvelu Oy, Solid Information Technology Oy, Kiinteistö Oy Rukavarri, Eisdata Süsteemide AS and VR-Data Oy, the last acquired during the financial year. The shares of Opti Inter-Consult Oy were sold during the financial year.

The associate companies have been consolidated using the equity method. The Group's proportionate share of the result of associate companies is shown under financial items. The change in reserves as shown in the consolidated income statement cannot be derived directly from the balance sheet because of the change in the Group structure. Inventories have been entered under variable costs according to the first-in-first-out principle.

1. Turnover by function	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Software services	**218 300**	180 757	**291 721**	233 131
Operating services	**129 344**	115 047	**128 750**	114 750
Equipment sales	**1 774**	3 498	**720 448**	468 090
Total	**349 418**	299 302	**1 140 919**	815 971

Long-term projects are valued at percentage of completion. The percentage of completion is calculated by proportioning actual costs to the total cost estimate. Expected losses are fully entered as costs.

2. Personnel costs and perquisites	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Wages and salaries	**125 313**	108 361	**177 921**	147 763
Pension liabilities	**18 251**	16 044	**26 418**	22 487
Statutory personnel costs	**12 676**	13 183	**16 776**	17 103
Voluntary personnel costs	**5 543**	5 357	**9 295**	8 427
	161 783	142 945	**230 410**	195 780
Perquisites	**1 838**	1 407	**4 972**	3 894
	163 621	144 352	**235 382**	199 674

3. Depreciation according to plan	**Parent 1996**	Parent 1995	**Group 1996**	Groupi 1995
Intangible rights	**5 428**	6 344	**5 404**	6 689
Goodwill	**1 350**	1 137	**4 232**	3 539
Non-recurrent depreciation	**-**	2 666	**-**	-
Buildings	**1 435**	1 435	**1 435**	1 435
Machinery and equipment	**22 433**	20 278	**27 193**	23 745
Non-recurrent depreciation	**2 471**	-	**2 471**	-
Other tangible assets	**185**	115	**190**	120
Goodwill on consolidation	**-**	-	**1 774**	8 044
	33 302	31 975	**42 699**	43 572

Fixed assets are valued at immediate acquisition cost. Depreciation according to plan is calculated on a straight-line basis according to the economic life of the fixed assets. The following depreciation times are used:

	years
Intangible rights and other long-term expenditure	
PC software	3
Software	5
Goodwill	5
Other long-term expenditure	5
Goodwill on consolidation	5-10
Buildingd	
Buildings	35
Structural parts of buildings	15
Air-raid shelters	35
Paving works	5
Machinery and equipment	
Computers	5
PCs	3
Other fixed assets	5
Vehicles	5
Other tangible assets	
Other tangible assets	5

NOTES to the financial statements (FIM thousands)

4. Intercompany financial income and expenses	**Parent 1996**	Parent 1995
Financial income from Group companies		
Interest income from short-term investments	**801**	1 102
Financial expenses paid to Group companies		
Interest expenses	**1**	22

5. Extraordinary items

Extraordinary items are essential items not related to the Group's business operations. Such items do not exist in 1996.

6. Obligatory reserves

The decrease in obligatory reserves of the parent company for the financial year 1.1.–31.12.1996 is FIM 2,404,000. FIM 3,000,000 from the previous year's reserves for future rents of unoccupied premises have been included in profits as the premises have been taken into own use. The reserves include warranty reserves related to software deliveries in the amount of FIM 400,000.
Unpaid taxes, corresponding to the amount of voluntary reserves, are FIM 11,858,243 on 31.12.1996 and were FIM 12,762,154 on 31.12.1995. Unpaid taxes are calculated without considering confirmed losses.

7. Intangible and tangible assets	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Intangible assets				
Intangible rights and other long-term expenditure				
Acquisition cost 1.1.	**25 420**	29 902	**25 443**	33 977
Increase	**4 792**	4 574	**5 068**	4 278
Decrease	**-**	-31	**-254**	-31
Acquisition cost 31.12.	**30 212**	34 445	**30 257**	38 224
Accumulated depreciation 1.1.	**-13 103**	-15 789	**-13 332**	-19 683
Depreciation on decrease 1.1.–31.12.	**-**	6	**7**	6
Depreciation 1.1.–31.12.	**-5 428**	-6 344	**-5 404**	-6 689
Book value 31.12.	**11 681**	12 318	**11 528**	11 858
Accumulated difference between total and planned depreciation 1.1.	**6 476**	3 206	**6 488**	3 204
Increase in difference 1.1.–31.12.	**1 749**	3 270	**1 761**	3 284
Accumulated difference between total and planned depreciation 31.12.	**8 225**	6 476	**8 249**	6 488

Goodwill	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Acquisition cost 1.1.	**6 308**	1 675	**17 574**	11 120
Increase 1.1.–31.12.	**2 810**	7 779	**2 810**	9 600
Acquisition cost 31.12.	**9 118**	9 454	**20 384**	20 720
Accumulated depreciation 1.1.	**-740**	-84	**-4 220**	-3 827
Depreciation 1.1.–31.12.	**-1 350**	-3 803	**-4 232**	-3 539
Book value 31.12.	**7 028**	5 567	**11 932**	13 354
Accumulated difference between total and planned depreciation 1.1.	**856**	251	**875**	270
Increase in difference 1.1.–31.12.	**474**	605	**594**	605
Accumulated difference between total and planned depreciation 31.12.	**1 330**	856	**1 469**	875

Goodwill on consolidation	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Acquisition cost 1.1.			**8 082**	34 614
Increase 1.1.–31.12.			**3 915**	-
Acquisition cost 31.12.			**11 997**	34 614
Accumulated depreciation 1.1.			**-5 567**	-24 055
Depreciation 1.1.–31.12.			**-1 774**	-8 044
Book value 31.12.			**4 656**	2 515

Buildings	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Acquisition cost 1.1.	**46 265**	46 265	**46 265**	46 265
Acquisition cost 31.12.	**46 265**	46 265	**46 265**	46 265
Accumulated depreciation 1.1..	**-11 750**	-10 315	**-11 750**	-10 315
Depreciation 1.1.–31.12.	**-1 435**	-1 435	**-1 435**	-1 435
Book value 31.12.	**33 080**	34 515	**33 080**	34 515

NOTES to the financial statements (FIM thousands)

	Parent 1996	Parent 1995	**Group 1996**	Group 1995
Accumulated difference between total and planned depreciation 1.1.	**4 762**	4 842	**4 762**	4 842
Decrease in difference 1.1.–31.12.	**-167**	-80	**-167**	-80
Accumulated difference between total and planned depreciation 31.12.	**4 595**	4 762	**4 595**	4 762

Tangible assets	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Machinery and equipment				
Acquisition cost 1.1.	**90 497**	85 329	**114 063**	103 222
Increase	**37 035**	26 594	**44 463**	34 139
Decrease	**-9 771**	-2 522	**-18 231**	-3 364
Acquisition cost 31.12.	**117 761**	109 401	**140 295**	133 997
Accumulated depreciation 1.1.	**-34 095**	-37 070	**-40 464**	-48 848
Depreciation on decrease 1.1.–31.12.	**3 905**	434	**4 197**	660
Depreciation 1.1.–31.12.	**-24 905**	-20 278	**-29 664**	-23 745
Book value 31.12..	**62 666**	52 487	**74 364**	62 064
Accumulated difference between total and planned depreciation 1.1.	**8 474**	4 115	**9 264**	4 269
Increase in difference 1.1.–31.12.	**2 975**	4 359	**3 054**	4 995
Accumulated difference between total and planned depreciation 31.12.	**11 449**	8 474	**12 318**	9 264
Share of machinery and equipment in total book value 31.12.	**56 232**	46 942	**57 135**	48 232

Other tangible assets	**Parent 1996**	Parent 1995	**Parent 1996**	Parent 1995
Acquisition cost 1.1.	**854**	630	**1 361**	1 137
Increase	**341**	467	**341**	467
Acquisition cost 31.12.	**1 195**	1 097	**1 702**	1 604
Accumulated depreciation 1.1.	**-163**	-291	**-665**	-788
Depreciation 1.1.–31.12.	**-185**	-115	**-190**	-120
Book value 31.12.	**847**	691	**847**	696
Accumulated difference between total and planned depreciation 1.1.	**444**	72	**435**	-3
Increase in difference 1.1.–31.12.	**173**	372	**182**	438
Accumulated difference between total and planned depreciation 31.12.	**617**	444	**617**	435

Shares	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Book value 1.1.	**14 421**	21 631	**5 957**	6 367
Increase 1.1.–31.12.	**2 303**	201	**2 303**	274
Decrease 1.1.–31.12.	**-508**	-7 410	**-107**	-684
Book value 31.12.	**16 216**	14 422	**8 153**	5 957

Acquisition cost is shown only for usable assets not amortised.

Total change of difference in depreciation	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Accumulated difference between total and planned depreciation 1.1.	**21 012**	12 487	**21 824**	12 583
Increase in difference 1.1.–31.12.	**5 371**	8 605	**5 591**	9 321
Decrease in difference 1.1.–31.12.	**-167**	-80	**-167**	-80
Accumulated difference between total and planned depreciation 31.12.	**26 216**	21 012	**27 248**	21 824

8. Taxable values of fixed assets	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Land	**4 304**	4 304	**4 304**	4 304
Buildings	**17 885**	18 085	**17 885**	18 085
Shares in subsidiaries	**4 211**	3 803	**-**	-
Shares in associate companies	**2 592**	1 419	**2 592**	1 419
Other shares	**2 859**	2 418	**3 028**	2 587
	31 851	30 029	**27 809**	26 395

NOTES to the financial statements (FIM thousands)

9. Fire insurance values of fixed assets and inventories	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
	192 293	182 415	**260 361**	228 973

10. Shares on 31.12.1996	Share/ voting rights	Number of shares	Equity share	Nominal value	Book value	Profit/loss according to latest financial statements
Group companies						
Owned by parent companies						
Novosys Oy, Helsinki	100 %	15000	31 831	1 500	1 599	14 092
Tukiset Companies Ltd, Espoo	100 %	2250	-1 402	23	7 073	1 800
Owned by subsidiaries						
VTKK-Toimistojärjestelmät Oy	100 %	67500	18 606	6 750	19 905	2 617
Associate companies						
Owned by parent company						
Suomen Tietoverkkopalvelu Oy, Helsinki	41 %	41	30	6	31	-3
Solid Information Technology Oy, Helsinki	20 %	35000	-371	70	350	-2 275
Kiinteistö Oy Rukavarri, Kuusamo	33 %	10	1 909	10	2 157	-21
Eisdata Süsteemide AS, Estonia	25 %	375	86	EEK 375	141	-210
VR-Data Oy, Helsinki	40 %	100	2 850	1 000	2 000	2 125

The financial statements of the Group companies and the associate companies have been prepared on 31.12.1996 and they are based on 12-month financial years.

Other shares	Share	Number of shares	Nominal value	Book value
Owned by parent company				
Kiinteistö Oy Kuusankosken Ostoskeskus, Kuusankoski	7 %	225	151	808
Kiinteistö Oy Satakunnankatu 19-21, Tampere	4 %	102	102	926
Tietovara Oy, Helsinki	10 %	42	42	42
Datatie Oy, Helsinki	1 %	10	50	117
Telephone shares		291		895
Owned by subsidiaries				
Other shares				
Lupporinki Oy	17%	14	98	341
Telephone shares		65		170

11. Intercompany receivables and debt	**Parent 1996**	Parent 1995
Receivables		
Consolidated debt	**5 000**	5 000
Accounts receivables	**243**	333
Loan receivables, short-term	**12 930**	23 300
Deferred charges	**2 082**	1 036
	20 255	29 669
Debt		
Accounts payables	**4 041**	3 286
Deferred credits	**132**	432
	4 173	3 718

NOTES to the financial statements (FIM thousands)

12. Receivables and debt/associate companies	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Receivables				
Accounts receivables	**1 053**	5	**1 053**	39
Short-term loans receivables	**1 104**	1 586	**1 104**	1 586
Deferred charges	**132**	440	**160**	445
	2 289	2 031	**2 317**	2 070
Debts				
Accounts payables	**148**	51	**497**	88
Deferred credits	**130**	7	**130**	7
	278	58	**627**	95

13. Receivables due after one year or more	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Deferred charges	**1 264**	388	**1 264**	388
Loan receivables	**5 000**	5 000	**-**	-
	6 264	5 388	**1 264**	388

14. Unpaid advance payments	**Group 1996**	Group 1995
Advance invoices	**15 651**	19 322

15. Debts due after five years or more	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Pension loans	**21 711**	23 348	**30 085**	32 352

16. Contingent liabilities	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
For own account				
Pledges	**8 041**	8 038	**8 041**	9 038
Mortgages on real estate	**26 000**	41 000	**26 000**	42 000
Company mortgages			**14 000**	14 000
For Group company				
Pledges	**-**	1 000	**44**	-
Guarantees	**39 116**	35 751	**-**	-
Other own commitments				
Pension liability	**340**	365	**340**	365
Other liabilities	**10 431**	-	**10 431**	-
Leasing liabilities				
Leasing payments 1996/1995	**4 644**	4 417	**5 476**	5 082
Leasing payments 1996/1997 or later	**1 525**	6 148	**2 193**	6 460
Repurchase liabilities	**121**	17	**121**	17

17. Convertible bond loans	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
PSP convertible bond loan 4/86/104, maturing on 31.12.1996, outstanding portion	**-**	3 997	**-**	3 997

18. Changes in equity	**Parent 1996**	Parent 1995	**Group 1996**	Group 1995
Restricted equity				
Share capital 1.1.	**15 584**	15 584	**15 584**	15 584
Bonus issue 2.7.1996	**9 351**	-	**9 351**	-
Share capital 31.12.	**24 935**	15 584	**24 935**	15 584
Share issue 12.1996	**3 000**	-	**3 000**	-
Reserve fund 1.1.	**24 057**	24 057	**24 057**	24 057
Bonus issue 2.7.1996	**-9 351**	-	**-9 351**	-
Profit on issue 31.12.1996	**43 297**	-	**43 297**	-
Reserve fund 31.12.	**58 003**	24 057	**58 003**	24 057
Restricted equity total	**85 938**	39 641	**85 938**	39 641

NOTES *to the financial statements* *(FIM thousands)*

Unrestricted equity				
Unrestricted equity 1.1.	**34 515**	26 394	**39 371**	19 314
Dividends	**-1 870**	-1 558	**-1 870**	-1 558
Profit of financial year	**20 930**	9 679	**37 559**	21 615
Unrestricted equity 31.12.	**53 575**	34 515	**75 060**	39 371
EQUITY TOTAL	**139 513**	74 156	**160 998**	79 012

19. Financial indicators	1993	1994	1995	**1996**
Turnover, FIM million	547,6	697,2	816,0	**1 140,9**
Gross margin, FIM million	39,4	53,7	71,0	**91,2**
% of turnover 7,2	7,7	8,7	**8,0**	
Operating profit (loss), FIM million	-2,5	11,9	27,4	**48,5**
% of turnover -0,5	1,7	3,4	**4,2**	
Profit before extraordinary items, FIM million	-6,0	11,0	26,5	**47,3**
% of turnover -1,1	1,6	3,3	**4,1**	
Profit before extraordinary items, reserves and taxes, FIM million	-5,4	11,2	26,9	**47,3**
% of turnover -1,0	1,6	3,3	**4,1**	
Balance sheet total, FIM million	297,2	308,5	321,9	**454,2**
Profit per share, FIM	-5,6	4,3	15,3	**26,9**
Diluted profit per share, FIM	-3,9	3,3	13,3	**26,9**
Dividend per share, FIM	1,0	1,2	1,5	**3,7**[1)]
Dividend per profit %	n/a	29,4	9,8	**13,9**[1)]
Return on investment %	2,4	10,9	19,6	**25,9**
Return on equity %	-7,4	5,8	18,6	**22,1**
Solvency ratio %	30,6	30,9	35,0	**42,5**
Investment in fixed assets, FIM million	46,9	33,2	47,6	**57,4**
Equity per share, FIM	71,9	75,4	89,7	**137,1**
Average number of personnel	695	718	843	**938**

[1)] According to proposal on distribution of profit

Calculation of indicators:

$$\text{Return on equity (ROE)} = \frac{\text{Profit before extraordinary items - taxes for financial year}^{\star}}{\text{Equity + voluntary reserves \& difference in depreciation}^{\star}\text{ (average)}} \times 100$$

$$\text{Return on investment (ROI)} = \frac{\text{Profit before extraordinary items + interest \& other financial costs}}{\text{Equity + voluntary reserves \& difference in depreciation}^{\star}\text{ + interest-bearing liabilities (average)}} \times 100$$

$$\text{Solvency ratio} = \frac{\text{Equity + services}^{\star}}{\text{Balance sheet total - advance payments}}$$

$$\text{Profit per share} = \frac{\text{Profit before extraordinary items - taxes for financial year}}{\text{Average number of shares (adjusted on the basis of share issue)}} \times 100$$

$$\text{Equity per share} = \frac{\text{Equity + voluntary reserves \& difference in depreciation}^{\star}}{\text{Number of shares at year-end (adjusted on the basis of share issue)}}$$

⋆ Including calculated unpaid taxes

Helsinki, 6 March 1997

Lauri A. Manninen *Simo Lämsä* *Ilkka Hallavo*

Jouko Juppala *Christel von Martens* *Marketta Nordman*

Antti Salonen *Jorma Kielenniva*
Managing Director

Auditors' REPORT

To the shareholders of KT-Datacenter Ltd

We have examined the accounting records, the annual financial statements and the administration of KT-Datacenter Ltd for the financial year 1.1.–31.12.1996.

The financial statements prepared by the Board of Directors and the Managing Director include an annual report on activities, as well as the income statement, balance sheet and notes to the financial statements of both the Group and the parent company. On the basis of our examination, we report the following on the financial statements and the administration:

The audit was carried out in accordance with generally accepted auditing practices. Accounting, as well as the principles applied in preparing the financial statements, their contents and their presentation have been sufficiently examined to state that they do not include any essential flaws or shortcomings. When examining the administration, the actions of the members of the Supervisory Board, the members of the Board of Directors and the Managing Director have been examined from the point of view of compliance with the regulations of the Companies Act.

We state that the financial statements, showing a profit of FIM 20,930,327.48 in the parent company and unrestricted equity in the amount of FIM 75,059,897.24 in the Group, have been prepared in accordance with the Accounting Act and other valid regulations governing the preparation of the financial statements. The financial statements give, as stipulated in the Accounting Act, correct and sufficient information on the result of the activities and the financial performance of the Group as well as the parent company. The financial statements, together with the consolidated financial statements, can be adopted and the members of the company's Supervisory Board, the members of its Board of Directors and the company's Managing Director can be discharged from liability for the financial year audited by us. The proposal of the Board of Directors for dealing with unrestricted equity as stated in the balance sheet complies with the regulations of the Companies Act.

Helsinki, 10 March 1997

Tilintarkastajien Oy - Ernst & Young Chartered Accountants

Jorma Jäske KHT *Mikael Holmström KHT*

STATEMENT *of the Supervisory Board*

The Supervisory Board has familiarised itself with the financial statements for the year 1996 and with the Auditors' report. The Supervisory Board recommends that the income statement and balance sheet, as well as the consolidated income statement and consolidated balance sheet be adopted and expresses its agreement to the Board of Directors' proposal for dealing with the unrestricted equity.

Helsinki, 3 April 1997

Timo Kietäväinen
Chairman of the Supervisory Board

SHARE ISSUE

The Annual General Meeting on 9 April, 1996 decided to raise the company's share capital from FIM 15,584,360.00 to FIM 24,934,940.00 by transferring from the reserve fund into the share capital the sum of FIM 9,350,580.00 through giving the shareholders a total of 467,529 new shares, each at a nominal value of FIM 20.00.

– Each shareholder, or person to whom the shareholder's subscription right has been transferred, received three new shares for each five old shares without any charge.

– The subscription started on 1 May, 1996 and ended on 30 June, 1996.

– On the basis of the authorisation by the Annual General Meeting on 9 April, 1996, the Board of Directors decided to increase the company's share capital by FIM 3,000,000 by issuing 143,453 shares for subscription by professional investors and 6,547 shares for subscription by the staff and the management of the company. The privilege of old shareholders was waived in the issue in order to expand the ownership base.

– The staff issue was carried out from 18–20 December, 1996, and the issue to professional investors on 30 December, 1996. All shares were paid in full at subscription.

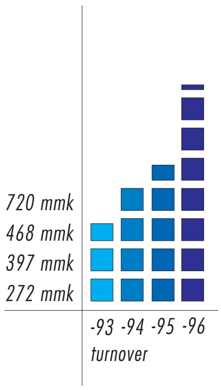
– The subscription price was FIM 279.00 per share in the staff issue, and FIM 310.00 in the issue for professional investors.

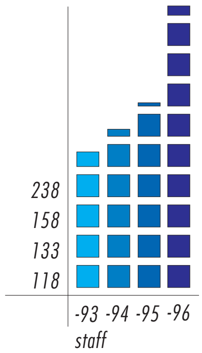
– The staff issue was subscribed in full, and the issue for professional investors was oversubscribed.

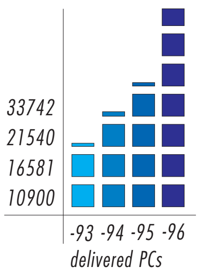
– The directed share issue generated a total profit of FIM 43,297,043.00.

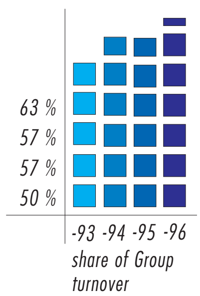
– The new shares entitle the shareholder to full dividend for the financial year 1997.

HARDWARE SALES









Novosys Oy is the hardware sales organisation of KT-Datacenter Group. Its turnover increased by more than FIM 250 million or 54% and totalled FIM 720 million. Hardware sales accounted for 63% of Group turnover.

On 23 January, Novosys bought the entire stock of VTKK-Toimistojärjestelmät Oy from Tieto Group and thus strengthened its position as Finland's largest reseller of microcomputers and servers. The merger of VTKK-Toimistojärjestelmät with Novosys proceeded according to plan.

Market situation

The hardware market experienced considerable growth. It is estimated that the market for data processing and data communications equipment grew more than 14% over the previous year. The value of the Finnish hardware market is estimated at some FIM 6.5 billion, corresponding to slightly less than 50% of the entire information technology market.

Average prices of microcomputers stayed much at the same level as in the previous year, but prices of peripherals decreased clearly. Intense price competition continued. The importance of the consumer market increased, and still continues to increase. Its share of the total information technology market is now some 10%. Many new companies are fighting their way into this segment.

Novosys Oy retained its position as Finland's largest reseller of microcomputers and servers. Novosys specialises in professionally used information technology and services, seeking to establish long-term partnerships with its customers. Novosys represents well-known brands such as Compaq, Digital, Hewlett Packard, IBM, Mikro-Mikko and Toshiba. In addition to hardware, Novosys sells off-the-shelf software, installation, support and consultation services, and network and data communications expertise. The company operates 12 outlets throughout Finland. A new, agency-based Novosys outlet was established in Kerava.

installation centre was opened in conjunction with the logistics centre. Most of the hardware sold was delivered on a turn-key basis. The new logistics centre and the new operative models adopted will enable a redoubling of present delivery numbers.

Novosys continued to expand its Novoshop chain. Novosys sells hardware to the consumer, small office/home office and small organisation segments. New outlets were opened in Pori, Tampere, Vantaa and Helsinki. The Novoshop chain at present consists of six outlets or pick-up points.

Turnover generated by sales through shops was

Novosys Management Group from left: Development Manager Ilmari Vallo, Director Jouni Parviainen, Sales Director Markku Ahola, Systems Manager Jari Hahl, Materials Manager Kirsti Tuomola, Managing Director Raimo Anttila and Sales Director Jari Lång.

Customers' requirements for hardware suppliers include good delivery capabilities, technical skill, a broad range of services, low prices and reliability. As demand has grown steeply, delivery capabilities have become an important competitive factor.

Novosys opened a new logistics centre in Vantaa in August. The organisation was changed to better respond to the needs of the delivery process, and agreements were made with hardware manufacturers that essentially improved availability. Novosys delivered a record number of systems, 34,000 in total. An

rather modest, although its proportion is expected to rise as the consumer market keeps growing.

The largest deliveries in 1996 were the computer and data communications equipment to Pohjola Group (insurance), Agricultural Producers' Pension Fund and Säkkiväline Oy, together with their planning and installation projects. Pre-installations for more than 1,000 microcomputers were made for Iscom Oy.

Service and PRODUCT DEVELOPMENT

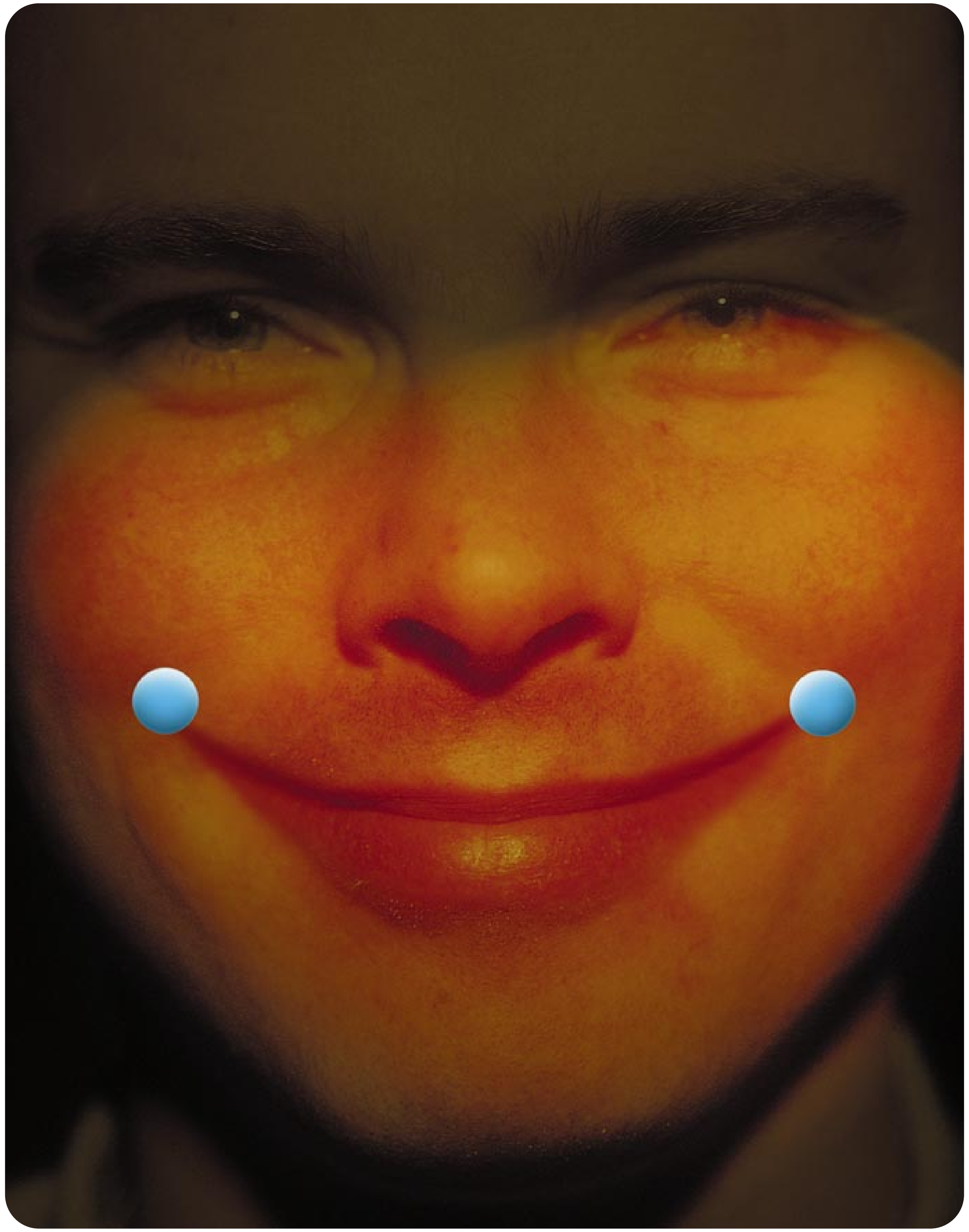
Demand for expert services relating to hardware and operating environments is increasing. Data systems are becoming more and more complicated, and the customers are finding it more difficult than before to manage their systems consisting of numerous components.

Novosys has packaged expert services for equipment availability. The number of technical experts has been increased, and they have been trained to work with complicated data system environments.

A new test centre was established by Novosys where customer systems can be pre-tested in different network environments.

Teamwork was developed by setting up profit groups and expertise centres focusing on special expertise. The objective is to better manage the delivery processes and to go deeper into the customers' needs.

The most reliable of the many customer satisfaction meters may still be the traditional one.



The quality system was completed and a quality certificate received by Novosys in February 1997.

Good service is a central competitive factor for Novosys. We regularly measure customer satisfaction at checkpoints defined by the quality system. Customer satisfaction is now at the targeted level.

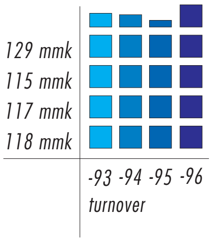
Novosys joined the International Computer Group (ICG) during the financial year. The members of this organisation are mainly leading resellers in their countries. The membership enables Novosys to offer a new purchasing channel for multi-national companies operating in Finland. Novosys is the only Finnish reseller member of ICG.

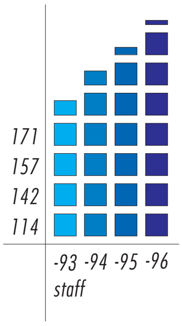
Outlook

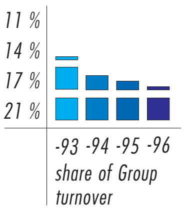
Hardware sales will continue to grow, although estimates say it will happen more slowly. One important reason for slower growth is that large organisations have recently updated their hardware and now mainly invest in replacements. However, demand for servers will remain brisk. The growth rate in the SME and consumer segments is expected to stay at the previous year's level. Novosys is now well equipped to keep its market position and to grow further. We have enhanced our delivery capacity and reliability and created new expert services with reasonable growth potential.

The product range includes equipment from world-leading manufacturers, operating systems and packaged software. Technical development of both software and hardware will accelerate further, leading to a need to invest in both equipment and software.

Operating and NETWORK SERVICES



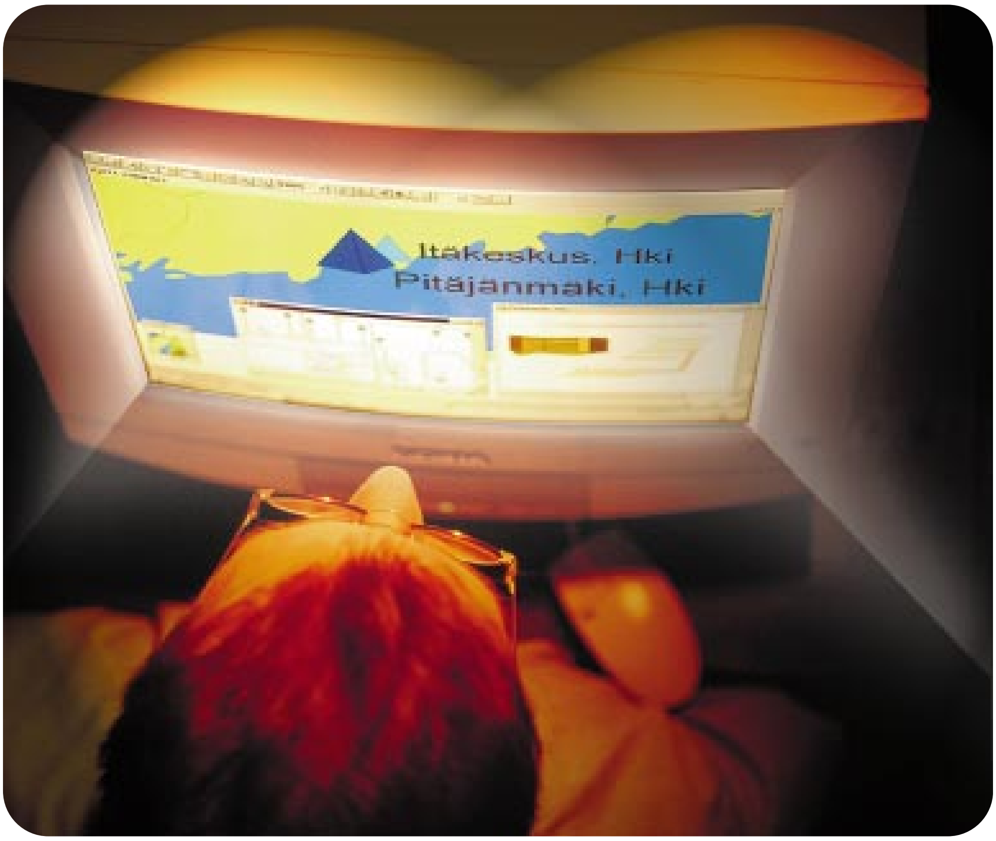




The operating and network services business is handled by the parent company. The Operating and Network Services unit provides services relating to hardware, data communications networks, their planning, implementation and use, as well as support, mailing and printing services.

The year of the operating and network services business met with expectations. Turnover increased FIM 14 million or 12% over the year before, reaching a total of FIM 129 million. The operating and network services business accounted for 11% of Group turnover.

Raimo Anttila, Director, Operating and Network Services



The computer centre in Helsinki now operates 24 hours a day, 7 days a week.

Market situation

The market for operating and network services continued to grow. Management, operating and support services for equipment and data communications networks are estimated to have grown some 8% from the previous year. Total market value was approximately FIM 2.2 billion, corresponding to about 17% of the entire Finnish information technology market.

Particular growth took place in network monitoring and management services. Data processing is becoming more distributed within organisations, networking is increasing, data system environments are becoming more complex and the need for support is growing. Organisations are increasingly buying the support services that ensure the availability and security of their data systems from external vendors. They have, however, outsourced their information technology operations more slowly than expected by the IT business.

Customers require that operating and network services are reliable and available at any time. System downtime may cause remarkable losses to businesses. That is why our computer centre in Helsinki now operates 24 hours a day, 7 days a week.

KT-Datacenter is a significant supplier of operating and network services to the municipal sector and to hospitals. In state government and the corporate sector, we are a major challenger.

One of the major agreements made during the year was the transfer of the operating services we offer to VR Group to KT-Datacenter's Helsinki computer centre. VR Group and KT-Datacenter established a commonly held company, VR-Data Oy, which started operations in the beginning of April. VR-Data buys its operating services from KT-Datacenter's computer centre. The maintenance of the data systems of Polar Group, as well as the operating of the data system of the City of Kouvola were moved to KT-Datacenter at the beginning of the year. The wood processing company Paloheimo Oy expanded the scope of its agreement with us.

Customers expect uninterrupted service of the operating and network services, even on Christmas Eve.

Service and PRODUCT DEVELOPMENT

As corporate data processing environments become more complex, they become increasingly difficult to manage. However, uninterrupted operation is becoming absolutely crucial to business operations, which will increase demand for support services. Development of the services has focused on those that improve system availability and operational stability. A closer co-operation between hardware sales and operating and network services promises clear synergy benefits.

We develop hardware and operating environment related services according to the needs of the market. The greatest demand in the next few years will be in services related to network monitoring and management.

Staff capabilities have been improved to better correspond to the data processing environments our customers are using. Particular emphasis was placed on monitoring and management of the Windows NT operating system, Oracle databases and client/server operating environments. Network monitoring and support services are continuously being developed to cover a broader spectrum of the monitoring and management of the entire data processing environment.

One important strength of KT-Datacenter is its multi-vendor status, which means that operating services can be offered on several hardware platforms.

In the autumn, a new heavy-duty laser printer was purchased to produce continuation sheet printouts. This investment improved our position as a partner in direct marketing services.

Outlook

Expectations of growth in operating and network services run high. Rapid technological advances, networking, the complexity of operating environments, and the increasing dependence of companies on information technology create new markets for expert and support services relating to hardware and networks. We have experience in many different operating systems, and thus possess the capabilities needed to manage complex environments. In addition to hardware, we can offer services that facilitate its implementation and production use. Pressures to outsource information services are also increasing.

Software BUSINESS

The software business is led by:
Osmo Wilska, Director, Software Services Unit; Keijo Tuovinen, Director, Product and Technology Development Unit; and Kari Kontula, Managing Director, Tukiset Companies Ltd

KT-Datacenter's software business comprises the parent company's Software Services and Application Development units and Tukiset Companies. The parent company specialises in demanding data systems, their integration and expert services. Tukiset Companies specialises in administrative application of small and medium-sized organisations. Consultation, training and implementation services also form a part of the software business.

The financial year of the software business exceeded all expectations. Turnover grew by FIM 57 million or 25%, totalling FIM 292 million. The software business accounts for 26% of Group turnover.

Market situation

The market for software and expert services continued to grow. Its growth rate during the financial year is estimated at slightly over 11%. The value of the software and expert services market was some FIM 4.5 billion, representing 34% of the total market value.

KT-Datacenter significantly increased its market share in the hospital and health care software market, won some more market share in the municipal administration market and acquired several new corporate clients.

Demand for accounting systems was particularly brisk. One factor behind the growth was the adoption of new accounting methods in the municipal sector from the beginning of 1997. A record number of accounting systems – more than 200 – was delivered to clients during the year.

Toward the end of 1996, we bought the health care accounting systems and materials administration and logistics systems businesses of Tietosavo Oy. This acquisition gave us a strong position in hospital financial and materials administration systems. In autumn 1996, we acquired the materials administration software business of Tandem Finland Oy.

A new system, based on wireless data transfer, was developed for materials administration and logistics applications. The new system was delivered to several large accounts.

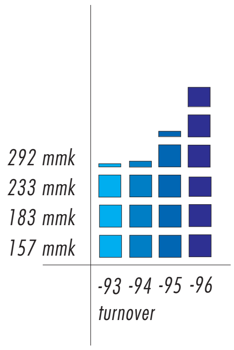
KT-Datacenter became a major player in real estate management software. Estate management system businesses were acquired from Engel Oy in May and from Unic Oy, a member of the Tieto Group, in December.

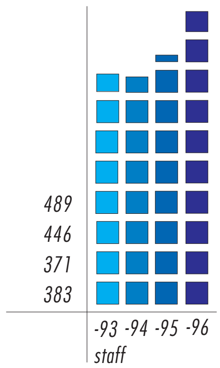
KT-Datacenter increased its share of the personnel and payroll systems market. We strengthened our position in health care districts and municipal administration, and got a strong foothold in the market for corporate personnel and payroll systems.

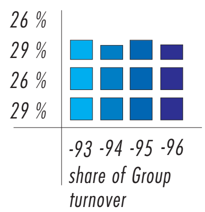
Both data processing environments and organisational working models are becoming network-based, utilising more and more physical and operational networks. We developed electronic communication and service solutions and participated in many joint ventures. A better exploitation of information contained in operative systems is one of the key development issues in organisational information technology. We developed new data warehouse solutions and reporting tools.

Demand for labour-intensive services grew strongly. Large organisations are already preparing for changes that will occur with the year 2000 and Finland's possible membership in the European Economic and Monetary Union. On the other hand, organisations want to increase the useful life of information systems currently in production use and attach features to them that will enable the use of the Internet.

Major new clients in 1996 included the City of Tampere, Keskus-Sato Oy, Polar Group, Tamfelt Oy, Helvar Oy, Puukeskus Oy, Pohjola Insurance Company and Sampo Mutual Insurance. In addition to this, Tukiset Companies made nearly 200 new agreements with SME clients and municipal sector organisations, simultaneously expanding its reseller network.







Service and PRODUCT DEVELOPMENT

In fact, the most significant coin reform will take place in computer accountig systems.

Product development

Product development in 1996 focused on three areas: developing existing products by adding new features, developing new-generation software frameworks and developing Internet applications to compelement existing products.

New functional entities were added to software for financial and educational administration, health care and social care. At the same time, their scope of application was expanded to new market segments. A financial planning component was added to the financial administration system. The customer and service system for social and health care got new system components for appointments, invoicing and queue handling, as well as child care supervisors. The scope of the pupil administration system was expanded to polytechnics and other vocational education institutions. The Status product family was complemented with subsystems for municipal alimony control and parish member registers. A new production planning component was added to the Sonet product family. Both product families now have graphic user interfaces.

State government to renew its accounting systems in 1997

The year 2000 will boost the demand for labour-intensive services. New-generation software frameworks were developed for estate management and municipal geographic information systems (GIS's). The Primas estate management project is being developed into a comprehensive, modular product family that can easily be integrated into other systems, such as financial administration. "Municipality 2000" is a project with 25 municipalities that seeks to modernise municipal basic registers.

Internet applications for the use of the general public have been added to many existing products. A WWW-based student interface was developed for our Winha educational system. The customer service component of the library system was built with a view to operation through the WWW. The software business of the parent company received an SFS EN ISO 9000 quality certificate in 1995. The objective is to certify the operations of Tukiset Companies during 1997.

Outlook

Year 2000 and Finland's possible EMU membership will have a far-reaching effect on the software business and the growth of the market. Labour-intensive services in particular are expected to grow intensely.

KT-Datacenter is completing its internal development project which looks at the products of both KT-Datacenter itself and those of its partners. On the basis of this project, the decision will be made which of the existing products will live past the year 2000 and which will have to be replaced before the new millennium.

State governmental accounting offices will adopt new accounting methods based on new legislation during 1998. As a result, their accounting systems will be replaced during 1997.

KT-Datacenter currently has many product development projects based on the utilisation of new network technologies. Increasing demand is expected for basic software products, their tailoring and expert services.

KT-Datacenter in the WIDE WORLD

KT-Datacenter export activities concentrate on the Baltic states, Central and Eastern Europe, and information technology projects funded by the European Union. Markets for the TaxTop and FlyTop materials and logistics systems have been researched on a global basis.

Everything well in hand. Bar code reading gloves are an essential component in Finnair's logistics system.

TaxTop is a materials administration system for tax-free sales, originally developed for the Finnish national airline Finnair. FlyTop is a POS terminal system that complements TaxTop on board the aircraft. According to market research, both products have good market potential in other airlines. Export markets are actively being sought for estate management and library systems.

The associate company EISdata Süsteemide AS started operations in Estonia during the financial year. It focuses on localisation of KT-Datacenter products for the Estonian market. Studies for establishing joint-venture companies in the other Baltic countries are showing positive results.

EU projects

KT-Datacenter was one of the founders of the European Local Authorities Network (Elanet). Its members are EU countries' associations of local authorities and information technology companies owned by these organisations. The goal of Elanet is to promote the participation of European local authorities as well as its member organisations in the building of information society.

In 1996, the Equality, Promise and Watis projects of the EU Telematics Programme were started. All of these projects enjoy partial funding by the EU Commission. The emphasis in the Telematics Programme projects is on research and product development. The Equality project seeks to improve suburban services through telematics. Promise is an R&D effort co-ordinated by Nokia Research Centre. It aims to develop a pan-European service system based on wireless data transfer which offers travellers an easy way to both plan and execute their trips efficiently. The Watis project builds a multi-language customer and self-service system distributing information on the employment and training markets.

During the year, the EU Commission made a funding decision on two projects in which KT-Datacenter is involved. PAIDEIA is a Ten-Telecom Programme project aiming at developing information and communication technology based methods for open and distance learning and teleworking. ISLA (Information Society in the Local Areas) seeks to identify market potential as well as best practices in the development of telematic services in local administration. The project is funded by the Information Society Project Office, ISPO.

Together with the University of Joensuu, Finland, we started a consultation project aiming to develop St. Petersburg Higher Economic School into a commercially operated, self-supporting unit. KT-Datacenter is also making efforts to participate in projects that ultimately would make other Russian economic education institutions independent and address their information technology needs. This project is funded by the European Bank for Reconstruction and Development, EBRD.

Exports

The outlook for the Baltic, Russian and East European markets is promising. KT-Datacenter is involved in many information technology development projects. Through its membership in Elanet, KT-Datacenter has improved its possibilities to participate in EU projects.

KT-Datacenter BOARD OF DIRECTORS

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Chairman of the Board since 1990

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Board member since 1993

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Board member since 1990

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Board member since 1995

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Jouko Juppala

Christel von Martens

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Simo Lämsä

Antti Salonen

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Chairman, member since 1992

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member since 1990

SHAREHOLDERS

City of Helsinki	22,8 %
Postipankki Ltd.	13,5 %
Association of Finnish Local Authorities	12,9 %
City of Vantaa	10,9 %
City of Espoo	10,8 %
Local Government Pensions Institution	7,0 %
PSP-Finance Ltd.	4,5 %
Printel Oy	1,0 %
Norvestia	1,0 %
Nova Life Insurance	1,0 %
Others	14,6 %

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