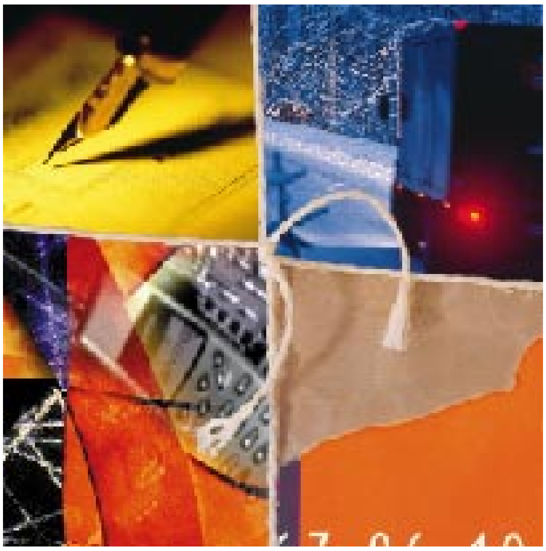
Annual Report 1997



PT FINLAND

PT FINLAND LTD ANNUAL REPORT 1997

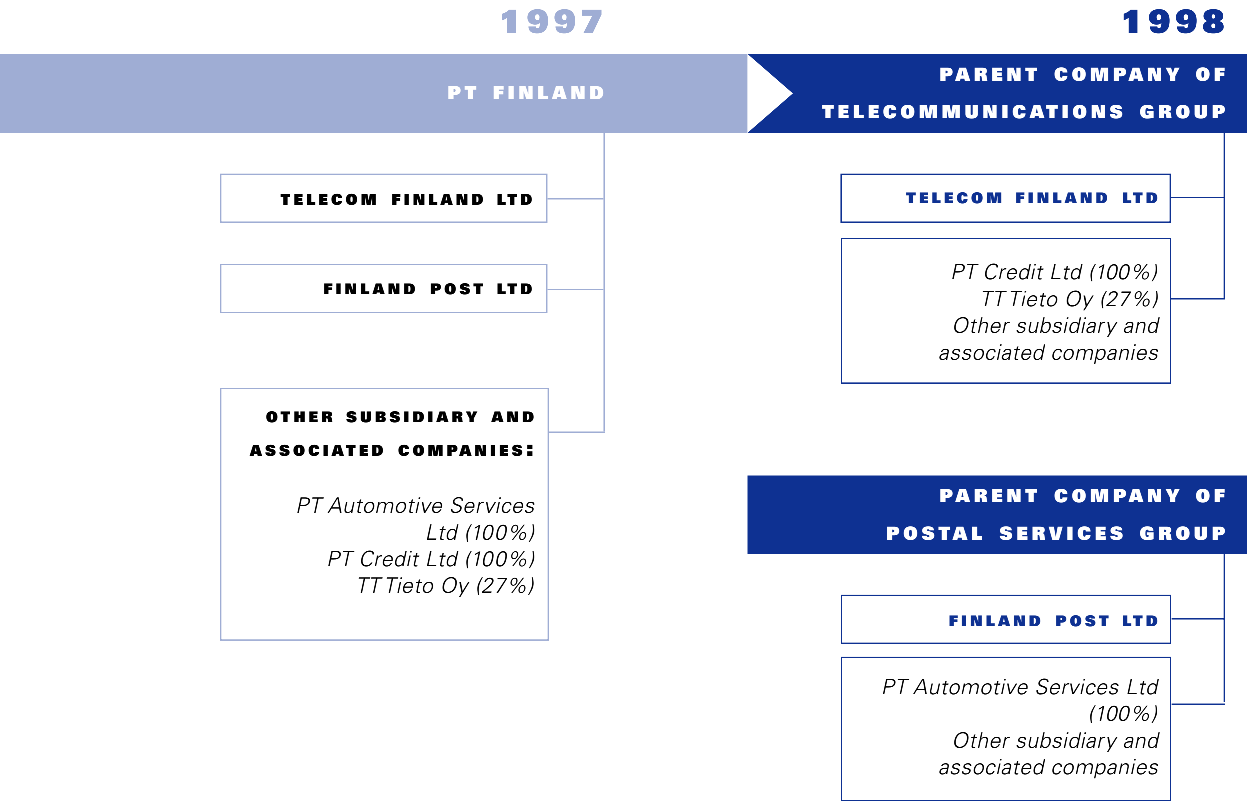
FINANCIAL STATEMENTS

BUSINESS ACTIVITIES

MANAGEMENT AND CONTACTS

PT Finland Ltd's subsidiary companies responsible for its business operations in 1997 were Telecom Finland Ltd, Finland Post Ltd, PT Automotive Services Ltd and PT Credit Ltd. The core business areas of Telecom Finland are mobile communications, data services and media communications. Finland Post provides messaging, media and logistics services. PT Automotive Services provides vehicle leasing and repair services.
PT Credit is a customer financing company within the group. In all about 80 subsidiary and associate companies with business operations belonged to the PT Finland Group during the review year.

PT Finland Ltd is being divided into separate telecommunications and postal services groups in 1998. The parent companies of the new groups will be wholly owned by the State of Finland, but Parliament has authorized the broadening of the ownership base of the new telecommunications group.



PT FINLAND GROUP, KEY FIGURES

	1997	1996	Change, %
Net turnover, MFIM	13,127	11,518	+ 14
Operating profit, MFIM	2,202	1,549	+ 42
as % of net turnover	16.8	13.4	
Profit before extraordinary items, appropriations and taxes, MFIM	2,381	1,660	+ 43
Balance sheet total	15,212	12,393	+ 23
Equity ratio, %	71	76	
Return on investment, %	22.4	18.2	
Capital expenditure, MFIM	2,903	3,477	– 17
Personnel 31 Dec.	34,503	32,721	+ 5

A year of change

During 1998 the PT Finland Group will move into a new stage in its history, splitting into separate groups for postal and telecommunications operations. This is a natural step in the process during the 1990s of changing the Posts and Telecommunications of Finland, a government office, into a company that operates in open competition.

The work of developing the new groups will continue in the manner required by their particular sectors.

The operating environments for the postal and telecommunications sectors have undergone a complete change in Finland during the past ten years. The markets for both have changed from being a monopoly to open competition, which has created opportunities for new companies. Similar developments have also taken place in telecommunications within Europe and other progressive markets, although at a slower pace than in Finland. From the beginning of 1998 the telecommunications markets in the European Union have been open to competition, although a few countries have their own periods of transition, which will slightly delay the introduction of genuine competition. The postal services in the EU area have not been opened up to competition, except in Finland and Sweden.

The opening up of markets has meant a change in the way postal and telecommunications operations are controlled. From being run as a government office controlled by the state budget, these operations are now controlled by market forces, over which society can exercise its influence through its laws and regulations. This has made it possible to bring all the players operating in these sectors under rules that are independent of their ownership structure. This new situation has created the conditions necessary for reducing state ownership in the companies in the sector. The state is in fact planning to gradually reduce its holding in the new telecommunications group, but has decided to keep the postal group fully in state ownership.

All sections of telecommunications have been opened up to competition in Finland, and competition exists in practice, apart from certain areas of local telephone operations. Telecom Finland has responded actively to the challenges of competition and made encouraging progress particularly in its chosen core business areas of mobile communications and data transfer services. The company has also expanded its international activities according to plan.

Postal competition in letter products has been possible in Finland since 1994 on the basis of the Postal Services Act that came into force then. So far competition has been restricted to operations such as courier services, and competitors have only gained a small share of the total market for letter despatches. In fact the competition that was made possible by the act is really just starting, now that the first competing operating licence has been issued for letter traffic.

Competition for publications and parcel traffic has constantly been extremely tough. However, Finland Post Ltd has managed to maintain and even increase its market shares.

1997 a good year

The financial result of the PT Finland Group for 1997 was extremely strong. The Group's net turnover rose by 14% and profitability improved slightly on the previous year. The Group's profit after taxes was FIM 1,700 million, or 13% of net turnover. The operating profit was FIM 2,202 million, an increase of 42% on the previous year.

The Group's achievements in 1997 were the consequence of several factors that simultaneously had positive effects. The upswing in the economy promoted demand for the services produced by the Group. Direct marketing and mail order services in postal operations and the mobile communications section of telecommunications experienced particular growth. The financial result of telecommunications operations improved considerably on the previous year, but the result of postal operations weakened slightly as expenses rose faster than income.

The development work and investments made in the first half of the 1990s have had a positive impact on the profitability and productivity of operations in both sectors, although potential for raising profitability still exists.

Future prospects

The outlook for the future looks bright for both groups, although competition is still intensifying and customer demands are becoming even tougher. The encouraging prospects for Finland's economy and the effects of our development projects create the conditions for diversifying services and improving cost efficiency.

The opening up of international markets to competition creates new opportunities for success for those postal and telecommunications service companies that have already adjusted to competition in their domestic markets. At the same time it highlights the importance of the size of a company, the volume of its resources and its expertise. To respond to these challenges the postal and telecommunications groups are increasing their activity in international operations and are building domestic and international partnerships and alliances. Considerable opportunities exist in postal and telecommunications operations, especially for utilizing information technology expertise. The close relationship which the new telecommunications group has with TT Tieto opens up particular opportunities in this area.

Quality is playing an ever more important role in postal operations as customer requirements increase and competition intensifies. Improving quality evaluation within Finland Post and independent measurement of quality by external assessors are areas in which development work is focusing in particular. These will at the same time help reduce the costs caused by quality defects and in this way improve the cost efficiency of all operations. Increasing cooperation within the Nordic countries and developing business operations in the Baltic Sea region will be areas of development for the postal group over the next few years.

The field of international telecommunications operations is undergoing extensive restructuring. The new telecommunications group aims to both strengthen and expand its international operations and build international partnerships on a solid foundation that highlights its own particular strengths. The emphasis in international operations will especially be on mobile communications and data transfers, and combinations of these.

The state has decided to start to broaden the ownership base of the telecommunications group. This forms an attractive object for investment, especially for domestic and foreign investors who wish to be involved in the development of a service sector that is expanding internationally and of Finnish high-tech expertise. Telecom Finland has a unique structure, with mobile communications and data transfer operations combined with an ultra-modern fixed national network and the services it provides; these form an entity that stands out to its advantage from other more traditional telecommunications companies.

PT Finland Group and PT Finland Ltd will cease their operations during the year in progress in connection with the formation of the new postal and telecommunications groups. They have served their purpose well. During the four year history of the PT Finland Group its parts have developed from government offices and public enterprises into modern service companies. It is now necessary to separate the postal and telecommunications operations so that both can continue to develop. This change will ensure that both sectors are equipped to continue their encouraging progress, which has been a feature of the whole PT Finland Group throughout its existence.

Pekka Vennamo
President and CEO

Finland Post and Telecom Finland to become independent groups

During 1998 the PT Finland Group will be divided into two separate groups of companies.

The new telecommunications and related information technology group will consist of part of the parent company PT Finland Ltd, Telecom Finland Ltd with its subsidiary and associated companies, and PT Credit Ltd. PT Finland's 27% holding in TT Tieto Oy will also be transferred to this new group.

The new postal services group will similarly be formed from the part of PT Finland Ltd that is related to postal operations and ownership of real estate, Finland Post Ltd with its subsidiary and associated companies, and PT Automotive Services Ltd.

The division will take place in the summer of 1998. An external Board of Directors and Supervisory Board, consisting mainly of experts from outside the groups, will be established for both the telecommunications group and the postal services group.

Both new groups will initially be fully state-owned, but Parliament has given authorization so that state ownership of the new telecommunications group may be reduced to 51 per cent. The purpose of broadening the ownership base is to create a wider range of opportunities for Telecom Finland in its operations, and increase its reaction speed. This will place the company in a stronger competitive position in the international markets that are rapidly opening up. The new telecommunications company will be ready to apply for listing on the stock exchange towards the end of 1998.

The work of developing the operations and service palette of the postal services group will continue. The company will operate as a competitive state-owned company that provides high quality services for its customers and achieves good results in terms of quality and financially. Becoming a separate group directly under state ownership emphasizes the major role of Finland Post in the infrastructure of society.

Developments in postal and telecommunications operations in Finland have taken the same direction as elsewhere in Europe, but have moved faster than the rest of Europe. European regulations for the postal and telecommunications sectors have developed at different speeds. Competition for telecommunications opened up in EU countries at the beginning of 1998. In contrast the liberalization of postal operations has proceeded at a slower pace; the sector has been opened up to competition only in Finland and Sweden.

Finland leads the way in liberalization

Finland was the first country in the world to start competition in the telecommunications sector. It started to open up the markets at the start of the 1980s and competition has gradually spread to almost all telecommunications services.

Competition is also open in Finland Post's key business sectors. Finland, Sweden and Argentina are the only countries in the world where distribution of addressed mail is no longer a monopoly. This distribution requires a licence. Finland Post has so far been the only company with a nationwide licence, but licences for restricted areas have already been granted to competitors. Competition is expected to increase in 1998.

Steps towards open competition in telecommunications in Finland

- 1982 The Posts and Telecommunications of Finland opens up the sale of telecommunication terminal equipment.
- 1985 Competition starts for data services.
- 1987 The Telecommunications Act comes into force. Administration of telecommunications is transferred from the Posts and Telecommunications of Finland to the Telecommunications Administration Centre.
- 1990 Competition starts for GSM mobile telephone services.
- 1991 Business telecommunications is completely opened up to competition.
- 1992 Competing operating licences are granted for long-distance and local telecommunications operations.
- 1992 Switched network data transfers are exempt from operating licences.
- 1993 Limited competition starts for long-distance and international calls.
- 1994 Telecommunications markets are completely opened up to competition; competition begins for long-distance and international calls. In principle local telecommunications are also completely open to competition, but in practice the local monopolies remain.
- 1995 Competing operating licences are awarded for GSM 1800 networks.
- 1996 The Telecommunications Act is updated, making it easier for companies to enter the telecommunications sector and easier to rent telecommunications links from competing companies.
- 1997 A new Telecomunications Market Act replaces the Telecommunications Act. The aim is to speed up competition for local calls, which has got off to a slow start. Telecommunications companies are obliged to separate their network and service operations from each other. The act makes it easier for telecommunications companies to rent telecommunications links from each other profitably. The construction of mobile telephone networks remains the only function that is subject to licence.

1638 The date on which the Post was founded in Finland is held to be 6 September 1638. This was during the period of Swedish rule, and on that date the first tariff on letters was approved for the route eastwards from Stockholm. Peasants were employed along the route as postmen and members of the middle classes as post masters.

1811 Finland became an autonomous part of the Russian Empire. In connection with this change, in 1811 Finland obtained its own government offices, including for the postal service. Management of the postal service was transferred from Stockholm to Helsinki.

1855 In 1855 Russia's telegram network was extended from St Petersburg to Helsinki. The first telegraph in Finland was sent between Helsinki and Vyborg.

1859 A Finnish telegraph region was established within the telegraph service of the Russian Empire.

1918 Finland's senate approved the proposal to make the telegraph service a Finnish government office.

1927 The telegraph service was combined with the postal service to form the General Directorate of Posts and Telegraphs.

1981 The name of the General Directorate of Posts and Telegraphs was changed to the Posts and Telecommunications of Finland.

1990 The Posts and Telecommunications of Finland became a state-owned public enterprise. Its accounts were separated from the state budget.

1994 The Posts and Telecommunications of Finland became a limited company on 1 January 1994. Its business operations and assets were transferred to the newly established company, PT Finland Ltd. PT Finland Ltd incorporated its main business sectors, Finland Post and Telecom Finland and the support functions of its Motor Vehicle Depots and the Computer Centre. From the beginning of that year the PT Finland Group consisted of the parent company PT Finland Ltd and its fully owned subsidiaries Finland Post Ltd, Telecom Finland Ltd, PT Automotive Services Ltd and Avancer Ltd.

1996 PT Finland sold 70% of its subsidiary company Avancer Ltd to TT Tieto Oy and at the same time purchased from the state its approximately 27% holding of the TT Tieto Oy shares. At the end of the year PT Finland established a new company, PT Credit, to provide financing services. PT Finland sold the remaining 30% of Avancer Ltd to TT Tieto in 1997.

1997 On 28 October the financial policy ministerial committee approved the plans of the Ministry of Transport and Communications to initiate a study into restructuring the PT Finland Group so that the postal and telecommunications services would form two separate groups.

Leaders in their sectors

Telecom Finland is a global forerunner

In its research and development Telecom Finland focuses on mobile communication and multimedia products and systems. Finland is one of the most advanced countries in the world in these fields, and Telecom Finland is the leader in product development in Finland.

Telecom Finland was first in the world to develop

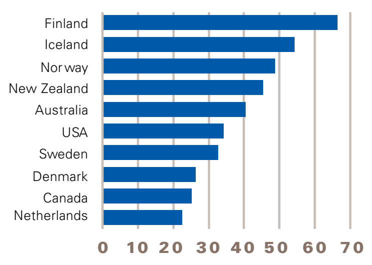
- a mobile telephone exchange
- payment by mobile telephone
- an Internet connection to the mobile telephone
- a commercial multimedia service, MediaNet
- a commercial ATM network

and first in Europe to develop

- public router-based LAN interconnections
- a fast Frame Relay packet switch for data transfer networks

Key new areas for Telecom Finland's research operations are integrated messaging and electronic trading and publishing. These combine wireless messaging with the Internet.

Computers linked to Internet per 1,000 inhabitants 1997 (10 leading OECD countries)



Source: Network Wizards July 1997

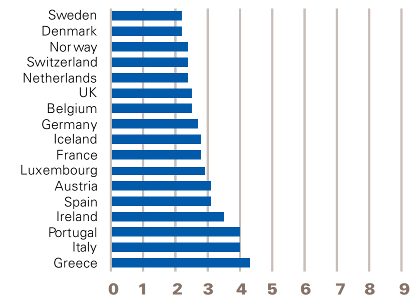
Finland is one of the countries where the Internet has spread widest. One of the innovations for 1998 is access to the Internet using a television as the terminal. This is expected to further increase usage by Finns of the Internet. Telecom Finland conducted trials with Internet TV services in 1997.

Finland Post plays a key role in the infrastructure of the information society

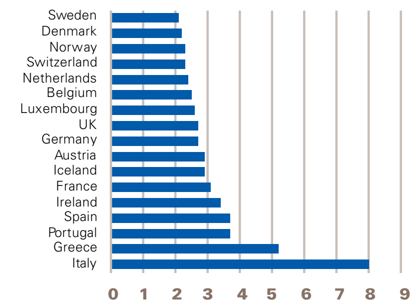
Finland Post's goal is to be one of the best postal services in the world. The company is focusing on improving the quality of its operations and developing its services.

- **Speed of letter delivery among the best in the world.** The smooth flow of letter traffic is a key factor when evaluating the service provided by postal services. When compared with other postal services, Finland Post ranks among the best.
- **Pioneer in hybrid services.** Finland Post receives and forwards messages in the format required by the customer, either physically on paper or electronically. The ePOST letter, response services and EDI solutions are Finland Post's services that combine electronic and paper-based communications.
- **Developer of network trading.** Finland Post is the first in Finland to offer a security service that works with a smart card, increasing the security of electronic messaging and trading.
- **More electric vehicles than anyone else.** Finland Post has more electric vehicles in its delivery service than any other postal service in the world. Finland Post is leading an international electric vehicle project in Finland that is part of an EU programme to develop the use of different forms of energy. In 1998 the number of electric vehicles used by Finland Post will rise to 60.

1st Class letter from Europe to Finland, average time in working days 1997



1st Class letter from Finland to Europe, average time in working days 1997

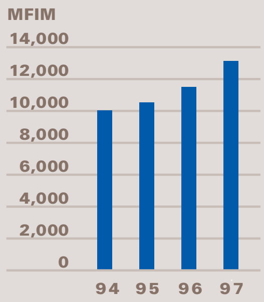


First six months in 1997.
Source: IPC Unipost (Price Waterhouse Extern Monitoring System)

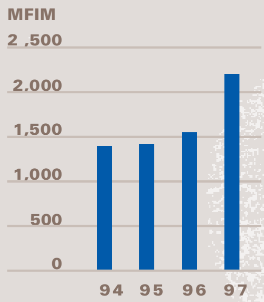
Letters between Finland and the rest of Europe travel extremely quickly and reliably. Finland Post's goal is that 80 per cent of the 1st class letters between Finland and other countries in Europe would arrive by the third working day after they are sent.

Board of Directors' report

Net turnover

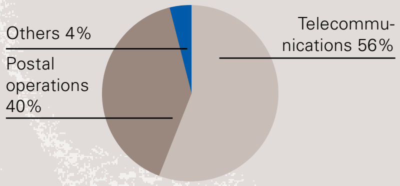


Operating profit

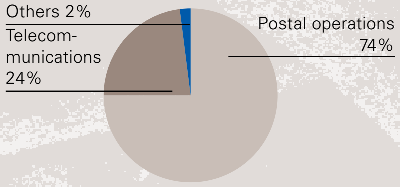


The method of calculating depreciation for telecommunications networks changed in 1997.

Net turnover by business sector 1997



Personnel by business sector 1997



The PT Finland Group continued to make encouraging progress and the Group's profit on operations was the best during the four years of its history. This year, 1997, will also remain the Group's last full financial year, since the Group is being split in the summer of 1998 into two separate groups. This split has had some effect on the financial accounts for 1997.

Group structure

The parent company of the PT Finland Group is PT Finland Ltd. The subsidiaries of PT Finland Ltd responsible for its business operations are Telecom Finland Ltd, Finland Post Ltd, PT Automotive Services Ltd and PT Credit Ltd. PT Finland Ltd owns 27.3 per cent of the shares of TT Tieto Oy. Finland Post Ltd and Telecom Finland Ltd have domestic and foreign subsidiary and associated companies.

The following is a list of the major changes that have taken place in the Group structure during the year:

PT Finland Ltd sold the remaining 30% of the shares of Avancer Ltd to TT Tieto Oy.

In Finland, Telecom Finland Ltd transferred some of its business operations to two subsidiaries. It concentrated equipment sales with TYV Tele Yritysviestintä Oy. Telecommunications services for corporate customers were transferred to Yritysverkot Oy.

In Sweden, Telecom Finland AB, a subsidiary of Telecom Finland Ltd, expanded its operations through company acquisitions. Telecom Finland Ltd established two new companies in Germany. Telecom Finland International N.V./S.A., a company operating in Brussels, was restructured at the end of the year by splitting it into a company providing telecommunications services in Holland, a company offering telecommunications services in Belgium, and a company to coordinate business operations. A company, Telecom Finland Holding B.V., was set up in Holland. Foreign shares and holdings owned by Telecom Finland Ltd and its subsidiaries were transferred to this company. Telecom Finland Ltd sold its majority holding in EasyCall Ermes Hungary Rt, which had operations in Hungary.

Finland Post Ltd, with Telecom Finland Ltd and Hansaprint Oy, established Hansapost Oy, a joint company to provide direct marketing services in the Baltic countries and Russia.

The Group will be divided into new groups in the summer of 1998.

A new group responsible for telecommunications operations and related information technology will be formed from the part of the parent company of the PT Finland Group connected with telecommunications operations, from Telecom Finland Ltd with its subsidiary and associated companies, PT Credit and the holding in TT Tieto Oy.

The new postal operations group will similarly consist of the part of the parent company of the PT Finland Group connected with postal operations and real estate ownership, Finland Post Ltd and its subsidiary and associated companies, and PT Automotive Services Ltd.

The parent companies of the new groups will initially be fully state owned, but Parliament has authorized the broadening of the ownership base of the new telecommunications group, although the state must retain a majority holding. The new telecommunications group will be ready to apply for listing on the stock exchange towards the end of 1998.

The postal operations group will function as a competitive state-owned company that provides high quality services with a financially strong performance. Being directly under state ownership will highlight the important role played by the postal operations group in the infrastructure of society.

The plan for splitting the Group is being registered on 27 February 1998 and it is estimated that the changes in the Group will come into force on 1 July 1998.

Events in the operating environment in 1997

The rapid growth in the Finnish economy raised demand for telecommunications services. The telecommunications markets grew briskly, with mobile communication services recording particular growth, and data transfers and media services also doing very well. The aggressive marketing activities of equipment manufacturers and operators expanded mobile communications markets. Growth in direct marketing and publications deliveries increased the volume of postal traffic.

In 1997, all areas of telecommunications were subject to competition in Finland. Competition in telecommunications operations remained stable. New players in the sector had only a small impact on market shares, but created pressure to reduce prices, especially in international calls. Regulations opening up the telecommunications sector to competition in the European Un-

Net turnover by business sector 1 Jan. – 31 Dec.

MFIM	1997	share, %	1996	share, %	change, %
Telecommunications	7,722	56	6,417	52	+ 20
Postal operations	5,507	40	5,213	43	+ 6
Other operations	542	4	592	5	– 8
Intra-group	– 644		– 704		
PT Finland Group	13,127		11,518		+ 14

Operating profit by business sector 1 Jan. – 31 Dec.

MFIM	1997	% of net turnover	1996	% of net turnover
Telecommunications	1,705	22.1	1,021	15.9
Postal operations	439	8.0	491	9.4
Other operations	70	12.9	51	8.6
PT Finland Group	2,202	16.8	1,549	13.4

ion area came into force at the beginning of 1998.

Competition is also open in Finland's postal operations, apart from addressed letter delivery, for which a licence is needed. Finland Post has a licence covering the whole country, which guarantees postal deliveries to every household. In 1997 the Ministry of Transport and Communications granted a licence for addressed letter delivery in a limited area. Competition will probably increase in letter and publications deliveries in areas where conditions are advantageous for the business. The European Union has made cautious progress in opening up competition for postal services. It took the decision to open up direct marketing and international despatches to competition in 2003.

The Board of Directors of PT Finland Ltd: from the right Markku Talonen (Chairman), Pekka Vennamo, Liisa Joronen, Niilo Laakso and Reijo Sulonen.

Group net turnover and result

PT Finland Group's net turnover in 1997 was FIM 13,127 million (FIM 11,518 million in 1996), an increase of 14%. All the key business areas increased their net turnover. Telecommunications generated the largest part of the Group's net turnover, 56%, postal operations accounted for 40%, and other operations for 4%. Telecommunications has increased its share of the Group's net turnover thanks to the rapid growth in the telecommunications sector once prices stabilized after the liberalization of competition in the sector in 1994.

The Group's operating expenses in 1997 totalled FIM 9,599 (8,347) million, 15% greater than the previous year.

Corporate planned depreciation totalled FIM 1,475 (1,735) million. In addition to this, the Group recorded almost the maximum depreciation permitted by the Finnish laws. The decrease in depreciation is due to changes in the depreciation practice of telecommunications network.

The Group's net financial income was FIM 59 (59) million.

The Group's profit before extraordinary items, appropriations and taxes was FIM 2,381 (1,660) million.

Income taxes totalled FIM 681 (494) million.

The Group's profit for the financial year was FIM 1,698 (1,162) million.

Group contributions paid by the subsidiary companies have been entered in the parent company's accounts. They are included in extraordinary items and totalled FIM 1,449 million. In addition to this the subsidiaries are paying a dividend to the parent company. The non-restricted capital of the subsidiaries with the tax surplus is recorded in the parent company's accounts. The capital will be split between the new postal and telecommunications groups.

The parent company is paying the state a dividend of FIM 1.1 billion and income tax of FIM 432 million.

The relative profitability of the Group remained unchanged from the previous year's level. The Group's return on investment was 22.4% and return on equity was 16.9%.

The Group's financial indicators have been adjusted for 1994 - 1997 to take account of new principles for depreciation on telecommunications networks and to bring them into line with the most important aspects of international accounting (IAS) practice. Planned depreciation for telecommunication networks is considerably lower than previously. The effect of IAS is that accumulated depreciation in excess of plan, made for tax purposes, is no longer shown in the consolidated profit and loss account as a factor reducing profits, apart from the change in the deferred tax liability.

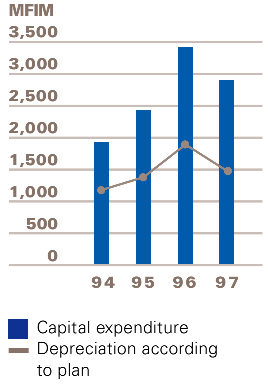
TELECOMMUNICATIONS

Telecom Finland Group had a net turnover in 1997 of FIM 7,722 million (FIM 6,417 million in 1996), an increase of 20% on the previous year. The growth in net turnover was due entirely to expansion in operations, since the prices of telecommunications services did not rise.

Mobile communications services generated 45% (41%) of the net turnover of the Telecom Finland Group, and the turnover from mobile communications increased by 32% on the previous year. The number of Telecom Finland's GSM subscribers grew by 77%. The number of NMT connections fell as customers switched to GSM. At the end of the year Telecom Finland had 1.6 million mobile telephone subscribers. The company has 65 % (68%) of GSM connections and 74% (81%) of all mobile telephone connections. The proportion of private individuals among mobile telephone subscribers grew. The volume of mobile telephone traffic rose faster (42%) than the number of connections (31%). Finland leads the world in the penetration of mobile telephones and the growth in Finland's mobile communications markets continues.

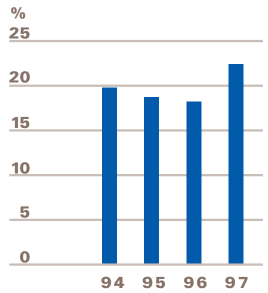
Fixed network services contributed 55% of the net turnover of Telecom Finland. The net turnover of telephone services grew by 4% on the previous year. Local calls, with a total turnover of FIM 3.2 billion, form the largest part of the domestic call market. Telecom Finland had about a 30% share of telephone connections in the fixed network. The owner of the local network is still strongly placed and competition exists largely just for the calls of major companies. The competitive situation has stabilized for long distance traffic and Telecom Finland had a market share of 41% (41%). The prices of long distance calls are low by international standards. Telecom Finland had a 63% (66%) share of international calls. The number of international calls will still grow in the next few years, but intensifying competition will reduce prices. Data and media services, with a 25% growth, showed the fastest growth among fixed network business operations. The rapid growth was due to the vigour of the economy and to technological developments. The vigorous growth in data and media services is forecast to continue in the current year. Special Business Areas accounted for 15% of the Telecom Finland Group's net turno-

CAPITAL EXPENDITURE AND DEPRECIATION



The method of calculating depreciation for telecommunications networks changed in 1997.

RETURN ON INVESTMENT



ver and the net turnover of these operations rose by 22%.

Telecom Finland's international operations consist of subsidiary companies functioning as service operators in Europe and associated companies with mobile communication and fixed network operations. The subsidiaries have operations in Sweden, Germany, Belgium, the Netherlands and Russia. The subsidiaries offer mainly data transfer and media services to international companies. The company's associated companies are in Turkey, Hungary, Estonia, Latvia, Russia and Lebanon. The associated companies have mobile communication and fixed network operations. Telecom Finland aims to raise the value of its associated companies with its advanced services technological expertise.

The net turnover of international operations grew to FIM 306 (144) million. Among the subsidiaries growth was fastest in Sweden. The operations of subsidiaries in their initial stages were loss making. The combined net turnover of the international associated companies was FIM 3,162 (1,839) million. Turkcell, a GSM operator in Turkey in which Telecom Finland has a 34% holding, experienced the fastest growth among the associated companies. The volume of international operations is expected to grow vigorously in 1998 among both associated and subsidiary companies.

Telecom Finland Group's expenses totalled FIM 4,914 (3,986) million. The 23% rise in costs was due to the expansion in operations.

Telecom Finland Group's depreciation according to plan totalled FIM 1,213 (1,478) million. Telecom Finland Ltd changed its method for calculating depreciation according to plan for telecommunications network, from the reducing balance method to the straight line method, which corresponds more closely to the useful economic life of the network. This change makes the company's financial accounts more comparable with those of other companies in the sector. In addition to depreciation according to plan, Telecom Finland Ltd recorded the maximum permitted depreciation.

Telecom Finland's financial result improved. Telecom Finland Group recorded a profit before extraordinary items, appropriations and taxes of FIM 1,788 (1,012) million.

Postal operations

The net turnover of Finland Post Group in 1997 was FIM 5,507 million (FIM 5,213 million in 1996), an increase of 6%. The prices of services were kept at the level of the previous year.

Messaging services accounted for 40% of the net turnover of Finland Post Group. The net turnover of messaging services grew by 2%. Letters formed the largest part of the net turnover of messaging services. Companies changing to faster and more expensive letter services increased the volume of first class mail and increased net turnover. The total number of letters remained unchanged from the previous year since the number of second class letters fell. The ePOST letter developed by Finland Post continued to see vigorous growth. Demand for printing and posting services used by companies also increased briskly. The total market for messaging services is forecast to continue to grow. The traditional written letter is expected to remain an important form of messaging, even though electronic messaging grows at a faster rate.

Media services, in other words magazine and newspaper delivery and direct marketing despatches, formed 26% of the net turnover of Finland Post. The net turnover of publications services grew by 15%. The number of copies of newspapers and magazines delivered by Finland Post grew by 9%, which was mostly due to early morning deliveries taken over by Finland Post. The net turnover of direct marketing services rose by 16% and the number of despatches by 14% on the previous year. Direct marketing increased its share of the total advertising market. The volume of advertising is forecast to continue to grow and direct marketing should retain its market share.

Logistics services, consisting of small package transport and related services, provided 18% of Finland Post's net turnover. The net turnover of logistics services grew by 7% on the previous year. The number of parcels conveyed in Finland remained at the level of the previous year, but the average weight increased. Demand grew in express services and international traffic. Competition has intensified in logistics services. In addition to domestic competitors, service providers are coming from international markets.

Finland Post obtained 12% of its net turnover from services it provides on a commission basis for other companies. The net turnover of counter services remained unchanged. The greater part of net turnover came from Postipankki banking services. Post offices sold about 25% more Postipankki loans than in the previous year. Demand for over the counter services fell as customers increasingly use cash dispensers and automatic payment machines.

Finland Post Group's expenses totalled FIM 4,937 (4,614) million, an increase of 7%.

Finland Post Group's operating depreciation according to plan totalled FIM 146 (121) million. The 21% growth in depreciation was caused by increased investments. In addition to depreciation according to plan, Finland Post Ltd made the maximum allowed depreciation.

Finland Post Group's profit before extraordinary items, appropriations and taxes was FIM 456 (523) million.

Other business operations

The Group's other business operations consisted of the operations of PT Automotive Services Ltd and PT Credit Ltd.

PT Automotive Services Ltd had a net turnover in 1997 of FIM 304 million (FIM 301 million in 1996), an increase of one per cent on the previous year. Finland Post Ltd continued to be PT Automotive Services' most important customer, accounting for 59% of the company's net turnover. PT Automotive Services increased its sales outside the Group to 22% (18%) of the company's net turnover. The company's profitability declined slightly. Its profit before depreciation as a percentage of net turnover was 30.0% (32.1%). PT Automotive Services Ltd had a profit before extraordinary items, appropriations and taxes of FIM 25 million.

PT Credit Ltd was established in 1996 as an internal financing company within the PT Finland Group to provide customer financing. Operations, which mainly aim at financing for Telecom Finland customers, got off to a good start. PT Credit's net turnover in its first period from 1 July to 31 December 1997 was FIM 29 million. It made a loss before extraordinary items, appropriations and taxes of FIM 0.3 million.

Financing

The Group's financial position and liquidity remained strong. At the end of the year, it held liquid reserves of FIM 1,679 (740) million. Interest bearing liabilities stood at FIM 1,028 (248) million at year end. The structure of the Group's balance sheet was still strong. The Group's equity ratio was 71% (76%).

The financial requirements for operations were met during the review year by income financing and through short-term and long-term financing arrangements. In the spring the company arranged a seven year credit facility of DEM 300 million. Because of the flexibility of the facility, the Group's liquidity risk has been under good control. At the end of the year the entire credit facility was in use. In the autumn the company took a five year, fixed interest loan of FIM 100 million from the PT Pension Fund. At the end of the year no short-term credit facilities were in use.

Management of financing risks

The Group's treasury is responsible for managing financing risks. The principles of risk management are laid down in the Group's internal financial risk policy, which is approved by the Board of Directors and contains detailed instructions about managing liquidity, foreign exchange, interest and counterparty risks.

Exchange rate risks

The majority of the Group's cash flows, receivables and debts are in Finnish markka. Currency risks are limited primarily, in addition to long-term debts, to the shareholders' funds and shareholder loans of foreign subsidiary and associated companies and to receivables and debts from foreign postal and telephone traffic.

On 31 December 1997, PT Finland Ltd held forward exchange agreements which when converted to Finnish markka were worth FIM 1,059 million, currency swap agreements worth FIM 10 million and currency options worth FIM 16 million.

Interest rate risks

Interest rate risks mainly arise from interest-bearing receivables and debts in the balance sheet and daily changes in the cash flow. To hedge against interest rate risks, the company spreads its risks and uses interest rate swaps, interest rate options, and forward rate agreements. The company manages interest rate risks by calculating its interest rate risk position, comparing the norm portfolio applicable to the Group and the interest rate periods for credit and financing instruments.

On 31 December 1997 PT Finland Ltd held interest rate swaps to the value of FIM 10 million.

Investments

The Group's investments in 1997 totalled FIM 2,903 (3,477) million.

Investments by Telecom Finland Group were at the same level as the previous year and totalled FIM 2,416 (2,397) million. Most of this was spent on building extra capacity because of the expansion of operations. A total of FIM 955 million was used on extending mobile communications networks and more than FIM 780 million on the fixed network.

Telecom Finland's investments in foreign subsidiary and associated companies totalled FIM 190 million, and foreign acquisitions accounted for FIM 167 million of this.

Investments by Finland Post Group totalled FIM 320 million, an increase of FIM 36 million on the previous year. The biggest object for investment was production buildings and offices. Work started on the construction of a parcel sorting centre, but most of this project will take place in 1998. Other major objects for investment were information technology and sorting equipment.

Research and development

The Group used about 2 per cent of its net turnover in research and development. Key development targets were mobile communications and multimedia systems and products. The rapid convergence of telecommunications, information technology and the media industry has opened up opportunities for new forms of communications, combining wireless communications with the world of the Internet. New areas for development work were integrated messaging and solutions for electronic trading and publishing. Other areas for R & D included intelligent networks and services based on them, access to broadband network, and the development of platforms with a variety of contents.

Personnel

The Group had 34,503 (32,721) employees at the end of the review year, 1,782 more than at the end of the previous year. The number of personnel in the Telecom Finland Group was 8,236, an increase of 657. The growth was in new and expanding business areas. Finland Post Group had 25,696 employees at the end of the year, an increase of 1,122. Most of this increase was due to early morning newspaper deliveries taken over by Finland Post. Group companies employed on average 30,982 (30,838) employees during the review year. PT Finland Ltd had an average of 86 (89) employees.

Wages, salaries, fees and other benefits paid to Group personnel totalled FIM 4,037 (3,940) million. Salaries, fees and other remuneration paid to the Supervisory Board, the Board of Directors, President and CEO, and Executive Vice President of the parent company totalled FIM 3.2 million. A total of FIM 19.0 million was paid in wages, salaries, fees and other benefits to other parent company employees.

Administration and auditors

The following people served on the Board of Directors of PT Finland Ltd during the accounting period: Markku Talonen (chairman from 13 March 1997, deputy chairman until 13 March 1997), Sakari Salminen (chairman and member until 13 March 1997), Liisa Joronen (deputy chairman from 13 March 1997), Niilo Laakso, Reijo Sulonen (from 13 March 1997) and Pekka Vennamo. The President and CEO was Pekka Vennamo.

The company's auditors were Jorma Heikkinen (CPA) and Tilintarkastajien Oy - Ernst & Young, Charted Public Accountants, Jorma Jäske (CPA) and Kunto Pekkala (CPA), deputy.

Prospects for 1998

The Finnish economy is forecast to continue to grow in 1998, but more slowly than in 1997.

The growth in demand for domestic telecommunications services is expected to continue at the same rate as in 1997. Competition will increase in all the main business areas of the Telecom Finland Group, and intensifying competition will create extra pressure to reduce prices. Investments by Telecom Finland Ltd will remain at 1997 levels. The Telecom Finland Group's net turnover is expected to increase thanks to growth in the markets and service developments. The group's profitability is expected to weaken slightly in 1998 as a result of price developments in mobile communications and investments in international operations.

The volume of mail is expected to continue growing, but not quite as fast as in 1997. Competition will increase in licensed postal operations and daytime delivery of newspapers and magazines. Owing to the slowing down of growth and the moderate pricing policy, it is not expected that Finland Post will achieve the 1997 level of profitability.

Profit and loss account

MFIM	Note	Group 1 Jan.-31 Dec. 1997	Group 1 Jan.-31 Dec.1996	Parent Company 1 Jan.-31 Dec. 1997	Parent Company 1 Jan.-31 Dec.1996
Net turnover	1	**13,127**	11,518	**200**	163
Other operating income	2	**149**	113	**22**	33
Operating expenses, total	4	**9,599**	8,347	**134**	123
Materials and consumables:					
Purchases during the financial year		**706**	649	**0**	0
Increase (-) or decrease (+) in stocks		**38**	-27	**-**	-
External services	3	**1,986**	1,494	**16**	13
Personnel costs	4	**4,876**	4,621	**29**	26
Rental costs		**327**	305	**42**	41
Other operating expenses		**1,666**	1,305	**47**	43
Operating profit before depreciation		**3,677**	3,284	**88**	73
Depreciation on fixed assets and other capitalized expenditure	5	**1,475**	1,735	**50**	75
Operating profit		**2,202**	1,549	**38**	-2
Share of profits of associated companies	6	**120**	52	**-**	-
Financial income and expense	7, 8	**59**	59	**67**	90
Profit before extraordinary items, appropriations and taxes		**2,381**	1,660	**105**	88
Extraordinary income and charges, total	9	**0**	0	**1,449**	417
Extraordinary income		**0**	0	**1,449**	417
Profit before appropriations and taxes		**2,381**	1,660	**1,554**	505
Depreciation in excess of (-) or less (+) than plan		**-**	-	**-13**	-14
Increase (-) or decrease (+) in voluntary provisions		**-**	-	**-**	-
Income taxes					
For the financial year		**-584**	-391	**-432**	-138
Change in deferred tax liability		**-97**	-103	**-**	-
Minority interests		**-2**	-4	**-**	-
Profit for the financial year		**1,698**	1,162	**1,109**	353

Balance sheet

MFIM	Note	Group 31 Dec. 1997	Group 31 Dec. 1996	Parent Company 31 Dec. 1997	Parent Company 31 Dec. 1996
Assets					
Fixed assets, total	10	**11,158**	9,726	**6,832**	7,017
Intangible assets, total		**308**	181	**5**	5
Intangible rights		**139**	96	**0**	0
Goodwill		**47**	1	**0**	0
Goodwill on consolidation		**16**	7	**-**	-
Other long-term expenditure		**106**	73	**5**	5
Payments on account		**0**	4	**0**	0
Tangible assets, total		**8,933**	7,927	**1,224**	1,229
Land and water		**487**	462	**377**	380
Buildings and structures		**1,977**	1,929	**820**	834
Machinery and equipment		**1,017**	820	**3**	3
Telecommunications networks		**5,038**	4,294	**-**	-
Other tangible assets		**113**	69	**10**	8
Payments on account and tangible assets in course of construction		**301**	353	**14**	4
Financial assets, total		**1,917**	1,618	**5,603**	5,783
Shares and holdings	17	**1,785**	1,546	**4,752**	4,762
Loans receivable	11	**132**	72	**851**	1,021
Current assets, total		**4,054**	2,667	**3,436**	1,392
Stocks, total		**116**	131	**-**	-
Materials and consumables		**99**	109	**-**	-
Work in progress		**0**	1	**-**	-
Finished goods		**14**	19	**-**	-
Payments on account		**3**	2	**-**	-
Debtors, total	11	**2,486**	1,801	**2,256**	876
Trade debtors		**1,712**	1,472	**61**	2
Loans receivable		**237**	12	**713**	441
Prepayments and accrued income		**403**	239	**1,482**	433
Other debtors		**134**	78	**0**	0
Short-term investments		**1,182**	516	**1,180**	516
Cash and cash equivalents		**270**	219	**0**	0
Assets, total		**15,212**	12,393	**10,268**	8,409

MFIM	Note	Group 31 Dec. 1997	Group 31 Dec. 1996	Parent Company 31 Dec. 1997	Parent Company 31 Dec. 1996
Liabilities					
Capital and reserves	12	**10,776**	9,371	**7,766**	6,977
Restricted capital, total		**6,607**	6,607	**6,607**	6,607
Share capital		**2,400**	2,400	**2,400**	2,400
Reserve		**4,207**	4,207	**4,207**	4,207
Non-restricted capital, total		**4,169**	2,764	**1,159**	370
Other non-restricted capital		**100**	80	**0**	0
Retained earnings		**2,371**	1,522	**50**	17
Profit for the financial year		**1,698**	1,162	**1,109**	353
Minority interests		**9**	15	**-**	-
APPROPRIATIONS					
Accumulated depreciation in excess of plan	12	**-**	-	**59**	46
Voluntary provisions	12	**-**	-	**-**	-
PROVISIONS	12	**69**	65	**0**	0
Valuation items	13	**0**	0	**19**	3
Creditors, total	14	**4,358**	2,942	**2,424**	1,383
Creditors due after more than one year, total		**1,467**	341	**1,010**	2
Loans from financial institutions		**909**	2	**908**	0
Loans from pension funds		**100**	2	**100**	0
Deferred tax liability		**431**	335	**-**	-
Other long-term creditors		**27**	2	**2**	2
Creditors due within one year, total	11	**2,891**	2,601	**1,414**	1,381
Loans from financial institutions		**3**	240	**0**	239
Payments on account		**92**	63	**0**	0
Trade creditors		**980**	792	**13**	10
Accruals and deferred income		**1,796**	1,486	**283**	76
Other creditors		**20**	20	**1,118**	1,056
Liabilities, total		**15,212**	12,393	**10,268**	8,409

Statement of cash flows

MFIM	Note	Group 1 Jan.-31 Dec. 1997	Group 1 Jan.-31 Dec.1996	Parent company 1 Jan.-31 Dec. 1997	Parent company 1 Jan.-31 Dec.1996
Operating activities					
Operating profit		**2,202**	1,549	**38**	-2
Adjustments to operating profit		**1,437**	1,716	**28**	46
Change in net working capital		**122**	-115	**-51**	-2
Interest received		**58**	101	**107**	145
Interest paid		**-5**	-15	**-35**	-40
Dividends recieved		**14**	14	**19**	0
Other financial items		**6**	-4	**-4**	-2
Taxes paid		**-514**	-363	**-242**	-109
Net cash flow from operating activities		**3,320**	2,884	**-140**	36
Investing activities					
Group companies acquired		**-12**	-23	**-7**	-23
Associated companies acquired		**-82**	-678	**0**	-600
Purchases of other shares		**-31**	-110	**0**	-2
Capital expenditures		**-2,664**	-2,666	**-50**	-14
Proceeds from Group companies sold		**-35**	53	**2**	49
Proceeds from associated companies sold		**45**	1	**29**	1
Proceeds from sale of other shares		**7**	16	**0**	14
Proceeds from sale of other fixed assets		**85**	56	**11**	0
Net investments, total		**-2,686**	-3,351	**-15**	-575
Cash flow before financing activities		**634**	-467	**-154**	-539
Financing activities					
Long-term loans raised		**1,328**	0	**1,299**	0
Repayments of long-term loans		**-301**	-77	**-299**	-75
Short-term loans, increase (+), decrease (-)		**-239**	9	**-177**	427
Loan and other receivables, increase (-), decrease (+)		**-163**	-17	**120**	-531
Dividends paid		**-320**	-200	**-320**	-200
Group contributions received and given		**0**	0	**417**	136
Others		**0**	0	**0**	0
Financing activities, total		**305**	-285	**1,040**	-243
Liquid assets, increase (+), decrease (-)		**939**	-752	**886**	-782
Liquid assets on 1 January		**740**	1,492	**521**	1,303
Liquid assets on 31 December		**1,679**	740	**1,407**	521

Accounting principles

The annual accounts of PT Finland Group are prepared in accordance with Finnish accounting legislation and the Finnish Companies Act. The Group's accounting principles have been revised for the consolidated annual accounts in 1997 to correspond in all essential details with the requirements of International Accounting Standards (IAS). In the separate accounts it may have been necessary to make certain exceptions for taxation reasons. The Group has also made a year 2000 provision.

Principles of consolidation

The consolidated accounts include:

1) The parent company, PT Finland Ltd, and the companies in which PT Finland Ltd holds, directly or indirectly, more than 50 per cent of the voting power carried by the shares (Group companies).

Real estate companies are consolidated only if they serve the business operations. Other real estate and housing companies, which are mainly used for staff housing, are not consolidated because they have little or no significance for the presentation of the Group's net income and earnings.

Group companies acquired or founded during the accounting period are included in the consolidated accounts from the date of acquisition or foundation.

The mutual ownership of shares is eliminated using the acquisition cost method. The acquisition cost for these is allocated to acquired assets and liabilities according to their market value. In so far as the acquisition cost exceeds the Group's share of the market value of the acquired company's net assets, this difference is recorded as goodwill on consolidation and is amortized case by case over 5 - 10 years.

Intra-group transactions, intragroup receivables and debts, and the Group's internal margins and distribution of profit are eliminated.

Minority interests in the profits and shareholders' equity of Group companies are presented separately in the consolidated profit and loss account and the consolidated balance sheet.

2) Associated companies, in which the Group owns 20-50 per cent of the shares and voting power and which are engaged in business activities, are included in the consolidated accounts using the equity method.

Any resulting goodwill paid for the shares of the associated companies, which is calculated on the same principles as the goodwill for subsidiary companies, is included in the acquisition cost of the shares recorded in the balance sheet. The Group's share of the net income of the associated companies, including the amortization of goodwill, is presented separately in the consolidated profit and loss account before financial income and expense. Dividends received from the associated companies are eliminated.

Associated companies other than those engaged in business activities, and other companies where the Group's share of the voting power is less than 20 per cent, are recorded at cost in the consolidated balance sheet. Dividends received are included in the consolidated profit and loss account.

Net turnover

Net turnover is calculated as gross sales revenue less sales-related taxes and discounts granted.

Revenue from the sale of goods and services is recognized on the date of delivery. The Group has no major long-term project deliveries in progress.

Production for own use

Production for own use is valued at acquisition cost, which includes variable costs and a proportion of the fixed costs for purchasing and production. Production for own use has been capitalized in the balance sheet by adjusting costs in the profit and loss account. Production for own use mostly comprises telecommunications networks and buildings and structures.

Foreign currency items and derivative instruments

Transactions in foreign currencies are recorded in Finnish markka at the rates of exchange prevailing on the transaction dates. Receivables and debts denominated in foreign currencies when the accounts were closed are translated into Finnish markka at the average exchange rate quoted by the Bank of Finland on the balance sheet date. Foreign exchange gains and losses related to normal business operations are treated as adjustments to sales and purchases. Foreign exchange gains and losses associated with financing and hedging of the total foreign exchange position are recorded as financial income and expense. Derivative contracts made to hedge the company's exposure to foreign exchange and interest rate risks are valued at the rates prevailing on the balance sheet date. The interest element relating to derivatives is accrued as income over the period to maturity and unrealized foreign exchange gains and losses are entered as financial income and expense in the profit and loss account. In the parent company unrealized exchange rate gains are entered in the balance sheet in line with the prudence principle.

The profit and loss accounts of foreign subsidiaries are translated into Finnish markka at the average exchange rates during the year and the balance sheets at the rate on the balance sheet date. Foreign exchange gains and losses arising from the translation of the profit and loss accounts of foreign subsidiaries into Finnish markka at the average exchange rates during the year, from the translation of the balance sheets at the average rate on the balance sheet date, and from the translation of the shareholders' equity of foreign subsidiaries, are entered under retained earnings.

Fixed assets

Fixed assets are valued in the balance sheet at their original acquisition cost, less depreciation according to plan. Assets transferred to the PT Finland Group from the Posts and Telecommunications of Finland on incorporation on 1 January 1994 are stated as the non-cash value on that date. The non-cash value of fixed assets was transferred from P&T to PT Finland, apart from certain real estate, following the principle of balance sheet continuity.

Fixed assets are depreciated on a straight-line basis according to plan. Depreciation is based on estimated useful economic life. The most common periods are as follows:

	years
Buildings and structures	15 - 40
Machinery and equipment	3 - 13
Telecommunications networks	4 - 20
Goodwill on consolidation	5 - 10

The consolidated goodwill arising from the acquisition of the TT Tieto Oy shares in 1996, FIM 402 million, is amortized over ten years.

Land and water areas are not depreciated.

Permanent write-downs are recorded as accelerated depreciation.

Proceeds and losses from the disposal of fixed assets are shown under other operating income or other operating expenses.

Research and development

Research and development costs are written off as incurred. If, exceptionally, research and development costs are capitalized, they are amortized over five years.

Stocks

Stocks are valued at acquisition cost, average acquisition cost or, if this is lower, the probable realization price, in line with the prudence concept of accounting.

Pension arrangements

The statutory pension security under the Employees' Pension Act (TEL) of the companies incorporated on 1 January 1994, and the additional pension security for long-term employees of P&T agreed at the time of incorporation, are insured by the PT Pension Fund. The pension security of some other PT Group companies is now organized through the PT Pension Fund as well.

The statutory pension obligations of other Group companies in Finland are covered by pension insurance companies.

In subsidiaries outside Finland, pension obligations are arranged according to local regulations and practice.

The additional pension obligation of the PT Pension Fund is fully covered. Except for an outstanding share to be paid in later years under the Temporary Reduction in Insurance Premiums Act, the statutory pension liability is fully covered.

Direct taxes, deferred tax liability and tax receivables

Direct taxes include taxes paid and the change in deferred tax liability and tax receivables.

The voluntary provisions and accumulated depreciation in excess of plan in Group companies (appropriations), that are related to planning of taxation, are taken to both shareholders' equity and the deferred tax liability in the consolidated balance sheet. The changes in appropriations are taken to the profit for the year and to the change in deferred tax liability in the consolidated profit and loss account. The deferred tax liability is recorded according to the tax rate in force at the time when the financial statements are drawn up. In the parent company's accounts, the voluntary provisions and accumulated depreciation in excess of plan also contain a hidden tax liability.

As required by the Finnish Companies' Act, the appropriations included in the Group's non-restricted capital do not qualify as distributable reserves.

Maintenance and repair

Maintenance and repair costs are written off as incurred, with the exception of major improvement costs, which are capitalized and included in the acquisition cost of the asset. Modernization costs of rented premises are capitalized and amortized over ten years or the tenancy period, if shorter.

Extraordinary income and charges

All items of an exceptional and significant nature which are not associated with the actual business activities are entered as extraordinary income and charges, including Group contributions.

Leasing

The rental operations of PT Credit Ltd and TYV Tele Yritysviestintä Oy are entered in the consolidated financial statements as financial leasing.

Changes in accounting principles

The calculation of depreciation according to plan for telecommunications networks was changed with effect from the beginning of 1997. The straight-line method, instead of the reducing balance method used earlier, was adopted and this also required re-examination of the useful economic lives of telecommunications networks. A further change was the requirement to recognize the date on which telecommunications networks were brought into service when calculating depreciation according to plan. Previously full depreciation was made for the year when the networks were brought into service. An adjustment for the change in the method of calculation has been made retrospectively in the consolidated financial accounts and shareholders' equity for the 1994 - 1996 financial years. The key financial figures for 1994 - 1996 have been similarly adjusted.

Indirect costs for telecommunications networks produced for the company itself have been capitalized in the balance sheet from the beginning of 1997. Previously production for own use was valued at variable costs. The change in the method of calculation has been made retrospectively in the consolidated financial accounts and shareholders' capital for the 1994 - 1996 financial years. The key financial figures for 1994 - 1996 have similarly been adjusted.

A change in the principles of consolidation affecting the 1997 annual accounts required that accumulated depreciation in excess of plan and voluntary provisions in the separate accounts be entered under both non-restricted capital and the deferred tax liability. The 1996 figures have been adjusted accordingly.

External services and other operating expenses were redefined; in 1997 turnover-related external services are entered in external services and external services not related to turnover are entered in other operating expenses. The 1996 figures have been adjusted accordingly.

Notes to the accounts

The 1996 figures haven been adjusted in accordance with changes in the accounting priciples.

MFIM	Group 1997	Group 1996	Parent company 1997	Parent company 1996
1. Net turnover by geographical market				
Finland	**12,820.4**	11,366.9	**200.1**	163.3
Others	**306.3**	150.6	**0.0**	0.0
Total	**13,126.7**	11,517.5	**200.1**	163.3
2. Other operating income				
Rental income	**15.1**	15.1	**-**	-
Proceeds from disposal of fixed assets	**48.5**	58.7	**21.5**	32.9
Other operating income	**85.8**	39.4	**0.1**	0.2
Total	**149.4**	113.2	**21.6**	33.1
3. External services				
Payments for the use of other operators' networks	**715.8**	606.3	**-**	-
External services of Finland Post Group	**427.4**	376.0	**-**	-
Other external services *)	**842.7**	512.3	**15.9**	12.7
Total	**1,985.9**	1,494.6	**15.9**	12.7

*) The Group's figures consist of costs mainly related to telecommunications network repairs and maintenance.

MFIM	Group 1997	Group 1996	Parent company 1997	Parent company 1996
4. Personnel costs and production for own use				
Wages and salaries	**3,862.2**	3,737.7	**22.0**	20.7
Pension costs	**464.7**	382.6	**2.6**	1.7
Other personnel costs	**549.3**	500.7	**4.8**	3.9
Personnel costs in profit and loss account	**4,876.2**	4,621.0	**29.3**	26.3
Personnel costs capitalized	**138.0**	151.8	**0.0**	0.0
Monetary value of fringe benefits (not incl. in P&L Account)	**19.5**	15.4	**0.5**	0.3
Total	**5,033.7**	4,788.2	**29.8**	26.6

The members of the Supervisory Board, the Presidents, Executive Vice President and members of the Board of Directors were paid altogether FIM 9.6 million in salaries and fees.

MFIM	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Production for own use	**1,829.6**	1,938.7	**-**	-
5. Depreciation				
Depreciation according to plan:				
Intangible rights	**31.5**	21.2	**0.0**	0.0
Goodwill	**6.0**	0.3	**0.0**	0.0
Goodwill on consolidation	**0.9**	5.5	**-**	-
Other long-term expenditure	**11.5**	12.1	**0.7**	0.6
Buildings and structures	**112.6**	163.8	**47.0**	71.8
Machinery and equipment	**284.6**	235.3	**1.6**	2.3
Telecommunications networks	**1,010.1**	1,287.0	**-**	-
Other tangible rights	**17.5**	9.4	**0.3**	0.7
Depreciation according to plan, total	**1,474.7**	1,734.6	**49.6**	75.4
Book depreciation, total	**-**	-	**62.4**	89.8
Accumulated depreciation in excess of plan at the beginning of the year	**-**	-	**45.8**	31.4
Accumulated depreciation in excess of plan for the year	**-**	-	**12.9**	14.4
Accumulated depreciation in excess of plan at the end of the year	**-**	-	**58.7**	45.8
6. Associated companies				
Share of profits	**120.2**	52.2	**-**	-
Share of capital and reserves after acquisition	**60.8**	46.6	**-**	-
Dividends received for the financial year	**38.4**	11.1	**18.7**	0.0
7. Financial income and expense				
Dividend income	**13.8**	0	**18.7**	0
Interest income from long-term investments	**21.1**	13.3	**79.4**	77.7
Other interest income	**39.4**	72	**29.5**	58.5
Other financial income	**6.5**	1.9	**0.1**	0.6
Foreign exchange gains and losses	**3.5**	-4	**-6.7**	2.2
Interest expense	**-17.7**	-14	**-48.5**	-39.6
Other financial expense	**-3.6**	-1.8	**-1.6**	-0.3
Depreciation on investments	**-3.9**	-8.5	**-3.8**	-8.5
Total	**59.1**	58.9	**67.1**	90.6

MFIM	Group 1997	Group 1996	Parent company 1997	Parent company 1996
8. Intra-group financial income and expense				
Interest income from long-term investments	**-**	-	**71.8**	69.7
Other interest income	**-**	-	**3.5**	2.4
Other financial income	**-**	-	**4.7**	0.6
Interest expense	**-**	-	**30.3**	28.6
Other financial expense	**-**	-	**1.1**	0.8
9. Extraordinary income and charges				
Group contributions received	**-**	-	**1,449.0**	417.0
Group contributions given	**-**	-	**-0.1**	0.0
Total	**-**	-	**1,448.9**	417.0

10. Fixed assets and other long-term financial assets

	Acquisition cost at beginning of year	Increases during year	Decreases during year	Accumulated depreciation at end of year	Residual value at end of year
Group					
Intangible assets					
Intangible rights	**143.4**	**76.6**	**-6.9**	**-73.6**	**139.5**
Goodwill	**0.7**	**52.8**	**0.0**	**-6.6**	**46.9**
Goodwill on consolidation	**29.1**	**12.2**	**0.0**	**-25.6**	**15.7**
Other long-term expenditure	**96.9**	**50.6**	**-9.4**	**-31.8**	**106.3**
Payments on account	**3.9**	**0.0**	**-3.8**	**0.0**	**0.1**
Group 1 Jan.-31 Dec.1997	**273.9**	**192.3**	**-20.0**	**-137.6**	**308.5**
Group 1 Jan.-31 Dec.1996	197.5	83.8	-1.6	-99.1	180.6
Tangible assets					
Land and water	**462.5**	**28.1**	**-4.1**	**0.0**	**486.5**
Buildings and structures	**2,264.2**	**161.0**	**-8.7**	**-439.5**	**1,977.0**
Machinery and equipment	**1,344.7**	**470.6**	**-94.7**	**-703.1**	**1,017.5**
Telecommunications networks	**7,409.5**	**1,823.8**	**-103.2**	**-4,092.4**	**5,037.7**
Other tangible assets	**85.8**	**62.5**	**-2.0**	**-33.4**	**113.0**
Payments on account and tangible assets in course of construction	**387.2**	**33.4**	**-119.6**	**0.0**	**301.0**
Group 1 Jan.-31 Dec.1997	**11,954.0**	**2,579.4**	**-332.3**	**-5,268.4**	**8,932.7**
Group 1 Jan.-31 Dec.1996	9,518.3	2,586.0	-187.3	-3,989.9	7,927.1
Parent Company					
Intangible assets					
Intangible rights	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Other long-term expenditure	**6.8**	**0.0**	**0.0**	**-2.2**	**4.6**
Payments on account	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**
Parent Company 1 Jan.-31 Dec. 1997	**6.9**	**0.0**	**0.0**	**-2.3**	**4.7**
Parent Company 1 Jan.-31 Dec. 1996	5.7	1.4	-0.2	-1.6	5.4
Tangible assets					
Land and water	**380.0**	**0.3**	**-3.9**	**0.0**	**376.4**
Buildings and structures	**974.9**	**37.4**	**-7.9**	**-184.1**	**820.2**
Machinery and equipment	**8.9**	**1.5**	**0.0**	**-7.2**	**3.1**
Other tangible assets	**9.2**	**2.0**	**-0.2**	**-1.1**	**9.8**
Payments on account and tangible assets in course of construction	**3.6**	**10.5**	**0.0**	**0.0**	**14.1**
Parent Company 1 Jan.-31 Dec. 1997	**1,376.6**	**51.6**	**-12.0**	**-192.5**	**1,223.7**
Parent Company 1 Jan.-31 Dec. 1996	1,382.9	15.8	-22.1	-147.8	1,228.8

	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Securities				
Shares and holdings				
Group companies	**1.7**	3.8	**4,070.0**	4,065.5
Associated companies	**1,373.8**	1,154.2	**644.6**	656.7
Other companies	**409.0**	387.9	**37.0**	39.5
Total	**1,784.5**	1,546.0	**4,751.6**	4,761.7

	Group		Parent company	
MFIM	**1997**	1996	**1997**	1996
Long-term financial assets				
Loans receivable				
Group companies	**1.5**	0.1	**816.2**	980.8
Associated companies	**95.3**	45.3	**0.6**	16.6
Other companies	**34.9**	27.0	**34.6**	23.8
Total	**131.8**	72.4	**851.4**	1,021.1
Taxation values				
Land and water	**327.7**	273.8	**233.5**	219.5
Buildings and structures	**1,510.8**	1,470.4	**678.9**	675.6
Shares in subsidiaries	**6.4**	6.4	**5,281.0**	3,911.6
Shares in associated companies	**1,220.1**	1,158.8	**1,049.2**	673.2
Other shares	**208.3**	372.9	**30.4**	28.7
Total	**3,273.3**	3,282.3	**7,273.0**	5,508.5

The book value is used where no taxation value is available.

	Group 1997	Group 1996	Parent company 1997	Parent company 1996
11. Debtors and creditors				
Debtors from Group companies				
Loans receivable, long-term	**-**	-	**816.2**	980.8
Trade debtors, short-term	**-**	-	**60.6**	0.9
Loans receivable, short-term	**-**	-	**479.3**	430.4
Prepayments and accrued income	**-**	-	**1,470.1**	423.6
Total	**-**	-	**2,826.2**	1,835.7
Creditors to Group companies				
Trade creditors, short-term	**-**	-	**4.5**	4.7
Accruals and deferred income	**-**	-	**3.8**	2.8
Other creditors, short-term	**-**	-	**1,003.2**	920.6
Total	**-**	-	**1,011.6**	928.1
Debtors from associated companies				
Loans receivable, long-term	**94.3**	45.3	**0.6**	16.6
Trade debtors, short-term	**46.8**	28.4	**0.0**	0.0
Loans receivable, short-term	**1.1**	1.9	**1.1**	1.9
Prepayments and accrued income	**19.6**	2.9	**0.0**	0.4
Total	**161.9**	78.6	**1.7**	18.8
Creditors to associated companies				
Trade creditors, short-term	**23.1**	39.1	**0.3**	0.2
Accruals and deferred income	**7.2**	1.7	**0.0**	0.0
Total	**30.3**	40.8	**0.3**	0.2
12. Capital and reserves				
Restricted capital				
Share capital 1 Jan. - 31 Dec.	**2,400.0**	2,400.0	**2,400.0**	2,400.0
Other restricted capital 1 Jan. - 31 Dec.	**4,207.3**	4,207.3	**4,207.3**	4,207.3
Non-restricted capital				
Non-restricted capital 1 Jan.	**1,922.2**	1,168.0	**369.9**	216.7
Changes in accounting practice in balance sheet	**841.5**	605.8	**-**	-
Non-restricted capital in comparable balance sheet 1 Jan.	**2,763.7**	1,773.8	**-**	-
+/- Net change in transferrable telephone connections	**19.3**	25.6	**-**	**-**
+/- Foreign exchange gains / losses in consolidating capital and reserves of subsidiaries	**7.6**	2.5	**-**	-
- Dividends paid	**-320.0**	-200.0	**-320.0**	-200.0
+/- Other changes	**0.0**	0.0	**0.0**	0.0
+/- Profit for the financial year	**1,697.8**	926.1	**1,109.2**	353.2
Changes in accounting practice 1 Jan. - 31 Dec.	**0.0**	235.7	**-**	-
Profit for the financial year in comparable balance sheet 31 Dec .	**1,697.8**	1,161.8	**-**	-

MFIM	Group 1997	Group 1996	Parent company 1997	Parent company 1996
Non-restricted capital 31 Dec.	**4,168.4**	1,992.2	**1,159.1**	369.9
Changes in accounting practice in balance sheet	**0.0**	841.5	**-**	-
Non-restricted capital in comparable balance sheet 31 Dec.	**4,168.4**	2,763.7	**1,159.1**	369.
- Share of appropriations in capital and reserves	**1,248.9**	756.4	**-**	-
Distributable funds	**2,919.5**	2,007.3	**-**	-

Changes in accounting practice

The annual accounts of the previous years have been restated to comform to the practice of the current year. The effects of the changes on previous years' profits and capital and reserves (see change in capital and reserves, item 12).

The figures are as follows:

Effect on balance sheet on 1 Jan.	**841.5**	605.8	**-**	-
Calculation of depreciation from date of taking into service	**-**	178.1	**-**	-
Capitalizing of overheads	**-**	38.1	**-**	-
Scope of consolidation	**-**	0.5	**-**	-
Division of appropriations	**-**	107.7	**-**	-
Deferred tax liabilities and tax receivables	**-**	-89.8	**-**	-
Financial leasing	**-**	1.1	**-**	-
Effect on profit for the financial year	**-**	235.7	**-**	-
Effect on balance sheet on 31 Dec.	**841.5**	841.5	**-**	-
Accumulated depreciation in excess of plan				
Intangible rights	**19.6**	11.3	**0.0**	0.0
Other long-term expenditure	**7.8**	2.7	**0.2**	0.2
Buildings and structures	**170.4**	118.0	**59.0**	46.2
Machinery and equipment	**242.0**	182.2	**-0.6**	-0.7
Telecommunications networks	**1,278.6**	726.7	**0.0**	0.0
Other tangible assets	**15.9**	7.4	**0.1**	0.0
Total 31 Dec.	**1,734.3**	1,048.3	**58.7**	45.8
Voluntary provisions				
Transition provisions	**0.3**	2.2	**0.0**	0.0
Total 31 Dec.	**0.3**	2.2	**0.0**	0.0
Deferred tax liability for accumulated depreciation in excess of plan and voluntary provisions (Appropriations)	**485.7**	294.1	**16.4**	12.8
Deferred tax liability				
Deferred tax liability on appropriations	**485.7**	294.1	**-**	-
Other deferred tax liability	**69.7**	61.0	**-**	-
Total 31 Dec.	**555.4**	355.1	**-**	-
Deferred tax receivable	**-124.6**	-18.5	**-**	-
Deferred tax liability net 31 Dec.	**430.8**	336.6	**-**	-
Provisions				
Guarantee provisions	**1.4**	5.9	**0.0**	0.0
Others *)	**67.4**	59.1	**0.0**	0.0
Total 31 Dec.	**68.8**	65.0	**0.0**	0.0

*) Consists mainly of Telecom Finland Group's provisions for the year 2000.

13. Valuation items, liabilities

Unrealized foreign exchange gains 31 Dec.	**0.0**	0.0	**18.8**	2.8

	Group		Parent company	
MFIM	**1997**	1996	**1997**	1996
14. Creditors				
Creditors due after more than one year				
Non-interest bearing	**452.6**	334.6	**0.0**	0.0
Interest bearing	**1,013.9**	6.0	**1,010.3**	2.0
Total	**1,466.5**	340.6	**1,010.3**	2.0
Creditors due within one year				
Non-interest bearing	**2,877.7**	2,359.1	**296.0**	86.2
Interest bearing	**13.8**	241.6	**1,117.7**	1,295.2
Total	**2,891.4**	2,600.7	**1,413.7**	1,381.4

Long-term interest bearing loans and maturity profile, Group

	Bank loans	Pension loans	Other loans	Total
1998	**0.0**	**0.2**	**2.2**	**2.4**
1999	**0.2**	**0.0**	**1.8**	**2.0**
2000	**0.4**	**0.0**	**1.0**	**1.4**
2001	**0.0**	**0.0**	**0.0**	**0.0**
2002	**0.0**	**100.0**	**0.0**	**100.0**
2003-	**908.3**	**0.0**	**2.2**	**910.5**
Total 31 Dec. 1997	**908.9**	**100.2**	**7.2**	**1,016.3**
Total 31 Dec. 1996	2.4	1.6	2.0	6.0

Long-term interest bearing loans and maturity profile, Parent Company

	Bank loans	Pension loans	Other loans	Total
1998	**0.0**	**0.0**	**0.0**	**0.0**
1999	**0.0**	**0.0**	**0.0**	**0.0**
2000	**0.0**	**0.0**	**0.0**	**0.0**
2001	**0.0**	**0.0**	**0.0**	**0.0**
2002	**0.0**	**100.0**	**0.0**	**100.0**
2003-	**908.3**	**0.0**	**2.0**	**910.3**
Total 31 Dec. 1997	**908.3**	**100.0**	**2.0**	**1,010.3**
Total 31 Dec. 1996	0.0	0.0	2.0	2.0

Long-term interest bearing loans	Group 1997		Parent Company 1997	
by currency	%	MFIM	%	MFIM
FIM	**11**	**108.0**	**10**	**102.0**
DEM	**89**	**908.3**	**90**	**908.3**
Total 31 Dec. 1997	**100**	**1,016.3**	**100**	**1,010.3**

MFIM	Group 1997	Group 1996	Parent company 1997	Parent company 1996
15. Pledges given and other contingent liabilities				
Loan mortgages				
For the company	**100.0**	0.0	**100.0**	0.0
For Group companies	**-**	-	**0.0**	0.0
For others	**0.0**	0.0	**0.0**	0.0
Other mortgages				
For the company	**2.0**	0.5	**0.0**	0.0
For Group companies	**-**	-	**0.5**	0.5
For others	**0.0**	7.5	**0.0**	0.0
Pledges				
For the company	**164.5**	109.5	**13.6**	3.5
For Group companies	**-**	-	**87.4**	42.5
For associated companies	**-**	-	**0.1**	0.0
Guarantees				
Loan guarantees				
For own loans	**0.1**	11.1	**0.0**	0.0
For Group companies	**-**	-	**0.0**	2.1
For associated companies	**754.4**	536.6	**652.9**	439.6
Other guarantees				
Collateral for own commitments	**10.7**	10.1	**0.0**	0.0
For Group companies	**-**	-	**12.2**	12.9
For associated companies	**141.6**	128.1	**71.9**	60.7
Leasing liabilities				
External leasing liabilities payable within one year	**5.3**	2.5	**0.0**	0.0
External leasing liabilities payable in later years	**4.5**	4.3	**0.0**	0.0
Intra-group leasing liabilities payable within one year	**-**	-	**0.5**	0.3
Intra-group leasing liabilities payable in later years	**-**	-	**0.4**	0.3
Repurchase liabilities	**3.0**	4.2	**0.0**	0.0
Other liabilities	**4.9**	2.5	**0.0**	0.0
Total	**1,190.9**	816.9	**939.4**	562.4
16. Statement of cash flows				
Adjustment for accrual basis accounting				
Adjustment to operating profit				
Depreciation	**1,474.7**	1,734.6	**49.6**	75.4
Transferable telephone connection charges	**19.3**	25.6	**0.0**	0.0
Proceeds from disposal of fixed assets	**-56.8**	-44.2	**-21.5**	-29.6
Total	**1,437.2**	1,716.0	**28.1**	45.8
Share of profits of associated companies	**-120.1**	52.2	**-**	-
Adjustment to financial income and expense				
Financial income	**-2.8**	16.0	**-1.8**	8.3
Financial expense	**12.6**	-0.9	**19.7**	-0.2
Foreign exchange gains and losses	**-0.3**	6.0	**21.2**	-4.0
Change in net working capital				
Change in current trade debtors	**-406.0**	194.0	**-76.1**	9.0
Change in stocks	**14.7**	-22.2	**0.0**	0.0
Change in non-interest bearing creditors, short-term	**513.3**	-287.1	**25.6**	-11.0
Total	**122.0**	-115.3	**-50.5**	-2.0

17. Shares and holdings 31 Dec. 1997

	Number of shares	Group majority %	Curr.	Nominal value Group Curr. 1,000	Book value Group FIM	Book value Parent company FIM	Group's share of capital and reserves FIM 1,000	Result for the year FIM 1,000
Group companies								
Finland Post Ltd, **Helsinki**	200,000	100	FIM	200,000	450,000,000	450,000,000	1,017,757	12,036
Global Mail FP Oy, Helsinki	1,200	100	FIM	1,200	1,200,000	-	1,666	55
Gold Line Oy, Rovaniemi	8,500	100	FIM	85	13,514,635	-	13,565	35
Jakelumarkkinat Oy, Helsinki	70,000	100	FIM	7,000	12,584,080	-	10,437	5,657
Kymen Varhaisjakelu Oy, Kouvola	200	100	FIM	2,000	2,832,321	-	3,042	883
Logistic Mail STP Ltd, St. Petersburg	100	100	RUR	100,000	96,000	-	77	12
LS Logistic Services Ltd, Vantaa	2,100	70	FIM	420	1,422,400	-	1,147	1,214
Suomen Postin Arvokuljetus Oy, Helsinki	700	100	FIM	700	700,000	-	4,701	4,077
Tampereen Ykkösjakelut Oy, Tampere	220	55	FIM	220	220,000	-	1,617	2,414
KOY Kulmakeskus, Joutseno	1,500	100	FIM	15	2,569,000	-	3,437	-
KOY Kärsämäen Aleksi, Kärsämäki	4,635	51.5	FIM	464	2,235,200	-	1,741	-
KOY Laitilan Postikulma, Laitila	1,500	100	FIM	15	3,080,000	-	4,439	5
KOY Saarijärven Postitalo, Saarijärvi	508	100	FIM	508	2,631,052	-	2,496	-12
KOY Sahronmaa, Parkano	9,645	64.3	FIM	10	3,125,000	-	3,738	39
KOY Säästösaku, Toijala	5,853	58.5	FIM	12	2,227,038	-	1,067	-66
Telecom Finland Ltd, **Helsinki**	1,650,000	100	FIM	1,650,000	3,375,000,000	3,375,000,000	5,536,868	512,780
Data-Info Oy, Helsinki	100	100	FIM	1,000	7,112,000	-	1,779	70
EMCEC Oy, Helsinki	10,000	100	FIM	10,000	10,000,000	-	10,009	0
ZAO Fintelecom, St. Petersburg	3,307,825	100	RUR	3,307,825	3,300,008	-	7,299	1,478
Geddeholm CallCenter i Eksjö AB, Stockholm	910	91	SEK	91	6,465,892	-	598	-1,122
Gesam Oy, Helsinki	150	100	FIM	15	203	-	7	0
Oy Infonet Finland Ltd, Helsinki	90	90	FIM	2,250	2,250,000	-	4,149	2,108
Innotele Communications Oy, Helsinki	100	100	FIM	7,000	7,000,000	-	7,421	421
Interinfo Finland Oy, Helsinki	357	50.5	FIM	1,785	1,785,000	-	1,566	-187
Interinfo Eesti OÜ, Tallinn	1	50.5	EEK	10	3,919	-	-149	-378
SIA Interinfo Latvija, Riga	200	50.5	LVL	2	16,949	-	-3,960	-6,677
Interinfo UAB, Vilnius	10	50.5	LIT	10	12,804	-	-31	-75
KOY Saajomaja, Helsinki	180	100	FIM	180	1,670,800	-	733	-54
KOY Pietarsaaren Isokatu 8, Pietarsaari	16,136	60.19	FIM	1,614	4,892,848	-	2,297	16
Mobitele Oy, Tampere	10,000	100	FIM	1,000	10,781,440	-	4,890	2,687
Oy Lippupalvelu-Biljettjänst Ab, Helsinki	2,988	94.85	FIM	120	2,997,200	-	2,610	1,791
Oy Telecon Ltd, Helsinki	600	100	FIM	60	566,380	-	934	-255
Oy Yritysverkot Ab, Helsinki	400	100	FIM	2,000	4,185,320	-	11,118	2,273
Reveko Telecom AS, Tallinn	63	55	EEK	633	493,985	-	339	156
Smartring GmbH, Erfurt		100	DEM	300	904,806	-	910	0
Telecom Finland AB, Stockholm	52,000	100	SEK	5,200	1,440,180	-	45,646	-64,111
Telecom Finland GmbH, Düsseldorf		100	DEM	2,051	12,793,840	-	9,954	-2,704
Telecom Finland N.V./ S.A., Brussels	398,350	100	BEF	39,000	23,669,207	-	12,253	3,206
Telecom Finland Kft, Budapest		100	HUF	1,275,000	36,673,976	-	34,078	103
Telecom Finland Ltd, Hong Kong	2,000,000	100	HKD	2,000	1,187,272	-	2,405	145
Telecom Finland Holding B.V., Amsterdam	60	100	NLG	60	978,658,830	-	979,176	47
Telecom Finland Telekominikasyon Hizmetleri Ltd, Istanbul	100	100	tTRL	20,000,000	517,771	-	466	-49
Telegate AB, Stockholm	10,000	100	SEK	100	68,630	-	-	-
Teletori Oy, Helsinki	3	100	FIM	15	15,240	-	15	0
TYV Tele Yritysviestintä Oy, Helsinki	30,000	100	FIM	30,000	30,047,282	-	45,929	316
PT Automotive Services Ltd, **Helsinki**	5,000	100	FIM	5,000	92,000,000	92,000,000	119,194	16
PT Credit Ltd, **Helsinki**	1,000	100	FIM	20,000	20,000,000	20,000,000	19,663	-337
PT Finland Ltd, Helsinki								
KOY Kirjekyyhky, Vantaa *)	150	100	FIM	15	15,131	15,131	-	-
KOY Korson Uudet Tuulet, Vantaa *)	351	50.14	FIM	351	311,537	311,537	-	-
As. Oy Kruununlehto, Espoo *)	1,500	100	FIM	500	500,000	500,000	-	-
As. Oy Kruununpuisto, Espoo *)	1,500	100	FIM	350	350,000	350,000	-	-
As. Oy Rovaniemen Teleasunnot, Rovaniemi *)	10,000	100	FIM	50	510,196	510,196	-	-
Helsingin Teollisuuskatu 13 Oy, Helsinki	22,146	100	FIM	5,116	131,283,470	131,283,470	137,631	6,604
Group companies, total					**5,267,918,841**	**4,069,970 334**		
- Group companies, consolidated					**- 5,266,231,977**	**-**		
***) Group companies, not consolidated**					**1,686,864**	**4,069,970 334**		

	Number of shares	Group majority %	Curr.	Nominal value Group Curr. 1,000	Book value Group FIM	Book value Parent company FIM	Group's share of capital and reserves FIM 1,000	Result for the year FIM 1,000
Associated companies								
Finland Post Subgroup								
AS Eesti Elektron Post, Tallinn	172	49.14	EEK	1,720	662,822	-	8	537
Hansapost Oy, Helsinki	400	40	FIM	400	400,000	-	-292	-1,729
Helsingin Jakelu-Expert Oy, Helsinki	400	40	FIM	400	400,000	-	1,480	5,065
Henkivakuutusosakeyhtiö Leijona, Helsinki	8,500	24.3	FIM	17,000	17,056,000	-	863	7,814
Joulumaailma Oy, Rovaniemi rural municipality	50,000	25	FIM	5,000	5,000,000	-	-	-
Kohtisuora Oy, Helsinki	5,000	50	FIM	500	800,000	-	114	-148
Vasagatan 11 International AB, Stockholm	5,500	25	SEK	5,500	3,734,500	-	-	-
SIA Latvijas Elektroniskais Pasts, Riga	78	48.75	FIM	780	780,000	-	560	230
Turku-Palvelu Oy, Turku	333	20	FIM	33	450,000	-	98	2,470
Leijona Rahastoyhtiö Oy, Helsinki	3,000	33.33	FIM	3,000	5,588,000	-	5,969	1,452
Telecom Finland Subgroup								
Baltic Tele AB, Stockholm	50,000	50	SEK	5,000	73,128,825	-	67,297	9,951
AS Eesti Telefon, Tallinn		24.5	EEK	-	-	-	97,653	81,893
AS Esdata, Tallinn	1,650	35	EEK	1,650	700,000	-	792	433
Estonian Mobile Telephone Company Ltd, Tallinn	15,852	24.5	EEK	15,852	95,964,884	-	60,639	106,625
Estonian Paging Ltd, Tallinn	460	40	EEK	460	968,023	-	178	10
Hansapost Oy, Helsinki	200	20	FIM	200	200,000	-	-146	-1,729
Intellitel Communications Oy, Helsinki	67,200	33.93	FIM	67	67,200	-	52	-44
Johtotieto Oy, Helsinki	170	33.33	FIM	17	17,000	-	122	97
Lattelekom SIA, Riga		13.2	LVL	-	-	-	-56,312	109,958
Latvian Mobile Telephone Ltd, Riga	2,695	24.5	USD	270	39,720,717	-	40,456	37,055
Movere Oy, Helsinki	100	20	FIM	100	100,000	-	-	-
North-West GSM Ltd, St. Petersburg	729,120	23.52	RUR	7,291,200	27,815,909	-	28,264	61,411
P Plus Communications Limited, Hong Kong	28,490,000	28.49	HKD	28,490	16,727,768	-	-44,901	-193,070
Russian Directories Holding Oy, Helsinki	140	35	FIM	140	140,000	-	-	-
Suomen Keltaiset Sivut Oy, Helsinki	184	30.16	FIM	920	1,540,000	-	5,163	4,629
Suomen Numeropalvelu Oy, Helsinki	800	40	FIM	120	406,400	-	682	352
Systems Consultant Partners SCP Oy, Helsinki	128	40	FIM	128	329,184	-	372	108
Tilts Communications A/S, Copenhagen	20,634,507	27	DKK	206,345	169,629,015	-	163,572	-8,866
Transmast Oy, Helsinki	120	40	FIM	1,200	1,200,000	-	9,354	10,218
Turkcell Illetisim Hizmetleri A.S., Istanbul	3,400,000	34	tTRL	3,400,000	237,047,573	-	226,958	202,868
PT Finland Ltd								
TT Tieto Oy, Helsinki	2,400,000	27.3	FIM	24,000	600,000,000	600,000,000	248,539	188,700
Housing company, real estate and flat corporation shares					153,518,708	44,603,476		
Total					1,454,092,529	644,603,476		
+/- Group's share of earnings of associated companies after acquisition					145,738,408	-		
- Intra-group profit					-226,002,670	-		
Associated companies, total					**1,373,828,266**	**644,603,476**		
Other shares and holdings								
Cooperative Vereiniging IPC, Amsterdam	5	0.05	NLG	8	15,642	-	-	-
International Data Post A/S, Copenhagen	15,000	8.7	DKK	1,500	2,113,500	-	-	-
Advanced European Technologies Holding N.V.	550,000	11	NLG	5,500	14,964,125	-	-	-
Libancell, Beirut	1,400,000	14	LEB	7,000	30,384,379	-	-	-
Pannon GSM Telecommunications Rt., Budapest	3,017	18.11	HUF	3,017,000	301,719,718	-	-	-
TelAdvent Limited Partnership					18,838,735	-	-	-
ZAO Logistics-Nord Ltd, St. Petersburg	1,250	15	RUR	374,985	326,943	326,943	-	-
Satelliite operations					22,947,169	-	-	-
Housing company, real estate and flat corporation shares					136,001,179	34,937,806	-	-
Other companies (telephone shares etc.)					26,142,904	1,761,626	-	-
Total					**553,454,293**	**37,026,375**		
- Intra-group profit					**-144,465,490**	**-**		
Other shares and holdings, total					**408,988,803**	**37,026,375**		
Shares and holdings, total					**1,784,503,933**	**4, 751,600,185**		

The official accounts include information about shares and holdings as required by the Finnish Companies Act and Accounting Act.

Key corporate indicators
PT Finland Group 1994-97

PROFIT AND LOSS ACCOUNT	1997	1996	1995	1994
Net turnover, MFIM	**13,127**	11,518	10,543	9,968
Operating profit before depreciation, MFIM	**3,677**	3,284	2,802	2,581
% of net turnover	**28.0**	28.5	26.6	25.9
Operating profit, MFIM	**2,202**	1,549	1,422	1,401
% of net turnover	**16.8**	13.4	13.5	14.1
Profit before extraordinary items, MFIM	**2,381**	1,660	1,524	1,502
% of net turnover	**18.1**	14.4	14.5	15.1
Profit before appropriations and taxes, MFIM	**2,381**	1,660	1,524	1,171
% of net turnover	**18.1**	14.4	14.5	11.7
Profit for the financial year, MFIM	**1,698**	1,162	1,134	886

BALANCE SHEET				
Fixed assets, MFIM	**11,158**	9,726	8,032	6,900
Current assets, MFIM	**4,054**	2,667	3,591	3,315
Capital and reserves, MFIM	**10,776**	9,371	8,382	7,443
Creditors, MFIM	**4,358**	2,942	3,219	2,755
long-term, MFIM	**1,467**	341	237	207
current, MFIM	**2,891**	2,601	2,982	2,548
Balance sheet total, MFIM	**15,212**	12,393	11,623	10,215

OPERATIONAL KEY FIGURES				
Return on equity, %	**16.9**	13.1	14.3	17.2
Return on investment, %	**22.4**	18.2	18.7	19.8
Equity ratio, %	**71**	76	73	73
Capital expenditure, MFIM	**2,903**	3,477	2,437	1,925
% of net turnover	**22.1**	30.2	23.1	19.3
Personnel 31 Dec.	**34,503**	32,721	34,480	33,390

Calculation of financial ratios

$$\text{Return on equity (\%)} = 100 \times \frac{\text{profit before extraordinary items, appropriations and taxes} - \text{income taxes}}{\text{capital and reserves + minority interests + valuation items}}$$

(average for the year)

$$\text{Return on investment (\%)} = 100 \times \frac{\text{profit before extraordinary items, appropriations and taxes + interest expense + other financial expense}}{\text{balance sheet total - non-interest bearing liabilities} - \text{obligatory provisions}}$$

(average for the year)

$$\text{Equity ratio (\%)} = 100 \times \frac{\text{capital and reserves + minority interests + valuation items}}{\text{balance sheet total - payments on account}}$$

Proposal for the distribution of the parent company's profit

Proposal by the Board of Directors for the distribution of the parent company's retained earnings

The PT Finland Group's non-restricted capital in the consolidated balance sheet on 31 December 1997 amounted to	FIM	4,168,433,000.00
of which disposable	FIM	2,919,494,000.00
PT Finland Ltd's profit for 1997 amounted to	FIM	1,109,246,369.12
and the retained earnings to	FIM	49,882,193.38
The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 458 1/3 per share be paid, i.e. a total dividend of	FIM	1,100,000,000.00
and that the retained earnings of	FIM	59,128,562.50
be carried forward in PT Finland Ltd.		

Helsinki, 27 February 1998

Markku Talonen
Chairman

Liisa Joronen
Deputy Chairman

Niilo Laakso

Reijo Sulonen

Pekka Vennamo
President and CEO

Auditors' Report
to the shareholders of PT Finland Ltd

We have audited the accounting, the annual accounts and the corporate governance of PT Finland Ltd for the financial year of 1997. The annual accounts, which include the report of the Board of Directors and the CEO, consolidated and parent company profit and loss account, balance sheets and notes to the accounts, have been prepared by the Board of Directors and the CEO. Based on our audit, we express an opinion on these annual accounts and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall annual accounts presentation. The purpose of our audit of corporate governance is to examine that the members of the Supervisory Board and the Board of Directors and the CEO have legally complied with the rules of the Companies Act.

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

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

Helsinki, 27 February 1998

Jorma Heikkinen
APA

Tilintarkastajien Oy -
Ernst & Young
Authorized Public Accountants
Jorma Jäske, APA

Statement by the Supervisory Board

Meeting today, PT Finland Ltd's Supervisory Board has considered PT Finland Ltd's annual accounts and the Auditors' report for 1997.

The Supervisory Board has decided to propose to the Annual General Meeting that the profit and loss account and balance sheet for 1997 be adopted, and that the profit be handled in accordance with the Board of Directors' proposal.

Helsinki, 27 February 1998

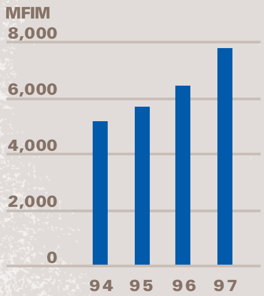
Aapo Saari
Chairman of the Supervisory Board

Telecom Finland

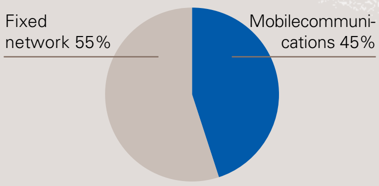
Telecom Finland Group. key figures

	1997	1996	change, %
Net turnover, MFIM	7,722	6,417	+ 20
Operating profit, MFIM	1,705	1,021	+ 67
% of net turnover	22.1	15.9	
Profit before extraordinary items, appropriations and taxes, MFIM	1,788	1,012	+ 77
Balance sheet total, MFIM	9,713	8,171	+ 19
Capital expenditure, MFIM	2,416	2,397	+ 1
Personnel 31 Dec.	8,236	7,579	+ 9

Net turnover



Net turnover by business sector 1997



THE NET TURNOVER OF THE TELECOM FINLAND GROUP INCREASED BY 20% IN 1997 TO FIM 7,722 MILLION. MOBILE COMMUNICATIONS AND DATA AND MEDIA COMMUNICATIONS EXPERIENCED THE FASTEST GROWTH. DESPITE INTENSIFYING COMPETITION, THE GROUP'S MARKET SHARES REMAINED VIRTUALLY UNCHANGED. THE PROFIT AFTER FINANCIAL ITEMS ROSE TO FIM 1,788 MILLION.

Telecom Finland is an international, growth-oriented telecommunications company whose core business areas are mobile communications and data and media services.

Telecom Finland is the leading company in the advanced, highly competitive telecommunications market in Finland, where the company operates a nationwide fixed network. In its international operations Telecom Finland aims at significant growth in its core business areas.

Mobile Communications

Telecom Finland's Mobile Communications Division provides mobile telecommunications services for private individuals and businesses. The division utilizes the latest radio and telecommunications technology as well as information systems, and has extensive partnerships in distribution, R & D and production.

The net turnover of the Mobile Communications Division grew in 1997 by 32% on the previous year to FIM 3,450 million. The change was due to vigorous growth in the market. Mobile Communications' share of Telecom Finland's net turnover rose to 45% (41% in 1996).

Finland has the highest penetration of mobile telephones in the world. At the end of the year under review, the country had 42 (29) mobile telephones for every 100 inhabitants. Telecom Finland is the leading mobile communications operator in Finland, having a market share in GSM services of 65% (68%) at the end of the year and in all mobile services, including NMT, of 74% (81%).

At the end of 1997 Telecom Finland had 1,586,102 (1,211,006) mobile telephone subscribers, and 75% of these were private individuals and 25% were businesses. The proportion of private individuals with mobile telephone connections grew significantly during the year.

In response to tougher competition, Telecom Finland revised downwards the price of its GSM Privat service for consumers in October. According to OECD 1997 figures, prices for mobile telephone calls in Finland are just over half the average in OECD countries.

At the end of 1997 Telecom Finland had GSM interconnection traffic agreements with 101 operators in 63 countries. It started up GSM 900 interconnection traffic, for example, with China and the United States.

According to a survey carried out at the end of the year, Telecom Finland's mobile telephone services provided a high standard of service and customers were extremely satisfied. Telecom Finland is continuously working hard on the management of mobile telephone networks and services, on improving the monitoring of these and on customer service.

Total investments by the Mobile Communications Division were FIM 1,047,000, of which 91% were in the telecommunications network. Telecom Finland introduced on a trial basis a GSM 1800 network in the Helsinki area, in Salo and in Oulu. The purpose of the network is to increase capacity in areas where 900 Mhz frequencies will in future not be sufficient to meet demand. The new network was launched commercially early in 1998 when dual frequency telephones that function in both networks came on the market.

During the review period Telecom Finland was first in the world to introduce an exchange service for use with mobile telephones and a security service that automatically takes a security copy on a server of data stored in intelligent telephones. Telecom Finland became the first company in Finland to provide a service for obtaining information from Internet home pages through mobile telephone text messages.

Telecom Finland is putting its efforts into developing the third generation GSM for mobile telephone systems. In November it announced a joint project with the Japanese company NTT DoCoMo to develop a worldwide standard for the mobile telephone system. The network functions and services would be based on GSM technology and the radio functions on broadband CDMA technology (Code Division Multiple Access). This so-called world telephone system will make it possible to transmit moving images, graphics and voice at the same time.

Paging and Radio Services

In addition to mobile calls, the Mobile Communications Division provides one way messaging services, in other words paging services, and radio services. During the review year the number of paging service customers remained at the same level as the previous year. Greater activity in the market for radio services particularly affected satellite operations.

Fixed Network

Telecom Finland's fixed network operations include telephone services, data services and media communications, production and network services, as well as special business areas that support the range of services provided by Telecom Finland's main business areas.

During 1997 the net turnover of fixed network operations grew by 12% on the previous year to FIM 4,272 million. Data transfer and media communications (+25%) and special business areas (+22%) recorded the fastest growth.

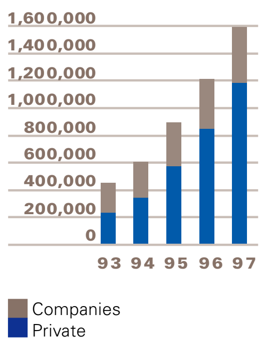
Fixed network operations accounted for 55% (59%) of Telecom Finland's net turnover.

Investments totalled FIM 1,369 million, which was 5% less than the previous year. The previous year's figures included the completion of the extensive programme to digitalize the telephone network. Work on expanding the network absorbed 57% of total investments.

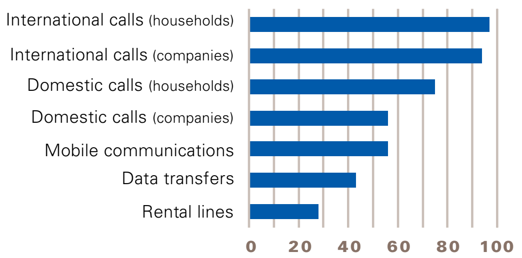
Telephone services

The net turnover for telephone services rose slightly on the previous year to FIM 1,965 million. The services include local, long-distance and international calls.
In addition to the basic telephone service, customers also have access to various additional services such as itemized invoices, call transfers, answering services and call blocking.

NUMBER OF TELECOM FINLAND MOBILE TELEPHONE SUBSCRIBERS

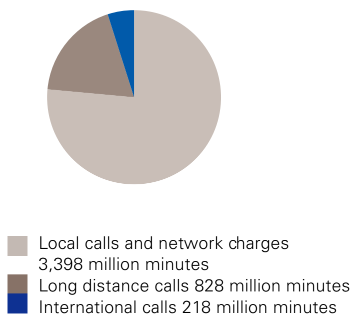


PRICE LEVEL OF TELECOMMUNICATIONS SERVICES COMPARED TO AVERAGE FOR OECD COUNTRIES, %



Source: Eurodata 11/1997

TRAFFIC VOLUMES IN TELECOM FINLAND'S FIXED NETWORK 1997



The annual value of the local call market in Finland is about FIM 3.2 billion, and Telecom Finland maintained its 30% share of this. At the end of the year the company had 789,000 connections, which are located mainly in the areas covered by the local networks owned by Telecom Finland in eastern and northern Finland. The fixed charges for local call connections were raised in March 1998.

The long-distance call market was worth about FIM 400 million in 1997 and Telecom Finland's share of this remained at 41%. Competition has forced the prices of calls down to a low level by international standards and they have remained virtually unchanged in recent years.

Telecom Finland had a 63% (66%) share of the approximately FIM 1.1 billion international call market during the review year. The level of prices is expected to fall in the next few years as a result of intensifying competition.

DATA SERVICES AND MEDIA COMMUNICATIONS

Telecom Finland's Data Services and Media Communications develop and supply value-added services for telephone networks. These services are data transfer systems for businesses, Internet services for private individuals and companies, and voice and data transfer services (service media) that are closely integrated with the business operations of customers

The net turnover of data and media services rose by 25% during the financial year to FIM 906 million. The rapid growth was due largely to the vigorous expansion of the economy and to rapid advances in technology. The focus for R & D shifted from high capacity large area networks to local networks. Telecom Finland formed a product for the administration of customer systems based on local networks.

The growth in the use of the Internet continued apace. According to a survey carried out by Taloustutkimus Oy in October and November, nearly 30% of Finns aged between 15 and 74 years old considered themselves Internet users. The number of users of iNET PRO, the Internet connection provided by Telecom Finland, rose by 140% during the review year. The change in the method of pricing for the iNET PRO service in November, from a per minute charge to a fixed monthly fee, increased daily sales considerably. The company has a 40% market share of Internet services in Finland.

Telecom Finland invested heavily in production equipment and transferred traffic to its own high capacity ATM trunk network to meet the needs of the growing number of Internet users. The capacity of the trunk link across the Atlantic for international traffic was raised to 45 megabits a second. During 1997 Internet services such as e-mail and www were transferred to a new production system which has sufficient capacity to serve more than 500,000 customers.

Telecom Finland developed an intranet product for businesses based on Internet technology. This makes it possible to offer the best features of the open Internet, closed data networks and the latest applications technology.

In service media products Telecom Finland maintained its leading market position despite tougher competition. Telecom Finland is focusing on developing new service media solutions with a higher level of added value.

Telecom Finland develops and markets services to meet its customers' growing requirements for distance working. These services enable people to use the telecommunications network in their work and give links to the data systems of the company for which they are working. Usage of customer service solutions rose by 25% in the review year. Usage of 0800 services which are toll-free and 0203 services, charged at local rates, particularly increased, along with related services such as answering services. Demand for Call Center service packages also rose considerably. Demand for toll-paying entertainment services remained at the level of the previous year.

Product development focused on electronic trading and on fax and EDI messaging for companies. MultiFax, a mass distribution service for fax, started up in Sweden.

Production and network operations

Production and network operations produce network, production and building services for Telecom Finland's service operators and for independent operators.

The division had an external total net turnover of FIM 221 (210) million in the review year. Usage minutes for the fixed network rose by 10%. The greatest increases were shown by the call minutes for mobile communications (+22%) and Internet traffic (+93%).

As the sector develops, new service operators are springing up who do not have their own network. Telecom Finland is aiming to obtain a major market share as a producer of network services for these operators, in order to ensure as large as possible traffic volumes for its own network.

Telecom Finland strengthened its position in trunk network traffic in Finland, with its market share rising to 67% (54%). The considerable growth by mobile communications in Telecom Finland's network made the largest contribution to this increase.

Production operations focused particularly on the reliability of customer deliveries and fault repairs. Delivery reliability rose to 93% (70%), the result of improvements to processes carried out in 1997.

Special Business Areas

Telecom Finland's Special Business Areas Division consists of several separate business units, including Directory Services, Data and Operator Services, Security Networks, Public Telephones, TeleUra, Corporate Ventures and Cable TV. The services provided by the units support the range of services provided by Telecom Finland's main business operations.

The net turnover of Special Business Areas rose by 22% on the previous year to FIM 1,181 million. Demand for services has grown along with the general growth in the economy. Only the usage of public telephones has fallen.

Sales of equipment and systems

TYV Tele Yritysviestintä Oy, a subsidiary of Telecom Finland, is the leading company in the telephone exchange and system market in Finland. The company carries out about 50% of new installations in Finland, which has a total annual market of 120,000 - 140,000 new extension lines. TYV has increased its market share especially among smaller exchanges that have less than 50 extensions.

Telering is a marketing and product concept owned by TYV under which a chain of retail outlets operates, 20 of its own and 41 under franchise. TeleRing products are also sold in a further 37 stores that do not operate under the TeleRing name. Sales through the chain of stores grew by 20% to nearly FIM 300 million. In December TYV purchased all the shares of DataInfo Oy, a chain of companies that specializes in sales of equipment, systems and service for data services. The company also established a subsidiary company in Estonia.

International Operations

Telecom Finland's international operations include associated companies with mobile communications and fixed network operations and subsidiary companies functioning as service operators in Europe.

Telecom Finland's subsidiaries have operations in Sweden, Germany, Belgium, the Netherlands and Russia and it has associated companies in Turkey, Hungary, Estonia, Latvia, Russia, Lebanon and Hong Kong. At the end of 1997 Telecom Finland had a total of 15 subsidiary and 14 associated companies outside Finland.

Telecom Finland is aiming to grow in the globally expanding markets for mobile communications and data and media communications. The company's mobile communications operations have been based on starting up new operators. However, the high prices being charged for operator licences have made it more difficult to start up new jointly owned companies. During the review year operations focused on ensuring existing companies provided a satisfactory range of services and maintained their market share, and stablizing the ownership base.

Telecom Finland's subsidiary companies offer companies advanced data and media communication services. The main market for these is in Europe. By packaging products these subsidiaries can provide products and systems with a profit margin structured so that they can operate profitably even in countries where they do not have their own telecommunications network. The subsidiaries also generate traffic for Telecom Finland's own network. The company's excellent opportunities for providing services to Russia and the Baltic countries are particularly in demand.

The net turnover of Telecom Finland's international operations grew during the review year to FIM 306 (144) million. The fastest growth took place in Sweden. The operations of subsidiaries in their early stages were loss-making. Telecom Finland's pro rata share of the net turnover of its associated companies rose during the review year to FIM 831 (484) million. The combined results of the associated companies improved and together they made a clear profit.

Telecom Finland's total investments in international operations totalled FIM 2,305 million at the end of the year.

Subsidiary companies

Telecom Finland AB, operating in Sweden, expanded its business operations during the review year. In June, the company signed an agreement with the Swedish company Enator AB for the joint development and provision of telecommunication and information services and in October it purchased a 91% holding in Geddeholm Call Center, which provides voice services in three cities. Telecom Finland AB won its biggest individual order in October, when IT-Blekinge, an interest group located in the province of Blekinge in south-east Sweden, ordered a broad band network to cover the whole province.

In Germany, Telecom Finland established two subsidiaries during the year. Telecom Finland GmbH will initially provide data services and Smart Ring GmbH develops products relating to electronic payment.

Telecom Finland International N.V./S.A., which operates in Belgium and the Netherlands, offers its customers voice, data and Internet services. Preparations were made in the Netherlands for starting broad band Quicknet Internet services with various cable TV operators. In Russia the business operations of the subsidiary ZAO made encouraging progress.

Associated companies

Telecom Finland owns 34 per cent of the GSM operator Turkcell Illetisim Hizmetleri A.S., which operates in Turkey. The company's profitability improved in 1997. The number of subscribers had risen by the end of the year to more than 1.1 million, growth of 105 per cent on the previous year. Turkcell is Turkey's leading GSM operator with a 77 per cent market share.

Telecom Finland owns 18 per cent of Pannon GSM Telecommunications which operates in Hungary. The financial performance made encouraging progress and returned a profit. The company's number of subscribers rose to 264,000 (160,000). Pannon GSM is the second largest mobile telephone operator in Hungary and it has a market share of 42 per cent.

Both the Estonian companies, AS Eesti Telefon in the fixed network sector, and the mobile telephone operator Estonian Mobile Telephone Company Ltd (EMT) recorded encouraging success during the review year. Telecom Finland has a 24% holding in both companies. The number of EMT's subscribers rose to 102,000 (53,600) and it had a market share of 67 per cent at the end of the year.

Lattelekom SIA, which operates a fixed network in Latvia, and Latvian Mobile Telephone Company Ltd both considerably improved their results. The number of subscribers of Latvian Mobile Telephone rose to 61,000 (29,000). Telecom Finland has a 13% holding in Lattelekom and 24% in Latvian Mobile Telephone.

North-West GSM Ltd, a mobile telephone operator in St Petersburg, also made encouraging progress. The company's number of subscribers rose to 56,000 and its financial result was good. Telecom Finland has a 23.5% holding in the company.

The number of subscribers of Libancell, a Lebanese mobile telephone operator, rose to 191,500 (90,000). Telecom Finland has a 14% holding in the company.

P Plus Communications opened a GSM 1800 network in June in Hong Kong. By the end of the year, the company's number of subscribers had risen to 30,000. Competition between the nine service providers in the region is intense, and for this reason P Plus Communications recorded a poor result in its first year of operations. Telecom Finland owns 28% of the company.

In February 1998 Telecom Finland sold its holding in P Plus Communications Ltd to the local company Star Telecom International Holding and as part of the arrangement became a shareholder in this company.

PT Credit

PT Credit Ltd was set up in 1996 as an internal financing company within PT Finland. It provides financing services to support the group's sales. The company started its financing operations for customers at the beginning of 1997.

Demand for PT Credit Ltd's services was encouraging during its first year of operations. The main focus was on financing for purchases by Telecom Finland's customers. Financing for equipment was provided in 2,700 cases, and these had a combined purchasing price, excluding tax, of FIM 142 million.

PT Credit works with the other PT Finland business units to provide a one-stop service, arranging financing for customers as part of a purchase of equipment or services. One-stop service will in future become even more significant as customers focus their resources primarily on their own business.

During 1998 the financing operations of PT Credit are expected to expand considerably. During the year, the value of equipment leased by the company is estimated to double.

When the PT Finland Group is split up in 1998, PT Credit will become part of the new telecommunications group.

PT Credit Ltd, key figures

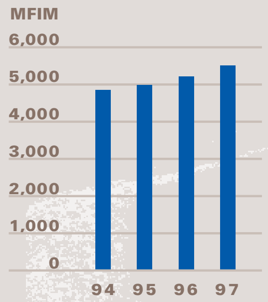
	1.7.1996 – 31.12.1997
Net turnover, MFIM	28.8
Net financing profit, MFIM	4.3
Loss before extraordinary items, appropriations and taxes, MFIM	–0.3
Leased equipment, MFIM	116.7
Balance sheet total, MFIM	164.1
Expenditure on equipment for leasing, MFIM	142.2
Personnel 31 December, 1997	8

Finland Post

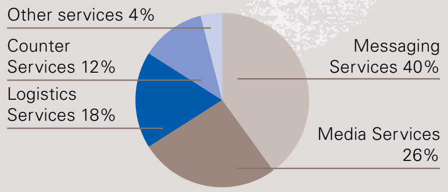
Finland Post Group, key figures

	1997	1996	change, %
Net turnover, MFIM	5,507	5,213	+ 6
Operating profit, MFIM	439	491	– 11
% of net turnover	8.0	9.4	
Profit before extraordinary items, provisions and taxes, MFIM	456	523	– 13
Balance sheet total, MFIM	2,729	2,400	+ 14
Capital expenditure, MFIM	320	284	+ 13
Personnel 31 Dec.	25,696	24,574	+ 5
Postal items conveyed, million	2,553	2,374	+ 7.5

Net turnover



Net turnover by business sector 1997



Growth in Finland's economy generated increased demand for the services of Finland Post Ltd in 1997. Finland Post Group's net turnover was FIM 5.5 billion, representing a 6 % rise on the preceding year. The profit after financial items was FIM 456 million.

Finland Post offers its customers a range of messaging, media and logistics services together with related service packages. Finland Post's service networks cover the whole country and all customer groups. The main customer sectors for the Post are mail order businesses, banking and insurance, industry, service companies, wholesalers and retailers, organizations, and media companies.

Messaging Services

Finland Post's Messaging Services include letter mail services and hybrid services (the ePOST Letter) as well as posting and response services. Finland Post estimates its market share of letter mail in Finland at around 85%. Including fax and e-mail messaging, the messages handled by Finland Post account for about 45% of all messages sent.

The net turnover of Messaging Services during the year under review was FIM 2.2 billion, a rise of 2% on the previous year. The largest proportion of net turnover is still generated by letter mail. Businesses increased their use of first class mail. However, the total number of letters, 858 million, was much the same as the preceding year, since the use of second class mail declined.

The popularity of Finland Post's hybrid service - the ePOST Letter

Service - continued to rise. These ePOST Letters are mainly used by companies and are sent directly from their own computer terminals to the Post. The Post then prints them, places them in envelopes and delivers them to customers in the same way as other letters.

Demand for printing, posting and response services also grew. The reason behind the increase is the growing tendency for business customers to outsource services that are not essential to their core business.

Finland Post's new EDI services for electronic data interchange between companies showed encouraging progress. Finland Post is putting together a number of packages to meet various customer needs for EDI services that will provide a customer with, for example, the capability for electronic trading.

Smart card technology is one area on which Finland Post is focusing its attention. Third-party security services for electronic trading and other electronic business transactions were introduced at the end of the year, with Finland Post acting as the reliable third party. The Post is a pioneer in third-party security services in Finland.

Media Services

Finland Post's Media Services provide publications services, direct marketing services and address services.

Distribution services for publications provide logistics packages between newspaper and magazine publishers and their customers. Finland Post is the leading distributor of newspapers and magazines. In 1997 it had a 90% market share of the magazine distribution sector and 46% of early-morning delivery of newspapers.

Higher circulation figures for publications and new early-morning delivery agreements resulted in higher distribution figures for Finland Post. The net turnover for distribution services for publications rose by 15% on the previous year to FIM 792 million.

Direct marketing services provide companies and associations with service packages for handling customer relations and marketing communications. Finland Post had about 90% of the addressed direct marketing sector and nearly 50% in the unaddressed direct mail sector.

The net turnover of Finland Post's services relating to direct marketing services was FIM 592 million, a rise of 16 %. The increase in mail order sales and the entrance of new mail order companies in the market were major factors in the growth in direct marketing.

Logistics Services

Finland Post's Logistics Services offer customers one-stop logistics service packages catering for light goods and mail order consignments and covering the entire spectrum from physical conveyance to full exploitation of IT systems. The Post is the market leader in Finland for parcel conveyance.

The net turnover of Logistics Services grew by 7% to FIM 990 million in 1997. However, the volume of goods consignments conveyed only rose slightly. In contrast, demand for express services rose both in Finland and in international business. Net turnover was also boosted by increased demand for services linked to one-stop logistics service packages, such as local transport services, warehousing, and both inland and international freight transport.

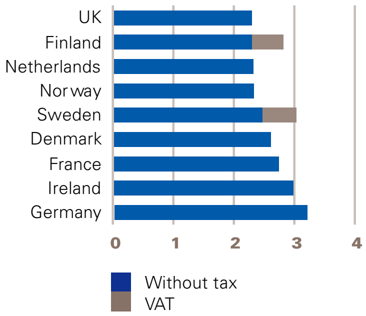
The outsourcing of services, reduction in batch sizes and the increasingly international status of companies all added impetus to the increase in company-to-company volumes. The upswing in export volumes from Finland to the EU, the Nordic region and Finland's neighbouring countries contributed to the growth in international traffic.

Counter Services

Finland Post's Counter Services provide the most comprehensive nationwide network of fixed service outlets for client companies and organizations that utilize the flow of customers for postal services.

During the year under review the banking services and insurance

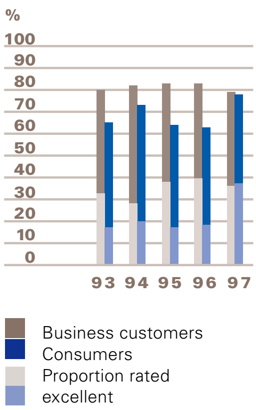
Price of standard 1st class letter, lowest weight classification



Purchasing power parity, November 1997

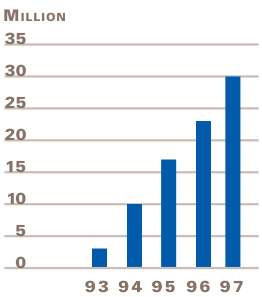
Real prices for letters have remained unchanged in Finland for several years.

Customer satisfaction



Finland Post systematically collects feedback from customers. The percentage on the chart includes those who rated Finland Post's services good, very good and excellent.

Increase in usage of ePost letter



In 1997 the number of ePOST letters sent increased by 35% on the previous year.

policies of Postipankki Ltd, the life insurance company Leijona, and the Pohjola insurance company were sold over post office counters.

The net turnover of Counter Services during the review year remained unchanged from the previous year's level at FIM 648 million. Finland Post sold a considerable part of Postipankki's accounts, payment transactions and deposits. Increased demand for loans pushed up the Post's sales of loans. Deposits remained at much the same level as the preceding year.

Finland Post Enhancing its services

Finland Post is enhancing its services and their availability, from the standpoint of both the sender and the recipient. During the year under review the changes were most visible in post offices and postal deliveries.

Finland Post extended the opening hours of its post offices. The busiest 130 offices are open until 8 pm on weekdays, and the remainder until 6 pm. Post offices that operate as part of another business often also provide service until late in the evening and at weekends. There are altogether nearly 1,700 post offices, of which over 1,000 are annexed to stores and other private service businesses.

Postal deliveries were made even earlier. Partly as a result of the automation of sorting, 80% of private consumers and 91% of business customers now receive their mail before midday.

Work started on installing the new letter boxes. Local postal deliveries were improved by introducing letter boxes from which locally-addressed mail is collected later in the evening. Mail is also collected from these letter boxes on Sunday evening.

Finland Post introduced a new system for tracking and tracing mail items. In future all parcels provided with a barcode address label can be monitored throughout the Post's production process, to ensure that claims for services are kept. Customers will also in future be able to monitor on the Internet the progress of their consignments.

Finland Post reduced the environmental impact of its operations as part of its environmental programme. In 1997 fuel consumption per kilometre driven for Finland Post's fleet of over 5,500 vehicles used to deliver and transport mail was around 1% lower than in 1996. Emissions of nitrogen oxides from delivery and conveyance operations per mail item sent were about 13% lower than in 1996.

The Post is playing a leading role in an extensive international project for introducing electric vehicles. As part of this project, Finland Post will acquire another 11 electric vehicles. During the review year Finland Post had 50 electric vehicles in its fleet - more than any other postal operator in the world. The Post also investigated the use of gas-powered vehicles in city centres.

PT Automotive Services

The net turnover of PT Automotive Services grew slightly in 1997. The largest customers were Finland Post Ltd and Telecom Finland Ltd. Customers outside the group accounted for 22% of net turnover at the end of the year. Sales to private sector customers grew most.

PT Automotive Services Ltd offers comprehensive vehicle repair and leasing services. In 1997 the company owned most of the vehicles used by the PT Finland Group, leased them to group companies and looked after their servicing, maintenance and repair. It also increasingly sold services outside the group.

The company continued to invest heavily in vehicles. During 1997 it purchased more than 800 new vehicles. At the end of the year the company had more than 5,400 vehicles, which were driven a total of just over 100 million kilometres.

PT Automotive Services' network of workshops covers all of Finland. Each workshop aims to provide all the maintenance and repair services required by its customers. In many places the workshops operate in conjunction with Finland Post's sorting centres. A new workshop was opened in Seinäjoki that is part of the logistics chain formed by the Ilkka Print Oy printing works and Finland Post's sorting centre.

During the year under review, the company introduced an environmental system covering all its operations that conforms to the EU's Eco-Management and Audit Scheme (EMAS) directive. PT Automotive Services is also participating in the E.V.D. Post project supported by the EU, which promotes the use of zero-emission electric vehicles for distribution.

The net turnover of PT Automotive Services is forecast to rise in 1998, even though competition in the sector continues to be fierce.

When the PT Finland Group is split up in 1998, PT Automotive Services will become part of the new postal services group.

PT Automotive Services Ltd, key figures

	1997	1996	change, %
Net turnover, MFIM	304	301	+ 1
Operating profit before depreciation, MFIM	91	97	– 6
% of net turnover	30	32	
Profit before extraordinary items, appropriations and taxes, MFIM	25	43	– 42
Balance sheet total, MFIM	284	256	+ 11
Capital expenditure, MFIM	112	108	+ 4
Personnel 31 Dec.	474	480	– 1

Administration
PT Finland Ltd 1997

Supervisory board

In brackets period as Member of Board.

Chairman
Aapo Saari (1994–)
Member of Parliament

Deputy Chairman
Antero Kekkonen (1994–)
Member of Parliament

Pirjo-Riitta Antvuori (1994–)
Member of Parliament

Tarja Cronberg (1994–)
Provincial Director

Tarmo Eskola (1995–)
Communications Technology Director

Timo Hannula (1994–)
Provincial Counsellor

Tuomas Harpf (1994–)
Managing Director

Juhani Heino (1994–)
Chairman

Liisa Hyssälä (1997–)
Member of Parliament

Paula Höök (1994–7.12.1997)
Chairman

Bengt Jansson (1994–)
Managing Director

Bjarne Kallis (1994–)
Member of Parliament

Kari Kantalainen (1997–)
Member of Parliament

Minna Karhunen (1994–)
Member of Parliament

Eino Keinänen (1996–)
Chairman of the Board

Pauli Konttinen (1996–30.5.1997)
Chairman

Erja Lahikainen (1994–)
Managing Director

Antti Palkinen (8.12.1997–)
Deputy Chairman

Esko Rajahalme (1994–30.9.1997)
Colonel

Boris Renlund (1994–)
Principal

Pauli Saapunki (1994–)
Member of Parliament

Jorma Seppänen (1994–)
Chairman of the Board of Directors, Suomen Kuntaliitto

Säde Tahvanainen (1995–)
Member of Parliament

Olavi Tonteri (1.10.1997–)
Colonel

Tapio Vaahtokivi (31.5.1997–)
Chairman

Kari Vilkman (1996–)
Union representative

Sirkkaliisa Virtanen (1997–)
Chairman of the Party Council

Board of Directors

Chairman
Markku Talonen
b.1946
President, Orion Corporation
Member of Board of Directors of PT Finland Ltd since 1994, chairman since 13 March 1997

Sakari Salminen
b. 1932
Industrial Counsellor
Chairman of Board of Directors of PT Finland Ltd 1994–12 March 1997

Deputy Chairman
Liisa Joronen
b. 1944
Chairman of the Board of SOL Palvelut Oy
Member of Board of Directors of PT Finland Ltd since 1994

Niilo Laakso
b.1938
Ministerial Counsellor, Ministry of Transport and Communications
Member of Board of Directors of PT Finland Ltd since 1995

Reijo Sulonen
b. 1945
Professor, Helsinki University of Technology
Member of Board of Directors of PT Finland Ltd since 13 March 1997

Pekka Vennamo
b. 1944
President and CEO of PT Finland Ltd
Member of Board of Directors of PT Finland Ltd since 1994

Managament of PT Finland Ltd

Pekka Vennamo
(second from right in photo)
President and CEO

Pekka Luukkainen
(left)
Executive Vice President

Erkki Tuominen
(right)
Chief Financial Officer

Juha Kivinen
(second from left)
Personnel Director

Auditors

Jorma Heikkinen
Authorized Public Accountant, Head of Auditing, State Audit Office

Authorized Public Accountants
Tilintarkastajien Oy – Ernst & Young

Jorma Jäske
Authorized Public Accountant

Kunto Pekkala
Authorized Public Accountant, Deputy

Contact information

PT FINLAND LTD
B.O. BOX 445, FIN-00101 HELSINKI
Street address:
Mannerheiminaukio 1 A, Helsinki
Tel: +358 9 6131 51
Fax: +358 9 6131 5040
www.suomenpt.fi

TELECOM FINLAND LTD
B.O. BOX 106, FIN-00051 TELE
Street address:
Teollisuuskatu 15, Helsinki
Tel: +358 20401
Fax: +358 2040 2032
www.tele.fi

FINLAND POST LTD
B.O. BOX 1, FIN-00011 POSTI
Street address:
Mannerheiminaukio 1 A, Helsinki
Tel: +358 204 511
Fax: +358 204 51 5645
www.posti.fi

PT AUTOMOTIVE SERVICES LTD
B.O. BOX 71, FIN-00231 HELSINKI
Street address:
Postintaival 7 A, Helsinki
Tel: +358 204 51 0101
Fax: +358 204 51 7088

PT CREDIT LTD
B.O. BOX 2, FIN-00501 HELSINKI
Street address:
Hämeentie 33 E, Helsinki
Tel: +358 2040 66 881
Fax: +358 2040 66 882

The annual report of PT Finland Ltd is published in Finnish, Swedish and English. The publications can be ordered from PT Finland Ltd, Communications, telephone +358 9 6131 5012, fax +358 9 6131 5040.

PT Finland Ltd
P.O.Box 445, FIN-00101 HELSINKI
Street address: Mannerheiminaukio 1 A, Helsinki
Telephone +358 9 6131 51, telefax +358 9 6131 5936