

Annual Report 1997



Review by the Management

IN 1997 TELECOM FINLAND LTD CONTINUED TO EXPERIENCE GROWTH AS IN PREVIOUS YEARS - NET TURNOVER GREW BY 20% AND THE PROFIT AFTER FINANCIAL ITEMS BY 77%. PARTICULAR AREAS OF GROWTH IN FINLAND WERE MOBILE COMMUNICATIONS AND DATA AND MEDIA COMMUNICATIONS. IN INTERNATIONAL OPERATIONS THE FOCUS WAS ON EXPANDING AND BUILDING UP EXISTING PROJECTS AND OPERATIONS.

The rate of change in the telecommunications sector is accelerating, and this will place great challenges before companies operating in the sector over the next few years. Telecom Finland has been preparing for several years for the opportunities and threats presented by these changes. The company is in a healthy financial state and so are its profits, and the company's base of expertise is recognized as strong even by international standards. Many years' experience of operating in a competitive environment and the open-minded attitude of Finnish customers have made a major contribution in creating this fund of expertise.

It has been significant for Telecom Finland that competition in Finland has gradually been opening up since the mid 1980s. Data transfer was the first area to be opened up to competition at that time. This was followed in the early 1990s by mobile communications and fixed network telephone services. Before these changes, most of Telecom Finland's income was generated by the products in which it had a monopoly at that time, long distance and international calls. Telecom Finland has an unusual position for a European company in its local

call operations and the subscriber networks it owns. The company's networks are mainly in the thinly populated areas of northern and eastern Finland, and less than 30% of Finland's fixed network telephone subscribers are connected to these networks.

The company had started to actively build up mobile communication operations back in the 1970s with manually operated mobile telephone services, and continued in the 1980s, working with the other Nordic telecommunications operators, with NMT mobile telephone services. This early start has been a major factor in Telecom Finland's success both in Finland and in the international market. Another factor is that Finland's mobile communications market has become the most advanced in the world. During the review year, user density grew from 29% to 42%. Finns have also shown their pioneering spirit in the use of the Internet, in which growth started to accelerate vigorously in the autumn of 1997. At present 14% of Finns already use the Internet weekly. Growth in this area is expected to continue apace in the current year.

Telecom Finland has a strong position in Finland's markets as intensifying competition spreads to all areas. The company has about 53% of the telecommunications market, with an emphasis on new growing business areas. To keep this leading position, one area where the company is focusing its efforts is on offering more comprehensive service and product packages and improving quality. To operate in new markets it is necessary to have a thorough grasp of



Pekka Vennamo, President and CEO of PT Finland Group and Chairman of the Board of Telecom Finland Ltd (left), and Aulis Salin, President and CEO of Telecom Finland Ltd.

telecommunications and information technology and to be able to merge them effectively.

Although certain business areas in Finland still offer considerable potential for growth, Telecom Finland has only limited opportunities for growth domestically. The company's real opportunities for growth in the future lie in international operations. In these Telecom Finland is aiming, on the one hand, for growth and especially economies of scale in nearby areas, and, on the other hand, it is focusing on the globally expanding markets for mobile communications and data and media communications.

To stay at the forefront of a rapidly changing business, a company requires product and service skills, together with efficient and effective research and development operations. In 1997 Telecom Finland used about 3.5% of its net turnover on R&D. The company ranked third in Finland, after Nokia and Valmet, in the number of patents it applied for. In future it will invest even more resources in R&D, taking particular care that they are targeted correctly.

It is of major importance for the future of the company that the decision has been taken to split the PT Finland Group, to which Telecom Finland belongs, into separate postal and telecommunications groups. The Finnish government also decided to initiate

studies into expanding the ownership base of the telecommunications group, after which in November 1997 Parliament authorized the government to sell at most 49% of the new telecommunications group. The new telecommunications group will start operations in the summer of 1998.

Listing on the Stock Exchange will increase Telecom Finland's opportunities to participate in ever larger operations. A key evaluation criterion when preparing for these strategic projects is an increase in the company's shareholder value.

Listing will also raise Telecom Finland's credibility in the eyes of customers and partners, and will create a clear framework of reference for further developing the company's internal operations. The company will raise its efficiency and continue to improve the various processes in its operations. But it is also important to develop new operations for rapidly growing business areas that may still be partially undefined. New business opportunities will open up with the convergence of telecommunications, information technology and the content production for new channels of distribution.

Pekka Vennamo
President and CEO
PT Finland

Aulis Salin
President and CEO
Telecom Finland

Telecom Finland 1997

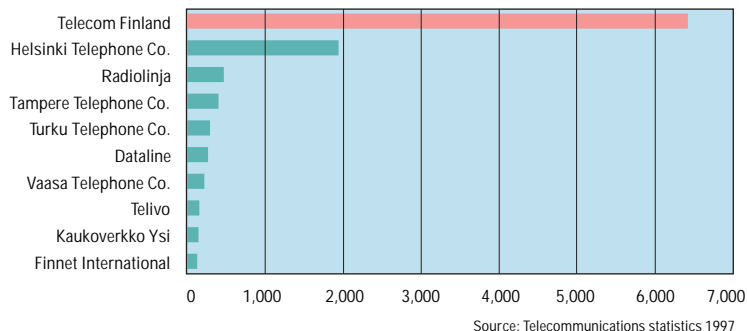


- RAPID GROWTH IN MOBILE, DATA AND MEDIA COMMUNICATIONS
- MARKET SHARES VIRTUALLY UNCHANGED
- CONSIDERABLE IMPROVEMENT IN PROFITABILITY
- PROFIT AFTER FINANCIAL ITEMS FIM 1,788 MILLION
- PREPARATIONS UNDERWAY FOR BROADENING OWNERSHIP BASE

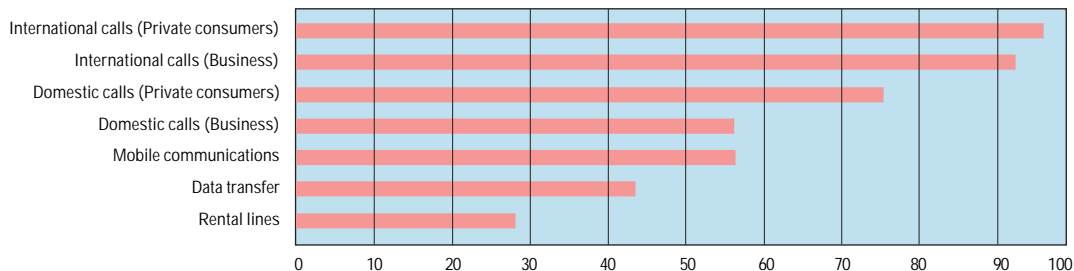
KEY INDICATORS	1997	1996	Change, %
Group net turnover, MFIM	7,722.1	6,416.7	20.3
Profit after financial items, MFIM	1,787.7	1,021.5	76.6
Investments, MFIM	2,416.3	2,396.8	0.8
Balance sheet total, MFIM	9,712.8	8,170.9	18.9
Return on investment, %	28.7	18.6	-
Equity ratio, %	57.6	61.6	-
Personnel (average no.)	7,922	7,362	7.6

About 80 telecommunications companies offer their services in Finland. In markets where competition exists, telecommunications prices are low by international standards.

1996 net turnover of some Finnish telecom operators, MFIM



Prices of telecommunications services in Finland compared to average for OECD countries, %



MOBILE COMMUNICATIONS: 1.6 MILLION CUSTOMERS

Growth in mobile telephone density in Finland was faster than ever before. Telecom Finland's market share in mobile communications only fell slightly, despite more intense competition. The one millionth GSM subscriber was connected to Telecom Finland's network in December.

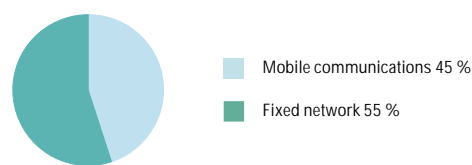
Telecom Finland is focusing on developing the third generation of mobile telephone, the so-called world telephone system. A joint development programme with the Japanese company NTT DoCoMo began at the end of the year.

DATA SERVICES AND MEDIA COMMUNICATIONS: INTERNET SPREADING RAPIDLY

Telecom Finland invested heavily in the Internet production system in response to rapidly growing demand. The number of users of the company's iNET PRO Internet access service rose by 140%. An experiment using the Internet via television started in Helsinki.

Demands by companies for data transfer packages grew considerably. The emphasis in product development switched to local networks for businesses.

Net turnover of Telecom Finland by sector



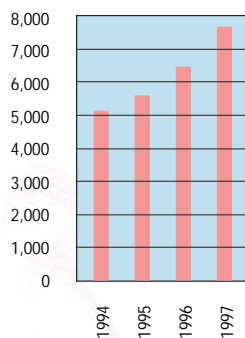
INTERNATIONAL OPERATIONS: GROWTH FASTEST IN TURKEY AND SWEDEN

The subsidiary company Telecom Finland AB expanded through company acquisitions in Sweden's data transfer and telephone service markets. Two subsidiaries started up in Germany: Telecom Finland GmbH provides data services and Smart Ring GmbH develops products for electronic payment.

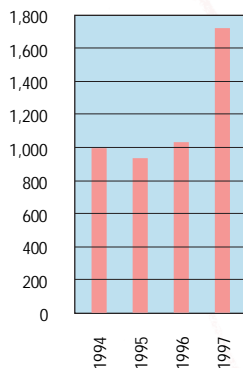
The net turnover and results of Telecom Finland's foreign associated companies made encouraging progress. The Turkish GSM operator Turkcell grew fastest.

Board of Directors' Report

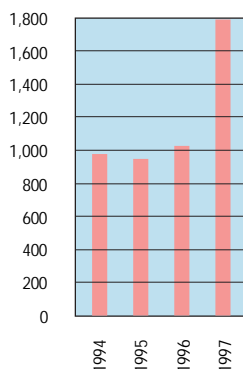
Net turnover 1994-1997, MFIM



Operating profit 1994-1997, MFIM



Profit after financial items 1994-1997, MFIM



The rapid growth (6%) in Finland's economy in the review year laid a solid foundation on which the telecommunications sector could develop. The total market for the sector in Finland rose to FIM 14.5 billion, an increase of 16% on the previous year (1996 saw an increase of 13%).

The Telecom Finland Group's net turnover grew by 20% to FIM 7,722 (6,417) million. The Group's operations expanded in all the Group's core business areas faster than in the previous year. Growth was fastest in mobile communications and in data and media communications. Despite intensifying competition, the Group's market shares remained almost at their previous levels.

Profitability improved considerably on the previous year, and consolidated profits after financial items rose to FIM 1,788 (1,012) million. The improvement was due mainly to rapid growth in mobile communications, increased cost efficiency in fixed network operations, and a reduction in depreciations. The reduction in depreciations was due to the longer useful economic life of telecommunications networks introduced at the beginning of 1997.

The process of privatizing Telecom Finland got underway on 28 October 1997. On that date the Cabinet Economic Policy Committee of the Finnish Government approved the plans of the Ministry of Transport and Communications to change the structure of the PT Finland Group so that the Group's postal and telecommunications operations would be formed into two separate groups. The intention is to start the partial privatization of state-owned telecommunications operations. Parliament authorized the Government in November to sell up to 49% of the shares of the new telecommunications group being formed.

NET TURNOVER

The Group had a net turnover of FIM 7,722 (6,417) million.

The net turnover of mobile communications grew by 32% from the previous year's level to FIM 3,450 (2,619) million. The share of mobile telecommunications of the Group's total net turnover rose to 45% (40%).

At the close of the financial year Telecom Finland had a 74% (81%) market share of mobile communications in Finland and 65% (68%) of GSM services, which are growing fastest. The private customer segment grew faster than other customer segments.

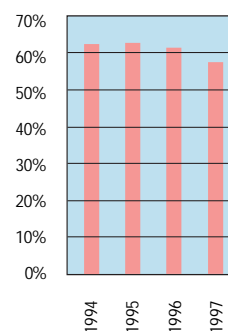
The net turnover of the fixed network grew by 12% from the previous year to FIM 4,272 (3,798) million. Fixed network operations consist of several telecommunications services which face differing competitive situations and have different market shares.

The net turnover of fixed network telephone services rose to FIM 1,965 (1,894) million. The market shares remained almost unchanged, at 63% (66%) in international calls, 41% (41%) in long distance calls and 30% (30%) in local calls.

The net turnover of fixed network data and media services grew by 25% to FIM 906 (726) million. Most of the net turnover and growth came from data transfer services. Internet services showed proportionately the fastest growth, but their share of total net turnover was still small. Competition in service media operations increased during the review year and the level of prices fell, but despite this net turnover grew by 10% on the previous year.

The Group's special business areas accounted for FIM 1,181 (967) million, or 15% of the Group's net turnover. The largest single item, FIM 517 million, was contributed by the telephone system and

Equity ratio 1994-1997, %



terminal equipment business of TYV Tele Yritysviestintä.

Telecom Finland's international operations consist of associated companies with mobile communication and fixed network operations and subsidiary companies functioning as service operators in European markets. The net turnover of international operations included in the fixed network operations rose in the review year to FIM 306 (144) million. The Swedish subsidiary Telecom Finland AB saw the fastest growth.

The net turnover of Telecom Finland's foreign associated companies rose to FIM 3,162 (1,839) million. The GSM operator Turkcell in Turkey experienced fastest growth among the associated companies; Telecom Finland has a 34% holding in the company.

board of directors' report

RESULT

The Group's financial performance improved. The operating profit rose by 67% to FIM 1,705 (1,021) million, or 22% of net turnover. The share of the profits of associated companies totalled FIM 107 (40) million, of which FIM 101 million came from foreign associated companies. The profit after financial items increased to FIM 1,788 (1,012) million.

The improvement in the financial performance was due in particular to the rapid growth in the net turnover of mobile communications and its excellent profitability, as well as to increased efficiency in fixed network operations.

Expenses grew by 23% and totalled FIM 4,914 (3,986) million. No changes occurred in the structure of expenses. The expansion of mobile communications and investment in new business operations caused the biggest increase in expenses.

Telecom Finland Ltd has redefined the depreciation plans for telecommunications networks. As from the start of 1997, it changed from the reducing balance method of depreciation to straight line depreciation based on the useful economic life. In the past few years the company has invested in digital telecommunications networks which the company considers to have a longer useful economic life than the analog networks previously in use. The new useful economic lives as defined by Telecom Finland now correspond more closely to prevailing views in the sector on the useful life of telecommunications networks. The change in the method of calculating depreciation makes the company's financial statements more directly comparable with other companies in the sector.

It is now also taken into consideration the date on which the network was brought into use, whereas previously depreciation was made for the whole year in which a network was brought into use. The key figures for previous years in the consolidated

financial accounts have been adjusted to take account of the change in the method of calculation. The changes relating to the useful economic life can be seen in the financial statements for 1997 and the following years as lower depreciation because of the longer useful life. The reduction in the level of depreciation has no effect on the profit after provisions for the period, since the figures for change in depreciation in excess of plan have risen correspondingly.

Extraordinary costs totalled FIM 1,050 (255) million. Extraordinary items include group contributions given and received. The largest item is the group contribution of FIM 1,050 million paid by Telecom Finland Ltd to its parent company PT Finland Ltd. The parent company's extraordinary items include profit on disposals, which arose as a result of the reorganization of the ownership of foreign companies. This profit on disposals has been eliminated at group level.

Telecom Finland revised its accounting principles to conform with international IAS practice as from the beginning of 1997. The Group's figures from its establishment in 1994 onwards have been adjusted accordingly. The most significant changes relate to the capitalization of fixed assets and the recognition of deferred tax liabilities.

FINANCIAL POSITION

The capital adequacy of the Telecom Finland Group remained firm. The equity ratio was 58% (62%). The cash flow from operations was FIM 2,848 million and this was also sufficient to cover investments. The volume of the Group's long-term debt fell. Net liabilities at the end of the year were FIM 607 (847) million. Net financing expenses were FIM 24 million, including exchange rate profit of FIM 8 million. The Group's liquidity was good. Liquid reserves at the end of the year stood at FIM 548 million.

MANAGEMENT OF CURRENCY AND INTEREST RATE RISKS

The Group's cash flow consists mainly of receivables and liabilities in Finnish markka. Currency risks are limited to the shareholders' equity of foreign subsidiaries and associated companies, loans to associated companies, and receivables and debt from international telecommunications. The company tries to hedge against all major currency risks in accordance with its approved currency risk policy. Loans and other receivables and debt are recognized in the transaction position. The open position is hedged mostly with forward exchange agreements.

PT Finland Ltd handled the financing needs of Telecom Finland Ltd and its subsidiaries concerning short and long term loans and deposits. The companies made deposits with and borrowed money from PT Finland Ltd on market terms. PT Finland Ltd was responsible for interest rate risks in the Group in accordance with the approved financial policy.

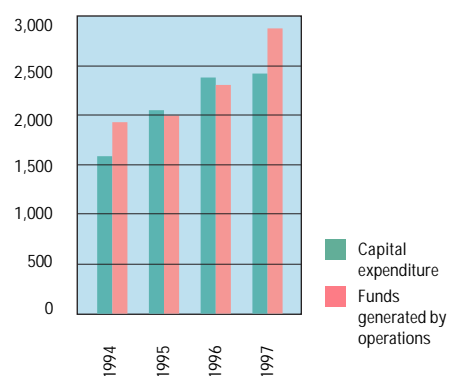
INVESTMENTS

Investments by the Group remained at the level of the previous year at FIM 2,416 (2,397) million. As a percentage of net turnover the level of investment fell clearly from the previous year to 31% (37%).

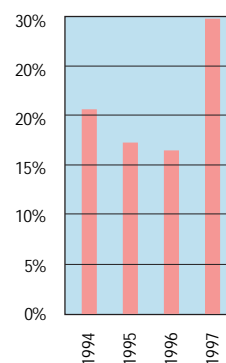
Most of the investments were used to build the extra capacity required to expand operations. Investments in expanding the mobile telephone networks totalled FIM 955 million and over FIM 780 million went on the fixed network.

During the review year work started on building the GSM 1800 network and on modernizing the switched network, which will help improve fixed network services in the future. Investments to improve operations were related to renewing the operating models and information systems for customer service, sales control, and product and service management.

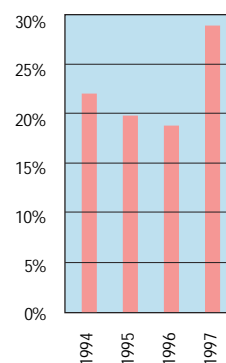
Capital expenditure and funds generated by operations 1994-1997, MFIM



Return on equity 1994-1997, %

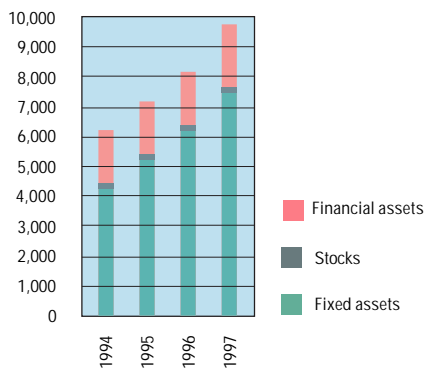


Return on investment 1994-1997, %

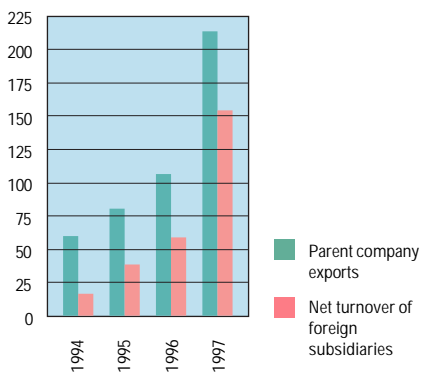


board of directors' report

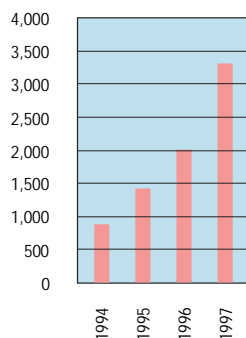
Assets 1994-1997, MFIM



Exports, and net turnover of foreign subsidiaries 1994-1997, MFIM



Net turnover of associated companies 1994-1997, MFIM



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

RESEARCH AND DEVELOPMENT

Telecom Finland's expenditure on R & D activities, including the development of information systems, totalled 3.5% of net turnover in 1997.

The focus in R & D operations was on solutions for Telecom Finland's main business areas, mobile communications and multimedia, in which Finland is a world leader. Network and service operations are based in practice on intelligent network technology and on software-based management and information systems, which require constant investments if they are to develop.

The year 1997 was also a time for focusing and redirecting development operations. The rapid convergence of telecommunications with information technology and the media industry has created opportunities for new communication packages, in which wireless communications can be combined with the world of the Internet. The key new areas were integrated messaging and solutions for electronic commerce and publishing. Major focuses for multimedia technology were the development of virtual organizations and platforms with a variety of contents. Other areas for development work included intelligent networks and services implemented through them as well as access solutions for the broadband network.

To meet the company's goals to increase its international activities, the direction taken by R & D is largely governed by the principle that it must be possible to apply the new products and systems also in Telecom Finland's international operations.

A major role in obtaining and applying the latest knowledge and technology has been close cooperation with other leading research institutions

and pioneering companies in the sector. For example, Telecom Finland was an active participant in the Digital Life research project carried out by the Media Laboratory of MIT (Massachusetts Institute of Technology). In the field of mobile communications, joint research was started with Ericsson, Nokia and NTT DoCoMo to develop third generation broadband mobile communication technology and services.

Telecom Finland participated in twelve projects funded by the EU and in more than ten projects run by Eurescom, the telecommunications operators' joint research company. The company also took part in the sector's standardization work in both European and worldwide organizations and forums.

In Finland the company took part in several joint projects with universities, the Technical Research Centre of Finland and the Technology Development Centre of Finland, including the Oulu Mobile City project and the national multimedia programme.

GROUP STRUCTURE AND BUSINESS AREA ORGANIZATION

The Telecom Finland Group consists of Telecom Finland Ltd and its subsidiary and associated companies. Telecom Finland Ltd is a subsidiary of PT Finland Ltd.

Changes in the Group's structure carried out during 1997 were mainly related to internal restructuring.

At the beginning of the review year the Group concentrated its equipment sales with Telecom Finland Ltd's subsidiary TYV Tele Yritysviestintä Oy. Systek Oy was merged with TYV and Mobitele Trading and Finsatel with the parent company. In September the parent company sold 55% of Telecom Finland Eesti AS, a subsidiary engaged in equipment sales in Estonia, to TYV and 45% to an owner outside the company. The company continues its operations under the name Reveko Telecom. In December 1997 TYV acquired Datainfo Oy to reinforce regional distribution in Finland.

The subsidiaries offering telecommunications services in EU countries improved their positions as the markets open up. The Swedish subsidiary Telecom Finland AB expanded its operations with company acquisitions in the data transfer and voice service markets. In the summer the company acquired the Komnet data transfer network of Enator AB and in October a 91% holding in the Geddeholm CallCenter company.

In Germany a new subsidiary, Telecom Finland GmbH, was established to replace the former office and Smart Ring GmbH was set up to develop operations relating to electronic payment.

Telecom Finland International N.V./S.A. in Brussels was restructured in December 1997, splitting the company into three separate companies. The new companies are Telecom Finland B.V. providing telecommunication services in the Netherlands, Telecom Finland N.V./S.A. offering telecommunications services in Belgium, and Telecom Finland International V./S. to coordinate operations.

Telecom Finland Holding B.V. was established in the Netherlands in December, and the shares and holdings owned by the parent company and subsidiaries were transferred to the company. This arrangement will make for more efficient management of the group's assets.

Telecom Finland strengthened its market share in directory enquiry operations by purchasing 40% of the shares of Suomen Numeropalvelu Oy. It also raised its holding in Interinfo Finland Oy, which publishes directories, to 51%. Telecom Finland Ltd has a 20% holding in the direct marketing company Hansapost Oy, which Telecom Finland set up with Finland Post Ltd and Hansaprint Oy.

In February Telecom Finland Ltd sold its shares in Tele Nord A/O, which provides NMT mobile telephone services in Murmansk. In October the company sold its majority holding in the company

board of directors' report

EasyCall Hermes, which has paging operations in Hungary. In November the company sold its holding in the British company Ionica Group plc which develops and provides wireless local telephone services.

PERSONNEL

The group had on average 7,922 (7,362) employees, of whom 7,215 (6,993) worked for the parent company. The number working outside Finland totalled 315.

Salaries and wages paid in the group totalled FIM 1,331,683,320. Salaries and wages in the parent company totalled FIM 1,214,938,046, of which FIM 1,579,582 was paid to members of the Board of Directors and the President.

The growth in the number of personnel was due to recruiting for new and expanding business areas. As technology develops, the number of personnel in the company's more traditional business areas will continue to fall. Changes in operations also call for changes in the structure of knowhow. A systematic study of expertise was started covering all personnel, to enable the company to target personnel development correctly.

The personnel development programme particularly emphasized the development of customer service, technological knowhow and knowledge of international business, aiming to equip the personnel with a broad range of skills. The company set up the Telecommunication School as a programme to teach about the telecommunications sector. The Tele Business school established itself as a programme for developing strategic skills and a means to support and produce new insight and in-depth studies for the strategic process.

The training of installation and service personnel introduced the opportunities provided by telecommunications and information technology.

The company revised its introductory programme for newcomers and created a common introductory day event, to be repeated at regular intervals, for new employees.

MANAGEMENT AND AUDITORS

The following people served as members of Telecom Finland Ltd's Board of Directors during the financial period: Pekka Vennamo, chairman, Erkki Bäckman, Pekka Luukkainen, deputy chairman, Eero Pilkama, Aulis Salin as well as the personnel representatives Kari Vilkmán, Pauli Konttinen from January to April and Tapio Vaahtokivi from May onwards.

The Group's board of management included President and CEO Aulis Salin, Executive Vice President Aimo Eloholma, Executive Vice President Matti Makkonen and Executive Vice President and CFO Kaj-Erik Relander.

The company's auditors are Tilintarkastajien Oy - Ernst & Young, Authorized Public Accountants.

EVENTS SINCE THE CLOSING DATE

At the beginning of 1998 the parent company transferred its telecommunications service operations for corporate customers to Yritysverkot Oy. Yritysverkot Oy is the largest subsidiary in the Telecom Finland Group and is responsible for developing services, sales and customer service for corporate customers.

In January 1998, Telecom Finland signed an agreement on the establishment of a joint venture company called HanseNet Telefongesellschaft (50% share of ownership), in Hamburg, Germany. The partner in the project is the Hamburg electricity utility. The telecommunications market in the area covered by the licence of HanseNet Telefongesellschaft is worth about FIM 10 billion, and the annual rate of growth is estimated at about 6%. The goal of HanseNet Telefongesellschaft is in

five years to obtain about a 10% share of the market.

In February the company launched GSM Duo mobile telephone service for various customer segments. The Duo connections work in the dual-frequency network formed by the existing GSM 900 and the new GSM 1800 network. The service will offer cheaper phone prices in so-called 'near zones'.

In February Telecom Finland sold its holding in the joint mobile communications enterprise P Plus Communications in Hong Kong to the local company Star Telecom International Holding. In connection with the deal, Telecom Finland became a shareholder in Star Telecom.

Telecom Finland announced that it was raising the monthly charges for rental and standard connections. The increase is FIM 9 a month and it comes into force from the beginning of March.

PROSPECTS FOR 1998

During 1998 the growth in demand for domestic telecommunications services is expected to continue at the same rate as in 1997. The greatest increases will still be in mobile communications and in data and media communications.

Competition will increase in all the main business areas of the Telecom Finland Group. The telecommunications market act that came into force at the beginning of 1997 still did not have a very great impact on the sector's structure during the review year. New service providers entered the sector, but their importance is not expected to grow until they have actually started operations. They will raise their market shares, and intensifying competition will create extra pressure to reduce prices.

The company's investments in 1998 will remain at the level of the previous year. Telecommunication networks will be expanded to match growing volumes. Development work on new services and products will take a larger proportion of investments.

The liberalization of telecommunications operations gives the company greater opportunities in the international markets. The company will continue to develop its international operations.

The group's net turnover is expected to increase, despite increasing competition, thanks to growth in the markets and developments in Telecom Finland Group's services. 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 falling level of prices for basic services will be compensated by developing new value-added services and improving service competitiveness by raising quality. Closer analysis will be made of product and customer profitability with the objective of further raising competitiveness in future. Great care will be taken when choosing areas for investment.

profit and loss account

FIM million	GROUP		PARENT COMPANY	
	1997	1996	1997	1996
The 1996 figures have been adjusted in accordance with changes in accounting principles.				
Net turnover	7,722.1	6,416.7	7,201.9	6,228.8
Other operating income	109.9	68.4	111.3	77.5
Operating expenses, total	4,913.9	3,985.7	4,367.9	3,882.3
Materials and consumables:				
Purchases during the financial year	556.9	527.0	220.2	458.1
Increase (-) or decrease (+) in stocks	37.5	-32.1	39.8	-30.3
External services	1,566.7	1,169.4	1,530.3	1,147.2
Personnel costs	1,582.8	1,382.6	1,429.0	1,328.6
Rental costs	225.3	208.1	215.6	200.7
Other operating expenses	944.8	730.7	932.9	777.9
Operating profit before depreciation	2,918.1	2,499.5	2,945.3	2,424.0
Depreciation on fixed assets and other capitalized expenditure	1,212.9	1,478.5	1,163.3	1,436.0
Operating profit	1,705.2	1,021.0	1,782.0	988.0
Share of profits of associated companies	106.6	39.8	-	-
Financial income and expense	-24.1	-48.3	-17.7	-46.3
Profit before extraordinary items, untaxed reserves and taxes	1,787.7	1,012.5	1,764.3	941.7
Extraordinary income and charges, total	-1,050.0	-255.0	-636.9	-264.0
Extraordinary income			359.1	
Extraordinary charges				-33.1
Group contribution, received			58.0	24.1
Group contribution, paid	-1,050.0	-255.0	-1,054.0	-255.0
Profit before appropriations and taxes	737.7	757.5	1,127.4	677.7
Depreciation in excess of (-) or less (+) than plan	0.0	0.0	-595.1	-221.4
Increase (-) or decrease (+) in voluntary provisions	0.0	0.0	-	-
Income taxes				
For the financial year	-152.1	-156.8	-147.5	-154.7
Change in deferred tax	-72.1	-82.3	0.0	
From previous years	-0.5	0.0	0.0	0.0
Minority interests	-0.3	-3.2	-	-
Profit for the financial year	512.8	515.1	384.7	301.5

statement of cash flows

FIM million	GROUP		PARENT COMPANY	
	1997	1996	1997	1996
Operating activities				
Operating profit	1,705.2	1,021.0	1,782.0	988.0
Adjustments for operating profit	1,205.5	1,498.3	1,196.8	1,472.4
Change in net working capital	22.4	-211.8	0.3	-110.5
Interest received	30.7	25.1	26.3	19.9
Interest paid	-67.3	-67.9	-63.2	-63.6
Dividends received	13.8	0.1	22.4	12.5
Other financial items	-8.3	-5.4	-9.8	-14.8
Taxes paid	-141.0	-121.8	-135.8	-120.3
Net cash flow from operating activities	2,760.9	2,137.7	2,818.9	2,183.6
Investing activities *				
Group companies acquired	-4.9		-38.9	-61.4
Associated companies acquired	-60.9	-63.6	-94.2	-74.3
Purchases of other shares	-30.7	-105.9	-52.3	-66.9
Capital expenditures	-2,208.0	-2,245.9	-2,064.1	-2,143.7
Proceeds from Group companies sold	-37.5	4.4		6.2
Proceeds from associated companies sold	16.2		16.2	0.1
Proceeds from sales of other shares	7.1	1.6	7.1	1.6
Proceeds from sale of other fixed assets	50.0	1.2	43.2	17.7
Net investments, total	-2,268.6	-2,408.2	-2,183.0	-2,320.7
Cash flow before financing activities	492.3	-270.5	635.9	-137.2
Financing activities				
Long-term loans raised	297.9	1,008.9	200.0	885.0
Repayment of long-term loans	-441.7	-410.0	-432.0	-410.0
Long-term receivables, increase(-), decrease (+)	-64.1	-0.9	-219.7	-24.0
Extraordinary items				-33.1
Group contributions received and given	-255.0	-130.0	-230.9	-106.2
Others	0.7	-6.1		
Financing activities, total	-462.2	462.0	-682.6	311.7
Liquid assets, increase (+) decrease (-)	30.1	191.5	-46.7	174.5
Liquid assets on 1 January	516.6	325.1	460.0	285.5
Liquid assets on 31 December **	546.8	516.6	413.3	460.0

* The non-cash value of shares transferred to subsidiary companies is entered in the parent company's statement of cash flows at net value.

** Liquid assets include a short-term investment to PT Finland Ltd that is entered under short-term loans receivable.

balance sheet

FIM million	GROUP		PARENT COMPANY	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Assets				
FIXED ASSETS, TOTAL	7,523.4	6,294.3	7,746.2	6,162.1
Intangible assets, total	248.4	136.7	165.0	119.8
Intangible rights	101.0	73.3	95.7	68.1
Goodwill	40.7	0.1	2.7	0.1
Goodwill on consolidation	13.1	3.9	-	-
Other long-term expenditure	93.5	59.5	66.6	51.7
Tangible assets, total	6,320.0	5,512.3	6,094.0	5,294.8
Land and water	74.0	73.9	73.8	73.7
Buildings and structures	592.7	573.2	554.5	534.9
Machinery and equipment	338.7	249.4	270.4	224.7
Telecommunications networks	5,037.7	4,294.1	4,919.4	4,140.0
Other tangible assets	86.3	47.8	85.7	47.7
Payments on account and tangible assets in course of construction	190.7	274.0	190.1	273.9
Financial assets, total	955.0	645.2	1,487.3	747.5
Shares and holdings	860.3	614.6	1,209.1	689.0
Loans receivable	94.7	30.6	278.2	58.5
CURRENT ASSETS, TOTAL	2,189.3	1,876.6	1,999.7	1,755.0
Stocks, total	89.2	103.9	45.9	84.6
Materials and consumables	85.9	97.3	43.1	82.1
Work in progress	0.0	1.2	0.0	0.9
Finished goods	0.0	3.6	0.0	0.0
Other stocks	0.0	0.0	0.0	0.0
Payments on account	3.3	1.7	2.7	1.6
Debtors, total	1,781.7	1,523.6	1,770.5	1,479.8
Trade debtors	1,308.2	1,091.8	1,383.7	1,093.8
Loans receivable	323.7	267.8	230.0	269.6
Prepayments and accrued income	119.7	81.9	153.9	99.0
Other debtors	30.1	82.1	2.8	17.4
Short-term investments	1.6	0.3	0.0	0.3
Cash and cash equivalents	316.8	248.8	183.3	190.3
ASSETS, TOTAL	9,712.8	8,170.9	9,746.0	7,917.2

FIM million	GROUP		PARENT COMPANY	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Liabilities				
CAPITAL AND RESERVES	5,540.0	4,999.3	4,685.2	4,281.3
Restricted capital, total	3,375.0	3,375.0	3,375.0	3,375.0
Share capital	1,650.0	1,650.0	1,650.0	1,650.0
Reserve	1,725.0	1,725.0	1,725.0	1,725.0
Non-restricted capital, total	2,165.0	1,624.3	1,310.2	906.3
Other non-restricted capital	99.7	80.4	99.7	80.4
Retained earnings	1,552.5	1,028.7	825.8	524.3
Profit for the financial year	512.8	515.1	384.7	301.5
MINORITY INTERESTS	3.3	2.2	-	-
APPROPRIATIONS	68.8	64.9	1,467.4	891.4
Accumulated depreciation in excess of plan	0.0	0.0	1,399.9	805.0
Voluntary provisions	0.0	0.0	0.0	0.0
Provisions	68.8	64.9	67.4	86.5
VALUATION ITEMS	0.0	0.0	14.2	2.5
CREDITORS, TOTAL	4,100.7	3,104.5	3,579.2	2,742.0
Creditors due after more than one year, total	1,027.9	1,210.1	621.0	900.0
Loans from financial institutions	31.8	1.1	0.0	0.0
Loans from pension funds	0.2	0.5	0.0	0.0
Deferred tax liability	338.2	266.8		
Other long-term creditors	657.8	941.7	621.0	900.0
Creditors due within one year, total	3,072.7	1,894.4	2,958.2	1,842.0
Loans from financial institutions	3.3	0.0	0.0	0.0
Loans from pension funds	0.0	0.0	0.0	0.0
Payments on account	83.7	56.0	74.0	56.5
Trade creditors	826.1	599.5	833.4	586.4
Accruals and deferred income	1,680.1	809.3	1,587.3	785.5
Other creditors	479.6	429.6	463.4	413.6
LIABILITIES, TOTAL	9,712.8	8,170.9	9,746.0	7,917.2

Accounting Principles

The annual accounts of Telecom 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, Telecom Finland Ltd, and the companies in which Telecom 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, intra-group 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 Telecom 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 Telecom Finland through 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:

Buildings and structures	15 - 40 years
Machinery and equipment	3 - 13 years
Telecommunications networks	4 - 20 years
Goodwill on consolidation	5 - 10 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. The Group's internal margin of fixed assets has been reported under extraordinary income in the parent company's profit and loss account.

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 Telecom Finland 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 RECEIVABLE

Direct taxes include taxes paid and the change in deferred tax liability and tax receivable. 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 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 have been adjusted in accordance with changes in accounting principles

FIM million	GROUP		PARENT COMPANY	
	1997	1996	1997	1996
1. Net turnover by geographical market				
Finland	7,415.9	6,272.4	6,988.7	6,121.3
Others	306.3	144.3	213.2	107.5
Total	7,722.1	6,416.7	7,201.9	6,228.8
2. Other operating income				
Rental income	15.3	15.0	20.4	17.4
Proceeds from disposal of fixed assets	14.9	5.7	11.7	5.4
Other operating income	79.7	47.8	79.1	54.7
Total	109.9	68.4	111.3	77.5
3. External services				
Payments for the use of other operators' networks	715.8	606.3	715.8	606.3
Other external services *	850.9	563.1	814.5	540.9
Total	1,566.7	1,169.4	1,530.3	1,147.2
* Other external services consist of telecommunications network repairs, maintenance, opening of telecommunications connections, and of other costs mainly related to maintenance of telecommunications networks.				
4. Personnel costs				
Wages and salaries	1,202.3	1,077.3	1,086.3	1,039.9
Pension costs	149.3	118.9	138.1	110.1
Other personnel costs	231.2	186.4	204.5	178.6
Personnel costs in profit and loss account	1,582.8	1,382.6	1,429.0	1,328.6
Personnel costs capitalized	135.4	148.7	135.4	148.7
Total	1,718.1	1,531.3	1,564.3	1,477.3
Capitalized personnel costs are related to telecommunications networks built for own use, which had a total capitalization of FIM 1,820,6 million. The members of the Supervisory Board, the Presidents, Executive Vice President and members of the Board of Directors were paid altogether FIM 1,6 million.				
5. Depreciation				
Depreciation according to plan:				
Intangible rights	23.8	16.0	22.3	15.0
Goodwill	5.7	0.3	0.5	11.1
Goodwill on consolidation	2.7	5.0	-	-
Other long-term expenditure	7.8	7.2	8.0	5.7
Buildings and structures	40.4	73.1	36.6	71.0
Machinery and equipment	108.2	82.7	90.9	76.4
Telecommunications networks	1,010.1	1,287.0	991.2	1,250.4
Other tangible rights	14.1	7.2	13.7	6.4
Depreciation according to plan, total	1,212.9	1,478.5	1,163.3	1,436.0
Book depreciation, total	1,212.9	1,478.5	1,758.5	1,657.4
Accumulated depreciation in excess of plan at the beginning of the year	0.0	0.0	804.9	583.5
Accumulated depreciation in excess of plan for the year	0.0	0.0	595.1	221.4
Accumulated depreciation in excess of plan at the end of the year	0.0	0.0	1,400.0	804.9
6. Associated companies				
Share of profits	106.6	39.8	-	-
Share of capital and reserves	4.5	0.0	-	-
Dividends received for the financial year	17.4	10.9	0.0	0.0
7. Financial income and expense				
Dividend income	13.8	0.1	22.4	12.5
Interest income from long-term investments	13.8	5.0	13.8	5.1
Other interest income	23.9	21.4	19.5	16.1
Other financial income	0.2	0.6	4.3	0.0
Foreign exchange gains and losses	8.1	-3.6	-0.4	-2.1
Interest expense	-68.0	-71.1	-64.3	-66.8
Other financial expense	-15.7	-0.7	-12.9	-0.4
Depreciation on investments	-0.1	-	-0.1	-10.7
Total	-24.1	-48.3	-17.7	-46.3

FIM million	GROUP		PARENT COMPANY		
	1997	1996	1997	1996	
8. Intra-group financial income and expense					
Dividend income	-	-	2.8	1.6	
Interest income from long-term investments	-	-	0.0	0.0	
Other interest income	-	-	1.8	0.9	
Other financial income	-	-	0.0	0.0	
Interest expense	-	-	0.0	0.0	
Other financial expense	-	-	0.5	0.1	
9. Extraordinary income and charges					
Group contributions received	-	-	58.0	24.1	
Group contributions given	-1,050.0	-255.0	-1,054.0	-255.0	
Other extraordinary income	0.0	0.0	359.1	0.0	
Other extraordinary charges	0.0	0.0	0.0	-33.1	
Total	-1,050.0	-255.0	-636.9	-264.1	
10. Fixed assets and other long-term financial assets					
	Acquisition cost at the beginning of the period	Increases during the period	Decreases during the period	Accumulated depreciation at the end of the period	Residual value at the end of the period
Group					
Intangible assets					
Intangible rights	111.2	53.6	-6.7	-57.0	101.0
Goodwill	0.2	46.8	0.0	-6.3	40.7
Goodwill on consolidation	25.7	11.9	0.0	-24.5	13.1
Other long-term expenditure	72.5	50.6	-3.4	-26.2	93.5
Payments on account	3.8	-3.4	-0.5	0.0	0.0
Group 1 Jan. - 31 Dec. 1997	213.5	159.6	-10.7	-114.0	248.4
Group 1 Jan. - 31 Dec. 1996	158.4	55.1	0.0	-76.7	136.7
Tangible assets					
Land and water	73.9	0.2	-0.1	0.0	74.0
Buildings and structures	713.7	59.1	-0.9	-179.2	592.7
Machinery and equipment	427.4	182.8	-63.1	-208.3	338.7
Telecommunications networks	7,409.5	1,823.8	-103.2	-4,092.5	5,037.7
Other tangible assets	61.3	53.0	-1.7	-26.3	86.3
Payments on account and tangible assets in course of construction	277.8	0.6	-87.7	0.0	190.7
Group 1 Jan. - 31 Dec. 1997	8,963.6	2,119.5	-256.8	-4,506.3	6,320.1
Group 1 Jan. - 31 Dec. 1996	6,842.3	2,208.9	-91.4	-3,447.4	5,512.3
Parent company					
Intangible assets					
Intangible rights	104.9	51.3	-5.4	-55.0	95.7
Goodwill	18.7	3.1	-18.4	-0.7	2.7
Other long-term expenditure	64.2	23.4	-0.6	-20.3	66.6
Payments on account	0.0	0.0	0.0	0.0	0.0
Parent company 1 Jan. - 31 Dec. 1997	187.7	77.7	-24.5	-76.0	165.0
Parent company 1 Jan. - 31 Dec. 1996	136.0	51.7	0.0	-67.9	119.8
Tangible assets					
Land and water	73.7	0.2	-0.1	0.0	73.8
Buildings and structures	671.8	56.6	-0.5	-173.5	554.5
Machinery and equipment	401.6	140.1	-11.2	-259.9	270.4
Telecommunications networks	7,208.3	1,820.6	-105.1	-4,004.4	4,919.4
Other tangible assets	60.4	52.5	-1.1	-26.1	85.7
Payments on account and tangible assets in course of construction	273.9	0.0	-83.7	0.0	190.1
Group 1 Jan. - 31 Dec. 1997	8,689.6	2,070.1	-201.8	-4,463.9	6,094.0
Group 1 Jan. - 31 Dec. 1996	6,653.8	2,125.4	-89.6	-3,394.8	5,294.8

notes to the accounts

FIM million	GROUP		PARENT COMPANY	
	1997	1996	1997	1996
Securities				
Shares and holdings				
Group companies	0.0	0.0	1,097.0	118.0
Associated companies	581.9	359.7	21.5	360.2
Other companies	278.4	254.9	90.6	210.8
Total	860.3	614.6	1,209.1	689.0
Long-term financial assets				
Loans receivable				
Group companies	0.0	0.0	138.7	27.8
Associated companies	93.7	28.7	138.6	28.7
Other companies	0.9	1.9	0.9	1.9
Total	94.6	30.6	278.2	58.5
Taxation values				
Land and water	58.4	46.1	58.2	45.8
Buildings and structures	394.2	375.0	385.5	366.9
Shares in subsidiaries	0.0	0.0	1,139.7	115.8
Shares in associated companies	27.3	362.5	27.3	361.7
Other shares	84.4	250.7	84.1	206.8
Taxation values, total	564.2	1,034.4	1,694.9	1,097.0
The book value is used when no taxation value is available.				
11. Debtors and creditors				
Debtors from Group companies				
Loans receivable, long-term	-	-	138.7	28.9
Trade debtors, short-term	-	-	263.2	104.9
Loans receivable, short-term	-	-	0.0	9.6
Other debtors	-	-	1.3	15.9
Prepayments and accrued income	-	-	80.2	26.1
Total	-	-	483.3	185.5
Creditors to Group Companies				
Other long-term creditors	-	-	0.0	0.0
Trade creditors, short-term	-	-	68.2	27.0
Accruals and deferred income	-	-	4.5	0.2
Other creditors	-	-	3.6	0.0
Total	-	-	76.4	27.2
Debtors from associated companies				
Loans receivable, long-term	93.7	28.7	138.6	28.7
Trade debtors, short-term	46.4	25.4	46.4	25.4
Loans receivable, short-term	0.0	0.0	0.0	0.0
Prepayments and accrued income	19.6	2.3	19.6	2.3
Other debtors	0.0	0.0	0.0	0.0
Total	159.7	56.5	204.6	56.5
Creditors to associated companies				
Trade creditors, short-term	19.9	21.8	19.9	21.8
Accruals and deferred income	7.2	0.1	7.2	0.1
Total	27.1	22.0	27.1	22.0

FIM million	GROUP		PARENT COMPANY	
	1997	1996	1997	1996
12. Equity				
Restricted capital				
Share capital 1 Jan. - 31 Dec.	1,650.0	1,650.0	1,650.0	1,650.0
Other restricted capital 1 Jan. - 31 Dec.	1,725.0	1,725.0	1,725.0	1,725.0
Non-restricted capital				
Non-restricted capital 1 Jan.	958.1	598.9	906.3	579.2
Changes in accounting practice	666.1	482.2		
Non-restricted capital in comparable balance sheet 1 Jan.	1,624.2	1,081.1	906.3	579.2
+/- Changes in transferrable telephone connection charges	19.3	25.6	19.3	25.6
+/- Foreign exchange gains/losses in consolidating	8.7	2.5	0.0	0.0
Profit/loss for the financial year	512.8	331.1	384.7	301.5
Changes in accounting practice		183.9		
Profit for the financial year in comparable balance sheet	512.8	515.1	384.7	301.5
Non-restricted capital 31 Dec.	2,165.0	958.1	1,310.3	906.3
Changes in accounting practice	0.0	666.1	0.0	0.0
Non-restricted capital in comparable balance sheet 31 Dec.	2,165.0	1,624.2	1,310.3	906.3
- Share of appropriations in capital and reserves	1,019.6	582.2		
Distributable funds	1,145.4	1,042.0	1,310.3	906.3

Changes in accounting practice

The annual accounts of the previous years have been restated to conform to the practice of the current year.

The effect of the changes on previous years' profits and capital and reserves (see change in capital and reserves, item 12).

Figures are as follows:

	1997	1996	1995	1994
Effect on the balance sheet 1 Jan.	666.1	482.2	216.1	
Calculation of depreciation from date of taking into service		178.1	205.0	218.7
Capitalization of overheads		38.1	58.7	54.5
Scope of consolidation		4.9	7.2	-83.0
Financial leasing		1.1	-8.0	48.0
Division of appropriations (after deferred taxes)		30.5	66.3	58.3
Deferred tax liabilities and tax receivables		-68.8	-63.2	-80.3
Effect on profit for the financial year	0.0	184.0	266.0	
Effect on balance sheet 31 Dec.	666.1	666.1	482.2	216.1
Accumulated depreciation in excess of plan				
Intangible rights	11.4	7.6	11.3	7.6
Goodwill	0.1	-0.1	0.1	-0.1
Other long-term expenditure	6.6	1.5	2.2	1.5
Buildings and structures	54.7	28.4	52.1	28.1
Machinery and equipment	50.4	1.3	41.7	0.0
Telecommunications networks	1,278.6	762.1	1,278.6	761.8
Other tangible rights	14.0	6.1	14.0	6.1
Total 31 Dec.	1,415.8	806.9	1,399.9	805.0
Voluntary provisions				
Transition provisions	-	1.7	0.0	0.0
Other voluntary provisions	0.3	-	0.0	0.0
Total 31 Dec.	0.3	1.7	0.0	0.0
Deferred tax liability for accumulated depreciation in excess of plan and voluntary provisions (Appropriations)	396.5	226.4	392.0	225.4

notes to the accounts

FIM million	GROUP		PARENT COMPANY	
	1997	1996	1997	1996
Deferred tax liability				
Deferred tax liability on appropriations	396.5	226.4	392.0	225.4
Other deferred tax liability	66.1	58.6		
Total 31 Dec.	462.6	285.0	392.0	225.4
Deferred tax receivable	-124.4	-18.2		
Net deferred tax liability 31 Dec.	338.2	266.8	392.0	225.4
Provisions				
Guarantee provisions	1.4	5.8	0.0	4.2
Other ^{*)}	67.4	59.1	67.4	82.2
Total 31 Dec.	68.8	64.9	67.4	86.5
^{*)} Consists mainly of provisions for the year 2000				
13. Valuation items, liabilities				
Unrealized foreign exchange gains	0.0	0.0	14.2	2.5
14. Creditors				
Creditors due after more than one year				
Non-interest bearing	338.2	266.8	0.0	0.0
Interest bearing	689.7	943.3	621.0	900.0
Total 31 Dec.	1,027.9	1,210.1	621.0	900.0
Creditors due within one year				
Non-interest bearing	2,607.4	1,473.2	2,499.2	1,430.0
Interest bearing	465.4	420.7	459.0	412.0
Total 31 Dec.	3,072.7	1,893.8	2,958.2	1,842.0
Long-term interest bearing loans and maturity profile, Group				
	Loans from financial institutions	Loans from pension funds	Other long-term creditors	Total
1998	0.0	0.2	465.3	465.4
1999	0.0	0.0	263.4	263.4
2000	0.0	0.0	248.0	248.0
2001	0.0	0.0	118.0	118.0
2002	0.0	0.0	22.7	22.7
2003-	0.0	0.0	31.2	31.2
Total 31 Dec. 1997	0.0	0.2	1,148.6	1,148.7
Total 31 Dec. 1996	1.1	0.9	1,361.9	1,363.8
Long-term interest bearing loans and maturity profile, Parent company				
	Loans from financial institution	Loans from pension funds	Other long-term creditors	Total
Total 31 Dec. 1997	0.0	0.0	1,080.0	1,080.0
Total 31 Dec. 1996	0.0	0.0	900.0	900.0
Long-term loans by currency				
	%	Group 1997 FIM million	%	Parent Company 1997 FIM million
FIM	100	1,130.7	100	1,080.0
Others	0	0.0	0	0.0
Total 31 Dec. 1997	100	1,130.7	100	1,080.0
15. Pledges given and other contingent liabilities Dec. 31				
Mortgages				
For the company	0.0	0.0	0.0	0.0
For Group companies	-	-	0.0	0.0
For others	0.0	0.0	0.0	0.0
Pledges				
For the company	11.5	11.5	11.5	11.5
For Group companies	-	-	-	-

FIM million	GROUP		PARENT COMPANY	
	1997	1996	1997	1996
Guarantees				
Loan guarantees				
For own loans	0.0	0.0	0.0	0.0
For Group companies	-	-	46.7	39.6
For associated companies	717.6	504.0	717.6	504.0
Other guarantees				
Collateral for own commitments	3.6	3.9	3.6	3.9
For Group companies	-	-	3.1	3.1
For associated companies	182.3	173.8	182.3	173.8
Leasing liabilities				
External leasing liabilities payable within one year	0.4	1.3	0.4	0.7
External leasing liabilities payable in later years	0.4	1.7	0.4	0.4
Intra-Group leasing liabilities payable within one year	33.3	32.8	31.2	32.3
Intra-Group leasing liabilities payable in later years	27.9	22.1	22.6	21.4
Repurchase liabilities	4.3	4.2	4.3	4.1
Other liabilities	3.6	5.3	3.6	5.3
Total	984.8	760.7	1,027.2	800.2

16. Statement of Cash Flows

Adjustment for accrual basis accounting				
Adjustment to operating profit				
Depreciation	1,212.9	1,478.5	1,163.3	1,436.0
Write-downs of shares	0.1		0.1	10.7
Transferrable telephone connection charges	19.3	25.6	19.3	25.6
Proceeds from disposal of fixed assets	-26.9	-5.7	14.0	0.1
Total	1,205.5	1,498.3	1,196.8	1,472.4
Share of profits of associated companies	-106.6	-39.8		
Adjustment to financing activities				
Financial income	-7.0	-1.3	-7.0	-1.3
Financial expense	0.7	3.2	1.0	3.2
Foreign exchange gains and losses	-0.8	-1.7	-0.8	-1.7
Change in net working capital				
Change in current trade debtors	-288.1	154.7	-288.3	112.2
Change in stocks	14.6	-27.8	38.7	-30.3
Change in non-interest bearing creditors, short-term	295.9	-338.6	250.0	-192.5
Total	22.4	-211.8	0.3	-110.5

Calculation of financial ratios

Equity ratio, (%)	=	100 x	$\frac{\text{capital and reserves + minority interest + voluntary provisions and accumulated depreciation in excess of plan + valuation items - deferred tax liability}}{\text{balance sheet total - payments on account}}$
Return on investment, (%)	=	100 x	$\frac{\text{profit before extraordinary items, appropriations and taxes + interest expense + other financial expense}}{\text{balance sheet total - non-interest bearing liabilities - obligatory provisions (average for year)}}$
Funds generated from operations	=		Profit before extraordinary items, appropriations and taxes - taxes + depreciation on fixed assets and other capitalized expenditure + depreciation on investments

Shares and holdings

Telecom Finland Group	Number of shares	Group's share of shares		Nominal value Group (1 000)	Book value Group	Book value Parent Company	Group's share of capital and reserves	Result for the year
Group companies		%	Currency	Currency	FIM 1,000	FIM	FIM 1,000	FIM 1,000
Data-Info Oy, Helsinki	100	100	FIM	1,000	7,112.00	0	1,779.00	69.98
EMCEC Oy, Helsinki	10,000	100	FIM	10,000	10,000.00	10,000,000	10,008.88	0.27
Fintelecom ZAO, St Petersburg	3,307,825	100	RUR	3,307,825	3,300.01	3,300,008	7,298.55	1,478.38
Geddeholm CallCenter i Eksjö AB, Stockholm	910	91	SEK	91	6,465.89	0	598.02	-1,122.34
Gesam Oy, Helsinki	150	100	FIM	15	0.20	203	7.00	0.00
Oy Infonet Finland Ltd, Helsinki	90	90	FIM	2,250	2,250.00	2,250,000	4,149.11	2,107.62
Innotele Communications Oy, Helsinki	100	100	FIM	7,000	7,000.00	7,000,000	7,421.05	421.05
Interinfo Finland Oy, Helsinki	357	50.5	FIM	1,785	1,785.00	1,785,000	1,565.67	-187.12
Interinfo Eesti OÜ, Tallinn	1	50.5	EEK	10	3.92	0	-148.83	-378.04
SIA Interinfo Latvija, Riga	200	50.5	LVL	2	16.95	0	-3,959.57	-6,676.99
Interinfo UAB, Vilna	10	50.5	LIT	10	12.80	0	-31.12	-75.19
Kiinteistö Oy Saajomaja, Helsinki	180	100	FIM	180	1,670.80	1,670,800	733.00	-54.00
KOY Pietarsaaren Isokatu 8, Pietarsaari	16,136	60.19	FIM	1,614	4,892.85	4,892,848	2,296.85	16.00
Mobitele Oy, Tampere	10,000	100	FIM	1,000	10,781.44	10,781,440	4,889.73	2,687.27
Oy Lippupalvelu-Biljettjänst Ab, Helsinki	2,988	94.85	FIM	120	2,997.20	2,997,200	2,609.68	1,790.51
Oy Telecon Ltd, Helsinki	600	100	FIM	60	566.38	566,380	934.03	-254.74
Oy Yritysverkot Ab, Helsinki	400	100	FIM	2,000	4,185.32	4,185,320	11,118.23	2,273.30
Reveko Telecom AS, Tallinn	63	55	EEK	633	493.99	0	339.00	156.09
SmartRing GmbH, Erfurt		100	DEM	300	904.81	904,806	909.76	0.00
Telecom Finland AB, Stockholm	52,000	100	SEK	5,200	1,440.18	0	45,645.73	-64,110.98
Telecom Finland GmbH, Düsseldorf		100	DEM	2,051	12,793.84	12,793,840	9,954.42	-2,703.56
Telecom Finland N.V./ S.A, Brussels	398,350	100	BEF	39,000	23,669.21	23,419,206	12,252.96	3,206.18
Telecom Finland Kft, Budapest		100	HUF	1,275,000	36,673.98	0	34,077.70	103.49
Telecom Finland Ltd, Hong Kong	2,000,000	100	HKD	2,000	1,187.27	1,175,229	2,404.52	144.72
Telecom Finland Holding B.V., Amsterdam	60	100	NLG	60	978,658.83	978,658,830	979,175.71	46.70
Telecom Finland Telekomunikasyon Hizmetleri Ltd., Istanbul	100	100	TRL	20,000,000	517.77	512,573	465.61	-49.31
Telegate AB, Stockholm	10,000	100	SEK	100	68.63	0		
Teletori Oy, Helsinki	3	100	FIM	15	15.24	15,240	15.00	0.00
TYV Tele Yritysviestintä Oy, Helsinki	30,000	100	FIM	30,000	<u>30,047.28</u>	<u>30,047,282</u>	45,928.78	316.08
Group Companies, total					1,149,511.78	1,096,956,204		
- Group companies, consolidated					<u>1,149,511.78</u>			
Group companies, not consolidated					0.00			

Telecom Finland Group's associated companies (Group's share of shares 20-100% and 20-50% of votes)

		%	Currency	(1,000)	FIM	FIM	FIM 1,000	FIM 1,000
Associated companies				Currency	FIM	FIM	FIM 1,000	FIM 1,000
Baltic Tele AB, Stockholm	50,000	50	SEK	5,000	73,128.83	0	67,297.00	9,951.35
AS Eesti Telefon, Tallinn		24.5	EEK		0.00	0	97,653.00	81,892.64
AS Esdata, Tallinn	1,650	35	EEK	1,650	700.00	0	792.00	433.36
Estonian Mobile Telephone Company Ltd., Tallinn	15,852	24.5	EEK	15,852	95,964.88	0	60,639.00	106,625.00
Estonian Paging Ltd, Tallinn	460	40	EEK	460	968.02	968,023	178.00	10.00
Hansapost Oy, Helsinki	200	20	FIM	200	200.00	200,000	-145.88	-1,729.4
Intellitel Communications Oy, Helsinki	67,200	33.93	FIM	67	67.20	67,200	52.00	-44.00
Johtotieto Oy, Helsinki	170	33.33	FIM	17	17.00	17,000	122.00	97.00
Lattelekom SIA, Riga		13.2	LVL		0.00	0	-56,312.00	109,958.00
Latvian Mobile Telephone Ltd, Riga	2,695	24.5	USD	270	39,720.72	0	40,456.00	37,055.00
Movere Oy, Helsinki	100	20	FIM	100	100.00	100,000		
North-West GSM Ltd, St. Petersburg	729,120	23.52	RUR	7,291,200	27,815.91	0	28,264.00	61,411.00
P Plus Communications Limited, Hong Kong	28,490,000	28.49	HKD	28,490	16,727.77	16,727,768	-44,901.00	-193,070.37
Russian Directories Holding Oy, Helsinki	140	35	FIM	140	140.00	0		
Suomen Keltaiset Sivut Oy, Helsinki	184	30.16	FIM	920	1,540.00	1,540,000	5,163.00	4,629.00
Suomen Numeropalvelu Oy, Helsinki	800	40	FIM	120	406.40	406,400	682.00	352.00
Systems Consultant Partners SCP Oy, Helsinki	128	40	FIM	128	329.18	329,184	372.00	107.97
Tilts Communication A/S, Copenhagen	20,634,507	27	DKK	206,345	169,629.01	0	163,572.00	-8,865.99
Transmast Oy, Helsinki	120	40	FIM	1,200	1,200.00	1,200,000	9,354.00	10,218.00
Turkcell Illetisim Hizmetleri A.S., Istanbul	3,400,000	34	TRL, million	3,400,000	237,047.57	0	226,958.00	202,868.21
Group's share of earnings of associated companies after acquisition					142,161.00			
Intra-group gains					<u>-226,002.67</u>			
Telecom Finland Group, Book value					581,860.83	21,555,575		

Telecom Finland Group's other shares and holdings

	Number of shares	Group's share of shares		Nominal value Group	Book value Group	Book value Parent Company	Group's share and reserves capital	Result for the year
		%	Currency	Currency	FIM 1,000	FIM	FIM 1,000	FIM 1,000
Advanced European Technologies Holding N.V.	550,000	11	NLG	5,500	14,964.13	14,964,125		
Libancell, Beirut	1,400,000	14	LEB	7,000	30,384.38	0		
Pannon GSM Telecommunications RT, Budapest	3,017	18.11	HUF	3,017,000	301,719.72	0		
TelAdvent Limited Partnership					18,838.73	18,838,735		
Telephone shares, transferrable connections etc.					7,069.20	6,747,250		
Housing company shares					15,310.99	15,310,994		
Satellite operations					22,947.17	22,947,169		
Other companies					11,653.62	11,826,877		
Intra-group gains					<u>-144,465.49</u>			
Other shares and holdings, total					278,422.45	90,635,150		

Proposal by the Board of Directors

At the end of the 1997 financial year the distributable non-restricted capital of Telecom Finland Group amounted to FIM 1,145.4 million and the parent company's non-restricted capital to FIM 1,310.3 million.

The Board of Directors proposes to the Annual General Meeting that the profit for the financial year be held in reserve and that a total dividend of FIM 850 million be paid.

Helsinki, 13 February 1998

Pekka Vennamo Pekka Luukkainen

Erkki Bäckman Eero Pilkama

Aulis Salin Tapio Vaahtokivi

Kari Vilkmán

Auditors' report

To the shareholders of Telecom Finland

We have audited the accounting, the annual accounts and the corporate governance of Telecom 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 sheet 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 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 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

TILINTARKASTAJIEN OY - ERNST & YOUNG

Authorized Public Accountants

Jorma Jáske, APA

Mobile Communications



TELECOM FINLAND'S

MOBILE

COMMUNICATIONS

DIVISION PROVIDES

MOBILE TELECOMMUNICATIONS SERVICES FOR

INDIVIDUALS, COMPANIES AND FAMILIES.

THE DIVISION UTILIZES MODERN RADIO AND

TELECOMMUNICATIONS TECHNOLOGY AND

INFORMATION SYSTEMS, AND HAS EXTENSIVE

PARTNERSHIPS IN DISTRIBUTION, R & D AND

PRODUCTION.

THE MOBILE DIVISION ALSO OFFERS ONE

WAY MESSAGING SERVICES (PAGING SERVICES) AND

SPECIAL PRODUCTS AND SERVICES FOR A SPECIFIC

GROUP OF CUSTOMERS (RADIO SERVICES).

^{*)} Return on investment

over 20%	excellent
15 - 20%	good
10 - 15%	satisfactory
under 10%	unsatisfactory

	1997	1996
Net turnover, MFIM	3,450.4	2,619.2
Share of exports, MFIM	28.5	19.8
Foreign subsidiaries' net turnover	-	-
Personnel 31 Dec.	977	826

NET TURNOVER AND EVENTS IN BUSINESS ENVIRONMENT

The net turnover of the Mobile Communications Division grew by 32% to FIM 3,450 million (FIM 2,619 million in 1996). The change was due to extremely vigorous growth in the market. Mobile Communications' share of Telecom Finland's net turnover rose to 45% (40%). The division's profitability was excellent.^{*)}

Finland has the highest density of mobile telephones in the world. During the review period penetration continued to increase rapidly and at the end of the year stood at 42% (29%). 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%).

The density of mobile telephones rose faster than ever - on average one percentage point per month. The low cost of calls and equipment made it easier for people to make greater use of mobile telephones in everyday life. The development of smaller, more versatile mobile terminals that are easier to use encouraged the spread of mobile telephones during the review period. As in the previous year the prices of mobile telephones continued to fall.

Intensifying competition also played a part in this vigorous growth. Telecom Finland's main competitor in nationwide GSM 900 services was Oy Radiolinja Ab. The main elements in this competition were the commissions paid to retailers, special offers for call time and the quality of mobile telephone networks.

The local telephone companies introduced local GSM 1800 networks. The Swedish-owned Telia Finland Oy also started operations in Finland as a supplier of GSM 1800 services. Local competing mobile telephone networks have not as yet had an impact on Telecom Finland's market share.

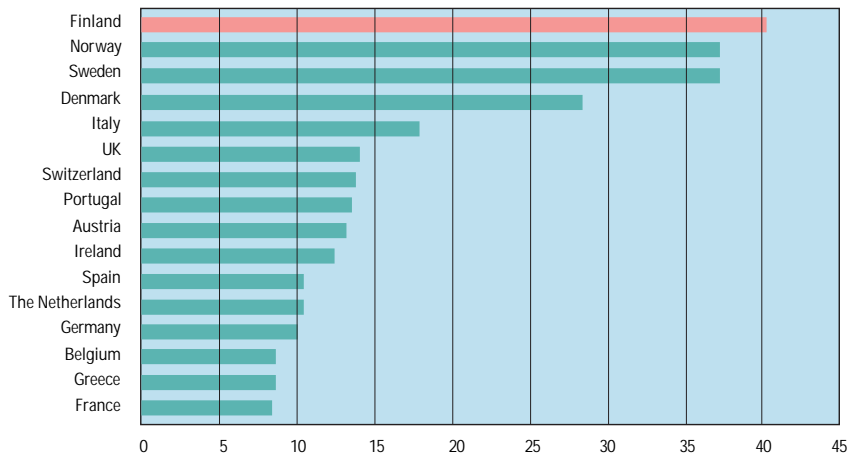
The new law on the telecommunications market that came into force in June 1997 had no effect on Telecom Finland's operations, since the company had already separated its network and service operator businesses before the law came into force.

The increasing level of Finnish contacts with the rest of the world has resulted in a need to expand GSM interconnection traffic (roaming) services. At the end of the year Telecom Finland had roaming agreements with 101 operators in 63 countries. It started up GSM roaming, for example, with China and the United States. Roaming with the United States started by making it possible to use Omnipoint Communications Inc.'s GSM 1900 network in the US; subscribers use their Telecom



Mobile communications accounted for 45% of Telecom Finland's net turnover.

Penetration of mobile telephone subscriptions, per 100 inhabitants, in countries of Western Europe (1 Dec.1997)



Source: Financial Times, Mobile Communications 11/1997

mobile communications

Finland SIM card with a GSM 1900 compatible telephone. The first GSM 1800 roaming agreement was signed with the German operator E-Plus Mobilfunk GmbH.

MARKET POSITION

Despite tougher competition Telecom Finland's GSM market share fell only slightly, to 65% (68%). The company put great effort into marketing as in previous years, while making sure that growth was profitable. This was possible because of long-term marketing that utilizes a strong NMT-GSM product brand and advanced distribution partnerships. NMT-GSM retailers sold more than 90% of Telecom Finland's new connections. The company's own sales focused on larger companies and their system requirements.

The price of Telecom Finland's GSM Privat service for consumers was reduced in October. The GSM Privat mobile telephone bill of the average customer fell by 6%. According to OECD end of year figures for 1997, the price of mobile telephone calls in Finland is slightly over half the average price in OECD countries.

The fastest growth was in the proportion of private individuals with mobile telephone connections. Private customers accounted for 90% of the total growth for the year. The new users were mainly women and young people. 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.

GSM traffic increased during the review year faster than the number of customers, and the usage of mobile telephones diversified. The number of calls from one mobile telephone to another increased, as did the volume of computer connections via the mobile telephone network and

the usage of short messages. At the end of the year Telecom Finland had 1,032,121 (582,610) GSM users.

The volume of NMT calls declined, as NMT users changed over to GSM mobile telephones. At the end of the year, the number of NMT users stood at 553,981 (628,396), and this downward trend in NMT will continue for the next few years.

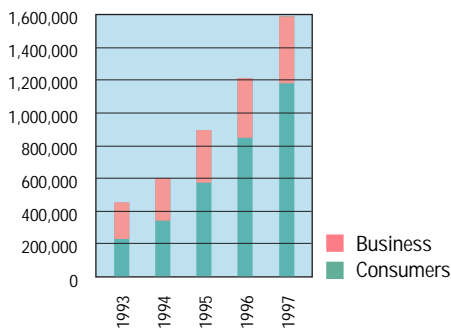
INVESTMENTS AND R & D

Total investments by the Mobile Communications Division were FIM 1,047 million, of which 91% were in expansion. The level of investments during the current year is expected to fall slightly from that of the previous year.

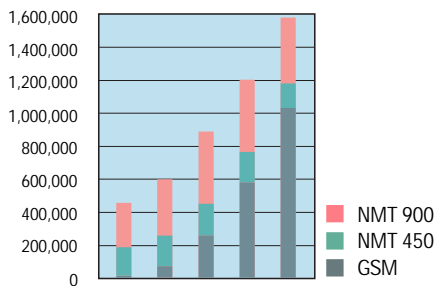
Telecom Finland introduced a trial GSM 1800 network in the Helsinki area, in Salo and in Oulu. The purpose of the network is to increase capacity in areas where 900 Mhz frequencies will in future not be sufficient to meet demand. The new network is being built as an extension to the existing GSM 900 network, which saves investment costs and at the same time offers users the features of both networks. The new network was launched commercially early in 1998 when dual frequency telephones that function in both networks came on the market.

In January, Telecom Finland was the first in the world to launch an NMT-GSM Exchange Service that is meant for business use, giving customers exchange services to be used by mobile telephones as well as low cost internal calls. The service is based on the intelligent production platform developed by the company. Telecom Finland was similarly first to introduce a security copy service that automatically takes a security copy on the server of data stored in intelligent telephones. In the autumn, Telecom Finland became the first in Finland

Number of Telecom Finland's mobile telephone customers



Number of Telecom Finland's mobile telephone connections



to provide a service for obtaining information from Internet home pages through mobile telephone text messages.

Searching for information on the Internet, playing records on a jukebox and ordering Coca-Cola from a Coke machine are all examples of how Telecom Finland leads the way in developing new uses for mobile telephones.

Telecom Finland is putting its efforts into developing the generation of mobile telephone to follow GSM. In November it announced a joint project with the Japanese company NTT DoCoMo. Telecom Finland and NTT DoCoMo are aiming to develop a worldwide standard for the third generation mobile telephone system with the network functions and services 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. The new system is expected to be on the market at the start of the next millennium. Telecom Finland will benefit from the partnership especially in the development of new services.

Telecom Finland is also involved in another joint project that looks to the future, Mobile City Oulu, which started during the review year. The other participants are the City of Oulu, Oulu University, the Technical Research Centre of Finland, mobile telephone manufacturers, computing companies, software houses, a retail company and a bank. The project aims to develop new mobile telephone services and third generation broadband mobile communications technology.

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

mobile communications

were satisfied. This standard has been reached through continuous hard work in managing mobile telephone networks and services, in improving the monitoring of these and in customer service. As a result of effective customer control, credit losses remained at a low level.

PAGING AND RADIO SERVICES

In addition to mobile calls, the Mobile Communications Division provides one way messaging services (Paging services) and special products and services for specific customers (Radio services).

At the end of the year Telecom Finland had 44,000 (43,500) customers for its paging services. Paging is changing from being a device to contact people into a means of receiving messages sent to individuals and groups of people. This can be seen for example in the increasing interest shown in forwarding e-mail messages to a pager. Sending Internet information to a pager also became more popular.

Greater activity in the market for radio services particularly affected satellite operations. The review year saw the launch of the Inmarsat Mini-M service, a considerably less expensive option than the previous Inmarsat-A satellite services, that provides links in areas where they do not exist or where they are poor. Another new product was TeleAlert, a wireless alarm system with which private individuals can keep an eye on possessions such as a boat, summer cottage or car, over the telephone.

Telecom Finland reached agreement with the Ministry of the Interior on operating a new Finnish authority safety network (VIRVE). VIRVE will consist of five regional networks that will be built in stages by the year 2003. When it is complete, VIRVE will comprise nearly a thousand base stations. Operating this sort of network and other

related services will in future form an important part of Radio Services' operations.

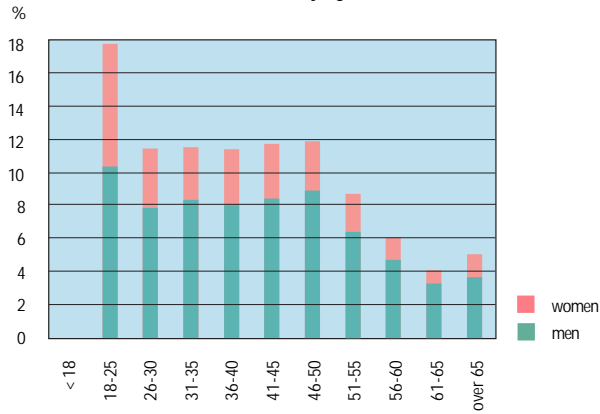
The satellite operations of Radio Services are expected to grow. This business sector includes systems relating to the conveyance of goods and people and to electricity metering, as well as services for protecting property and possessions.

PROSPECTS

Demand for mobile telephone services in Finland is expected to continue to rise rapidly. Once the growth in basic services has passed its peak, growth will continue through new forms of usage and new services. In Telecom Finland's vision, the mobile telephone will develop into a device for using and controlling various services. In future digital data, that can be utilized through any network, will increase. One person may have several mobile communicators, depending on the particular need. Other products, such as robotic and remote monitoring applications, will come on the market. The number of mobile telephone connections is expected to exceed the population of Finland during the next decade.

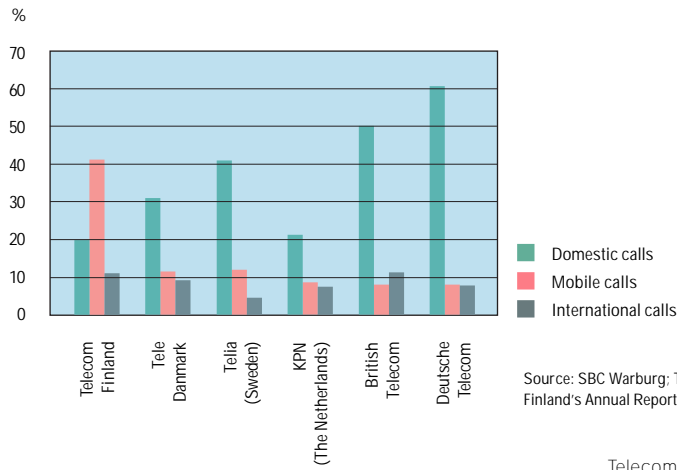
Competition will continue to intensify; new companies and service concepts will enter the market. This will result most probably in lower prices for basic services. Telecom Finland is investing heavily to retain its leading market share. More detailed analysis of product and customer profitability will be undertaken, with the goal of strengthening competitiveness in the future. Targets for capital expenditure will be selected only after careful consideration.

Private NMT-GSM customers by age and sex



Private use of mobile telephones is increasing. The new users are largely women and young people.

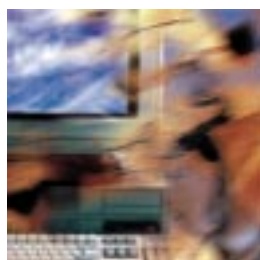
Net turnover structure of certain international operators 1996



Source: SBC Warburg; Telia, Telecom Finland's Annual Reports

Telecom Finland has a unique net turnover structure. Mobile communications is one of the company's areas of growth.

Fixed Network



TELECOM FINLAND'S
FIXED NETWORK
OPERATIONS INCLUDE
LOCAL, LONG DISTANCE

AND INTERNATIONAL CALLS, DATA SERVICES,
MEDIA COMMUNICATIONS, AS WELL AS NETWORK,
PRODUCTION AND BUILDING SERVICES. SPECIAL
BUSINESS AREAS ARE ALSO INCLUDED IN FIXED
NETWORK OPERATIONS; THESE DEVELOP, PRODUCE
AND MARKET TELECOMMUNICATIONS SERVICE AND
INFORMATION PRODUCTS SUPPORTING THE RANGE
OF SERVICES PROVIDED BY TELECOM FINLAND'S
MAIN BUSINESS AREAS.

	1997	1996
Net turnover, MFIM	4,271.8	3,797.5
Share of exports, MFIM	184.7	87.7
Foreign subsidiaries' net turnover	154.6	58.9
Personnel 31 Dec.	7,259	6,909

During the review year the net turnover of fixed network operations grew by 12% on the previous year to FIM 4,272 million (FIM 3,798 million in 1996). Data 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. The profit from operations improved on the previous year and was satisfactory.^{*)} Investments totalled FIM 1,369 (1,447) million, which was 5% less than the previous year. The previous year's figures included the completion of an extensive programme to digitalize the telephone network. Work on expanding the network absorbed 57% of total investments.

Great efforts were especially made in investment activities to find more efficient solutions, in order to reduce the level of investments in relation to net turnover. The decision taken in December to modernize the switched network with uniform technology will make it possible to implement nation-wide broadband services. It will also place the company in a better position to advance in new market areas.

To improve profitability Telecom Finland is concentrating on developing, commercializing and improving the quality of new value-added products. It is also aiming to reduce costs still further. The fixed charges for local call connections were raised in March 1998.

Demand for fixed network services is forecast to rise in the current year. Traffic between the fixed network and mobile communications will be an area of growth. Data and media communications are also expected to continue their rapid expansion.

^{*)} Return on investment

over 20%	<i>excellent</i>
15 - 20%	<i>good</i>
10 - 15%	<i>satisfactory</i>
under 10%	<i>unsatisfactory</i>

TELEPHONE SERVICES

The net turnover for telephone services rose slightly on the previous year to FIM 1,965 (1,894) 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.

The prices of telephone services in Finland's competed markets have fallen to a low level by international standards. An increasing number of companies will enter the market targeting narrow service segments, and their short term impact will be seen above all as further intensifying competition on price. Following this stage, the focus for competition will probably shift towards product features, customer service and customized solutions.

LOCAL CALLS

Local calls form the largest part of the domestic call market. The annual value of the local call market is about FIM 3.2 billion, and Telecom Finland maintained its 30% share of this. At the end of the year the company had 789,300 connections, which are located mainly in the areas covered by the local networks owned by Telecom Finland in eastern and northern Finland.

In addition to Telecom Finland, 46 local telephone companies provide local operator services in Finland. These operate mainly in the larger towns and built up areas, where they also own the local networks. Although telecommunications legislation has opened up the possibility of competition between telephone companies, the owner of the local network is still in an extremely strong position. Actual competition is only limited and focuses largely on major business customers. Consumers are still not able to choose their service provider, apart from a few limited areas.

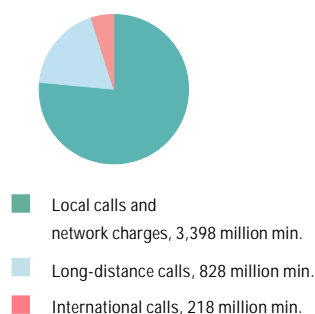
Telecom Finland is in the position of a challenger

in the local call markets in large cities, where the number of its customers is forecast to rise. In the areas where Telecom Finland owns the local networks, the number of customers is expected to decline slightly as competition opens up, people move away, and the density of mobile telephones increases.

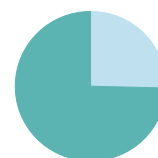
LONG-DISTANCE CALLS

Long-distance calls have been subject to intense competition since 1994. The competitive situation for long-distance calls has been established and the market shares of the largest operators have been stable. This 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's traffic volumes for telephone services in the fixed network in 1997



Telephone services accounted for 25% of Telecom Finland's net turnover.



fixed network

INTERNATIONAL CALLS

International calls were also opened up to competition in 1994. The market was worth about FIM 1.1 billion during the review year, and Telecom Finland had a 63% (66%) share of this. The level of prices is expected to fall in the next few years as a result of intensifying competition. The value of the market is expected to decline, even though traffic volumes will continue to grow.

DATA AND MEDIA COMMUNICATIONS

Telecom Finland's data and media communications develop value-added services for telephone networks, customize them and provide one-stop services. These value-added 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. These service media products include services relating to payment by mobile telephone, and value-added voice services, such as those for a company's marketing or other requirements that are toll-free or charged at local call rates.

The net turnover of data and media services rose during the financial year to FIM 906 (726). The rapid growth was due largely to the vigorous expansion of the economy and to rapid advances in technology. The largest individual deliveries during the year under review were the introduction of the new ATM network in full for the Social Insurance Institution and the modernization of the Online network with its 3,000 outlets for Veikkaus Oy, the national lottery.

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. It took steps to increase the modular nature and openness of service packages, which will improve Finland Telecom's international range of services. Modularity has made it possible to take a customer-oriented approach to the development of services.

INTERNET AND INTRANET

The biggest change in the area of data transfer has been the spread of the Internet and the technology and way of thinking on which it is based.

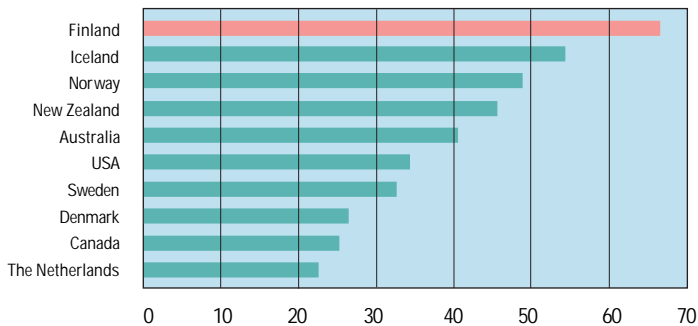
The Internet is no longer restricted to surfing the network; it affects all information processing through various technical applications. The Internet changes network structures and the way businesses operate, and opens up new opportunities for users.

The open structure of the Internet makes it easier for newcomers to enter the sector. This intensifies competition and so affects pricing. Internet operations do not basically differ from established telecommunications operations. They also need to provide effective customer service, reliable services, high quality service features and a well-known operator. In Finland, Telecom Finland is strong in all these areas, which gives it a competitive edge.

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. It is estimated that the Internet gained between 40 and 50 million new users worldwide in 1997. The Internet is becoming a mass medium, so it will have to be developed from a completely new starting point. The service will have to be refined for different target groups, packaging the extensive contents of the Internet services that are of interest to users. Packaging services is one way for Telecom Finland to offer added value on top of the physical infrastructure.

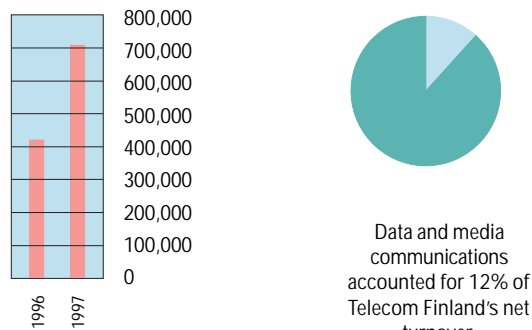
In 1998 equipment will become available on the market that will make it possible to access the

Computers linked to the Internet per 1,000 inhabitants in 10 leading OECD countries in December 1997



Source: Network Wizards 7/1997

Number of 15-74 year old Finns using the Internet at least once a week



Source: Taloustutkimus Oy Dec. 1997

Internet with a television. This is expected to raise still higher the level of Internet penetration.

To safeguard a high quality Internet service for the rapidly growing number of Internet users, Finland invested heavily in production equipment and transferred traffic to its own high capacity ATM trunk network. The company also decided to raise the capacity of the trunk link across the Atlantic for international traffic to 45 megabits a second. During 1997 the Internet services (e-mail, www and user management) were transferred to a new production system which has sufficient capacity to serve more than 500,000 customers.

The number of users of iNET PRO, the Internet access 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 FIM 99 monthly fee, increased daily sales by up to five times. The company has a 40% market share of Internet services in Finland.

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. Telecom Finland's intranet products are part of an R & D programme that has previously produced high quality, data transfer networks with effective controls and switched trunk networks based on modern technology such as ATM. Services for linking with and controlling local networks have been developed on top of these networks as well as multimedia services that function in the Internet environment.

SERVICE MEDIA

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 for callers and 0203 services, charged at local rates, particularly increased, along with related services such as answering services. Demand for Call Centre service packages also rose considerably.

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.

Demand for entertainment services no longer grew and competition intensified. The negative aspects of

fixed network

the marketing of toll-paying telephone services caused Parliament to approve a motion to rectify the situation in the sector. Teleforum, the organization representing the sector's service providers, is actively creating a self-regulating mechanism for the sector with the support of the teleoperators.

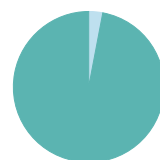
Telecom Finland maintained its leading market position in service media products despite tougher competition. The aggressive pricing strategy of foreign competitors affected prices, but their market shares remained low. Growth in demand and several new services made up for the losses caused by the drop in prices. Telecom Finland is focusing on developing new solutions with a higher level of added value.

PRODUCTION AND NETWORK OPERATIONS

Production and network operations provide network, production and building services for Telecom Finland's service operators and for independent operators. Network services include managed transfer services, switched network traffic, producing billing information and statistics, and services for centralized service platforms. Production services include operating services, supplying products, fault repairs and installation services. Telephone network building services are offered for both fixed and radio networks.

The division had total sales 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%).

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 and network services accounted for 3% of Telecom Finland's net turnover.

The focus of operations switched to new growing market areas in Finland. These are mainly the large growth centres in southern Finland. Telecom Finland's market share has grown slightly in these areas. In Telecom Finland's areas the average connection density is 3.3 connections per square kilometre, whereas the areas where the Finnet companies, the main competitors, own the networks it is 26.5 connections per square kilometre.

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. Another key area for work during the year was remote operating, which can help to improve quality and reduce costs.

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.

The external market is just taking shape. The key purchasing criteria at the moment are the availability of products and price. The importance of speed of delivery, quality, the degree of control and interfaces as purchasing criteria will increase as the

sector matures. To increase cost-effectiveness and flexibility, Telecom Finland is changing the structure of operations, making more use of sub-contractors. At the same time it will try to find alliances both within and outside the sector if this will give synergy benefits.

SPECIAL BUSINESS AREAS

Special Business Areas develops, produces and markets telecommunications service and information products that support the range of services provided by Telecom Finland's main business operations. The 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 net turnover of Special Business Areas rose during the review year to FIM 1,181 (967) million. Demand for services has grown along with the general growth in the economy. Only the usage of public telephones has fallen.

Directory Services upgrades Telecom Finland's customer information into commercially usable format and sells media space in the resulting directories. The unit is the second largest in its sector in Finland and has a market share of 30%. The total market is estimated to double in size in about five years. Utilizing the customer databases of telephone operators is expected to open up to competition during 1998.

The Data and Operator Services unit is the leading provider of human-assisted telephone services, with a market share of almost 50%. The unit's fastest growing service has for the last four years been the directory enquiries service, usage of which has grown at an annual rate of 10%. Mobile telephone customers in particular increased the use of call completion. Demand for directory enquiry services is expected to continue to grow in the next few

years. The unit offers switchboard manning and secretarial services to business customers. Outsourcing this type of support service is expected to increase in future.

Telecom Finland also works closely with suppliers of security services to offer security network services to businesses. Technical developments in networks for business security have been fast. Linking the local networks of a company's operational sites creates a corporate network that can also be used for centralized security surveillance.

In 1997, as a result of the considerable rise in the number of mobile telephones, calls from public telephones declined in number. Telecom Finland studied options for rationalizing operations and took some steps towards this. It did not increase the total number of public telephones, but improved the location of about 500 telephones. It also improved the system for monitoring the telephones to reduce costs. The company signed new agreements to reinforce the distribution channels for Telecom Finland's telephone cards.

The TeleUra unit offers contracts for installing telecommunications networks in premises nationwide. Customers are businesses with nationwide operations, and retail chains, major local major businesses and the public sector. The business operations of TeleUra grew by 64% to FIM 96 million. Growth is expected to continue in the current year.

The Corporate Ventures unit started operations at the beginning of 1997. It aims to raise the value of Telecom Finland by initiating and developing new business areas. The opening up of markets is increasing competition in Finland and opens up new opportunities in international markets. During the review year the unit started up several projects, including some relating to electronic trading.

Telecom Finland's Cable TV unit provides TV and radio channels to about 132,000 households in Finland through its own broadband cable television

fixed network

network. The company has about 16% of the Finnish market and the markets have an annual growth of 2-3%.

Telecom Finland was the first in Europe to offer household users a service which gave the customer two-way links to the Internet at speeds of up to 4 megabits a second. This requires a PC to be linked to the cable network. This QuickNet service frees the home telephone for other usage, offers its customers ready packaged contents without the inconvenient delays with other connections, and full links to the worldwide Internet. The Cable TV unit started to export the QuickNet service during the year and in August signed its first contract in the Netherlands with a local cable television operator.

The unit also started a digital cable television experiment, transmitting broadband data communications between Helsinki and Tampere. This opens up the possibility of interactive services such as video on demand.

EQUIPMENT AND SYSTEM SALES

TYV Tele Yritysviestintä Oy, a subsidiary of Telecom Finland, is responsible for exchange and telephone systems, electronic payment terminal and terminal equipment operations and for maintenance operations relating to systems and equipment. TYV 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 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.



Special business areas accounted for 15% of Telecom Finland's net turnover.

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 chain comprises 43 independent franchising companies. The complete chain had a net turnover in 1997 of FIM 700 million.

During the review year TYV's international operations increased considerably. The company established a subsidiary company in Estonia, opened the first TeleRing store in Tallinn, and handed over its largest single project, the exchange network for Estonian Railways. The company won several major orders for telephone exchange equipment in Russia, mainly in the St Petersburg area.

TYV's corporate customers continue to build systems that resemble corporate networks. Customer service and systems integration take on even greater importance when implementing ever larger Call Center packages. The trend will be the same in the next few years in the public sector.

STRUCTURE OF TELECOMMUNICATIONS MARKET

The telecommunications market is becoming more complex. Sector boundaries are becoming blurred, operations are globalizing, and the retailing of telecommunications services is opening up to competition. Service operators are creating new service packages and customers are arranging their purchases in new ways.

Corporate customers are increasingly viewing data communications and information technology as a single entity. They would like to hand over the care of this to a reliable partner, in order to create added value for their own business operations. To succeed in this new market it is necessary to have a full grasp of both data communications and information technology and the ability to merge them effectively.

In future more comprehensive service and product packages will come on the market, which will include both fixed and mobile network services, Internet and telemedia services, telecommunications equipment, service and maintenance agreements and financing packages.

Telecom Finland had a market share of 55% in the corporate customer sector in the review year. FINNETCom Oy, which belongs to the Finnet companies, and Telia Oy also operate in this sector. Of the international major operators, Global One in particular expanded its operations in Finland. The advantage held by major operators is their ability to offer Finnish corporations global operations service agreements that cover the places where they have overseas operations. However, so far these operators have had relatively little success among major Finnish companies.

Numerous independent consultants also operate in this customer sector, offering customers their expertise in purchasing telecommunications services. At present they mainly focus on price comparisons, but in future the added value to

Net turnover of fixed network operations by business area

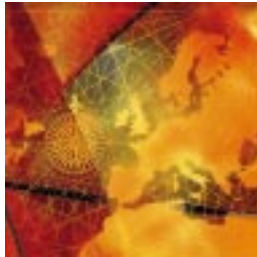
MFIM	1997	1996
Telephone services	1,964.8	1,894.0
Data services and media communications	905.7	726.4
Production and network operations	220.7	209.8
Special business areas	1,180.6	967.3
Fixed network, total	4,271.8	3,797.5

customers arising from telecommunications services will probably grow in significance.

The new companies such as RSL Com Finland Oy, TeleYkkönen Oy and Global One Communications Oy have mainly competed for smaller business customers by reducing the prices of international calls. The intense competition on price has resulted in duplicate contracts being made and a decline in contract loyalty. The new competitors have not been able to offer customers complete packages, which is the basis for Telecom Finland's operations. The Finnet companies, and more recently Telia Oy, aim to offer one-stop solutions like Telecom Finland.

One new feature in the market is the purchasing collectives formed by customers around for example small business associations, with the objective of obtaining volume discounts for service contracts. Despite the discounts these partnership agreements are attractive to operators, since they present an opportunity to gain a strong presence in the otherwise fragmented small business sector.

International Operations



TELECOM FINLAND'S
INTERNATIONAL
OPERATIONS INCLUDE
ASSOCIATED COMPANIES

WITH MOBILE COMMUNICATION AND FIXED
NETWORK OPERATIONS AND SUBSIDIARY COMPANIES
FUNCTIONING AS SERVICE OPERATORS IN THE
DEVELOPED MARKETS OF EUROPE.
THE SUBSIDIARIES HAVE OPERATIONS IN SWEDEN,
GERMANY, BELGIUM, THE NETHERLANDS AND
RUSSIA. THE ASSOCIATED COMPANIES OPERATE IN
TURKEY, HUNGARY, ESTONIA, LATVIA, RUSSIA,
LEBANON AND HONG KONG.

THE COMPANY IS AIMING AT CONSIDERABLE
GROWTH IN ITS INTERNATIONAL OPERATIONS. IN ITS
DOMESTIC MARKETS TELECOM FINLAND ONLY HAS
LIMITED OPPORTUNITIES FOR GROWTH.

Telecom Finland is aiming to grow in the globally expanding markets for mobile communications and data and media communications. Fixed network operations have good potential for growth in the region near Finland. 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 joint companies. During the review year operations focused on ensuring existing companies' success in providing a satisfactory range of services and maintaining their market share.

In its operations Telecom Finland relies on partners when acquiring local infrastructure and for knowledge of the market. Telecom Finland aims to raise the value of its associated companies with its advanced services and technological knowhow. Earnings are based on sales of services, dividends, and in future on the possibility to realize or increase the shareholding, since in future operators will be more actively trading in minority holdings in each others' joint enterprises.

The subsidiary companies offer international companies advanced solutions and services mainly in data and media communications. 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 in central Europe.

The net turnover of international operations grew during the review year to FIM 306 (144) million. The fastest growth took place in Sweden. The operations of subsidiaries that are in their early stages are 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. Shareholders' equity accounted for 48% of this, loans to associated companies for 13%, and guarantees for 39%.

The volume of international operations is expected to increase considerably in both associated and subsidiary companies in 1998.

SUBSIDIARY COMPANIES

Telecom Finland AB, operating in Sweden, significantly increased 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 communication and information services. The partnership is based on Enator AB's nationwide data network in Sweden with its 60,000 users. Under the terms of the agreement, ownership of the network was transferred at a price of SEK 75 million to Telecom Finland, which will be responsible for using and developing the network. Enator and Telecom Finland will together develop and market new telecommunications packages for municipal networks, the Internet, intranet, and Call Center voice services.

In October Telecom Finland AB 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 BITnet to cover the whole province. BITnet is a broadband network for data and voice messaging. The order will be worth SEK 45-60 million over the next three years.

During the review year Telecom Finland established a subsidiary Telecom Finland GmbH in Düsseldorf, Germany. Initially operations have focused on data services, but at a later stage the company aims to grow in the field of media communications. Telecom Finland also established a second subsidiary in Germany, Smart Ring GmbH, which is developing products relating to electronic payment.

Preparations started during the review year for setting up HanseNet Telefongesellschaft, a service

operator that will function in Hamburg and the surrounding area. Agreement on setting up the company was reached in January 1998. Telecom Finland and HanseNet Telekommunikation will each own 50 per cent of the company. The partner is the Hamburg municipal electricity company. The area covered by the licence of HanseNet Telefongesellschaft has a telecommunications market worth about FIM 10 billion, and annual growth is estimated at about 6 per cent. HanseNet Telefongesellschaft is looking to achieve about a 10 per cent share of the market in five years.

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 broadband QuickNet Internet services with various cable TV operators. In Russia the business operations of the subsidiary Fintelecom ZAO made encouraging progress.

ASSOCIATED COMPANIES

The GSM operator Turkcell Illetisim Hizmetleri A.S., which operates in Turkey, continued its rapid growth during the review year. The number of subscribers had risen by the end of the year to more than 1.1 million, an increase of 105% on the previous year. Turkcell is Turkey's leading GSM operator with a 77% market share, and its network covers about 80 cities as well as the main highways linking Istanbul, Ankara and Izmir. The other main owners of Turkcell are Cukurova Group and LM Ericsson.

Since it was established Turkcell has operated on the licence of Turk Telekom, Turkey's state-owned telecommunications company, and remits 73% of its revenues as rental for the licence to Turk Telekom. Turkcell has applied for its own licence, which has been approved by the ministry and is awaiting final confirmation by the country's Supreme Court. The price for the licence has been agreed at USD 500 million, or about FIM 2.7 billion.

The net turnover of Turkcell grew to FIM 865 million and its profitability improved on the previous year.

Performance of Telecom Finland's foreign associated companies

Figures FIM 1,000	1994	1995	1996	1997
Associated companies, holding over 20%				
Turkcell, holding	34,0 %	34,0 %	34,0 %	34,0 %
Net turnover	33 097	123 077	328 245	865 055
Operating profit	-5 529	11 604	29 312	400 118
Profit for financial year	-5 441	-21 729	15 724	218 943
Telecom Finland's share of profit	-1 850	-7 388	5 346	74 441
North-West GSM, holding	23,5 %	23,5 %	23,5 %	23,5 %
Net turnover	-	27 690	114 055	347 061
Operating profit	-1 405	-8 873	15 239	103 915
Profit for financial year	-552	-8 481	7 894	66 772
Telecom Finland's share of profit	-130	-1 995	1 857	15 705
P Plus Communications, holding	-	23,0 %	28,5 %	28,5 %
Net turnover	-	-	-	22 732
Operating profit	-	-7 282	-17 645	-172 608
Profit for financial year	-	-7 056	-24 368	-199 175
Telecom Finland's share of profit	-	-1 623	-6 942	-56 745
Estonian Mobile Telephone, holding	24,5 %	24,5 %	24,5 %	24,5 %
Net turnover	66 118	126 860	203 884	333 540
Operating profit	39 143	63 301	77 342	132 493
Profit for financial year	31 632	49 536	38 573	107 321
Telecom Finland's share of profit	7 750	12 136	9 450	26 294
Latvian Mobile Telephone, holding	24,5 %	24,5 %	24,5 %	24,5 %
Net turnover	83 267	113 417	128 298	232 071
Operating profit	38 397	35 143	30 115	47 008
Profit for financial year	37 922	30 514	21 647	39 169
Telecom Finland's share of profit	9 291	7 476	5 304	9 596
Eesti Telefon, holding	24,5 %	24,5 %	24,5 %	24,5 %
Net turnover	235 166	320 881	340 502	422 021
Operating profit	36 313	51 156	78 307	112 037
Profit for financial year	15 969	29 770	35 486	81 926
Telecom Finland's share of profit	3 912	7 294	8 694	20 072
Lattekom, holding	13,2 % ⁾	13,2 % ⁾	13,2 % ⁾	13,2 % ⁾
Net turnover	257 511	530 009	654 468	881 514
Operating profit	21 524	37 523	67 849	149 825
Profit for financial year	-709	55 029	34 320	109 958
Telecom Finland's share of profit	-94	7 264	4 530	14 514
Other foreign associated companies, total				
Net turnover	41 922	66 547	69 209	57 616
Operating profit	22 083	7 534	16 429	546
Profit for financial year	24 531	4 883	28 470	-11 259
Telecom Finland's share of profit	7 284	1 870	8 403	-3 031
Companies in which holding less than 20%				
Pannon GSM, holding	18,1 %	18,1 %	18,1 %	18,1 %
Net turnover	-	290 365	550 382	886 717
Operating profit	-	-74 362	62 309	205 094
Profit for financial year	-	-170 058	-64 317	34 872
Telecom Finland's share of profit	-	-30 797	-11 648	6 315
Libancell, holding	14,0 %	14,0 %	14,0 %	14,0 %
Net turnover	-	224 564	380 001	742 717
Operating profit	-	27 067	50 572	216 854
Profit for financial year	-	25 899	41 298	152 622
Telecom Finland's share of profit	-	3 626	5 782	21 367
Foreign associated companies, total				
Net turnover	717 081	1 308 481	1 838 661	3 161 610
Operating profit	150 526	190 106	296 948	773 334
Profit for financial year	103 352	132 466	157 746	413 655
Telecom Finland's share of profit	26 164	25 035	36 642	100 846

⁾ Telecom Finland's indirect influence more than 20%.

**TELECOM FINLAND'S
MAIN POINTS OF PRESENCE**



The number of subscribers of Pannon GSM Telecommunications RT, which operates in Hungary, rose to 264,000 (160,000). The company's financial performance improved encouragingly and returned a profit. Pannon GSM is the second largest mobile telephone operator in Hungary and it has a market share of 42%. In December Telecom Finland sold 60% of the Hungarian paging service provider Easy Call Ermes Hungary Rt. The company retained a 5% holding in EasyCall Ermes.

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

Lattelekom SIA, which operates a fixed network in Latvia, and Latvian Mobile Telephone both improved their results considerably. The number of subscribers of Latvian Mobile Telephone rose to 61,000 (29,000).

North-West GSM, a mobile telephone operator in St Petersburg, also made encouraging progress. The company's number of subscribers rose to 56,000 (24,000) and its financial result was good.

The number of subscribers of the Lebanese mobile telephone operator Libancell rose to 191,500 (90,000).

Telecom Finland's associated 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. By the year 2005 it is forecast that the number of mobile telephone users in Hong Kong will have risen to about four million.

In 1998 Telecom Finland is putting its efforts into ensuring the success of its existing associated companies and to improving processes in its international operations. It will reinforce their competitive position in the area near Finland. Telecom Finland will work more closely with associated companies and their owners by raising the number of personnel in the countries they operate in. It will continue to build up business operations with European urban operators through joint venture companies. Product development based on a wide selection of services will in future aim at developing the company's own software products.

Telecom Finland's Board of Directors and Management Group 1997

TELECOM FINLAND'S BOARD OF DIRECTORS



SITTING

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

Aulis Salin, President and CEO,
Telecom Finland Ltd

BACK, FROM LEFT

Kari Vilkman, Chief Shop Steward,
Finnish Metalworkers' Union
(employee representative)

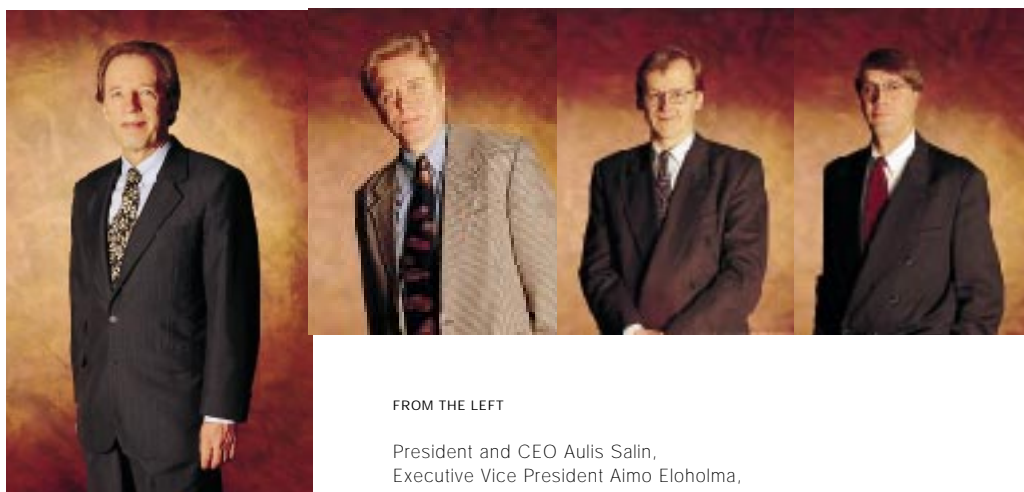
Eero Piikama, President and CEO,
MTV Finland

Erkki Bäckman, Director

Tapio Vaahtokivi, Chairman,
Tietoliikenneliitto TLL ry
(employee representative
from 1 May 1997)

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

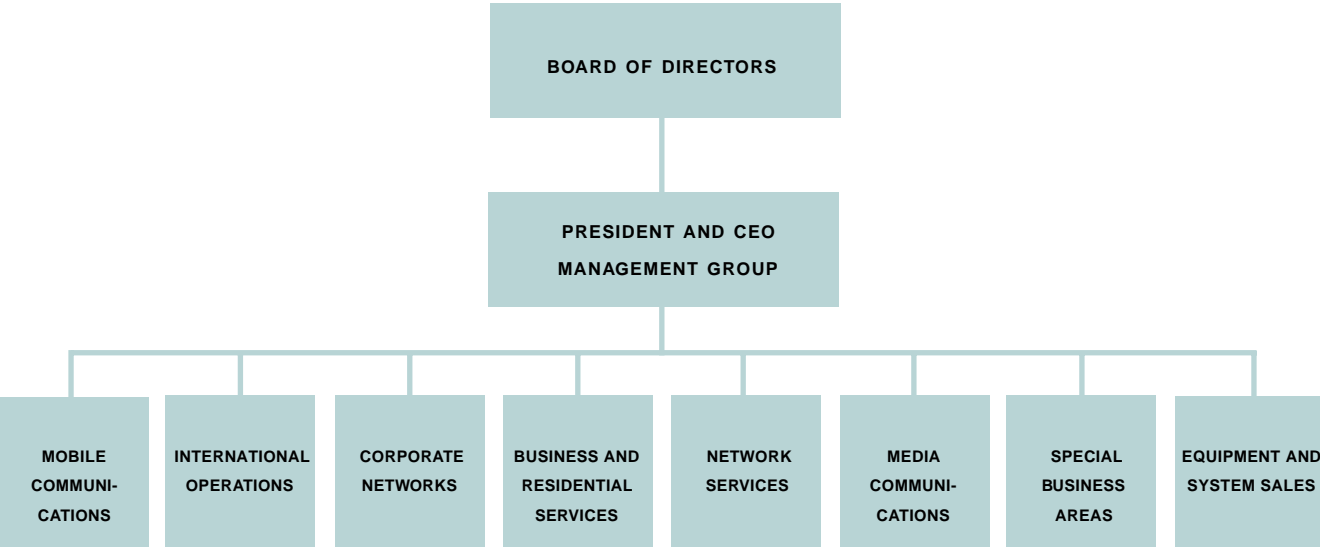
TELECOM FINLAND'S MANAGEMENT GROUP



FROM THE LEFT

President and CEO Aulis Salin,
Executive Vice President Aimo Eloholma,
Executive Vice President Matti Makkonen and
Executive Vice President Kaj-Erik Relander

Telecom Finland's business operations as from 1 January 1998



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