Annual Report 1998

HELSINKI TELEPHONE CORPORATION

Shareholder information

Annual General Meeting

The 1999 Annual General Meeting of Helsinki Telephone Corporation will be held at the Helsinki Fair Centre, Rautatieläisenkatu 3, Helsinki at 1.00pm on 8 April 1999 in Hall E2.

Shareholders should give notification of their intention to attend the Annual General Meeting by 4.00pm on 6 April 1999, either in writing to Helsinki Telephone Corporation, Call Center Services, PO Box 148, 00131 Helsinki, by telephoning +358-800-0-6242 or by faxing +358-9-606 5572.

Shareholders registered by 1 April 1999 in the company's share register kept by the Finnish Central Securities Depository (APK) are eligible to attend the Annual General Meeting.

Dividend

The Board of Directors is to recommend to the Annual General Meeting that a dividend of FIM 2.50 per Series E Share be paid for 1998. The dividend approved by the Annual General Meeting will be paid to shareholders on the company's share register kept by the Finnish Central Securities Depository at the record date. The Board of Directors is to recommend to the Annual General Meeting that the record date for the payment of dividend is 13 April 1999 and that dividends are paid out from 20 April 1999.

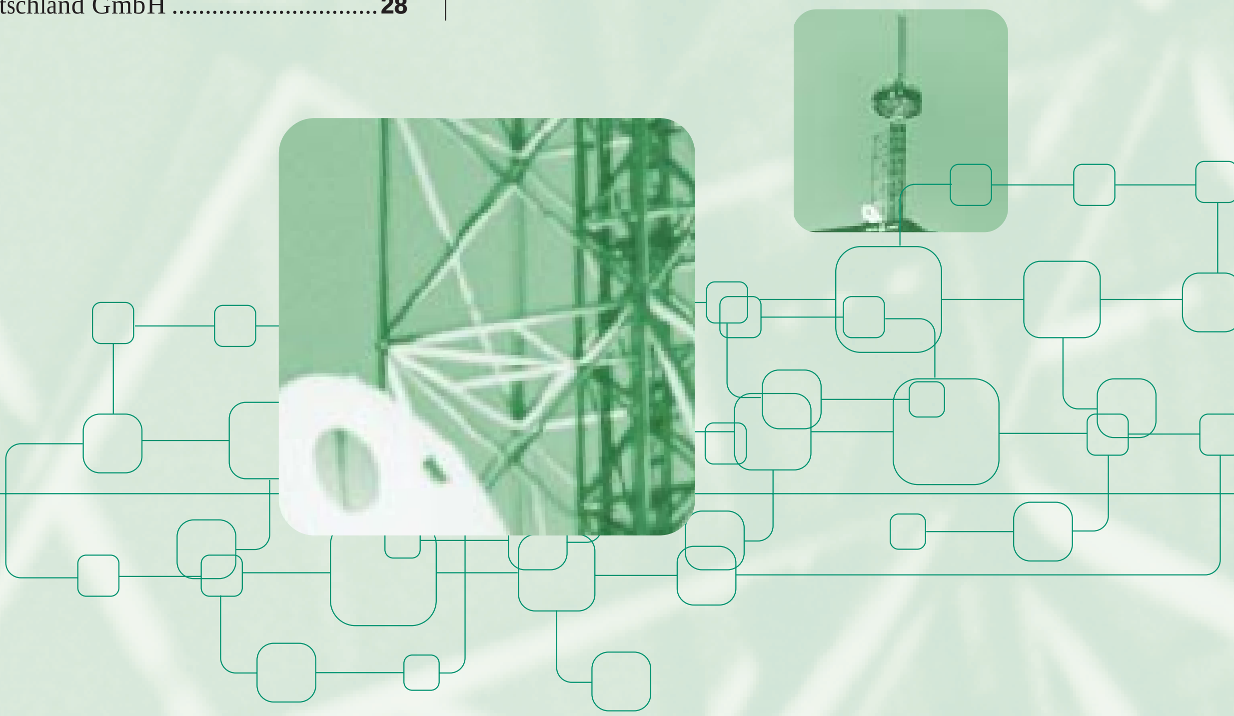
Changes of name and address

Any changes of name and address should be notified to the book-entry securities register where the book-entry account is registered.

Financial information

Helsinki Telephone Corporation will publish its annual report in March and three interim reports; on 6 May 1999, 12 August and 8 November 1999. The annual report is published in Finnish, Swedish, English and German, the interim reports in Finnish, Swedish, English and German. Copies of these reports are available from Helsinki Telephone Corporation, Corporate Communications, tel. +358-9-606 7371.

Contents



Overview of the group

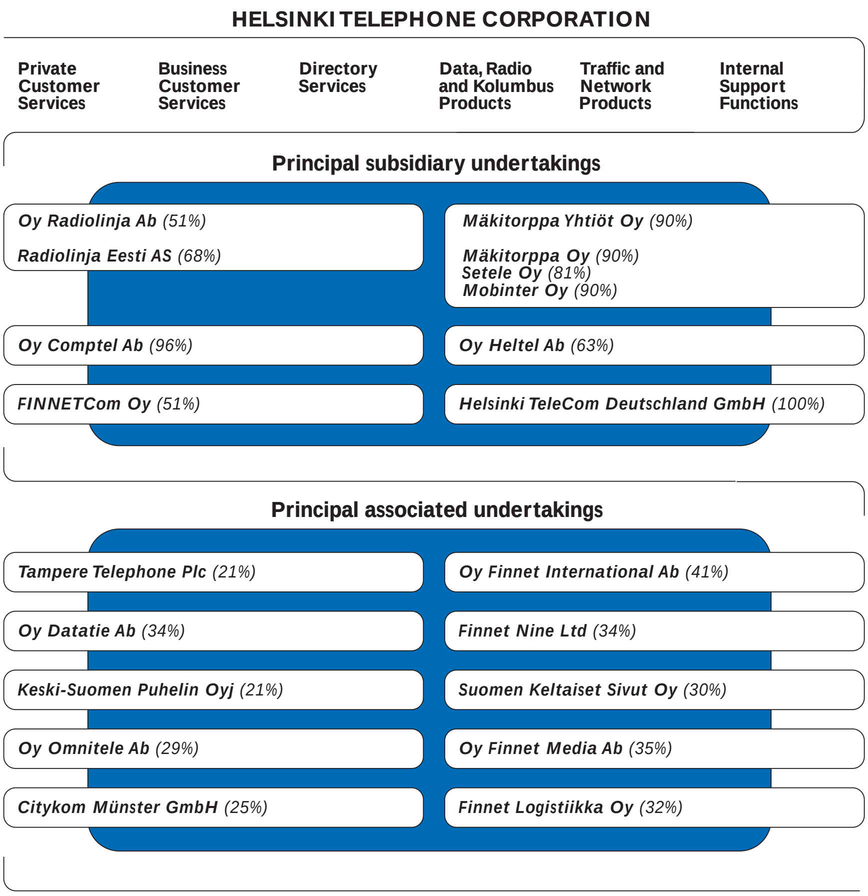
Helsinki Telephone Corporation group is the largest privately-owned provider of telecommunications services in Finland. The group's history dates back to 1882 and the founding of Helsinki Telephone Association, whose principal operations were incorporated at the beginning of 1994. During its five years of business, Helsinki Telephone Corporation and its subsidiaries have grown into a group providing a broad spectrum of telecommunications services.

Helsinki Telephone Corporation, the group's parent company, is both a network operator and a provider of telecommunications services. The company has been listed on the Helsinki Exchanges since November 1997. With a holding of 68.8 per cent of Helsinki Telephone Corporation shares at the end of 1998, the former Helsinki Telephone Association, now Telephone Cooperative HPY, remains the company's largest owner. The Association became a cooperative in June 1998.

Helsinki Telephone Corporation group provides local, national and international telecommunications services. Together with its associated undertakings, the group's portfolio of services includes local, long distance, international and GSM mobile calls, data transmission and the planning and implementation of tailored business telecommunications solutions.

Group structure

Helsinki Telephone Corporation comprises five business divisions: Private Customer Services,



Helsinki Telephone Corporation's interest in each company at 31 December 1998 appears in brackets. Changes taking place by 28 February 1999: Oy Radiolinja Ab 67%, Oy Comptel Ab 100%, Oy Datatie Ab 45%, Keski-Suomen Puhelin Oyj 23%.

Business Customer Services, Directory Services (directory and number enquiries), Data, Radio and Kolumbus Products and Traffic and Network Products. The latter also includes R&D and International Operations.

The group comprises Helsinki Telephone Corporation and its subsidiary undertakings, the most important of which are Oy Radiolinja Ab, Mäkitorppa Yhtiöt Oy, Oy Comptel Ab, Oy Heltel Ab, FINNETCom Oy and Helsinki TeleCom Deutschland GmbH.

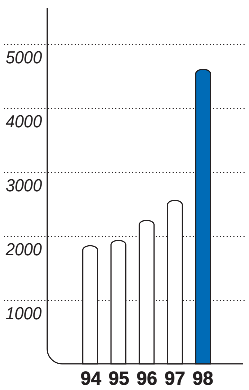
Additionally, the company also has substantial minority interests in companies handling local, national and international telecommunications. The most important of these associates are Tampere Telephone Plc, Oy Datatie Ab, Finnet Nine Ltd, Oy Finnet International Ab and Oy Omnitele Ab.

Key figures 1)

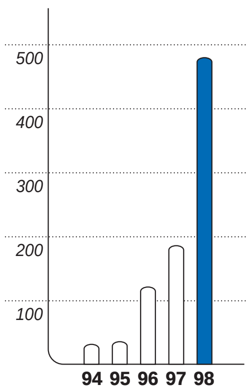
	1998	1997	Change
Turnover, FIM million	4 666	2 566	82%
Operating margin, FIM million	1 137	702	62%
Operating profit, FIM million	520	224	132%
Profit before exceptional items, FIM million	477	188	154%
R&D, FIM million	68	55	24%
Acquisition of shares, FIM million	1 039	36	
Gross fixed asset investments, FIM million	1 311	701	87%
Equity ratio, %	59.6	59.6	–
Employees, average	4 589	3 814	

1) Owing to major restructuring within the group the figures for 1998 are not comparable with those for earlier years

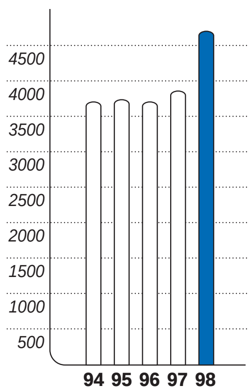
Group turnover, *FIM million*



Group profit before exceptional items, *FIM million*



Group employees



Highlights in 1998

Helsinki Telephone Corporation and German-based Mobilcom AG signed a long-term technical cooperation and consultancy agreement. Mobilcom operates in the German telecommunications market.

Negotiations to set up Finnet Corporation were discontinued on 13 March 1998. Although the negotiations ended, co-operation between Finnet companies continues as earlier and has no impact on the operations of local telephone companies.

Oy Radiolinja Ab became a subsidiary undertaking of Helsinki Telephone Corporation on 1 April 1998. At the end of the year under review, Helsinki Telephone owned 51 per cent of Radiolinja's A Shares.

FINNETCom Oy became a subsidiary undertaking of Helsinki Telephone Corporation, which had a 51 per cent holding in the company at the end of 1998. By the end of the 1998 financial year, Helsinki Telephone Corporation's interest in Oy Datatie Ab had risen to 34 per cent.

Helsinki Telephone Corporation increased its share capital and Helsinki Telephone Association sold its Helsinki Telephone Corporation E Shares in an offering and disposal of shares taking place from 5 to 16 June 1998.

The link between Helsinki Telephone Corporation subscription and membership of Telephone Cooperative HPY was severed on 1 September 1998, when member subscriber connections became basic subscriber connections.

Tampere Telephone Plc became an associated undertaking of Helsinki Telephone Corporation, which had a 20.6 per cent holding in Tampere Telephone at the end of the 1998 financial year.

Mäkitorppa Yhtiöt Oy and Oy Radiolinja Ab acquired the entire share capital of Setele Oy. Mäkitorppa now has a 62 per cent holding in Setele, with the remaining 38 per cent being held by Radiolinja.

Helsinki Telephone Corporation acquired a 25.1 per cent holding in German-based Citykom Münster GmbH.

Helsinki Telephone Corporation signed a letter of intent in respect of cooperation and acquisition of a 25.1 per cent holding in Bremen-based Netmanagement Bremen (CNB).

Helsinki Telephone Corporation acquired a 20.5 per cent stake in Keski-Suomen Puhelin Oyj.

Restructure

On 22 February 1999, Helsinki Telephone Corporation's main owner, Telephone Co-operative HPY, specified the schedules for decisions to be taken by its Board of Governors in respect of the proposed restructuring of the group as publicised earlier. Telephone Cooperative HPY is to become a limited company in summer 1999 and merged with Helsinki Telephone Corporation in June 2000.

On 9 April 1999, Telephone Cooperative HPY's Board of Governors will decide on the motion to be put to the representatives. This motion will primarily concern turning the cooperative into a limited company. The representatives will consider the matter for the first time during their spring meeting on 27 April 1999. According to the regulations, the representatives will consider the matter for the second time in an extraordinary meeting to take place on 11 May 1999. The limited company taking over Telephone Cooperative HPY's business would be registered accordingly in summer 1999.

When the cooperative becomes a limited company, its members will receive a certain number of shares in the new company for each membership certificate held. The number of shares will be confirmed when the representatives decide other matters in April-May 1999. The intention is to apply to have the shares quoted on the main list of the Helsinki Exchanges.

Telephone Cooperative HPY's Board of Governors will announce the principles governing the merger plan on 27 April 1999. The plan would be approved by the Boards of both companies in summer 1999, after which it will be presented for approval to the extraordinary general meetings of both companies on 27 September 1999.

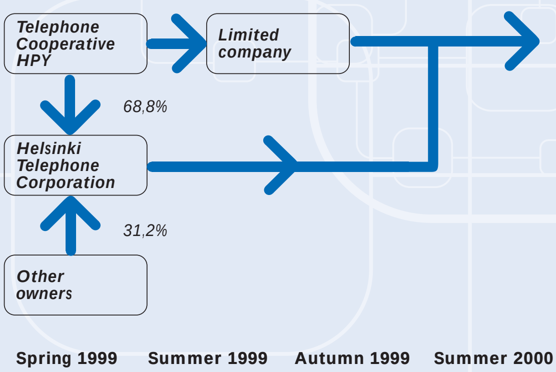
The proposed merger is scheduled to take place in June 2000, when Helsinki Telephone Corporation will merge with the new limited company, the shares of which will be quoted on the main list of the Helsinki Exchanges. Helsinki Telephone Corporation's minority shareholders will then receive shares in the new company in exchange for their existing Helsinki Telephone Corporation E Shares. The rate of exchange is to be confirmed by summer 1999 as part of the merger plan.

LOGICAL PROGRESS WITH RESTRUCTURING STRENGTHENS GROUP COMPETITIVENESS

In my capacity as one of the persons involved in making these decisions and as chairman of Helsinki Telephone Corporation's Board of Directors, I would like to tell you that these arrangements will be the last in the series of changes to restructure the group. The first of these changes took place in 1994, when the principal business was incorporated into Helsinki Telephone Company, and what was then Helsinki Telephone Association remained a parent company. Later steps in the restructuring process included the listing of Helsinki Telephone Corporation shares on the Helsinki Exchanges in 1997, and Oy Radiolinja Ab's becoming a subsidiary undertaking in 1998. Helsinki Telephone Corporation has also acquired strategic holdings in Tampere Telephone Plc and Keski-Suomen Puhelin Oyj. The company is committed to implementing similar measures wherever it sees new synergies, competitive advantages and development potential in the growing field of telecommunications.

Chairman of the Board of Directors
Kurt Nordman

FROM A COOPERATIVE TO A LIMITED COMPANY AND MERGER



Chief Executive Officer's review

The 1998 financial year was one of growth for Helsinki Telephone in every sense of the word. Earlier in the year, after lengthy ownership negotiations foundered in respect of Finnet companies, Helsinki Telephone Corporation established new targets in a bid to safeguard the fast growth and performance required by the market. To this end, the company built an operations model, which in practice meant Helsinki Telephone Corporation increasing its direct ownership in strategic Finnish operators. The most important acquisitions taking place in this respect during the year were holdings in Radiolinja, Tampere Telephone and Keski-Suomen Puhelin.

The core of the company's chosen strategy is to build interfaces and systems for our customers that are independent and employ all the services in the information society. Our customers are primarily consumer, business and institutional customers in Finland.

Our chosen strategy and the related measures have been very well received. This is evidenced not only by a sharp rise in the market value of the company on the Helsinki Exchanges, but also by the confidence shown by customers in Helsinki Telephone Corporation's services, which is reflected in a very successful year of business.

WE ARE BUILDING INDEPENDENT SYSTEMS AND INTERFACES FOR OUR CUSTOMERS THAT UTILISE ALL THE SERVICES OF THE INFORMATION SOCIETY.

Not only have we had a good year on the home market, the group has also achieved growth and success in its international operations. This was witnessed by the impressive performance of our subsidiary Comptel, which reported a dramatic rise of 150 per cent in exports, driven by its MDS software product portfolio. The Mäkitorppa Group also increased its business at home and in territories adjacent to Finland. Likewise, Radiolinja Eesti consolidated its position in the Estonian mobile market.

With regard to the future, perhaps the most notable opening in international operations during the year was in Germany, where our experience of the German city carrier market acquired by consultancy projects in recent years led to us acquiring our first direct strategic holding in a local operator there. This was based on utilisation of Helsinki Telephone's market and technology competence in a new environment. Finnish expertise thus paved the way for enhanced value of our partner company.

Group turnover rose by 80 per cent to reach FIM 4.7 billion in 1998. The most significant factor in this respect was Radiolinja's accountability as a consolidated company from the 1 April. Radiolinja's role within the group is to cover the explosively growing mobile interface to information networks. Radiolinja has been extremely successful at increasing its market share and now ranks number one measured in terms of net growth in subscriber numbers. Radiolinja has successfully managed to turn itself into a strong brand characterised by innovation and a place at the forefront of technology. An important aspect of this success is a dynamic expansion of distribution channels to shops at street level. The Mäkitorppa Group's acquisition of Setele is part of this operations model.

At times the winds of change have blown quite strongly through the company's market and business environment. Several actual discontinuities can be recorded where, for various reasons, development in what is the world's most dynamic industry has shifted direction. In respect of Helsinki Telephone, the most powerful factors taking place within the group are connected to the change in ownership structure. In practice, ownership of the company opened up in autumn 1998, when Telephone Cooperative HPY membership certificates began to be quoted on the

Pre-list of the Helsinki Exchanges. This same openness in Tampere Telephone and Keski-Suomen Puhelin also led to the acquisition of shares in these two companies. Other major external changes worth reporting are the breakthrough in Internet technology volumes, and the growth of mobile communications in the consumer market.

Our dynamic performance in 1998 was also reflected in the trading prices of the company's E Shares. The issue price per share was FIM 85 in the PlusAnti Offering in autumn 1997 and FIM 215 in the offering and disposal of shares that took place in summer 1998. The company's E Shares are currently trading at more than FIM 300 and have even reached FIM 370. The company's rise in market value has been one of the fastest on the Helsinki Exchanges. Now that all the company's shares have been converted into E Shares, we are the seventh largest listed company in Finland in terms of market value.

Despite encouraging prospects for the current financial year, I am certain that in time we will witness a slow down in the pace of growth. General economic forecasts already predict slower growth in the telecommunications industry, too. This may well have an impact on Helsinki Telephone's business.

Nevertheless, any slowing of economic growth will not necessarily be reflected in the growth of our company's competence. The group has traditionally placed great value on individual skills, irrespective of the job each person does. Recent years have seen an increase in group competence alongside personal skills. Helsinki Telephone's Way and Will Programme highlights the importance of reliable service processes and supports the spread of learning and multi-skills throughout the organisation. Prominence has been given to group values. Customer orientation, responsibility, a place at the leading edge of technology and profitability will ensure the company retains its competitiveness in future. Self-assessment carried out in line with quality award criteria enables us to target development investments much more effectively in respect of service and performance.

CUSTOMER ORIENTATION, RESPONSIBILITY, A PLACE AT THE LEADING EDGE OF TECHNOLOGY AND PROFITABILITY WILL ENSURE THE COMPANY RETAINS ITS COMPETITIVENESS IN FUTURE.

Midway through the current year we will launch an extensive development project, Leading Star Program, in which 300 managers in various jobs will take part. I am firmly convinced that this will trigger off the internal momentum for sustained success. Nevertheless, we must continue to question the investments to which we are committed through the reorganisation process on which we have embarked, and to measure the impact of these on the company's ultimate aims. Company management is committed to successful business operations generated by the confidence our customers place in us. Our success in this respect will translate into added value for our owners. To date, our efforts have been extremely successful and in line with the targets set. I believe they have also served as the impulse for dynamic personal growth for all our employees.

Finally, I would like to add that Helsinki Telephone and its entire staff are well prepared to respond to the changes taking place, thus benefiting the company and its owners alike. This is no doubt largely due to the visions shaped in 1994 when incorporation took place.

I would like to extend my thanks to our customers and shareholders for helping to make 1998 such a successful year.

Matti Mattheiszen

Business divisions

Business Customer Services

The Business Customer Services division is responsible for sales, marketing and technical customer service to corporate customers, with full responsibility for the company's marketing communications. Business Customer Services is also responsible for telephone systems and videoconferencing products. The division offers the portfolio of products and services provided by Helsinki Telephone Corporation, its subsidiaries and other Finnet companies.

Helsinki Telephone Corporation has set up special units to focus on its concept of building tailored business-specific telecommunications packages to meet the needs of large enterprises and public sector customers. This concept is applied to public administration, municipalities, education, culture, health care, industry, banks, insurance companies, trade, services, and media.

Helsinki Telephone Corporation provides national communications services to groups of companies and companies with offices throughout the country. Helsinki Telephone serves the largest of more than 40,000 potential SMEs by business sector. Yrityslinja ("Business Line"), which includes Call Center functions, field sales and store operations, deals with the remainder. In addition to its shop in Forum and the Konala outlet, the company also has HPY Corner, a new type of state-of-the-art outlet in the Glass Palace in the heart of Helsinki providing communication solutions for SME customers. Finnet Centers are responsible for technical customer service installation, servicing and maintenance functions.

685 employees.

Data, Radio and Kolumbus Products

The division comprises three parts. Data Services, together with associated undertaking Datatie, is primarily responsible for business data system and network solutions, their installation and maintenance. Kolumbus Products is responsible for Internet and other information network services. Besides Helsinki Telephone Corporation, subsidiaries Radiolinja and Mäkitorppa are engaged in radio or mobile services.

Data Services are focused on tailored customer driven solutions to link the offices of companies operating throughout the country to each other. Management of the transmission network has become increasingly important because the reliability of data transmission is a vital factor in the business of more and more of our customer companies.

Group subsidiaries Radiolinja and the Mäkitorppa Group were responsible primarily for mobile communications. Radiolinja's GSM network accounted for

Divisional directors (from the left): Directory Services: Jarmo Leiniö, Traffic and Network Products: Jukka Alho, Private Customer Services: Raili Pohtola, Data, Radio and Kolumbus Products: Jarmo Kalm and Business Customer Services: Matti Carpén.

most of the division's capital expenditure. Mäkitorppa's principal business sectors are retail sales, wholesale activities and international sales.

Kolumbus Services are designed for business and private customers alike. In terms of the number of .fi domain names, Kolumbus is market leader in Internet subscriptions in the business sector and has won a significant market share in the private customer segment.

500 employees.

Private Customer Services

The Private Customer Services division is responsible for selling and marketing Helsinki Telephone Corporation's products and services and related customer service, installation and maintenance facilities to private customers. The division consists of two departments: Sales & Marketing and Technical Customer Service.

Sales distribution channels include seven stores operating in the Helsinki Metropolitan Area and a virtual web shop, opened on the Internet in November 1998. Four customer service groups deal with customer orders and queries at the toll-free number 0800 9 5001. September saw the setting up of a service desk at the Korkeavuorenkatu store to register HPY membership certificates centrally and also to serve stockbrokers by telephone.

Technical Customer Service has six installation and maintenance teams, five of which are responsible for installing and maintaining fixed network connections and Koti-ISDN. One team serves and maintains internal cabling.

Within the division, there is also an independent unit responsible for public telephone services. At the end of the 1998 financial year, there were some 3,000 public telephones in the Helsinki Metropolitan Area. Almost half of these telephones are phone or credit card operated.

415 employees.

Traffic and Network Products

The Traffic and Network Products division is responsible for the company's telephone traffic business and telecommunications infrastructure consisting of the main cable network covering the Helsinki Metropolitan Area, other data transmission networks relating to the cable network and exchanges and switching units with software.

The division maintains and develops this technical platform so as to provide the business divisions with good opportunities to provide and market existing and new telecommunications services. The division is also responsible for Helsinki Telephone Corporation's business operations in Germany, Oy Finnet International Ab and the long-distance telephone business.

The Research Centre forms part of the division and is engaged in advanced R&D activities within EU and Eurescom projects on the international front and in Technology Development Centre Finland (TEKES) projects at home. The Research Centre collaborates with universities in the Helsinki Metropolitan Area.

1,099 employees.

Directory Services

The Directory Services division provides and develops services based on telephone number, name, address and other contact details given by customers. Its core products are the 118 number service, the telephone directory for Helsinki and the surrounding area, NumeroNetti, an electronic directory on the Internet, and connection services offered to companies.

The 118 number service is a national service that also includes mobile numbers. The main catalogue product is the three-part telephone directory for Helsinki and the surrounding area. Spring 1998 saw this directory being published for the first time together with Sonera (formerly Telecom Finland). Helsinki Telephone Corporation also published OmaOsa local directories for five areas. Published together with other Finnet companies since early 1998, the electronic NumeroNetti is a nationwide directory that also includes mobile numbers.

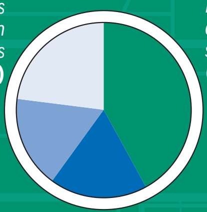
Directory Services' target group is business customers who are offered a Call Center Service, 24-hour switchboard manning, telephone conferences and exchange services.

Employee strength in terms of manpower years: 430 employees.

Segmented information

Strategic focus areas
General services
Mobile communications
Business services

Group turnover by segment
(1998 pro-forma turnover, FIM 5.1 billion, includes Radiolinja and Setele sales for the entire year)



Strategic focus areas

Helsinki Telephone Corporation Group operates in an industry dominated by the electronic transmission of information and experiences. To this end, the group produces services and directory services relating to Internet and Information Technology. As technological advances are rapidly moving towards the convergence of the various divisions, limits between different group sectors are increasingly diminishing. The group is thus well placed to flexibly redefine the content of its business activities.

The group's focus areas are
- general services (access)
- mobile communications (mobile)
- business services (networking)
- telecom network services (platform) and related information technology

Distribution channels are undergoing dynamic development in all focus areas.

The group operates at three geographical levels: local, national and international. Local operations include the general fixed-network services provided in the Helsinki Metropolitan Area. The group's national operations include sales to large customers, mobile communications and related distribution, as well as data and Internet services.

In all the group's focus areas, the Internet, broadband data transmission, telecommunications, information technology and media sectors are converging and dynamically reshaping the business environment.

In networking, Internet protocol has become the dominant technology used by the group in most of its business activities. Broadbandedness enables us to provide an ever-greater range of services in fixed and mobile connections alike and thus enhance the share of telecommunications in service provision. Convergence of the divisions requires the group to be ready for cooperation both with partners producing content and partners responsible for information technology. It also requires us to be prepared to flexibly define the limits of our own business.

The group is internationalising in those business sectors where it has adequately strong competence. For the group, internationalisation means increasing expertise in the new competitive environment in which it operates and securing long-term growth and profitability.

Helsinki Telephone Corporation Group provides the entire portfolio of telecommunications services, enabling customers to acquire everything on a one-stop-shop basis. The group will carefully limit the range of goods and services it produces itself, buying in from outside those that are neither strategic nor profitable for the group to produce itself.

In order to ensure adequate expertise and to develop new competence, the group will enter into strategic alliances and partnerships.

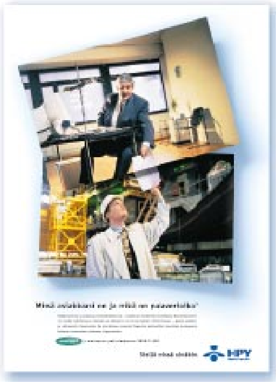
Group values are responsibility, leadership, profitability and customer-orientation. The group is committed to being at the leading edge of development and to translating telecommunications innovations into service products to improve group profitability and the success of group customers in their own businesses. The group will continue to consider the needs of its customers in services and R&D alike, thus evidencing its commitment to develop tailored telecommunications products for large customers in a host of industries.

The group is committed to the long-term, sustained growth of its owners' assets.

General services and multimedia

Overall growth in the telecommunications market and the restructuring currently taking place within the industry were also reflected in Helsinki Telephone Corporation's connection and telephony business during the year under review. Mobile phone penetration rose to 57 per cent, and in November mobile connections exceeded fixed network ones. Internet-based traffic also continued to grow explosively, with a significant increase in the spectrum of Internet-based services.

Internet address penetration rose to 11.2 per cent, which makes Finland a world leader in this respect, too. Extremely high PC penetration supports information network use. Research findings show that 43 per cent of households have a computer. All these factors contributed to the encouraging development of Helsinki Telephone's traffic and connection business during the year under review.



Despite keen competition, especially in the business customers and SME sector, the company retained its estimated 90 per cent share of the market in local fixed network connections. The company successfully increased its share of the international call market. In long-distance traffic at home, Finnet companies' market share of around 56 per cent remained unchanged. In long-distance and international calls, the market share of outgoing calls carried by Helsinki Telephone's network was somewhat higher than the national average for Finnet companies.

The year under review witnessed all round growth in call traffic. In terms of minutes, overall traffic in Helsinki Telephone's network was up by one per cent. This can be considered a significant achievement since more and more local calls are currently made in mobile networks. Growth in local telephony traffic is being driven by the tremendous increase in Internet traffic which, in December 1998, accounted for 29 per cent of outgoing traffic in the company's network. The corresponding figure a year earlier was 10 per cent. Fixed network turnover per subscriber rose by 11 per cent, leading in improved profitability in the telephony business.

Encouraging growth of ISDN sales

The number of active customer subscriber connections fell slightly, although this was more than offset by a doubling of ISDN connections over the same period. This meant that the total number of channels in the fixed network was more than 2 per cent higher than over the corresponding period a year earlier.

The company attempted to capitalise on the growing interest of its customers in Internet services by launching a so-called Super Package (Superpaketti) for private customers and SMEs in cooperation with PC-SuperStore Oy. The package comprises a powerful multimedia PC, Home ISDN connection and a Kolumbus Internet access. Since it appeared in the market in August, sales have been a great success. Changes made to the pricing of Kolumbus services also played an important role in marketing the package.

The year under review witnessed five-fold growth in the numbers of Kolumbus customers. Kolumbus now has a market share of around 35 per cent of the business customer segment and around 23 per cent of the private customer segment. Competition for Internet user subscriptions is extremely intense because it is generally realised that traffic through Internet Service Providers will continue to grow extremely fast.

Sales of ISDN connections developed extremely encouragingly during the year. At the same time there were growing customer expectations of even faster connections. To this end, Helsinki Telephone has particularly addressed development of xDSL connections in a bid to further hasten the growth in traffic in the fixed network. The company invested heavily in bringing IP technology to basic networks.

As a key part of its efforts to exploit multimedia services through telecommunications networks,

In 1998 Helsinki Telephone continued to invest in developing the telecommunications network. This paved the way for the strong growth in home ISDN connections and created broadband and fast connections to meet the needs of business and private customers like. More and more private customers are now using ISDN connections to conduct banking transactions.

Helsinki Telephone was an active participant in many development projects aimed at bringing IP-based solutions into commercial use, initially particularly in connection with companies' networking services. Helsinki Telephone is committed to retaining its position as one of the world's most advanced operators in applying IP technology to fixed network and mobile services. Helsinki Telephone took part in several electronic business development and pilot projects at home and abroad.

In early 1998, the company launched its new CityPhone, based on GSM 1800 technology. The network covered the entire city and the solution itself was particularly designed to meet the needs of mobile private customers and SMEs. More than 10,000 CityPhones were sold, although a sharp upturn in the sale of GSM mobiles towards the end of the year somewhat slowed growth.

Major changes in subscription services took place during the year. These changes also have a positive impact on group business. On 10 June 1998, Helsinki Telephone Association became Telephone Cooperative HPY and announced that the link between membership of the cooperative and connection services would be severed with effect from 1 September 1998. These two factors triggered off exceptionally strong trading of membership certificates and member subscriber connections in the free market. By the end of August cooperative membership had fallen to around 365,000 compared to some 415,000 at the beginning of the year. During the early part of the year around 40,000 member subscriber connections in active use were exchanged for lease subscriptions, which attracted a monthly charge of FIM 80.30. Basic subscriber connections replaced member subscriber connections from 1 September 1998. The monthly charge for these is FIM 65.00, compared to FIM 35.20 for member subscriber connections.

Telephone Cooperative HPY later applied to have membership certificates quoted on the Pre-list of the Helsinki Exchanges. Listing began in October 1998.

Partnership with local telcos on an ownership basis

During the year under review, Helsinki Telephone took steps to strengthen its strategy in the access business by taking a holding in two significant telcos in a bid for partnership based on ownership. The group acquired over 20 per cent holdings in Tampere Telephone Plc and Keski-Suomen Puhelin Oyj in spring 1998. Alongside ownership, the companies have also begun cooperation aimed at finding synergies within various areas of telecommunications to serve all parties concerned. Cooperation in this respect is considered as paving the way for streamlined operations, taking into account the particular strengths of each company in the industry.

The leasing of local lines between telecommunications operators has now become an established practice and business. By the end of the year, Helsinki Telephone had leased almost 6,000 connections to other operators, up nearly 30% on the figure for the previous year.

In autumn 1998, Helsinki Telephone Corporation and Sonera Ltd signed an agreement covering interconnection arrangements and payments. A decision by the Ministry of Transport and Communications means the agreement will not come into force until early May 1999.

From the group's point of view, general services and multimedia offers encouraging potential and the company has the technological capacity for success in this focus area. Nevertheless, it should be borne in mind that not only is there fierce competition but also possible business risks resulting from external factors such as various official and similar decisions. These may apply to interconnection and roaming arrangements. There may also be other unforeseeable decisions taken by the competition authorities.

Mobile communications

1998 witnessed a new record in the sale of mobile phone subscriptions. Figures provided by the Finnish Ministry of Transport and Communications show that there were 2.97 million mobile phones in use in Finland at year-end. Mobile penetration rose to 57 per cent, the highest figure in the world. In Finland the number of mobile subscriptions now exceeds fixed line ones.

Helsinki Telephone Corporation has been strongly committed to mobile communications throughout the 1990s. It was a major force behind Oy Radiolinja Ab, the world's first commercial GSM operator and has since worked steadfastly to build the company's mobile network.

This long-term commitment paid off in 1998. Radiolinja's becoming a subsidiary of Helsinki Telephone Corporation and the explosive growth in the mobile market had a positive impact on group performance. The year 1998 saw mobile communications become the group's largest business sector.

Through its subsidiaries the group had a presence in both operator and distributor activities. During the 1998 financial year, Radiolinja successfully increased its number of subscriptions by 75 per cent and is now fast approaching the million subscription milestone. Group company Mäkitorppa-Yhtiöt Oy consolidated its position as Finland's largest mobile phone distribution channel with the acquisition, together with Radiolinja, of mobile phone specialist Setele Oy in August.

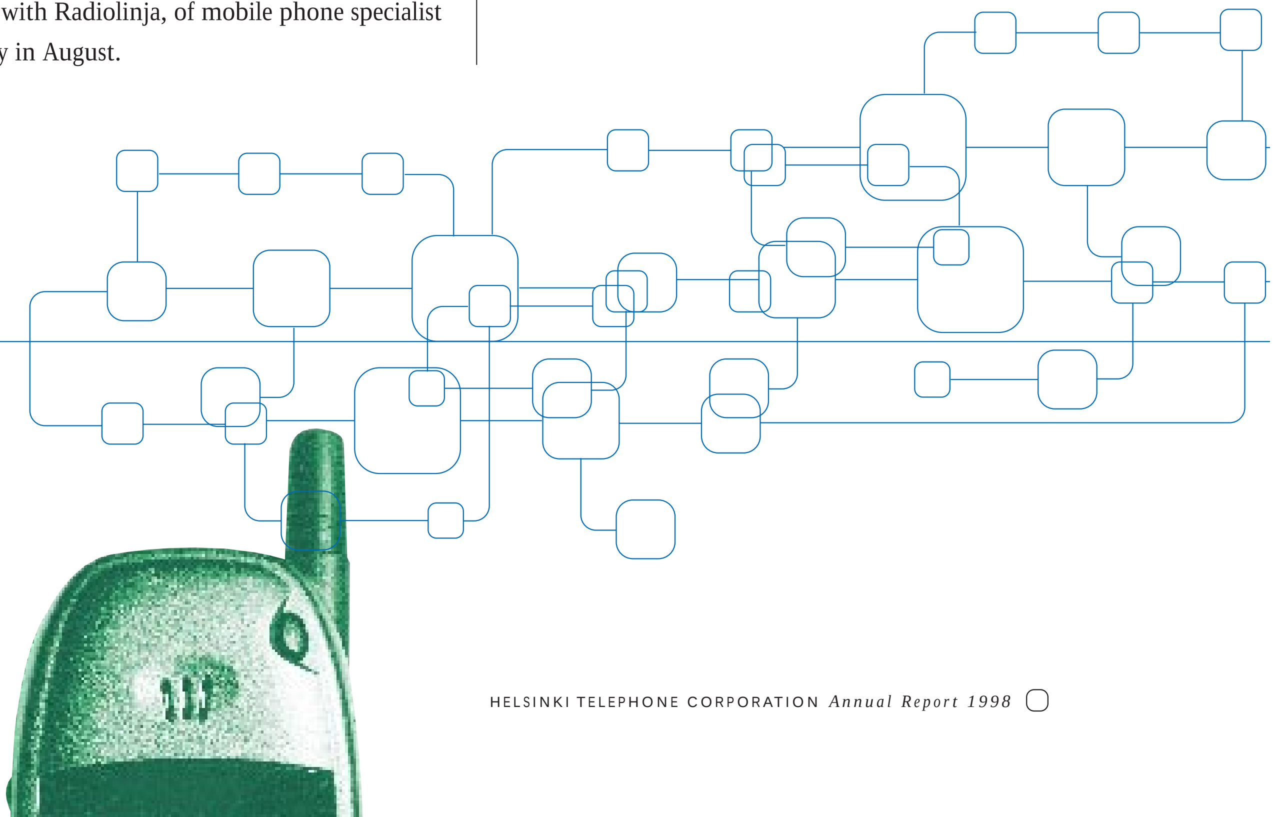
Radiolinja becomes a group subsidiary

In respect of the group's mobile communications business, April saw the realisation of a major strategic decision when Helsinki Telephone Corporation acquired a majority holding and majority votes in Radiolinja.

In early 1998, Helsinki Telephone owned 46.2 per cent of Radiolinja's shares. At Radiolinja's annual general meeting held on 1 April 1998, the Corporation notified that it was interested in acquiring a majority holding in Radiolinja, adding at the same time that it had begun negotiations to this end with Radiolinja's other owners.

During April Helsinki Telephone Corporation acquired a total of 1,273 Radiolinja A Shares, taking its holding to over 50 per cent. In practice this meant that one of Finland's two national GSM operators had become a subsidiary of Helsinki Telephone Corporation.

In November, Helsinki Telephone Corporation announced it was preparing to increase its holding in Radiolinja, offering to buy Radiolinja A Shares at a fixed price of FIM 250,000 per share, corresponding to the maximum price of the shares acquired earlier in the spring. Those wishing to sell were asked to notify the company by 11 December.



At the same time, Helsinki Telephone Corporation notified that in principle it was prepared to conduce towards the deletion of the redemption and consent clause contained in the Radiolinja's articles of association.

By the deadline, minority shareholders corresponding to around nine per cent of Radiolinja's A Share capital had announced their willingness to sell. Actual negotiations to effect the share deals were launched immediately.

In January 1999, Helsinki Telephone Corporation announced it would continue its acquisition of Radiolinja A Shares until 29 January 1999 at the earlier mentioned price of FIM 250,000 per share, and that it was seeking to raise its holding to two thirds of Radiolinja's A Shares. To help it achieve this aim, the company signed a record of negotiations concerning the terms and conditions of implementing the additional acquisitions with negotiation groups representing 28 telephone companies. The actual deals are scheduled to take place by 23 April 1999.

Strong growth for Radiolinja

The number of Radiolinja GSM subscriptions continued to grow strongly throughout 1998. At year-end there were about 981,000 (562,000) subscriptions in the company's network. The Radiolinja Group had around 1,032,000 (590,000) subscriptions at year-end. This figure includes GSM subscriptions in the network of the group's subsidiary, Radiolinja Eesti AS, in Estonia.

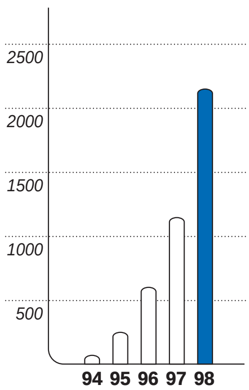
In 1998, Radiolinja's network carried almost double the volume of voice traffic and around six times the volume of text messages compared with the previous year.

Radiolinja Group's 1998 turnover rose to FIM 2,147 million (FIM 1,226 million), up 75 per cent (90%) on the figure for 1997. Oy Radiolinja Ab's 1998 turnover grew to FIM 2,088 million (FIM 1,190 million), an increase of 75 per cent (133%), compared with the previous year.

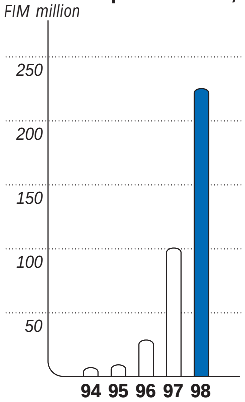
Radiolinja Group reported an operating profit of FIM 240 million (FIM 102 million). Oy Radiolinja Ab's operating profit was FIM 249 million (FIM 99 million). The group result before taxes was FIM 224 million (FIM 100 million). Oy Radiolinja Ab's result before appropriations and taxes was FIM 245 million (FIM 100 million).

The turnover of Radiolinja Eesti AS, Radiolinja's Estonian-based subsidiary, grew by 62 per cent to reach EEK 173 million (EEK 107 million). At year-end, Radiolinja Eesti had 51,000 subscriptions (28,000). Radiolinja Eesti's distribution chain was expanded in Estonia, Latvia and Lithuania during 1998.

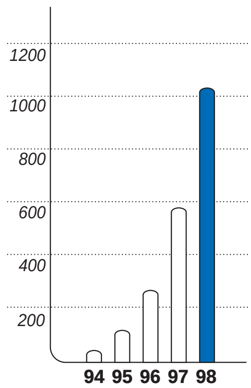
Radiolinja Group's turnover, *FIM million*



Radiolinja Group's profit before exceptional items, *FIM million*



Growth in Radiolinja mobile subscriptions, *1000 pc's*



The 1998 financial year saw mobile communications become the Helsinki Telephone Corporation Group's largest business sector. April saw Radiolinja become Helsinki Telephone's subsidiary, and Setele Oy was consolidated with effect from August.

Mäkitorppa Yhtiöt's Mäkitorppa and Setele shops differ from each other in terms of brands sold, product portfolio and trading centre strategy. Mäkitorppa and Setele opened a total of 17 new stores in Finland in 1998.

Capital expenditure in Radiolinja's national two-frequency network totalled some FIM 910 million. Capital expenditure in Radiolinja's GSM network rose by 30 per cent, compared with the figure for the previous year. In addition to the Helsinki Metropolitan Area, the two-frequency network was also added to in Oulu, Salo and Tampere. To ensure future growth of its GSM network, Radiolinja concluded a FIM 800 million framework agreement with Nokia and a FIM 400 million framework agreement with Siemens covering deliveries of GSM systems.

The Radiolinja Group had 682 (411) employees and Oy Radiolinja Ab 603 (352) employees at the end of 1998.

Major expansions for Mäkitorppa.

The Mäkitorppa Group grew in line with its strategy, and much faster than the industry as a whole. During the financial year 1998 the group sold almost 300,000 mobile phones, almost double the number sold a year earlier. Sales of Radiolinja GSM subscriptions rose sharply by 232 per cent during the year.

The Mäkitorppa Group's 1998 turnover rose to FIM 512 million (FIM 299 million), representing growth of 71 per cent (38%) on the figure for 1997. Growth of the group's most important markets, new shops and acquisition, together with Oy Radiolinja Ab, of Setele Oy's share capital contributed to group's impressive performance. Mäkitorppa Yhtiöt Oy has a 62 per cent holding in Setele. International sales and exports accounted for over FIM 200 million of turnover, an increase of more than 30 per cent.

The Mäkitorppa Group's 1998 operating profit was FIM 11 million (FIM 13 million), a fall of turnover was owing to depreciation resulting from new capital expenditure totalling around FIM 7 million and exchange rate losses from international operations. The 1998 operating profit was also eroded by about FIM 5 million owing to the takeover of Setele in August. The group result before taxes and provisions was FIM 5 million (FIM 13 million).

Capital expenditure in 1998 totalled around FIM 93 million, including fixed asset investments, the opening of new shops, company acquisition and the setting up of a German subsidiary.

At the end of 1998, Mäkitorppa had 70 outlets, 12 of which are outside Finland and 10 of which are franchise shops. The group had 341 (116) employees at year-end.

The Mäkitorppa Group now operates two chains of shops in Finland, each differing in terms of brands sold, product portfolio and trading centre strategy. During the 1998 financial year, Mäkitorppa opened 12 new shops in Finland. During the autumn Setele opened five new outlets. In addition to this, subsidiary Mobinter Oy, which handles the group's international operations, opened six new shops operating under the Mäkitorppa name and concept in Estonia.

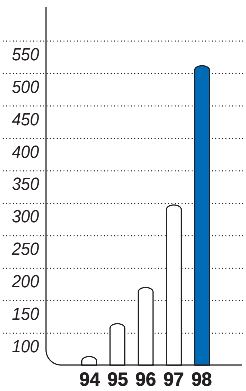
Future prospects

Strong growth in mobile telephony in Finland is expected to continue in 1999. Although already extremely high, the number of mobile phones is still rising. New subscribers keep joining existing users, who in turn are beginning to acquire more than one mobile phone. The growing number of users and new GSM-based services are contributing to increased traffic in GSM networks.

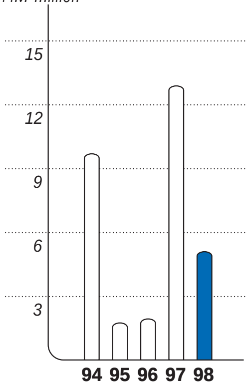
Finland is one of the first countries in Europe that has begun to prepare for the arrival of third generation mobile phones. These Universal Mobile Telecommunications System (UMTS) mobiles access multimedia and Internet services and can receive moving images.

In January 1999, the Finnish Ministry of Transport and Communications assessed the interest in UMTS operating licences. Radiolinja announced that it would bid for a national licence to operate a UMTS network. Helsinki Telephone Corporation notified that if the Ministry was going to grant regional licences, then it would be interested. Mobile communications using new UMTS technology will begin by the year 2002.

Mäkitorppa Group's turnover, *FIM million*

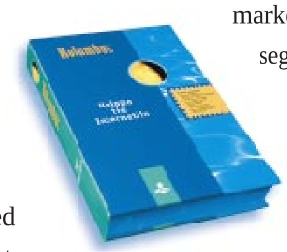


Mäkitorppa Group's profit before exceptional items, *FIM million*



Business services

Rapid advances in telecommunications technology and services had a tremendous impact on companies' business environment in 1998. These advances were evident in the breakthrough of wirelessness, the diversity of intelligent network services and Internet-based services. In some sectors these advances even changed the nature of business. Companies considered it increasingly important to keep abreast of technological progress and to find sensible solutions for use in their own businesses.



Helsinki Telephone Corporation Group developed operations so as to be able to offer its business customers tailored telecommunications services they require to meet their needs from one and the same place at a local, national and global level. In keeping with this principle, Helsinki Telephone strengthened its role as a systems integrator. The company is committed to ensuring the delivery of integrated functional service concepts to its customers.

Market position

Despite extremely fierce competition in the business customer segment, Helsinki Telephone achieved a strong market position in the municipal, media, financial and insurance sectors. The company implemented extensive customised telecommunications solutions also in industry, commerce, services and health care. Most of these solutions were based on wirelessness, intelligent network solutions, rapid data transmission, ISDN and the Internet.

The SME sector's role as a telecommunications user was further highlighted as overall economic growth gave an impetus to the market. Growth in demand focused on product and service sectors, wirelessness, the Internet and data transmission.

Finnet Centers are responsible for technical customer service installation, maintenance and service functions and continuously monitor the standard of service of customer solutions nationwide. This has resulted in a major improvement in the quality of telecommunications applications for business customers. The Finnet Center operations model recognises the importance of after sales service in extensive customised solutions.

FINNETCom Oy's status as a subsidiary of Helsinki Telephone Corporation and acquisition of mobile phone and network connections specialist Setele Oy greatly strengthened Helsinki Telephone's market position in the business customer segment.

Tampere Telephone Plc's status as an associate of Helsinki Telephone Corporation and greater cooperation with Keski-Suomen Puhelin paved the way for new potential to further enhance business customer services.

Networking – a key word

Networking and related network services were a distinctive feature of telecommunications solutions in companies, and Helsinki Telephone was no exception in this respect. The importance of network services will continue to grow as we enter the 21st century.

Networking is based on Helsinki Telephone's basic infrastructure, that is to say digital fixed network covering the entire Helsinki Metropolitan Area, national and international connections provided by Finnet companies and Radiolinja's GSM network. It is on this that Helsinki Telephone has built general network services such as company PABX networks, LanLink and Diana 050.

Customised networking has taken place both within and between companies. A typical internal customer solution is Helnet, a telecommunications network linking around 300 properties belonging to the city of Helsinki. Helsinki Telephone built the second stage of the network during the summer. Helnet enables fast, direct connections between the city's various offices.

Networking is also taking place in the public sector. October 1998 saw the Finnish Ministry of Justice and Helsinki Telephone sign a letter of intent

A digital fixed network covering the entire Helsinki Metropolitan Area, national and international connections provided by Finnet companies and Radiolinja's GSM network are the backbone of Helsinki Telephone's network services.

whereby Helsinki Telephone will continue to provide the national telephone and computer telecommunications in the Ministry's administrative sector for the next three years.

Helsinki Telephone delivered Funet's international connections between Helsinki and Stockholm to NordUnet, which represents Nordic universities. These connections began operating in August. Funet is a national network linking universities in Finland. Several network services were launched in the public administration and local government sectors. Examples of the latter include agreements signed with the towns of Järvenpää and Kerava.

Progress was also made with networking in industry. The letter of intent signed with Finnish ABB companies is a noteworthy example of an extensive internal networking solution. Under the agreement, the ABB companies will transfer management of the information system environment serving the companies to IBM Finland and Helsinki Telephone. In practice, IBM will be responsible for ABB's information technology and Helsinki Telephone for telecommunications services in cooperation with local Finnet companies.

The extensive national remote connections required by Finland Post are to be put in place using Helsinki Telephone's data secure VerkkoDuuni concept. Helsinki's partners in this project are the Finnet companies and FINNETCom Oy.

Call Center solutions grew to become one area of focus in customer companies. Intelligent networks linked to advance Call Center solutions enable flexible, cost-effective customer service by telephone, e-mail and via the Internet.

Electronic commerce gets under way

With the provision of service applications in the marketplace, there is increasing evidence of network trading really getting underway. Software applications enable the use of a customised marketplace integrated with a company's other information systems.

An example of electronic business projects is the electronic marketplace for Finnkino cinema serial tickets provided by Helsinki Telephone in partnership with IBM.

Information Society

Helsinki Telephone has been active in building the Finnish information society by taking part in extensive projects in which the services provided by the authorities and businesses are available in electronic format for use by private citizens.

The public administration director service (Julha) implemented through Helsinki Telephone's Kolumbus Services is one example of information society applications introduced in practice in 1998.

International operations

Helsinki Telephone Corporation Group has witnessed tremendous growth in its international operations. Liberalisation of the telecommunications markets requires competent partners in new telecommunications projects outside Finland. Helsinki Telephone Corporation's international operations are based on a raft of experience acquired on its competitive home market.

In the three years that the company's German-based subsidiary Helsinki TeleCom Deutschland has been in business, it has consolidated its position as a consultant to local telecoms operators in a number of cities. The company has already carried out 40 consultancy projects with 30 different city carriers.

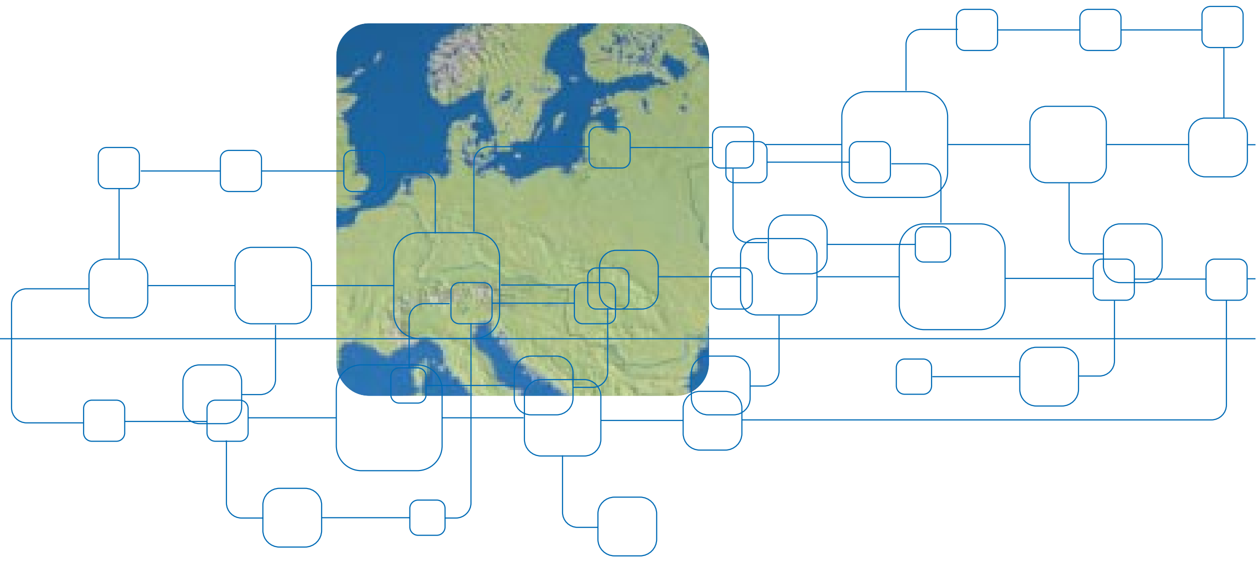
Helsinki Telephone Corporation also expanded its business in Germany through partnership agreements and acquisitions. Under one agreement, Helsinki Telephone Corporation is responsible for expanding Mobilcom AG's long-distance network in Germany and for related development projects. Acquisition of a 25.1 per cent holding in Citykom Münster GmbH was the company's first direct investment in a German telecoms operator. Towards the end of the year, the company signed a letter of intent of cooperation and the purchase of a 25.1 per cent holding in Bremen-based Communications Netmanagement Bremen (CNB). Helsinki Telephone Corporation aims to build a network of partnerships in Germany to increase the competitiveness of all parties concerned.

Helsinki Telephone Corporation has a global presence through its subsidiary undertakings. During 1998 Radiolinja and Mäkitorppa expanded their network of shops in Estonia, Latvia and Lithuania. The Mäkitorppa Group founded a subsidiary in Düsseldorf in Germany, and spring 1999 will see Mäkitorppa GmbH open new shops in Berlin and Düsseldorf. Mäkitorppa's subsidiary Mobinter Oy set up a subsidiary in Kiev in Ukraine.

Oy Comptel Ab witnessed dynamic growth in its exports in 1998. Comptel's MDS products have achieved a clear leading position in the global market. To date, Comptel has delivered 80 MDS systems to more than 30 countries throughout the world.

Through its associates, Helsinki Telephone Corporation Group expanded its operations in Estonia, Latvia, Lithuania, Sweden and the Netherlands. The Finnet International Group consolidated its position in the Estonian data transmission market and opened a new company in Sweden to enhance the provision of data services in the Swedish market. Omnitele Oy's main market area is Europe.

Exports of Helsinki Telephone's expertise doubled during the year. This included demanding projects in international GSM networks.



Helsinki Telephone Research Centre

Telecommunications networks and services are advancing at a tremendous pace worldwide and particularly in Finland. International statistics show Finland as ranking among the top users of Internet services. Per capita, Finland has the world's highest mobile penetration. Finland's advanced telecommunications environment provides a healthy background for Helsinki Telephone Corporation's outstanding R&D activities.

In 1998, Helsinki Telephone Corporation's special focus was on international EU and Eurescom projects and national TEKES projects. Early last year, the Research Centre also became the Finnet companies' research competence centre.

Helsinki Telephone Corporation's research activities spread to the USA, where a Helsinki Telephone researcher took part in the World Wide Web consortium's Internet R&D work at Massachusetts Institute of Technology in Boston. At home, cooperation continued with universities in the Helsinki Metropolitan Area, with the opening of office premises at Innopoli in Otaniemi, Espoo near Helsinki University of Technology.

Helsinki Arena 2000, a Virtual Helsinki broadband and information network development project, bears witness to Helsinki Telephone Corporation's strong commitment to R&D. The project received major international recognition in the Financial Times' Global Telecoms Awards.

The Research Centre has been involved in many customer service and product unit R&D projects. Sales in various business sectors have been able to use international and national research projects.

Recent years have seen an increase in resources for R&D of digital television transmissions, which will commence in Finland in the year 2000. It seems likely that the digital distribution network can also be used as a channel for various data network services alongside fixed and mobile phone networks.

Helsinki Telephone intensified its cooperation with Arcus Software Oy and in February 1999 acquired a significant interest in the company. This move is aimed at gaining a deeper insight, utilisation and service capacity in IP management technology.

Principal subsidiary undertakings

Oy Radiolinja Ab *(Review proper on page 17)*

The Radiolinja Group comprises the parent company Oy Radiolinja Ab and the subsidiary undertakings Radiolinja Eesti AS (45% holding), Radiolinja Latvija (100%), Globalstar Finland Oy (51%) and associated undertakings Mäkitorppa Yhtiöt Oy (20%) and Setele Oy (38%).

Members of the Board of Directors are COO Jarmo Kalm, chairman, managing director Veikko Naire, managing director Erkki Ripatti, director Jukka Ruuska, member of the Group's Board of Directors Jouko Tuunainen and director Jorma Varis. Radiolinja's managing director is Pertti Malva.

Performance in 1998	
Turnover	FIM 2,147 million
Operating profit	FIM 240 million
Investments	FIM 620 million
Employees	682
Subscribers	1,032,000 (including Radiolinja Eesti AS' 51,000 subscribers)

Mäkitorppa Yhtiöt Oy *(Review proper on page 20)*

The Mäkitorppa Yhtiöt Oy group comprises the subsidiary undertakings Mäkitorppa Oy (100% holding), Setele Holding Oy (62%), Mobinter Oy (100%) and Mäkitorppa GmbH (100%).

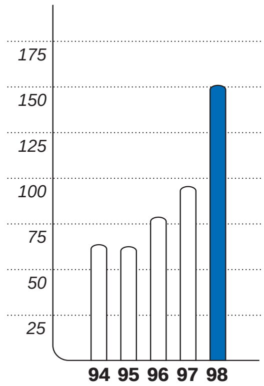
Members of the Board of Directors are COO Jarmo Kalm, chairman, director Matti Carpén, development director Pasi Lehmus, managing director Pertti Malva and director Jukka Ruuska. Mäkitorppa Yhtiöt Oy's managing director is Kimmo Manni.

Mäkitorppa Yhtiöt Oy's chain of shops includes 40 Mäkitorppa outlets, 22 Setele outlets and 11 Mobinter outlets.

Performance in 1998	
Turnover	FIM 512 million
Operating profit	FIM 11 million
Investments	FIM 93 million
Employees	341

Oy Comptel Ab

Comptel's turnover,
FIM million



Oy Comptel Ab develops customised information systems and solutions for telecommunications companies, and sells and maintains off-the-shelf software. The company was founded in 1986, when Helsinki Telephone Association externalised its data processing unit. Comptel continues to provide a significant share of Helsinki Telephone Corporation's systems services.

Dynamic advances in telecom technology and deregulation of the industry continue to have an extremely positive impact on the company's business. In 1998, the company's turnover rose to FIM 152 million (FIM 98 million in 1997), an increase of 55 per cent on the figure for the previous year.

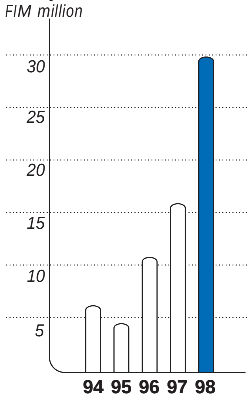
Comptel's operating profit was FIM 29 million (FIM 15 million). At year-end, the company had 265 (204) employees. Helsinki Telephone Corporation had a 96 per cent holding in Comptel.

During 1998 the company made deliveries to all continents for the first time. September saw the opening of Comptel's representative office in Kuala Lumpur, Malaysia. The office will serve customers and partners in the Asian region. Mediation Device Solutions (MDS) were also successfully made to work on an IBM platform.

At home, Comptel focused on MDS deliveries, developing computer systems for new services provided by parent company Helsinki Telephone Corporation and on developing billing systems for customers nationwide. Other major projects included those relating to euro and year 2000. Comptel improved its organisation by setting up a technology and product development group and by investing heavily in staff training.

Comptel is extremely well placed to start 1999, with back orders worth

Comptel's profit before exceptional items,
FIM million



more than FIM 90 million at the turn of the year. Several new MDS agreements were concluded in late 1998. In the light of present prospects, its turnover is expected to continue rising and profitability to remain good. Comptel continues to work on improving cooperation with partners. Development is already underway to make MDS products compatible with a Sun platform. This will further enhance the independence of the MDS product portfolio and expand distribution channels.

Under an agreement signed on 1 February 1999, Comptel and Helsinki Telephone Corporation took a 35 per cent holding in Arcus Software Oy. Despite a shortage of skilled staff in the IT industry, Comptel has fared better than the industry as a whole in attracting competent employees. The company intends to continue to take on more people. Comptel's managing director is Heikki Tetri.

Oy Heltel Ab

Oy Heltel Ab primarily focuses on finding, merchandising, importing and marketing Finnet companies' telecommunications and data processing products and added value services. Heltel is active in the telecommunications, data network and work station sectors and in related product areas with close synergy. The company cooperates with several of the world's leading telecommunications and Internet technology developers and manufacturers.

Heltel's 1998 turnover rose to FIM 204 million (FIM 170 million), representing an increase of 20 per cent (34%) on the figure for the previous year. The operating profit was FIM 19 million (FIM 10 million), up 89 per cent (131%) on the figure for the previous year. The profit before exceptional items almost doubled to stand at FIM 18 million (FIM 9 million). At year-end, Heltel employed 40 persons. Helsinki Telephone Corporation has a 63 per cent holding in Heltel.

1998 was characterised by the strong further development and marketing of service, maintenance, training and other added value services. Major investments were made in various fields of Internet technology to consolidate the company's competence. Heltel's managing director is Erkki Harju.

FINNETCom Oy

FINNETCom Oy is a service operator of services intended for national business customers and responsible for merchandising various national call products and developing billing and reporting systems.

May saw FINNETCom increase its share capital in a private placing targeted at Helsinki Telephone Corporation and Finnet Nine Ltd. After the offering, Helsinki Telephone Corporation has a 51 per cent holding in FINNETCom, with Finnet Nine Ltd owning the remaining 49 per cent of the share capital.

FINNETCom's 1998 turnover was FIM 42 million (FIM 43 million). The result for the year was –FIM 12 million (–FIM 5 million). At year-end the company had 34 employees. In 1998 FINNETCom's managing director was Pekka Eloholma.

Helsinki TeleCom Deutschland GmbH

Helsinki TeleCom Deutschland GmbH is Helsinki Telephone Corporation's German-based competence centre, which provides consulting services in technological implementation, product development and marketing for local city carriers. The company serves as Helsinki Telephone Corporation's German telecoms market expert and takes part in planning and developing Helsinki Telephone's operations and capital investments in Germany. In 1998, the company paved the way for an expansion of Helsinki Telephone Corporation and Mäkitorppa Yhtiöt Oy's activities in the German market.

1998 was the company's third year of business and its turnover rose to FIM 12 million (FIM 5 million), up 119 per cent on the figure for 1997. The company's pre-tax result was FIM 0.8 million (–FIM 0.5 million). At year-end the company had 16 (14) employees. The company is a fully owned subsidiary of Helsinki Telephone Corporation. Helsinki TeleCom Deutschland's managing director is Olli Oksanen.

Principal associated undertakings

Tampere Telephone Plc

Tampere Telephone Plc (TPO) is Finland's second largest privately-owned telephone company. TPO is a network operator in 13 municipalities in the Pirkanmaa region and a service operator throughout the country. The Tampere Telephone Plc Group comprises the parent company Tampere Telephone Plc and Tampereen Tietoverkko Oy, in which TPO has a 60 per cent holding. Additionally, TPO has a 20 per cent stake in Skycom Oy, a TV broadcasting company, as well as minority interests in national and international telecommunications companies. Tampere Telephone Plc's telecommunications network has around 167,300 subscribers.

Group turnover rose to FIM 551 million an increase of 14 per cent on the figure for the previous year. Group operating profit was FIM 105 million, up 55 per cent compared with the previous year. Group profit before exceptional items and taxes was FIM 111 million. Including trainees and substitutes, the group had 810 employees during the 1998 financial year.

TPO's market position remained stable and its market shares were virtually unchanged. The company achieved a 30 per cent market share of private customer Internet traffic in the Pirkanmaa region. Helsinki Telephone Corporation has a 21 per cent holding in TPO.

Oy Finnet International Ab

Finnet International Group provides telecommunications services in Finland and neighbouring territories. In Finland, the company's main products are 999 international calls to private and business customers and data services to companies and operators.

Group turnover for 1998 was FIM 355 million (FIM 307 million). Turnover grew 16 per cent (31%) in the year. The profit before exceptional items was FIM 67 million (FIM 57 million). The group had an average of 56 employees during the 1998 financial year. Helsinki Telephone Corporation had a 41 per cent holding in Finnet International at the end of 1998.

Finnet International's subsidiary Unineti Andmeside AS consolidated its position in the Estonian data transmission market. Finnet International set up a Swedish subsidiary, LNS Kommunikation AB, to further improve the provision of international data services in the Swedish market. It is thought Finnet International's profitability will reflect the fierce price war raging in the international calls market during the first few months of 1999.

Oy Datatie Ab

Oy Datatie Ab is responsible for developing, producing and marketing the Finnet companies' national data transmission services sold under the Datatie and Kolumbus EDI brands. Datatie's 1998 turnover rose to FIM 325 million (FIM 285 million), up 14 per cent (18%) on the figure for the previous year. The operating profit was FIM 19 million (FIM 21 million). At year-end, the company had 61 employees. Helsinki Telephone Corporation had a 34 per cent holding in the company at the end of 1998.

Datatie's most important services are LanLink company network solutions. 1998 saw vigorous development of LanLink-related data security and telecommuting solutions. The year under review also witnessed encouraging progress with YhteysPäällikkö, a service aimed at meeting the data transmission needs of SMEs.

Finnet Nine Ltd

Finnet Nine Ltd is responsible for planning, building, operation and maintenance of the Finnet Group's national long-distance network. During the year under review, Finnet Nine had a 50 per cent (59%) share of traffic carried. The company successfully retained its market leadership in domestic long-distance traffic, with a market share of 56.2 per cent (54.2%) in terms of minutes spoken.

Finnet Nine's 1998 turnover rose to FIM 195 million (FIM 166 million), up 17 per cent (31%) on the figure for the previous year. The operating profit was FIM 95 million (FIM 62 million). The volume of traffic carried by Finnet Nine's long-distance network in 1998 rose to 2.2 billion minutes, compared with 1.9 billion minutes in 1997. This represents growth of 14 per cent in the year (18%).

At year-end, Helsinki Telephone Corporation had a 34 per cent holding in Finnet Nine. Finnet Nine had an average of 26 (18) employees during the 1998 financial year.

Keski-Suomen Puhelin Oyj

Keski-Suomen Puhelin Oyj (KSP) is responsible for building and operating telecom networks in the Central Finland telecommunications area and for providing local telecoms services to consumer customers. Additionally, KSP acts as a regional distributor for Finnet companies' national products and services.

The KSP Group comprises Keski-Suomen Puhelin Oyj, its fully owned subsidiaries Kestel Oy and Jyväsviestintä Oy, as well as Kestel Oy's subsidiary Yomi Media Oy (100%) and Finncommerce Oy (56%). The group is Finland's seventh largest telco.

From the juridical aspect, KSP underwent a major change in 1998 when it merged with Sisä-Suomen Puhelin Oyj (SSP) on 28 September the same year. The latter changed its name to Keski-Suomen Puhelin Oyj. KSP also transferred to the book-entry securities system, obtained a listing on the main list of the Helsinki Exchanges and severed the link between share ownership and telephone subscriptions. Since SSP had no business operations of its own, KSP's business continued without interruption despite the merger. For this reason the KSP Group has prepared pro-forma accounts for the entire 1998 financial year.

Group 1998 turnover reached FIM 183 million (FIM 160 million), up 15 per cent compared with the figure for the previous year. Group operating profit was FIM 28 million (FIM 22 million), representing a growth of 28 per cent in the year. At year-end, the company had 268 (241) employees. At year-end, Helsinki Telephone Corporation had a 21 per cent holding and 17 per cent of the votes in KSP.

Oy Omnitele Ab

Omnitele is a consulting company specialising in the telecommunications business. The company's clients include operators, regulators, financial institutions, systems manufacturers, media companies and end user organisations. March 1998 saw Omnitele mark ten years of business, during which time it has achieved a reputation of one of Europe's most respected telecommunications consultants. Omnitele's principal market is Europe and it has already assisted clients in more than fifty countries. In 1998 Omnitele opened a new office in The Hague, in the Netherlands.

Omnitele's 1998 turnover grew to FIM 61 million (FIM 46 million), up more than 31 per cent on the figure for the previous year. Despite vigorous growth, the operating profit before exceptional items remained unchanged at FIM 3 million. At year-end, the company had 63 (50) employees. Helsinki Telephone Corporation has a 29 per cent holding in Omnitele.

Citykom Münster GmbH

In 1998, Helsinki Telephone Corporation acquired a 25 per cent stake in German-based telecoms operator Citykom Münster.

Accounts

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Report of the Board of Directors

Business environment

The Finnish economy continued to grow throughout the 1998 financial year. The overall starting points are good to further develop the Finnish information society. From an international perspective, Finland's telecommunications grew into a major industrial and services industry during the year under review.

Helsinki Telephone Corporation took part actively in the information society debate through various research projects. This further raised the group's profile as a leading-edge player in development of the telecommunications industry. Many respected international media gave Helsinki Telephone Corporation's Helsinki Arena 2000 multimedia project exceptionally widespread positive publicity. The mobile phone business continued to show exceptional growth, with the number of mobile subscriptions exceeding the number of fixed-line subscriptions at year-end. As mobile penetration approached 60 per cent, Finland further increased its international lead in this respect.

The dynamic growth witnessed in the use of Internet services is yet another example of how telecommunications are driving Finnish society. Finland is at the leading edge on several fronts.

Helsinki Telephone Corporation Group had a very successful year in its core sectors and consolidated its market share in its mobile communications business. The Telecommunications Markets Act of 1 June 1997 removed the formal obstacles preventing new telecoms services providers from setting up in Finland. This resulted in a host of new Finnish and international players entering the market in 1998.

Cooperation based on business agreements between Finnet companies continued as earlier, thus ensuring service for customers operating nationwide. Nevertheless, negotiations to establish Finnet Corporation by merging national associates ended without result on 13 March 1998. The parties noted that owing to rapid changes in the industry, the envisaged company could not have adequately safeguarded development of group competitiveness.

After this decision, Helsinki Telephone Corporation's Board of Directors assessed the group's goals from both the aspect of ensuring national telecommunications services and overall business goals. The Board's strategic policies have since formed the basis of changes taking place in the business environment and in those solutions that have led to restructuring within the group.

Helsinki Telephone Corporation's holdings in Tampere Telephone Plc and Keski-Suomen Puhelin Oyj (KSP) during the year under review create a sound basis for the companies to enter talks about utilising the synergies of their businesses and developing business sectors and new business operations.

On 23 September 1998, Helsinki Telephone Corporation and Sonera Group signed a new agreement covering interconnection arrangements and payments. The agreement also covers arrangements for carrying traffic from Helsinki Telephone's network to the networks of other telecoms companies and complies with the special requirements of the Telecommunications Markets Act in respect of telecommunications companies with a considerable market position.

The Finnish Ministry of Transport and Communications decided to delay interconnection agreement negotiated between telecoms operators and the related introduction of a new call pricing structure. The new arrangements and prices will now come into force in spring 1999 instead of at the turn of the year.

Spring 1998 saw the representatives of Helsinki Telephone Association, Helsinki Telephone Corporation's main owner, approve a plan to turn the association into a cooperative. Accordingly Telephone Cooperative HPY commenced business on 10 June 1998. The change of company form is a link in the representative's plan adopted in principle, under which a limited company is to be set up to continue the cooperative's business. This new company will later be merged with Helsinki Telephone Corporation. According to the latest schedule, the company can begin activities as a new listed company in summer

2000. Helsinki Telephone Corporation made no decisions concerning the proposed merger in 1998.

Helsinki Telephone Corporation ceased selling new member subscriber connections on 12 January 1998. This action was based on Helsinki Telephone Association's decision to end new sales of member subscriber connections. The link between Helsinki Telephone subscription and membership of Telephone Cooperative HPY was severed on 1 September 1998, when member subscriber connections became basic subscriber connections. There were then around 455,000 basic subscriber connections.

Telephone Cooperative HPY subsequently applied to have membership certificates listed on the Pre-list of the Helsinki Exchanges. The certificates have been listed since October 1998.

Group structure

The group structure was radically altered when Helsinki Telephone Corporation acquired 1,273 A Shares in Oy Radiolinja Ab in April 1998. Acquisition of the shares saw Helsinki Telephone's votes and shares in Radiolinja rise to over 50 per cent. In the consolidated financial statements, Radiolinja is accounted for as an associate for three months (1 Jan. – 31 Mar.) of 1998 and as a subsidiary for the remaining nine months of the year. In the comparative financial statements, Radiolinja is accounted for as an associated undertaking (46.2% holding).

August saw Helsinki Telephone Corporation and its fully owned subsidiaries increase their holding in Tampere Telephone Plc, which became an associate (holding and votes 20.6%).

October saw Helsinki Telephone Corporation's holding in Keski-Suomen Puhelin Oyj rise to 20.5 per cent (votes 17.2%). KSP is accounted for as an associate.

Subsidiaries Mäkitorppa Yhtiöt Oy and Oy Radiolinja Ab acquired the entire share capital of Setele Oy in deals concluded in August.

Helsinki Telephone Corporation increased its holding in Oy Datatie Ab to 34 per cent by year-end.

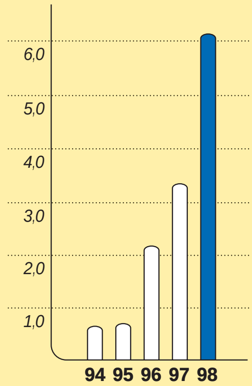
Finnet Nine Ltd's subsidiary FINNETCom Oy became a subsidiary of Helsinki Telephone Corporation, which had a 51 per cent holding in the company at year-end.

FINNETCom is consolidated from 1 June 1998, Setele Oy and Tampere Telephone Plc from 1 August 1998 and KSP from 1 October 1998.

Under an agreement signed on 27 August 1998, Helsinki Telephone Corporation acquired a 25.1 per cent holding in German-based Citykom Münster GmbH. This acquisition was Helsinki Telephone's first direct investment in a German telecoms operator. The end of the year saw the signing of a letter of intent concerning cooperation and the acquisition of a 25.1 per cent stake in Bremen-based Communications Netmanagement Bremen (CNB).

Owing to major changes in group structure the consolidated income statement and balance sheet are not comparable to earlier years.

Earnings per share, *FIM*



Turnover

Group turnover in 1998 was FIM 4,666 million, an increase of FIM 2,100 million (+82%) in the year. Group turnover includes turnover of FIM 1,712 million for the period Radiolinja is accounted for as a subsidiary. FIM 400 million (FIM 227 million) of group turnover came from international operations.

Analysis of turnover (FIM million)

	1998	1997	Change
Parent company Helsinki Telephone Corporation	2 474	2 152	15%
Subsidiaries	2 669	578	362%
Intragroup sales	– 477	– 164	191%
Group, total	4 666	2 566	82%

The turnover of Helsinki Telephone Corporation, the group's parent company, rose to FIM 2,474 million, an increase of 15 per cent on the year. Two thirds of this figure was generated by telephone traffic, network and subscription services. Overall billing by the parent company for telephone traffic rose by 5.7 per cent, with a particularly significant increase in the volumes of mobile and Internet traffic. Interconnection fees paid to other telephone companies grew much faster than overall invoicing, thus making the net growth in earnings from telephone traffic just under five per cent. The vigorous growth in demand continued in business customers' network services, which generated a 32 per cent higher turnover than during the corresponding period a year earlier.

The popularity of GSM services was reflected in the strong growth in Radiolinja Group's turnover. At year-end, the number of GSM users in Radiolinja's network had reached around 981,000 (562,000 a year earlier). Radiolinja Group's turnover for the entire year rose to FIM 2,147 million (FIM 1,226 million), a growth of 75 per cent in the year. Radiolinja's Estonian-based subsidiary Radiolinja Eesti AS increased its turnover to FIM 66 million (FIM 40 million).

Turnover of the Mäkitorppa Group rose to FIM 512 million (FIM 299 million), representing an increase of 71 per cent on the year. Growth of the group's major markets, the opening of new shops and, together with Radiolinja, the acquisition of Setele all contributed to the group's enhanced performance.

Oy Comptel Ab's turnover rose to FIM 152 million (FIM 98 million), an increase of 55 per cent on the figure for the previous year. Oy Heltel Ab's turnover rose to FIM 204 million (FIM 170 million), up 20 per cent on the figure for the previous year. Oy FINNETCom's turnover for the whole year was FIM 42 million (FIM 43 million).

Oy Comptel Ab generated FIM 78 million (FIM 30 million) from exports and the Mäkitorppa Group FIM 185 million (FIM 163 million). German-based consultancy company Helsinki TeleCom Deutschland GmbH had a turnover of FIM 12 million (FIM 5 million).

The aggregated turnover of core associates rose to FIM 2,472 million (FIM 2,092 million), an increase of 18 per cent on the corresponding figure for the previous year.

Group operating profit,
FIM million

Performance

Group operating profit more than doubled to stand at FIM 520 million (FIM 224 million), an increase of 132 per cent. FIM 460 million of this figure came from group companies and FIM 60 million from the profits of associates. The parent company's operating profit rose to FIM 241 million (FIM 152 million). Gains from the disposal of shares amounted to FIM 6 million during the year under review. Provisions of FIM 8 million and have been booked in the parent company and FIM 6.6 million in the subsidiaries in respect of changes to information systems attributable to the year 2000 and changes to customer deliveries.

The group share of the profits of associates was FIM 60 million (FIM 56 million), including a share of Radiolinja Group's profit for the first three months of the year. Tampere Telephone Plc, Keski-Suomen Puhelin Oyj, Oy Datatie Ab, Finnet Nine Ltd, Oy Finnet International Ab and Citykom Münster GmbH are Helsinki Telephone Corporation's largest associates.

Group result after minority interests was FIM 302 million (FIM 132 million). Taxes include an income tax refund of FIM 9 million from the previous financial year.

Group earnings per share (EPS) were FIM 6.10 (FIM 3,22) and shareholders' equity per share FIM 66.25 (FIM 48.25). The return on capital invested (ROI) rose to FIM 13.6 per cent (8.6%).

Investments

Overall investments by the group increased to FIM 2,350 million (FIM 737 million), FIM 1,039 million of which was spent on the acquisition of companies and shares, and FIM 1,311 million on telecommunications networks and similar fixed assets.

Company and share acquisitions primarily comprised holdings in Oy Radiolinja Ab, Oy Datatie Ab, Tampere Telephone Plc, Keski-Suomen Puhelin Oyj, Setele Oy and Citykom Münster GmbH. The consolidation goodwill of subsidiaries rose to FIM 410 million (FIM 5 million) and the goodwill of associates to FIM 336 million (FIM 7 million).

Most of the fixed asset investments, FIM 645 million (FIM 684 million), were made by the parent company. FIM 396 million (FIM 413 million) was invested in building telecommunications networks, expansion of the basic network and other infrastructure projects. Radiolinja's investments for the 1998 financial year totalled FIM 620 million, The above figure for Radiolinja's investments excludes investments funded by leasing and rental contracts.

R&D

Helsinki Telephone Corporation's Research Centre's largest investments in 1998 were in international EU and Eurescom projects, and in national TEKES projects. Since the start of 1998, the Research Centre has also served as the Finnet companies' research competence centre.

A core focus of investment, Helsinki Arena 2000, the virtual Helsinki broadband and information network development project, received major international recognition in the Financial Times' Global Telecoms Awards.

A representative of the Centre took part in the World Wide Web consortium's Internet development work at Massachusetts Institute of Technology in Boston, USA. In the Helsinki Metropolitan Area, work continued on developing cooperation with universities by opening premises at Innopoli, in Otaniemi, Espoo.

Helsinki Telephone Corporation's sales units have also been able to capitalise on the Research Centre's international and national research projects in sales, such as implementation of the Finnish universities' FUNET data network.

During the year under review, the company spent FIM 68.2 million (FIM 55.2 million) on R&D.

Group investments (gross), *FIM million*

Share offering and disposal of shares

On 2 April 1998, Helsinki Telephone Corporation's annual general meeting duly gave the Board of Directors an authorisation to decide whether to increase the company's share capital, disapplying the pre-emption rights of existing shareholders. Pursuant to the resolution of the annual general meeting, the Board of Directors was authorised to decide, within one year of the meeting, one or more new issues entitling subscription to a maximum of five million of the company's E Shares, having a face value of FIM 5.00.

In June 1998, the Board of Directors decided to increase the company's share capital by, disapplying the pre-emption rights of existing shareholders, offering four million new E Shares for subscription by the general public and institutional investors in Finland and international institutional investors. In consequence of this increase in share capital and the sale of four million Helsinki Telephone Corporation shares by Helsinki Telephone Association (now Telephone Cooperative HPY) taking place at the same time, Helsinki Telephone Association's holding in the company fell from 83.0 per cent to 68.8 per cent and its votes from 95.5 per cent to 91.1 per cent. The rights of existing shareholders were disapplied in a bid to broaden the ownership base and to improve trading in the company's shares. Based on the book building method the selling price was FIM 215 per share.

After conversions of K Shares into E shares made in December 1998 and February 1999, Telephone Cooperative HPY's votes in Helsinki Telephone Corporation fell from 91.1 to 68.8 per cent.

In February 1999, the Board of Directors also decided to disapply the pre-emption rights of existing shareholders and to offer a private placing to Oulun Puhelin Oy and OKO Bank. The private placing offered a total of 300,232 new E Shares à FIM 323. The pre-emption rights were disapplied because the share offering facility was to fund Helsinki Telephone Corporation's acquisition of Oy Radiolinja Ab A Shares from Oulun Puhelin Oy and OKO Bank. The subscription price was based on the middle quotes for Helsinki Telephone E Shares during the negotiations to acquire the Radiolinja shares. Subsequent to the increase in share capital, Telephone Cooperative HPY's holding in Helsinki Telephone Corporation fell from 68.8 to 68.4 per cent and its votes likewise from 68.8 to 68.4 per cent.

Financial position

The share offering taking place in the summer raised FIM 826 million, which considerably strengthened the group's financial position and liquidity. Group equity ratio was 59.6 per cent (59.6%) and liquidity 1.2 (2.0). Long-term interest bearing liabilities totalled FIM 952 million (FIM 750 million), of which pension loans accounted for FIM 610 million. Short-term interest bearing liabilities were FIM 237 million (FIM 115 million). The increase in interest-bearing liabilities stemmed primarily from consolidating Radiolinja's liabilities in the group balance sheet. The parent company retired FIM 50 million of long-term pension loans.

On 26 November 1998, Helsinki Telephone Corporation signed a syndicated multi-currency credit limit of 170,000,000 euros (FIM 1,011 million) with eight financial institutions. The facility is valid for five years and is intended to cover the company's overall financing needs. Leonia Corporate Bank and Merita Bank Plc were the principal loan managers. Within the framework of the agreement no withdrawals were made by the turn of the year.

Employees

The number of employees grew in the parent company and subsidiaries alike. Group companies employed an average of 4,589 (3,814) people, an average of 3,593 (3,475) of which were employed by the parent company. At year-end, group companies employed 4,953 people. Of these, 3,574 were employed by the parent company, 682 by the Radiolinja Group, 341 by the Mäkitorppa Group, 265 by Comptel and 91 by other subsidiaries.

Governing bodies

The annual general meeting was held on 2 April 1998. Carl Johan Adolfsson, Erkki Helaniemi, Harri Holkeri, Raimo Ilaskivi, Ingvar S. Melin, Reino Paasilinna and Kari Piimies were all reappointed to the Supervisory Board. Matti Honkala, Sole Molander, Timo Peltola and Pekka Sauri were appointed as new members to the Supervisory Board.

The 1998 audit was performed by Henrik Sormunen (APA) of SVH Pricewaterhouse Coopers Oy (formerly SVH Coopers & Lybrand Oy), Authorised Public Accountants, assisted by Leo Laitinmäki (APA) and Lasse Lehti (AA).

The 1998 supervisory audit was carried out by SVH Pricewaterhouse Coopers Oy, Authorised Public Accountants.

The Supervisory Board met seven times and the Board of Directors 23 times in 1998.

Preparation for changes brought about by the year 2000 and the euro

Helsinki Telephone Corporation Group began mapping problem spots and charting the Y2K-related risks in respect of their own business and that of their customers as long ago as 1996. All data systems, telephone and data networks and IT-based services have been mapped and analysed, and modifications have largely already been implemented. Comprehensive testing has yet to be carried out on all systems. The group expects to achieve Y2K compliance by September 1999. Current forecasts indicate that the entire project is being managed within budget.

Helsinki Telephone Group will begin using the euro in most of its activities on 1 January 2001. Prior to then, the company will provide shareholder information in euros from 1 January 1999. It also offers a limited euro-denominated billing service to business customers.

Events taking place after 31 December 1998

The early part of 1999 saw Helsinki Telephone Corporation increase its holding in Oy Radiolinja Ab. Once the signed share deals are registered in Radiolinja's share register, Helsinki Telephone Corporation will hold 21,451 (66.69%) of Radiolinja's 32,165 A Shares. The shares were acquired for FIM 250,000 per share. Helsinki Telephone Corporation will pay for some of the shares through a convertible loan. The Board of Directors will table a separate motion in this respect to Helsinki Telephone Corporation's annual general meeting, which convenes on 8 April 1999. A loan of about FIM 305 million is envisaged.

Meeting on 19 February 1999, Oy Radiolinja Ab's extraordinary general meeting unanimously resolved to amend the company's articles of association by deleting clauses limiting the trading of the company's A Shares and the qualified majority requirement to amend the company's articles of association. The decision by the general meeting relates to negotiations between Helsinki Telephone Corporation and Radiolinja's other shareholders, under which Helsinki Telephone Corporation's holding of Radiolinja's A Shares will rise to two thirds.

January 1999 saw Mäkitorppa Yhtiöt Oy set up a German-based subsidiary, Mäkitorppa GmbH, which will open its first shops in Berlin and Düsseldorf in spring 1999. The company's principal products will be Nokia GSM phones.

In early February 1999, Helsinki Telephone submitted its application for a digital television licence to the government/Ministry of Transport and Communications. The application is based on the company's visions of the digital distribution network intended for television transmissions being used as a distribution channel for various data network services along-side fixed and mobile phone networks.

The company is applying for a licence or similar right to enable it expressly to participate in transmitting information network services. Implementation of such services would be by Helsinki Telephone and its partners. The company itself is focusing on operating the networks and service systems that are an integrated part of its business. Helsinki Telephone's partners would be responsible for providing the actual information content.

On 1 February 1999, Helsinki Telephone Corporation, its subsidiary Oy Comptel Ab and Arcus Software Oy agreed on ownership arrangements whereby Helsinki Telephone and Comptel took a 35 per cent holding in Arcus Software. At the same time, FM-Kartta Oy would also take a 10 per cent holding in Arcus Software.

Founded in 1996, Arcus Software specialises in developing 3-D virtual city models, their applications and technology for publication on the Internet.

Oy Radiolinja Ab submitted a licence application to the Finnish Ministry of Transport and Communications to operate a national UMTS, the so-called third generation mobile phone, network. Helsinki Telephone Corporation also submitted a licence application to the Ministry, noting that if the Ministry intends to grant local UMTS licences in addition to national ones, it would also like to be considered. In its application, Helsinki Telephone announced that in the event of it being granted a licence, it would use either the American or European standard in its regional network.

The Finnish Ministry of Transport and Communications has announced that it will try and reach a decision on licenses during the spring.

In January 1999, Telephone Cooperative HPY decided to convert all its 27,295,400 Helsinki Telephone Corporation K Shares into E Shares, on which a dividend is payable. The conversion was registered in the trade register on 18 February 1999, and the new E Shares began to be traded with the old E Shares on the main list of the Helsinki Exchanges on 19 February 1999.

February saw Helsinki Telephone Corporation increase its holding in Oy Datatie Ab from 34 per cent to around 45 per cent through share deals.

Deals taking place in January-February increased Helsinki Telephone Corporation's holding in Keski-Suomen Puhelin Oyj to 22.9 per cent and its votes to 19.2 per cent.

In a deal taking place in February, Helsinki Telephone Corporation acquired 3.8 per cent of Oy Comptel Ab's shares from the Sampo Insurance Company to take its holding to 100 per cent.

After acquisitions of shares in subsidiaries and associates taking place between 31 December 1998 and early 1999, consolidated goodwill is approximately FIM 2 billion.

Future prospects

Recent years have witnessed the telecommunications industry both in Finland and internationally grow much faster than growth as a whole. Mobile communications in particular have grown exceptionally fast, with mobile penetration in Finland approaching 60 per cent. Through Radiolinja the group has consolidated its market share in the domestic mobile phone business. The industry is also marked by explosive growth in Internet operations.

The company firmly believes that growth seen within the industry will continue, although at a slower pace than that accustomed to in recent years. Streamlining the group's structure and increasing strategic partnerships, particularly with associates, paves the way for success in the home market in the foreseeable future.

Turnover is likely to continue growing vigorously during the current year. Profitability will improve, albeit more slowly than earlier. Additionally, depreciation on consolidation goodwill arising from corporate acquisitions will reduce earnings per share.

In assessing future the future prospects, the group has taken into account various regulations issued by the authorities and risks arising from decisions taken by the authorities. Such risks include licenses for third generation mobile phones, open matters relating to roaming agreements and other unforeseeable decisions taken by the competition authorities.

The company has announced that it takes a positive view of broadening the ownership of other major successful telephone companies in addition to Tampere Telephone Plc and Keski-Suomen Puhelin Oyj. Nevertheless, there are no active measures currently underway in this respect.

The group's international operations grew significantly during the year under review, and the group will continue to carefully expand its business, with Germany and the Baltic Rim remaining the focus of growth. The company is also firmly convinced of the continued future success of Oy Comptel Ab's MDS product and considers that both this and Mäkitorppa's expansion in the strongly growing German market will have an encouraging impact on group turnover and performance.

Investments will remain high during the forthcoming years as the group builds the third generation mobile phone network and improves the company's fixed network for increasingly faster connections.

The Board of Directors considers that the solutions relating to group structure will enhance the group's operating efficiency and improve its overall competitiveness in an increasingly tougher market.

Consolidated income statement *FIM 1000*

	Notes	1 Jan - 31 Dec 1998	1 Jan - 31 Dec 1997
Turnover	1	4 665 908	2 565 631
Increase (+) decrease (-) in stocks of finished goods and work in progress		-1 321	1 936
Share of associated undertakings' profits		59 682	56 043
Other operating income		24 008	19 636
Materials and services	2	1 886 353	734 347
Staff costs	3	961 375	758 493
Depreciation and value adjustments	4	617 049	477 441
Other operating costs		763 937	448 634
		-4 228 714	-2 418 915
Operating profit		519 563	224 331
Financial income and charges	5	-42 876	-36 367
Profit before exceptional items		476 687	187 964
Taxes	8	-108 092	-51 766
Minority interests		-66 609	-3 877
Profit for the financial year		301 986	132 321

Consolidated balance sheet *FIM 1000*

	Notes	31 Dec 1998	31 Dec 1997
ASSETS			
Fixed assets	9		
Intangible assets		290 955	92 155
Consolidation goodwill		410 037	4 620
Tangible assets		3 131 577	2 202 003
Shares in associated undertakings		663 337	251 834
Other financial assets		21 441	29 130
		4 517 347	2 579 742
Current assets			
Stocks	10	142 951	105 070
Long-term debtors	11	4 941	6 117
Short-term debtors	12	1 058 272	556 602
Short-term investments		409 234	627 679
Cash in hand and at banks		87 565	39 894
		1 702 963	1 335 362
		6 220 310	3 915 104

	Notes	31 Dec 1998	31 Dec 1997
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	13		
Subscribed capital		256 596	236 596
Share premium account		2 323 067	1 516 607
Retained earnings		518 304	397 478
Profit for the financial year		301 986	132 321
		3 399 953	2 283 002
Minority interests		308 671	48 476
Provisions for liabilities and charges	14	16 630	3 145
Creditors			
Deferred tax liability	15	210 527	157 565
Long-term creditors	16	952 371	749 594
Short-term creditors	17	1 332 158	673 322
		2 495 056	1 580 481
		6 220 310	3 915 104

Consolidated cash flow statement *FIM 1000*

	1 Jan - 31 Dec 1998	1 Jan - 31 Dec 1997
Operations		
Cash flow financing		
Operating profit	519 563	224 331
Reconciliation of operating profit to cash flows	573 201	432 846
Financial income and charges	-42 876	-36 367
Taxes	-55 375	-20 549
	994 513	600 261
Change in working capital, increase (-)/decrease (+)	29 357	187
Net cash inflow from operations	1 023 870	600 448
Investments		
Purchases of shares	1 038 510	35 977
Fixed asset investments	1 311 068	701 235
Disposal of fixed assets and shares	-15 225	-7 279
	2 334 353	729 933
Financial surplus/deficit	-1 310 483	-129 485
Financing		
Long-term debtors, increase (-)/decrease (+)	1 176	11 183
Long-term creditors, increase (+)/decrease (-)	202 777	1 063
Short-term creditors, increase (+)/decrease (-)	121 903	-12 024
Dividends paid	-19 499	-8 064
Share issue	826 460	443 542
Increase in subscription fees	6 892	5 226
	1 139 709	440 926
Change in liquid assets, increase (+)/decrease (-)	-170 774	311 441
Liquid assets at 1 Jan	667 573	356 132
Liquid assets at 31 Dec	496 799	667 573

Parent company income statement *FIM 1000*

	Notes	1 Jan - 31 Dec 1998	1 Jan - 31 Dec 1997
Turnover	1	2 474 052	2 151 672
Increase (+) decrease (-) in stocks of finished goods and work in progress		-1 321	1 936
Other operating income		24 290	19 013
Materials and services	2	525 431	443 352
Staff costs	3	763 275	694 521
Depreciation and value adjustments	4	471 713	444 642
Other operating charges		495 970	438 317
		-2 256 389	-2 020 832
Operating profit		240 632	151 789
Financial income and charges	5	5 404	-16 439
Profit before exceptional items		246 036	135 350
Exceptional items	6	7 000	3 000
Profit before appropriations and taxes		253 036	138 350
Appropriations	7	-109 425	-115 017
Taxes	8	-24 937	-14 936
Profit for the financial year		118 674	8 397

Parent company balance sheet *FIM 1000*

	Notes	31 Dec 1998	31 Dec 1997
ASSETS			
Fixed assets	9		
Intangible assets		86 283	85 083
Tangible assets		2 218 024	2 048 378
Financial assets		1 112 084	341 575
		3 416 391	2 475 036
Current assets			
Stocks	10	83 152	75 196
Long-term debtors	11	64 382	1 081
Short-term debtors	12	723 850	491 714
Short-term investments		408 581	627 679
Cash in hand and at banks		23 354	16 762
		1 303 319	1 212 432
		4 719 710	3 687 468
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	13		
Subscribed capital		256 596	236 596
Share premium account		2 323 067	1 516 607
Retained earnings		38 579	42 789
Profit for the financial year		118 674	8 397
		2 736 916	1 804 389
Accumulated appropriations		661 864	552 438
Provisions for liabilities and charges	14	8 500	714
Creditors			
Long-term creditors	16	608 557	719 141
Short-term creditors	17	703 873	610 786
		1 312 430	1 329 927
		4 719 710	3 687 468

Parent company cash flow statement *FIM 1000*

	1 Jan - 31 Dec 1998	1 Jan - 31 Dec 1997
Operations		
Cash flow financing		
Operating profit	240 632	151 789
Reconciliation of operating profit to cash flows	471 713	444 642
Financial income and charges	5 404	-16 439
Exceptional items	7 000	3 000
Taxes	-24 937	-14 936
	699 812	568 056
Change in working capital, increase (-)/decrease (+)	-189 900	-5 544
Net cash inflow from operations	509 912	562 512
Investments		
Purchases of shares	781 875	35 977
Fixed asset investments	644 639	683 626
Disposal of fixed assets and shares	-10 797	-3 934
	1 415 717	715 669
Debtors/financial assets, increase (-)/decrease (+)	2 650	3 295
Financial surplus/deficit	-903 155	-149 862
Financing		
Long-term debtors, increase (-)/decrease (+)	-63 301	-5 492
Long-term creditors, increase (+)/decrease (-)	-110 584	-5 872
Short-term creditors, increase (+)/decrease (-)	50 681	20 110
Dividends paid	-19 499	-8 064
Share issue	826 460	443 543
Increase in subscription fees	6 892	5 226
	690 649	449 451
Change in liquid assets, increase (+)/decrease (-)	-212 506	299 589
Liquid assets at 1 Jan	644 441	344 852
Liquid assets at 31 Dec	431 935	644 441

Notes to the 1998 financial statements

Helsinki Telephone Corporation is a subsidiary of the Telephone Cooperative HPY Group, the parent company of which is Telephone Cooperative HPY, whose registered office is in Helsinki. Telephone Cooperative HPY's consolidated financial statements and Helsinki Telephone Corporation's consolidated financial statements are available for inspection at Korkeavuorenkatu 35-37, 00130 Helsinki.

Accounting principles

1. Scope of the consolidated financial statements

The consolidated financial statements comprise the accounts of the parent company Helsinki Telephone Corporation and those subsidiaries in which the parent company holds directly or indirectly more than 50 per cent of the votes conferred by shares. Those companies in which the parent company has a minimum of 20 per cent and a maximum of 50 per cent of the votes, and in which its shareholding exceeds 20 per cent are accounted for as associated undertakings. The exception to this is Keski-Suomen Puhelin Oyj, which is accounted for as an associated undertaking (votes 17.2%, holding 20.5%). The group does not comprise participating interest undertakings that are not accounted for as associated undertakings. Those subsidiaries remaining dormant during the financial year or having an insignificant impact on the consolidated financial results and equity are not consolidated. Subsidiaries are consolidated from the month acquisition of shares took place. Associates are consolidated from the moment they become an associate. Oy Radiolinja Ab is accounted for as an associate for the first three months of 1998 and thereafter as a subsidiary.

2. Consolidation principles

Intragroup transactions, internal profits on stocks and fixed assets, internal receivables and the internal distribution of profit have been eliminated.

Minority interests are separated from the consolidated financial results and from the shareholders' equity and shown as separate items in the income statement and balance sheet. The purchase cost method is used in the elimination of internal ownership. The proportion of the purchase cost of subsidiary shares exceeding shareholders' equity has been booked as consolidation goodwill and depreciated over a period of five years in compliance with the main provision of the law. Exceptions may be made to this rule in the case of strategically important holdings in major companies in the telecommunications industry. Net consolidation goodwill and group reserve are shown in the balance sheet and appear as a separate items in the notes to the financial statements.

Associated undertakings are consolidated using the equity method. In the income statement, the portion of associated undertakings' profit for the financial year is shown as a separate item before operating profit.

3. Comparability with the previous year

The financial statements have been prepared in compliance with the Accounting Act that came into force on 31 December 1997. Compared to the previous year, the greatest changes in the income statement and balance sheet are as follows: External services includes subcontracting services purchased from other operators, installation and maintenance purchased from subcontractors in respect of customer deliveries and maintenance, planning and service work directly relating to the telecommunications network. Services purchased from other external sources are included under other operating charges. Contributions received from the Technology Development Centre (TEKES) and the like appear under other operating income (the previous year charges were treated as an adjustment item). In line with international practice, interconnection fees (roaming fees) charged by foreign telecommunications operators appear as a charge. Connection fees paid have been entered in the income statement from the beginning of the month the connections begin to generate traffic revenue. Trade debtors and trade creditors have been revised so that all significant matching items relating to sales and purchases appear under trade debtors and trade creditors. Matching items for interest, lease payments, holiday pay, including social security costs, are shown under prepayments and accrued income and accruals and deferred income. Deferred tax liability has been calculated and is now shown for the first time as a separate item.

Subscription fees, which previously appeared as a separate item under shareholders' equity, are included in retained earnings. The reserve fund has been transferred to the share premium account because it consisted entirely of premium paid on increases in subscribed capital from previous years.

4. Turnover and other operating income

Interconnection fees paid to other telephone companies are deducted from invoiced sales. Other operating income includes gains from the disposal of shares and fixed assets, contributions received and rental income from properties.

As a rule, sales by group companies are booked as income at the time services are provided or equipment is invoiced. Long-term projects of the parent company and Oy Comptel Ab are an exception to this is, and are invoiced and booked on the basis of stage of completion. These have minimum impact, however, on the consolidated results.

5. Valuation of stocks

Stocks are valued at variable cost, the acquisition cost or the likely sale or replacement cost, whichever is the lower.

6. Foreign currency items

The income statements of foreign subsidiaries are translated into Finnish marks at the middle monthly rate quoted by the Bank of Finland, and the balance sheets at the middle rate quoted on the closing date. The resulting translation difference is booked under shareholders' equity.

Transactions in foreign currency are booked during the accounting period at the rate quoted on the transaction date. Any open balance sheet items at the end of the financial year are valued at the middle rate quoted by the Bank of Finland on the balance sheet date.

7. Fixed assets and consolidation goodwill

The book value of intangible and tangible assets appearing in the balance sheet is the acquisition cost less accumulated planned depreciation. Fixed assets manufactured and built by the company are valued at variable cost. No revaluations are included in the book values of fixed assets. The acquisition cost of fixed assets shown in note 9 to the financial statements includes only such fixed assets whose acquisition cost has not been booked as planned in full as a charge under depreciation.

The difference between planned depreciation and booked depreciation in the parent company's financial statements is shown as a separate item under appropriations in the income statement. The accumulated depreciation difference in the parent company's financial statements is shown under accumulated appropriations in shareholders' equity and liabilities in the balance sheet. In the consolidated financial statements, the accumulated depreciation difference is divided between shareholders' equity and tax liability. Planned depreciation is calculated on a straight-line basis over expected economic lives.

Consolidation goodwill is depreciated over a five-year period in accordance with the main legal provision. The exception to this is in the case of strategically important interests in major companies in the telecommunications industry. The 1998 increase in consolidation goodwill in respect of Oy Radiolinja Ab is depreciated over 15 years, the increase in Oy Datatie Ab's goodwill over 10 years. The goodwill in respect of Tampere Telephone Plc and Keski-Suomen Puhelin Oyj is depreciated over 15 years.

The expected economic lives for increases made after 1 January 1994 are given below:

Consolidation goodwill	5 – 15 years
Formation costs	5 years
Other long-term expenditure	5 – 10 years
Buildings	25 – 40 years
Telecommunications network	10 years
Teleterminals	4 years
Other machinery and equipment	3 – 5 years

The exchange and fixed network equipment assigned from Helsinki Telephone Association (now Telephone Cooperative HPY) as a capital contribution on 1 January 1994 will be written off over an eight-year period. In other respects the depreciation times for fixed assets transferred from Helsinki Telephone Association are as above.

8. Pension costs

Helsinki Telephone Corporation's pension commitments are funded by Helsinki Telephone's pension fund. Additionally, the company also has its own direct pension liabilities, primarily for early, fixed-term pensions. The pension commitments of subsidiary companies are covered by pension insurance. The company has no unbooked expenses for unfunded pension liabilities nor does the parent company have any unfunded pension liabilities.

9. Direct taxes

Taxes for the financial year are matched and booked in the income statement. The change in deferred tax liability and receivable appears in the consolidated financial statements. Deferred tax liability is calculated from the matching items. No deferred tax liability and receivable is booked in the parent company income statement. Deferred tax liability is calculated at the rate valid when the financial statements are prepared.

Deferred tax liabilities and receivables in the consolidated balance sheet are shown net and itemised in the notes to balance sheet (note 15). The portion of deferred taxes arising from previous years is only minor and thus appears as a change in deferred tax liabilities and receivables during the financial year. In line with the prudence concept, realised losses are not booked as tax receivables nor are they shown in the notes to the financial statements.

Notes to the income statements and balance sheets *FIM 1000*

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
1. Invoiced sales and turnover				
Invoiced sales (excl. VAT and discounts)	5 251 379	3 114 224	3 059 523	2 700 265
Less interconnection charges to other telephone companies	-585 471	-548 593	-585 471	-548 593
Turnover	4 665 908	2 565 631	2 474 052	2 151 672
By geographical area				
Finland	4 266 048	2 338 866	2 419 101	2 123 121
International	399 860	226 765	54 951	28 551
Total	4 665 908	2 565 631	2 474 052	2 151 672

Group and parent company turnover principally pertains to one business sector (telecommunications).

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
2. Materials and services				
Materials				
Purchases during the financial year	704 571	500 150	228 188	212 719
Change in stocks	-26 846	4 973	-8 761	6 611
	677 725	505 123	219 427	219 330
Radiolinja's access rights, maintenance and connection fees	903 504			
Other external services	305 124	229 224	306 004	224 022
Total	1 886 353	734 347	525 431	443 352

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
3. Staff costs				
Wages and salaries	842 696	676 550	674 219	612 569
Pension costs	130 696	105 413	103 043	95 028
Other social security costs	92 724	73 409	74 370	67 317
	1 066 116	855 372	851 632	774 914
Staff costs capitalised under fixed assets:				
Wages	-80 776	-74 789	-67 469	-61 839
Pension costs	-14 092	-13 080	-12 148	-10 875
Other social security costs	-9 873	-9 010	-8 740	-7 679
	-104 741	-96 879	-88 357	-80 393
Staff costs in the income statement	961 375	758 493	763 275	694 521
Management salaries and emoluments				
Managing directors and deputies	5 929	4 402		
Members and deputy members of Boards of Directors	1 917	1 338	1 738	1 325
Members and deputy members of Supervisory Boards	157		157	
Average staff numbers in the group and parent company during the financial year				
White-collar	3 768	3 015	2 803	2 676
Blue-collar	821	799	790	799
Total	4 589	3 814	3 593	3 475

Pension commitments in respect of managing directors and members of Boards of Directors:
The retirement age for managing directors of group companies is set at 58 – 65.

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
4. Depreciation and value adjustments				
Depreciation on tangible and intangible assets	588 511	459 077	471 713	444 642
Depreciation on fixed assets		16 500		
Depreciation on consolidation goodwill	28 773	2 522		
Capitalised group reserve	-235	-658		
Total	617 049	477 441	471 713	444 642

A depreciation breakdown for each balance sheet item is provided under Fixed assets.

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
5. Financial income and charges				
Dividends received				
From group undertakings			5 083	2 514
From associated undertakings			21 992	15 781
From others	324	98	450	120
	324	98	27 525	18 415
Interest received from long-term investments				
From group undertakings			1 281	1 355
From others		1 099		
		1 099	1 281	1 355
Other interest received and similar income				
From group undertakings			1 560	31
From associated undertakings	313			200
From others	30 505	26 334	24 045	24 128
	30 818	26 334	25 605	24 359
Interest received and similar income, total	31 142	27 531	54 411	44 129
Interest paid and similar charges				
To group undertakings	1 114		2 189	1 121
To associated undertakings	13		13	
To others	72 891	63 898	46 805	59 447
Interest paid and similar charges, total	74 018	63 898	49 007	60 568
Financial income and charges, total	-42 876	-36 367	5 404	-16 439
6. Exceptional items				
Exceptional income				
Group contributions			7 000	3 000
7. Appropriations				
Difference between planned depreciation and depreciation made in taxation			109 425	115 017
8. Taxes				
Income tax for the financial year	64 009	9 017	31 595	2 610
Income tax for previous financial years	-8 634	11 532	-8 618	11 486
Income tax on exceptional items			1 960	840
Change in deferred tax liability/receivable	52 717	31 217		
Total	108 092	51 766	24 937	14 936

9. Fixed assets [1)]

GROUP
Intangible assets

	Formation expenses	Intangible rights	Goodwill	Advance payments	Other long-term expenditure	Total	Consolidation goodwill [2)]
Acquisition cost at 1 Jan 98		5 767			218 513	224 280	13 347
Acquisition of group companies at 1 Jan	150 916	11 676			63 573	226 165	-1 939
Translation difference	41				1	42	
Increase	9	10 259	731	3 460	94 863	109 322	437 170
Disposal		-5 282				-5 282	
Decrease					-57 996	-57 996	-2 445
Transfers between items	619		300		-919	0	
Acquisition cost at 31 Dec 98	151 585	22 420	1 031	3 460	318 035	496 531	446 133
Accumulated depreciation and value adjustment	30 438	1 260	708		142 911	175 317	7 559
Translation difference	8					8	
Accumulated depreciation on decreases and transfers		-123			-54 712	-54 835	
Depreciation for the financial year	30 321	2 875	94		51 796	85 086	28 537
Value adjustments							
Accumulated depreciation at 31 Dec 98	60 767	4 012	802		139 995	205 576	36 096
Book value at 31 Dec 98	90 818	18 408	229	3 460	178 040	290 955	410 037

2) Net group reserve of FIM 462,000 is included in consolidation goodwill.

Tangible assets

	Land and water	Buildings	Machinery and equipment	Other tangible assets	Advance payments and tangible assets in course of construction	Total
Acquisition cost at 1 Jan 98	41 859	846 761	3 199 698		30 241	4 118 559
Acquisition of group companies at 1 Jan	165		239 917	42 385	22 939	305 406
Translation difference			441			441
Increase	361	14 526	850 489	39 312	295 040	1 199 728
Disposal			-5 703	-523		-6 226
Decrease		-3 104	-460 192			-463 296
Transfers between items	699	-2 752	296 934	727	-295 608	0
Acquisition cost at 31 Dec 98	43 084	855 431	4 121 584	81 901	52 612	5 154 612
Accumulated depreciation and value adjustments 1 Jan 98		381 089	1 564 814	15 531		1 961 434
Translation difference			35			35
Accumulated depreciation on decreases and transfers		-3 104	-458 096			-461 200
Depreciation for the financial year		27 344	482 973	12 449		522 766
Value adjustments						
Accumulated depreciation at 31 Dec 98		405 329	1 589 726	27 980		2 023 035
Book value at 31 Dec 98	43 084	450 102	2 531 858	53 921	52 612	3 131 577
Balance sheet value of machinery and equipment (fixed telecommunications network) at 31 Dec 98			1 953 565			

1) Acquisition costs include only those tangible assets whose acquisition costs have not yet been booked in full as planned depreciation.

9. Fixed assets

PARENT COMPANY	Intangible assets	Tangible assets				
	Other long-term expenditure	Land and water	Buildings	Machinery and equipment	Advance payments and tangible assets in course of construction	Total
Acquisition cost at 1 Jan 98	209 413	20 164	631 090	3 144 767	30 241	3 826 262
Increase	33 886	301	14 526	593 130	715	608 672
Decrease	-54 053		-3 103	-453 818		-456 921
Acquisition cost at 31 Dec 98	189 246	20 465	642 513	3 284 079	30 956	3 978 013
Accumulated depreciation at 1 Jan 98	-124 330		-266 892	-1 510 993		-1 777 885
Accumulated depreciation on decreases and transfers	54 053		3 104	453 818		456 922
Depreciation for the financial year	-32 686		-25 377	-413 650		-439 027
Accumulated depreciation at 31 Dec 98	-102 963		-289 165	-1 470 824		-1 759 989
Book value at 31 Dec 98	86 283	20 465	353 348	1 813 255	30 956	2 218 024
Balance sheet value of machinery and equipment (fixed telecommunications network) at 31 Dec 98				1 455 671		1 455 671

9. Fixed assets/Shares in associated undertakings and other financial assets

GROUP	Shares in associated undertakings	Shares Others	Total
Acquisition cost at 1 Jan 98	251 834	29 130	280 964
Acquisition of subsidiary undertakings at 1 Jan		686	686
Increase	614 246	318	614 564
Disposal		-8 647	-8 647
Transfers between items	-202 743	-46	-202 789
Acquisition cost at 31 Dec 98	663 337	21 441	684 778
Book value at 31 Dec 98	663 337	21 441	684 778

9. Fixed assets/Financial assets

PARENT COMPANY	Shares Group undertakings	Shares Associated undertakings	Shares Others	Debtors Group undertakings	Total
Acquisition cost at 1 Jan 98	95 653	174 474	28 098	43 350	341 575
Increase	400 668	381 207			781 875
Disposal/decrease	-90		-8 626	-2 650	-11 366
Transfers between items	152 756	-152 756			
Acquisition cost at 31 Dec 98	648 987	402 925	19 472	40 700	1 112 084
Book value at 31 Dec 98	648 987	402 925	19 472	40 700	1 112 084

On the basis of deals made in 1998 and 1999 the new acquisition price of Radiolinja A Shares is FIM 3.6 billion greater than their balance sheet value.

9. Group and parent company holdings at 31 December 1998

	Registered office	Group interest %	Parent company interest %
GROUP UNDERTAKINGS			
Oy Arvotel Ab	Helsinki	100%	100%
Oy Comptel Ab	Helsinki	96%	96%
Oy Dianatel Ab	Helsinki	100%	100%
Oy Extel Ab	Helsinki	100%	100%
Oy Telcofounding Ab	Helsinki	100%	0%
Oy Extel-Snaak Ab	Helsinki	100%	0%
Oy Extel-Opslokken Ab	Helsinki	100%	0%
Oy Extel-Parvenu Ab	Helsinki	100%	0%
Oy Extel-Pets Ab	Helsinki	100%	0%
Oy Extel-Bestudeerd Ab	Helsinki	100%	0%
FINNETCom Oy	Helsinki	51%	51%
Helsinki TeleCom Deutschland GmbH	Düsseldorf	100%	100%
Oy Heltel Ab	Helsinki	63%	63%
Megabaud Oy	Helsinki	100%	100%
Mäkitorppa Yhtiöt Oy	Helsinki	90%	80%
Mobinter Oy	Helsinki	90%	0%
Mäkitorppa Oy	Helsinki	90%	0%
Mäkitorppa GmbH	Düsseldorf	90%	0%
Setele Holding Oy	Helsinki	81%	0%
Setele Oy	Seinäjoki	81%	0%
Oy Radiolinja Ab, A Shares	Helsinki	51%	51%
Radiolinja Eesti AS	Tallinn	68%	45%
SIA Radiolinja Latvija	Riga	51%	0%
Globalstar Finland Oy	Helsinki	26%	0%
Oy Radiolinja Ab, L Shares	Helsinki	51%	51%
Rahoituslinkki Oy	Helsinki	100%	100%
Kiinteistö Oy Kutomotie 16	Helsinki	100%	100%
Kiinteistö Oy Ratavartijankatu 3	Helsinki	64%	64%
Kiinteistö Oy Rinnetorppa	Kuusamo	100%	50%
Other companies (dormant)			
ASSOCIATED UNDERTAKINGS			
Citykom Münster GmbH	Munich	25%	25%
Oy Datatie Ab	Helsinki	34%	34%
Fincommerce Oy	Jyväskylä	25%	25%
Oy Finnet International Ab	Helsinki	41%	41%
Finnet Logistiikka Oy	Helsinki	32%	32%
Oy Finnet Media Ab	Helsinki	35%	35%
Oy Finnet Ventures	Helsinki	42%	42%
Finnet Nine Ltd	Helsinki	34%	34%
Keski-Suomen Puhelin Oyj	Jyväskylä	21%	21%
Oy Omnitele Ab	Helsinki	29%	29%
Suomen Keltaiset Sivut Oy	Helsinki	30%	30%
Tampere Telephone Plc	Tampere	21%	10%
Vantaan Yhteisverkko Oy	Vantaa	24%	24%

The undepreciated goodwill included in the book value of associated undertakings as at 31 Dec. 1998 was FIM 336.4 million.
The balance sheet date for all associated undertakings was 31 December 1998.

Other holdings
Group companies own a small number of Telephone Cooperative HPY membership certificates which were acquired for use of telephone connections.

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
10. Stocks				
Raw materials and consumables	54 033	45 769	55 013	46 253
Work in progress	9 353	10 674	9 353	10 674
Finished products/goods	60 779	30 358		
Advance payments	18 786	18 269	18 786	18 269
Total	142 951	105 070	83 152	75 196

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
11. Long-term debtors				
Amounts owed by group undertakings				
Loan receivables			63 360	–
Amounts owed by others				
Loan receivables	702	5 036		
Other debtors	3 217			
Prepayments and accrued income	1 022	1 081	1 022	1 081
Long-term debtors, total	4 941	6 117	64 382	1 081

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
12. Short-term debtors				
Amounts owed by group undertakings				
Trade debtors	91		53 998	1 827
Loan receivables			223 259	6 859
Other debtors	3 555	849	10 556	3 849
Prepayments and accrued income			1 136	992
	3 646	849	288 949	13 527
Amounts owed by associated undertakings				
Trade debtors	102 134	77 485	31 830	69 763
Prepayments and accrued income		400		400
	102 134	77 885	31 830	70 163
Amounts owed by others				
Trade debtors	786 478	414 261	373 284	380 801
Loan receivables	5 625	10 762		
Other debtors	29 929	16 262	11 136	8 993
Prepayments and accrued income	130 460	36 583	18 651	18 230
	952 492	477 868	403 071	408 024
Short-term debtors, total	1 058 272	556 602	723 850	491 714

The most significant prepayments and accrued income consist of matched subscription fees and matching interest received and leasing payments.

13. Shareholders' equity	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Subscribed capital at 1 Jan	236 596	201 600	236 596	201 600
New issue	20 000	34 996	20 000	34 996
Subscribed share capital at 31 Dec	256 596	236 596	256 596	236 596
Share premium account at 1 Jan [1)]	1 516 607	1 108 061	1 516 607	1 108 061
Issue premium [2)]	806 460	408 546	806 460	408 546
Share premium account at 31 Dec	2 323 067	1 516 607	2 323 067	1 516 607
Retained earnings at 1 Jan	529 799	401 231	51 186	45 627
Increase in subscription fees	6 892	5 226	6 892	5 226
Dividend paid	-19 499	-8 064	-19 499	-8 064
Translation difference	1 112	-915		
Retained earnings at 31 Dec	518 304	397 478	38 579	42 789
Profit for the financial year	301 986	132 321	118 674	8 397
Shareholders' equity, total	3 399 953	2 283 002	2 736 916	1 804 389

1) The reserve fund arising from earlier increases in shareholders' equity has been transferred to the share premium account.
2) The issue premium is shown net of FIM 33.5 million fees paid to the issue managers.

The share capital of the parent company is distributed among two series of shares as follows:

	1998		1997	
Share capital by series of share at 31 Dec	1 000 kpl	FIM 1 000	1 000 kpl	FIM 1 000
K Shares (5 votes per share)	27 295	136 477	32 320	74 996
E Shares (1 vote per share)	24 024	120 119	14 999	161 600
Total	51 319	256 596	47 319	236 596

Statement of distributable equity at 31 Dec				
Retained earnings	518 304	397 478	38 579	42 789
Profit for the financial year	301 986	132 321	118 674	8 397
– Capitalised formation expenses	-90 818			
– Share of accumulated depreciation difference and untaxed reserves booked in shareholders' equity	-532 468	-404 237		
Distributable equity, total	197 004	125 562	157 253	51 186

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
14. Provisions for liabilities and charges				
Provision for the year 2000	14 550		8 000	
Other provisions for liabilities and charges	2 080	3 145	500	714
Total	16 630	3 145	8 500	714

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
15. Deferred tax liabilities and receivables				
Deferred tax receivables arising from				
Mergers	10 484			
Matching differences	5 164	5 501	2 380	200
Total	15 648	5 501	2 380	200
Deferred tax liabilities arising from				
Appropriations	226 175	157 565	185 322	154 683
Total	226 175	157 565	185 322	154 683
Net deferred tax liabilities	210 527	152 064	182 942	154 483

	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
16. Long-term creditors				
Amounts owed to others				
Bonds		2 184		
Loans from financial institutions	342 279	26 552		
Pension loans	610 092	720 858	608 557	719 141
Long-term creditors, total	952 371	749 594	608 557	719 141
Loans falling due after more than five years				
Loans from financial institutions		23 700		
Pension loans	554 949	720 858	554 949	719 141
Total	554 949	744 558	554 949	719 141

17. Short-term creditors	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Amounts owed to group undertakings				
Trade creditors			24 559	13 716
Other creditors	1 388	8 444	41 443	54 916
Accruals and deferred income	18		1 069	322
	1 406	8 444	67 071	68 954
Amounts owed to associated undertakings				
Trade creditors	67 771	65 571	32 520	66 030
Accruals and deferred income	11	1 724		
	67 782	67 295	32 520	66 030
Amounts owed to others				
Loans from financial institutions	41 857			
Pension loans	60 767		60 584	
Advances received	13 094			
Trade creditors	534 043	203 004	159 412	158 219
Other creditors	185 153	138 281	136 826	97 687
Accruals and deferred income	344 888	177 100	164 292	140 698
	1 179 802	518 385	521 114	396 604
Amounts owed to Financial Services Office				
Loans (gross)	88 880	84 818	88 880	84 818
Receivables	-5 712	-5 620	-5 712	-5 620
Loans (net)	83 168	79 198	83 168	79 198
Short-term creditors, total	1 332 158	673 322	703 873	610 786

The most significant accruals and deferred income comprise matched holiday pay and performance bonuses, including social security contributions, matched subscription fees, interest paid and leasing payments.

18. Surety, contingent and other liabilities	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Mortgages				
For own loans				
Pension loans	303 268	353 268	303 268	353 268
Mortgages given	247 000	247 000	247 000	247 000
Loans from financial institutions	58 300			
Mortgages given	30 100			
Mortgages given as surety for pension fund contribution guarantee	13 000	13 000	13 000	13 000
For others' loans				
Mortgages given	550	700	550	700
Mortgages given as surety, total	290 650	260 700	260 550	260 700
Shares pledged	63	64		
Guarantees given				
For group company loans			21 251	49 605
For associated undertaking loans		24 000		24 000
For management loans	99	153		
For others' loans	4 627	3 974	4 617	3 974
Guarantees, total	4 726	28 127	25 868	77 579
Total	295 439	288 891	286 418	338 279
Leasing commitments	667 912	203 801	166 712	200 723
Repo commitments	14 939	19 869	14 939	19 793
Other commitments	1 047	540		
Payments on leasing agreements				
Payable during the financial year 1999	86 773	35 971	29 468	34 002
Payable later	581 139	167 830	137 244	166 721

GSM network leasing agreements
Oy Radiolinja Ab has realised some network investments through long-term lease agreements that, in certain situations, contain a right and obligation to redeem the property it leases at the market rate. Payments under agreements occur during the final years of the leasing period. The acquisition cost of lease agreements from outside the group amounts to around FIM 1,2 billion.

Nominal values of derivative instruments	Group 1998	Group 1997	Parent Company 1998	Parent Company 1997
Exchange rate futures	25 420			
Interest and currency swaps	50 000			

Group indicators

Five year financial summary

	1998	1997	1996	1995	1994
INCOME STATEMENT					
Turnover, FIM million	4 665.9	2 565.6	2 230.0	1 984.3	1 910.5
Turnover, percentage change	81.9%	15%	12.4%	3.9%	4.2%
Operating profit, FIM million	519.6	224.4	140.5	71.8	70.1
Operating profit, % of turnover	11.1%	8.7%	6.3%	3.6%	3.7%
Result before exceptional items and taxes, FIM million	476.7	188.0	114.2	38.5	36.5
Result before exceptional items and taxes, % of turnover	10.2%	7.3%	5.1%	1.9%	1.9%
Result before taxes, FIM million	476.7	188.0	63.0	38.5	36.5
Result before taxes, % of turnover	10.2%	7.3%	2.8%	1.9%	1.9%
Return on equity (ROE), %	12.2%	6.7%	5.1%	1.8%	1.6%
Return on capital employed (ROI), %	13.6%	8.6%	6.4%	3.8%	4.2%
Research and development costs, FIM million	68.2	55.2	46.8	31.2	23.9
Research and development costs, % of turnover	1.5%	2.2%	2.1%	1.6%	1.3%
BALANCE SHEET					
Gearing ratio (%)	19.0%	8.5%	29.6%	30.3%	26.6%
Liquidity (current ratio)	1.2	2.0	1.5	1.6	1.9
Equity ratio, %	59.6%	59.6%	53.4%	53.4%	54.0%
Balance sheet total, FIM million	6 220.3	3 915.1	3 289.1	3 191.3	3 044.3
INVESTMENTS					
Gross investments, FIM million	2 349.6	737.2	585.9	584.6	521.8
Gross investments, % of turnover	50.4%	28.7%	26.3%	29.5%	27.3%
EMPLOYEES					
Employees, average during the financial year	4 589	3 814	3 736	3 734	3 656
Turnover/employee, FIM thousand	1 016.8	672.7	596.9	531.4	522.6

Back orders are not shown because this information is not significant due to the nature of the Group's business.

Per share data

	1998	1997	1996	1995	1994
Share capital, FIM	256 596 300	236 596 300	201 600 000	201 600 000	201 600 000
K Shares at 31 Dec	27 295 400	32 320 000			
E Shares at 31 Dec 1)	24 023 860	14 999 260			
Total number of shares 2)	51 319 260	47 319 260	40 320 000	40 320 000	40 320 000
Average number of shares	49 489 123	41 125 394	40 320 000	40 320 000	40 320 000
Capitalisation value at 31 Dec, FIM million 3)	15 550	5 820			
Earnings per share (EPS), FIM	6.10	3.22	2.18	0.70	0.64
Dividend per share, FIM	2.50 *)	1.30	0.20	–	–
Dividend per earnings, %	41.0%	40.4%	9.2%	–	–
Shareholders' equity per share, FIM	66.25	48.25	42.43	41.16	40.60
P/E ratio	49	38			
Effective dividend yield, %	0.8%	1.1%			
Performance of E Shares on the Helsinki Exchanges					
Middle price, FIM	225.00	123.50			
Price at 30 Dec, FIM	303.00	123.00			
Lowest price, FIM	124.00	115.00			
Highest price, FIM	330.00	131.00			
Trading of E Shares					
Total number of shares traded, 1000 shares	15 272	946 (4)			
Percentage traded of total E Shares, % 5)	63.6%	6.3%			

*) Board of Directors' recommendation

(1) There was only one series of share between 1994 and 1996. E Shares were first quoted on the Helsinki Exchanges on 25 November 1997. (2) On 7 November 1996 the Annual General Meeting of Helsinki Telephone Corporation decided to amend the nominal value of each share from FIM 100,000 to FIM 5. The number of shares is given in accordance with the new nominal value. (3) Calculated on the closing price at 30 December. (4) Total 1997 trading figures are for the period 25 November to 30 December 97. (5) Calculated in relation to the number of E Shares at the balance sheet date.

FORMULAE FOR FINANCIAL SUMMARY INDICATORS

Return on equity % (ROE) $= \dfrac{\text{Profit before exceptional items and taxes – taxes}}{\text{Shareholders' equity + minority interests (average for year)}} \times 100$

Return on capital employed % (ROI) $= \dfrac{\text{Profit before exceptional items and taxes + financial charges}}{\text{Balance sheet total – non-interest-bearing liabilities (average for year)}} \times 100$

Gearing ratio (%) $= \dfrac{\text{Interest-bearing liabilities + advances received – cash in hand and at banks – current asset investments}}{\text{Equity + minority interest}} \times 100$

Liquidity (current ratio) $= \dfrac{\text{Stocks + financial assets}}{\text{Short-term liabilities – advances received}}$

Equity ratio % $= \dfrac{\text{Equity + minority interest}}{\text{Balance sheet total – advances received}} \times 100$

Earnings per share (EPS) $= \dfrac{\text{Result before exceptional items, and taxes – minority interests – taxes}}{\text{Adjusted number of shares for the financial year}}$

Dividend per share $= \dfrac{\text{Dividend}}{\text{Adjusted number of shares at balance sheet date}} \times 100$

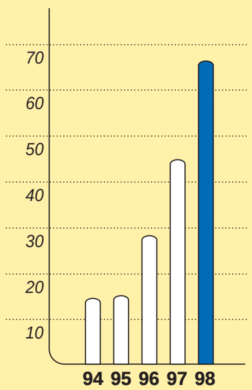
Effective dividend yield $= \dfrac{\text{Dividend per share}}{\text{Adjusted price at balance sheet date}} \times 100$

Dividend per earnings $= \dfrac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

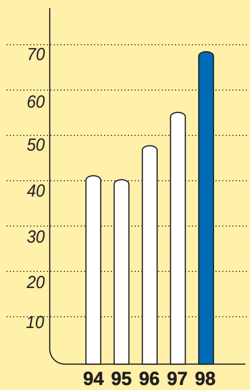
Shareholders' equity per share $= \dfrac{\text{Shareholders' equity}}{\text{Adjusted number of shares at balance sheet date}}$

P/E ratio $= \dfrac{\text{Price at balance sheet date}}{\text{Earnings per share (EPS)}}$

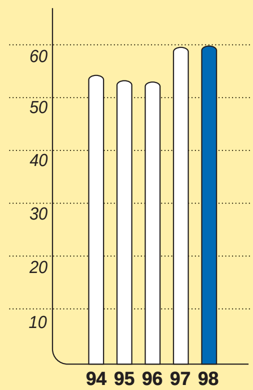
Shareholder's equity per share, *FIM*



R&D expenses, *FIM million*



Equity ratio, *%*



Shares and shareholders

The company's registered and fully paid share capital at the balance sheet date was FIM 256,596,300. Under the Articles of Association, the minimum and maximum share capital is FIM 200,000,000 and FIM 800,000,000 respectively.

Helsinki Telephone Corporation shares are divided into K and E Shares. K Shares confer five votes and E Shares one vote. A dividend is payable only on E Shares.

At the balance sheet date there were 51,319,260 Helsinki Telephone Corporation shares: 27,295,400 K Shares and 24,023,860 E Shares. There were an average adjusted number of 49,489,123 shares during the year under review. Each share has a nominal value of FIM 5.

Telephone Cooperative HPY owns all 27,295,400 K Shares. In January the Cooperative resolved to convert all its K Shares into E Shares, which pay a dividend. Telephone Cooperative HPY owns 8,000,000 E Shares. The remaining 16,023,860 E Shares are held by other owners.

The Annual General Meeting authorised the Board of Directors to decide within one year from 2 April 1998 whether to increase the share capital through one or more new issues. The pre-emption rights of existing shareholders would be disapplied and the number of shares rise by a maximum of 5,000,000 E Shares. On 17 June 1998, the Board of Directors decided to exercise its authorisation in respect of 4,000,000 shares. At 31 December 1998, the authorisation was still valid for 1,000,000 shares. In February 1999, the Board resolved to exercise its right and issue 300,232 shares, leaving 699,768 shares of the maximum number authorised.

Share performance

The company's E Shares closed at FIM 303 on 30 December 1998. The highest and lowest quoted prices during the year were FIM 330 and FIM 124 respectively. The middle price was FIM 225.12.

Taking into account both series of shares, the company had a capitalisation value of FIM 15,549.7 million at the balance sheet date.

Quotation and trading

Helsinki Telephone Corporation E Shares are listed on the main list of the Helsinki Exchanges under code HEPEV. A total of 15,271,624 of the company's E Shares, equivalent to 63.6 per cent, were traded between 1 January and 30 December 1998, at a total price of FIM 3,437.9 million.

Management interests

Members of the company's Supervisory Board, Board of Directors and the company's CEO held a total of 8,269 E Shares, equivalent to 0.016 per cent, at 31 December 1998. The shares confer a total of 8,269 votes, corresponding to 0.005 per cent of the total votes.

Increases in share capital in 1998

Private placement	Issue price	Subscription period	Increase in share capital	New share capital	Right to dividend	No of new shares
General public	215	8.6.–16.6.98	20 000 000	256 596 300	1998	4 000 000

Largest shareholders as at 31 December 1998

	K Shares	E Shares	Total	Holding, %	Share of votes
1 Telephone Cooperative HPY	27 295 400	8 189 860	35 485 260	69.1%	90.1%
Telephone Cooperative HPY	27 295 400	8 000 000			
Helsinki Telephone Pension Fund		189 860			
2 Sampo Group		857 950	857 950	1.7%	0.5%
Industrial Insurance Company Ltd		431 390			
Sampo Insurance Company Ltd		134 370			
Sampo Life Insurance Company Ltd		131 850			
Otso Loss of Profits Insurance Company Ltd		90 340			
Sampo Enterprise Insurance Company Ltd		45 000			
Nova Life Insurance Company		25 000			
3 Pohjola Group		566 106	566 106	1.1%	0.4%
Pohjola Life Assurance Company Ltd		219 500			
Pohjola Non-Life Insurance Company Ltd		194 912			
Suomi Mutual Life Assurance Company		104 022			
Ilmarinen Mutual Pension Insurance Company		47 672			
4 Varma-Sampo Mutual Pension Insurance Company		424 000	424 000	0.8%	0.3%
5 Local Government Pensions Institution		301 940	301 940	0.6%	0.2%
6 Fennia Group		227 386	227 386	0.4%	0.1%
Mutual Insurance Company Pension-Fennia		150 000			
Enterprise-Fennia Mutual Insurance Company		77 386			
7 Mutual Insurance Company Kaleva		90 380	90 380	0.2%	0.1%
8 Sijoitusrahasto Leonia-Osake		77 452	77 452	0.2%	0.0%
9 Alfred Berg Finland Sijoitusrahasto		73 950	73 950	0.1%	0.0%
10 City of Helsinki		65 420	65 420	0.1%	0.0%
11 Sijoitusrahasto Alfred Berg Optimal		62 850	62 850	0.1%	0.0%
12 Merita Life Assurance Ltd		56 110	56 110	0.1%	0.0%
13 Alko's Pension Foundation		55 800	55 800	0.1%	0.0%
14 Kesko Corporation		54 550	54 550	0.1%	0.0%
Kesko Pension Fund		37 900			
Kesko Corporation		16 650			
15 Tapiola General Mutual Insurance Company		50 000	50 000	0.1%	0.0%
16 Sijoitusrahasto Alfred Berg Portfolio		44 700	44 700	0.1%	0.0%
17 Sijoitusrahasto Merita Optima		40 000	40 000	0.1%	0.0%
18 Riskisijoitusrahasto Merita Avanti		40 000	40 000	0.1%	0.0%
19 Sijoitusrahasto Evli Mix		38 000	38 000	0.1%	0.0%
20 Finnish Cultural Foundation		36 592	36 592	0.1%	0.0%
Other than the above		12 670 814	12 670 814	24.7%	7.9%
Nominee registered		7 407 347	7 407 347	14.4%	4.6%
Other shareholders		5 263 467	5 263 467	10.3%	3.3%

Share ownership by owner group as at 31 December 1998

	Shares	% of total shares
1. Public companies	31 148	0.06%
2. Private companies	35 944 627	70.04%
3. Finance and insurance companies	9 675 903	18.85%
4. Public entities	1 590 449	3.10%
5. Non-profit making entities	378 739	0.74%
6. Private households	3 679 701	7.17%
7. Foreign	12 959	0.03%
8. Joint accounts and waiting list	5 734	0.01%
Total	51 319 260	100.00%

Analysis of shareholdings as at 31 December 1998

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of total shares	Votes	% of votes
1 - 100	91 090	94.28%	2 861 110	5.58%	2 861 110	1.78%
101 - 500	4 777	4.94%	875 923	1.71%	875 923	0.55%
501 - 1.000	434	0.45%	289 389	0.56%	289 389	0.18%
1,001 - 5,000	222	0.23%	446 558	0.87%	446 558	0.28%
5,001 - 10,000	28	0.03%	193 164	0.38%	193 164	0.12%
10,001 - 50,000	38	0.04%	934 253	1.82%	934 253	0.58%
50,001 - 100,000	13	0.01%	941 686	1.83%	941 686	0.59%
Over 100,000	12	0.01%	44 771 443	87.24%	153 953 043	95.92%
On waiting list			5 734	0.01%		
Total	96 614	100.00%	51 319 260	100.00%	160 495 126	100.00%

Performance of Helsinki Telephone E Shares
(closing price FIM)

Helsinki Telephone

HEX general index

Monthly trading of Helsinki Telephone E Shares
Trading (Shares per month)

January
February
March
April
May
June *
July
August
September
October
November
December

* Sale of 4 million Telephone Cooperative HPY shares

Summary financial information in euros

CONSOLIDATED INCOME STATEMENT 1 Jan – 31 Dec	1998 FIM million	1997 FIM million	1998 Euro million	1997 Euro million
Turnover	4 666	2 566	784	432
Share of associated undertakings' profits	60	56	10	9
Other operating income	23	21	4	4
Operating charges	-4 229	-2 419	-711	-407
Operating profit	520	224	87	38
Financial income and charges	-43	-36	-7	-6
Profit before taxes	477	188	80	32
Taxes	-108	-52	-18	-9
Minority interests	-67	-4	-11	-1
Profit for the financial year	302	132	51	22
CONSOLIDATED BALANCE SHEET 31 Dec				
Fixed assets				
Intangible assets	291	92	49	15
Consolidation goodwill	410	5	69	1
Tangible assets	3 132	2 202	526	371
Shares in associated undertakings	663	252	112	42
Other financial assets	21	29	4	5
	4 517	2 580	760	434
Current assets				
Stocks	143	105	24	17
Long-term debtors	5	6	1	1
Short-term debtors	1 058	556	178	93
Short-term investments	409	628	69	106
Cash in hand and at banks	88	40	15	7
	1 703	1 335	286	224
Total	6 220	3 915	1046	658
Shareholders' equity				
Subscribed capital	257	237	43	40
Share premium account	2 323	1 517	391	255
Retained earnings	518	397	87	67
Profit for the financial year	302	132	51	22
	3 400	2 283	572	384
Minority interests	309	48	52	8
Provisions for liabilities and charges	17	3	3	1
Creditors				
Deferred tax liability	210	158	35	26
Long-term creditors	952	750	160	126
Short-term creditors	1 332	673	224	113
	2 494	1 581	419	265
Shareholders' equity and liabilities, total	6 220	3 915	1046	658
KEY INDICATORS				
Earnings per share (EPS), FIM, euro	6,10	3,22	1,03	0,54
Shareholders' equity per share, FIM, euro	66,25	48,25	11,14	8,11
Return on capital employed (ROI) %	13.6%	8.6%	13.6%	8.6%
Gross investments	2 350	737	395	124
Employees, average	4 589	3 814	4 589	3 814
LIABILITIES AT 31 DEC				
Mortgages				
For group and group undertakings	290	260	49	44
For others	1	1	0	0
Guarantees				
For associated undertakings		24	0	4
For others	4	4	1	1
Leasing commitments	668	203	112	34
Repurchase agreements	15	20	3	3
Other commitments	1	1	0	0
Liabilities, total	979	513	165	86
Nominal value of derivative instruments				
Exchange rate futures	25	4		
Interest and currency swaps	50	8		

Proposal for distribution of the parent company profit

The consolidated shareholders' equity according to the consolidated balance sheet at 31 December 1998 stands at FIM 3,399,953,300, of which FIM 197,004,000 is distributable.

The parent company's shareholders' equity according to the balance sheet at 31 December 1998 stands at FIM 2,736,916,722.03, of which FIM 157,253,002.03 is distributable.

The Board of Directors proposes to the Annual General Meeting that Helsinki Telephone Corporation pay a dividend for 1998 of FIM 2.50 on each E Share, in other words a total of FIM 128,298,150.00.

Helsinki, 1 March 1999

Kurt Nordman
Chairman of the Board

Ossi Virolainen

Jukka Alho

Riitta Backas

Matti Ilmari

Jarmo Kalm

Rauno Kousa

Paavo Uronen

Matti Mattheiszen
CEO

Auditors' report

To the shareholders of Helsinki Telephone Corporation

We have audited the accounts, financial statements and corporate governance of Helsinki Telephone Corporation for the period 1 January to 31 December 1998. The financial statements prepared by the Board of Directors and the Chief Executive Officer include the report of the Board of Directors, the consolidated and parent company income statements, balance sheets and notes to the financial statements. Based on our audit, we express an opinion on these financial statements and on corporate governance.

The audit has been carried out in accordance with the Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts or disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance has been to examine that the members of the Supervisory Board and the Board of Directors and the Chief Executive Officer have complied with the Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view of the Group's and parent company's result and financial position as required under the Accounting Act. The parent company's profit for the financial year is FIM 118, 673,764.42 and the consolidated profit FIM 301,986,000.00. We recommend adoption of the financial statements, consolidated financial statements and the discharge of the members of the Supervisory Board and the Board of Directors and the Chief Executive Officer from liability for the accounting period we have examined. The Board of Directors' proposal to deal with the distributable capital shown in the balance sheet complies with the Companies Act.

We have audited the interim reports published during the financial year, and as we understand it, these reports have been properly prepared in accordance with the relevant rules and regulations.

Helsinki, 3 March 1999
SVH Pricewaterhouse Coopers Oy
Authorised Public Accountants

Leo Laitinmäki
Authorised Public Accountant

Lasse Lehti
Authorised Accountant

Henrik Sormunen
Authorised Public Accountant

Statement by the supervisory board

The financial statements and consolidated financial statements of Helsinki Telephone Corporation for the period 1 January to 31 December 1998, the auditors' report and the proposal by the Board of Directors for the distribution of profit have been presented to the Supervisory Board. The Supervisory Board hereby states that it has no comments on the material presented.

In its statement, the Supervisory Board recommends to the Annual General Meeting that the financial statements and consolidated financial statements be adopted and that the profit for the year be distributed in the manner proposed by the Board of Directors.

The Supervisory Board also states that the terms of office of all Supervisory Board members are due to expire by rotation at the end of the Annual General Meeting.

Helsinki, 16 March 1999
SUPERVISORY BOARD

Harri Holkeri
Chairman of the Supervisory Board

Corporate governance

Supervisory Board

Helsinki Telephone Corporation has a Supervisory Board to which the Annual General Meeting appoints between six and fifteen members each year. Although there are no employee representatives on either the Supervisory Board or the Board of Directors, statutory employee representation under the Worker Representation Act is effected by the inclusion of employee representatives in cooperation bodies at an operational level.

The Supervisory Board is principally responsible for deciding the number of and appointing members to the Board of Directors and the chairman of the Board, electing the company's CEO and appointing his or her deputy, deciding any substantial reductions or expansions of the company's operations, or any significant changes in the company's organisation, and is responsible for supervising the corporate governance carried out by the CEO and Board of Directors.

The terms of office of present members of the Supervisory Board expire at the 1999 Annual General Meeting.

Chairman of the Supervisory Board Harri Holkeri (left) and deputy chairman Reino Paasilinna.

Members:
Harri Holkeri (1937), Master of Social Sciences, chairman, member since 1993.
Reino Paasilinna (1939), Doctor of Social Sciences, deputy chairman, member since 1993.
Carl Johan Adolfsson (1933), Master of Economics and Business Administration, member since 1993.
Erkki Helaniemi (1962), Master of Laws, member since 1996.
Raimo Ilaskivi (1928), Doctor of Social Sciences, member since 1993.
Ingvar S. Melin (1932), Licentiate in Economics and Business Administration, member since 1993.
Kari Piimies (1946), architect, member since 1993.
Matti Honkala, Master of Science (Econ), member since 1998
Sole Molander, Licentiate in Social Sciences, member since 1998.
Timo Peltola, Master of Science (Econ), member since 1998.
Pekka Sauri, Doctor of Philosophy, member since 1998.

Helsinki Telephone Corporation's Board of Directors (from the left): Paavo Uronen, Jukka Alho, Matti Mattheiszen, Matti Ilmari, Ossi Virolainen, Kurt Nordman, Riitta Backas, Jarmo Kalm and Rauno Kousa.

Board of Directors

The company has a Board of Directors comprising between four and ten members as determined by the Supervisory Board. Members of the Board of Directors serve for a term of three years, with one third of the members retiring by rotation each year. The present Board of Directors comprises nine members, including the company's CEO and two COOs. The Board of Directors has a full-time chairman.

The Board of Directors is responsible for the overall governance and proper organisation of the company's activities and for management of the group. The Board of Directors appoints the company's senior managers, excluding the CEO. It also appoints members of the Boards of Directors of the group's subsidiaries. The Board of Directors prepares the items for consideration by the Supervisory Board.

Members:
Kurt Nordman (1938), Managing Director, Telephone Cooperative HPY, chairman, member since 1993, term of office expires in the year 2000.
Ossi Virolainen (1944), Deputy Chief Executive, Outokumpu Oyj, deputy chairman, member since 1997, term of office expires 1999.
Jukka Alho (1952), COO, Helsinki Telephone Corporation, member since 1993, term of office expires 2001.
Riitta Backas (1946), Vice President Administration and Personnel, member since 1997, term of office expires 2001.
Matti Ilmari (1942), President and CEO, ABB Oy, member since 1997, term of office expires in the year 2000.
Jarmo Kalm (1945), COO, Helsinki Telephone Corporation, member since 1993, term of office expires 2001.
Rauno Kousa (1941), Parliamentary Assistant, member since 1997, term of office expires 1999.
Matti Mattheiszen (1942), CEO, Helsinki Telephone Corporation, member since 1993, term of office expires 1999.
Paavo Uronen (1938), Rector, Helsinki University of Technology, member since 1997, term of office expires in the year 2000.

The Board of Directors has set up a working committee from among its members. The working committee is tasked with preparing matters to be presented to the Board of Directors. Working committee members are Kurt Nordman, Matti Mattheiszen, Jukka Alho and Jarmo Kalm.

The Board of Directors has confirmed the division of roles between the full-time chairman and the CEO. This means that the chairman monitors result reporting and the preparation and implementation of strategic plans and, together with the CEO, be responsible for maintaining contact with major interest groups and for owner and investor relations.

Auditors

Pursuant to the company's articles of association, the company shall have three auditors and these shall have two deputies or alternatively a public accounting firm authorised by the Central Chamber of Commerce. All auditors shall be duly authorised by a chamber of commerce or by the Central Chamber of Commerce.

The company's auditors are SVH Pricewaterhouse Coopers Oy (formerly SVH Coopers & Lybrand Oy), Authorised Public Accountants, with *Henrik Sormunen* (APA) as principal auditor, as well as *Leo Laitinmäki* (APA) and *Lasse Lehti* (AA).

Chief Executive Officer and Chief Operating Officers

Matti Mattheiszen (1942), MSc (Eng.), was appointed CEO on 1 May 1997. He has served the company since 1971. He served as head of Sales and Marketing since 1984, and as COO and acting CEO between 1988 and 1997.

Jukka Alho (1952), MSc (Eng.), COO and acting CEO since 1 May 1997. He has served the company since 1981. He is head of the Traffic and Network Products division and also chairs the Board of Directors of Oy Comptel Ab, Oy Finnet International Ab and Oy Omnitele Ab.

Jarmo Kalm (1945), engineer, COO and acting CEO since 1 May 1997. He has served the company since 1972, and is head of the Data, Radio and Kolumbus Products division. He is also managing director of Oy Datatie Ab and chairs the Board of Directors of Oy Radiolinja Ab and Mäkitorppa Yhtiöt Oy.

Divisional directors

Private Customer Services
Raili Pohtola (1948), B. Admin, has served the company since 1978, initially in positions relating to administration and sales. She has been divisional director since 1 May 1997.

Business Customer Services
Matti Carpén (1960), MSc (Eng.), has served the company for two terms beginning in 1987, initially in positions

relating to sales and marketing. He has been divisional director since 1 May 1997.

Directory Services
Jarmo Leiniö (1951), MSc (Eng.), has served the company since 1980, initially in positions relating to technology and logistics. He has been divisional director since 1 May 1997.

Data, Radio and Kolumbus Products
Divisional director is COO *Jarmo Kalm*, member of the company's Board of Directors.

Traffic and Network Products
Divisional director is COO *Jukka Alho*, member of the company's Board of Directors.

Internal support functions

Finance and Administration
Ann-Maj Majuri-Ahonen (1946), Master of Economics and Business Administration, has served the company as Director, Finance and Administration since joining it in 1994.

Personnel
Risto Rinta-Mänty (1948), LicMed, has served the company since 1989 as the senior physician and as Director, Human Resources since 1997.

Communications and External Relations
Kalevi Suortti (1949) has served the company as Director, Communications Services and External Relations since 1992.

Corporate Planning
Jukka Ruuska (1961), Master of Laws, MBA, has served the company as Director, Corporate Planning since joining it in 1997.

Information Society Development
Tauno Heikkilä (1937), staff officer, has served the company as Director, Information Society Development since joining it in 1997.

The company's Strategic Management Group also supports the CEO in running the business. This group consists of directors of the company's business groups and the company's management board, the latter of which is made up of executives and various employee representatives. Members of the Strategic Management Group are COOs Alho and Kalm, and directors Carpén, Leiniö, Majuri-Ahonen, Pohtola, Rinta-Mänty, Ruuska and Suortti. Other members of the Strategic Management Group are Tauno Heikkilä and employee representatives.

Personnel representatives
on the internal management board
Teuvo Käyhty (1948), sales manager, has served the company since 1975.
Helena Lehtonen (1942), office employee, has served the company since 1966.
Kari Mäkikara (1941), research engineer, has served the company since 1959.
Seppo Saari (1952), network installer, has served the company since 1971.

Employees

Helsinki Telephone Corporation continued work on its HPY Way project during the spring by carrying out self-assessment in accordance with Finnish Quality Award criteria. The project aims to improve our operations processes and quality and spawned several new development projects. A major human resources project launched during the year was the Leading Star training programme for managers. This programme is designed to enhance management skills.

Work continued on establishing our development discussion culture. Discussions are aimed at increasing openness and readiness for change by studying the company's values and targets and the role of each individual in helping us to achieve these targets. One of our current focal points is to maintain the working capacity of our employees. The model applied does not seek to promote individual working capacity as an individual feature, but to improve above all the quality of work and the working community.

Work on the human resources function development programme continued throughout the year. The programme seeks to shape our human resources and personnel management into a competitive advantage supporting the company's business targets. This would also ensure our success in recruiting competent people. A separate 1998 human resources review for the parent company is currently being prepared.

Year 2000 Project

Helsinki Telephone Corporation companies take the Year 2000 issue very seriously indeed and began mapping problem spots and charting the event-related risks in respect of their own business and that of their customers as long ago as 1996. After initial mapping, the group defined its action strategy and introduced steps in various sectors to solve any potential problems in good time. The normal organisation is supported by the Year 2000 Project (Y2K Project), which reports regularly to senior management.

Data systems, embedded systems, telephone and data networks and IT-based services have been mapped and analysed, and modification projects are under way and, in many cases, already implemented and in use. Comprehensive testing has yet to be carried out on all systems.

Work on an operations continuity plan has begun; Helsinki Telephone is checking the adequacy and availability of human resources, reviewing existing stand-by plans, assessing exceptional needs for auxiliary equipment and safeguarding contact with telecommunications network operators, providers and customers. The group expects to achieve Y2K compliance by autumn 1999.

Telecommunications network

Work on testing the year 2000 compliance of exchange versions in fixed and wireless networks is currently under way in Y2K projects, some of which are joint Finnet company projects. The aim is for upgraded exchanges with transmission systems and other components to be in operation by September 1999.

Helsinki Telephone Corporation together with its subsidiaries and associates are also doing their part to ensure their telecommunications services function in the international telecommunications network.

Data systems

Core business support systems and productive systems are substantially already Y2K compatible and in operation. Compatibility in respect of the remainder will be achieved during summer 1999. Measures are being taken in respect of applications, hardware, systems software and telecommunications.

Other systems

Other fundamental services needed for our own operations such as the electricity supply with emergency power equipment, air conditioning systems, access control and security systems have been charted and analysed together with their suppliers. Tests to check the systems will be carried out by autumn 1999.

Customer telephone and data hardware and services

Helsinki Telephone Corporation has notified its business customers by letter if it appears that the change of date will affect hardware, systems and services supplied to them. Although performance information is based on data obtained from hardware manufacturers and importers, Helsinki Telephone has also carried out its own tests. Nevertheless, the need for upgrading depends on many factors in respect of individual hardware for each customer. Helsinki Telephone provides consultancy and installation services for customer hardware and software upgrades.

Costs

To date, the direct costs of achieving Y2K compatibility have been relatively low since only minor modifications have needed to be made to data systems and only a small number of usual updates to the telecommunications network have been carried out earlier than normal. The total costs of the project are expected to be less than the preliminary estimates.

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