HYY GROUP ▪ ANNUAL REPORT 1998

HYY GROUP

Contents

The HYY Group's financial result for 1999 will be made public in March 2000.
The 1999 Annual Report will be completed at the beginning of May 2000.

The HYY Group is a multibusiness, international corporate group in the service sector.

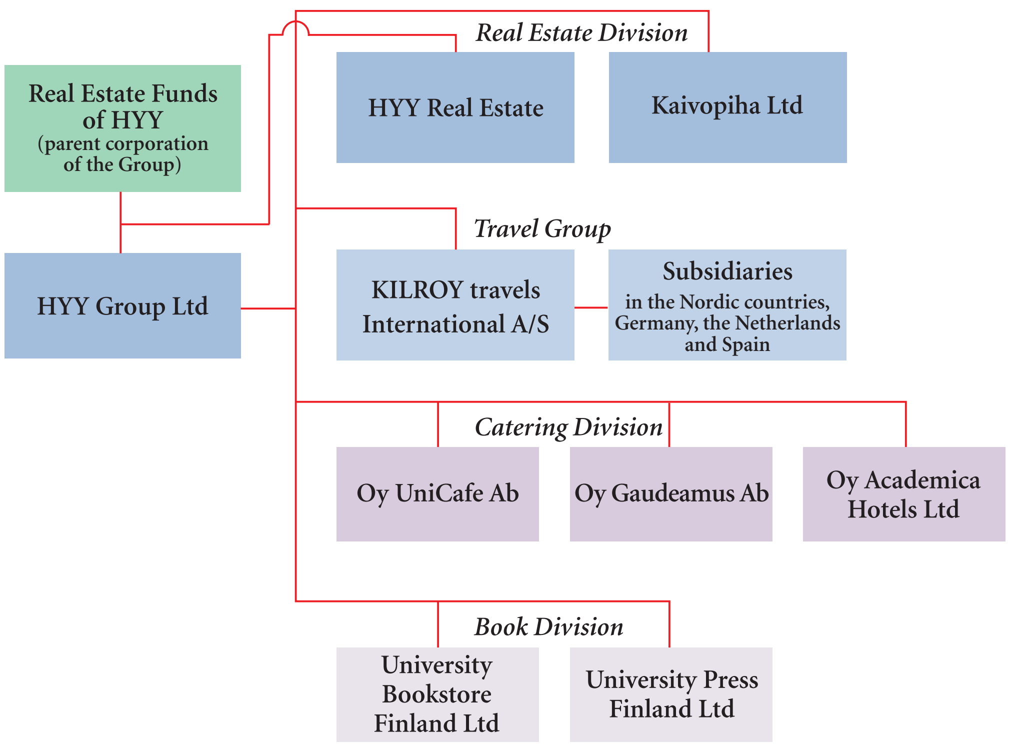
The HYY Group comprises the real estate owned by the Student Union of the University of Helsinki (HYY) and HYY Group Ltd, which is owned by the Union, plus the companies in which it has a majority holding.

The Group is active in the real estate, travel, catering and book businesses. Its Travel Group has business locations in seven countries. The other divisions operate in Finland.

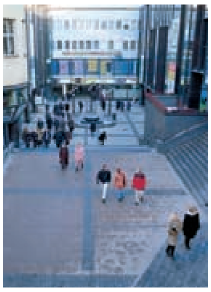
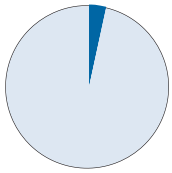
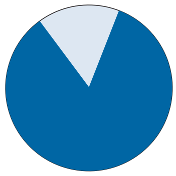
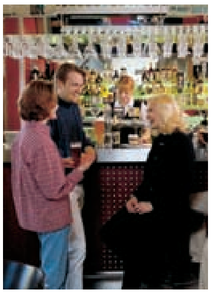
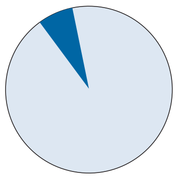
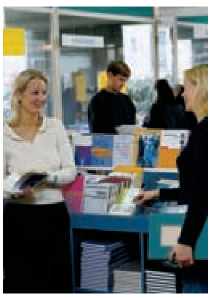
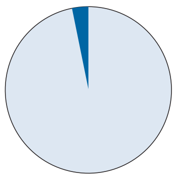
1998 in brief

- Net sales grew by 8% (10% IAS) and amounted to FIM one billion. This growth is to a large degree attributable to KILROY travels.
- Profit before extraordinary items and taxes was FIM 50 million (FIM 50 million IAS). This is the company's best profit figure ever.
- FIM 57 million investments in fixed assets was sold. Capital gains from sales amounted to FIM 29 million. These stemmed primarily from the sale of a 35% minority interest in KILROY travels.
- Gross investments totalled FIM 37 million.
- Return on investment was 19.1%; including capital gains from investments, the figure is 33.0%.
- The equity ratio according to the book value of fixed assets including the FAS revaluation contingency 58.6%.
- Dividends of FIM 13.7 million were paid.
- In 1998, the Group prepared for speeding up the rate of growth in 1999, especially within the KILROY travels subgroup.
- Total assets as at 31 December 1998 were FIM 378 million. The potential revaluation of land areas included in the fixed assets in the balance sheet totalled FIM 200 million. The difference between the balance sheet values and market values of real estate was FIM 715 million.

Organization chart



Introduction to the HYY Group's operations

Field of business	*Unit*	*Operations*	*Locations*	*Share of Group net sales*
REAL ESTATE DIVISION 	The real estate of HYY	Operations involving commercial premises, plus the maintenance of premises in support of the Student Union's mission.	The City Centre Property in the heart of Helsinki and the Leppäsuo property in the Kamppi district of Helsinki.	 6%
	Kaivopiha Ltd	A company handling the facility management, leasing out and maintenance of the HYY's properties. The company owns individual investment suites.	Business location: Helsinki. Investment suites in Finland.	
TRAVEL DIVISION 	KILROY travels subgroup	A major European student and youth travel agency.	Business locations in Finland (4), Sweden (9), Norway (9), Denmark (10), the Netherlands (1), Germany (5) and Spain (1).	 84%
CATERING DIVISION 	Oy UniCafe Ab	A restaurant chain providing lunches and café products, mainly for the students and staff of the University of Helsinki.	19 restaurants in Helsinki, mostly on university premises.	 7%
	Oy Gaudeamus Ab	A company providing restaurant and café services and entertainment events.	Activities at the Old Student House in Helsinki.	
	Oy Academica Hotels Ltd	A company engaged in the summer hotel business.	A summer hotel in the Kamppi district of Helsinki.	
BOOK DIVISION 	University Press Finland Ltd	Publisher of literature on the humanities, social sciences and technology.	Publishing houses Gaudeamus and Otatieto, Helsinki.	 3%
	University Bookstore Finland Ltd	Stationery and bookstore chain for the university community.	Four stationery and bookstores in the Helsinki Metropolitan area.	

Review by the President and CEO

The profit target was met

The operative profit target set for 1998 by the Group's owner, before taxes and accounting adjustments and excluding Group-level amortization of goodwill, was approximately FIM 30 million. Earnings for the period were about FIM 52 million; however, eliminating from this figure the Group's other income from operations and non-recurring expenses, which were not originally included in the operative profit target and have a net effect on earnings of FIM 20 million, the earnings level achieved is in line with targets. Net profit improved on the previous year.

The good earnings trend in both the principal divisions continued. The Real Estate Division's rent profits improved significantly, and the Travel subgroup was able to improve its earnings further, even through the development costs of the new strategic phase were recorded as a non-recurring expense during the report year. In business geared towards the university communities, the earnings of the Catering and Book Divisions weakened more than planned.

Realized capital return from revaluations

A fundamental tenet of the Group's owner strategy is that the business divisions can record as return any increases in market value at an appropriate time considering the companies' internal development and the trend in the investment markets. Capital return from revaluations – whether realized or unrealized – is the second important profit component for both the principal divisions.

The income statement includes about FIM 27 million of gains on the sale of a minority interest in KILROY travels, which is recorded in other income from operations. Lower capital gains from some of Kaivopiha Ltd's investments in housing shares have also been recorded as revenue in the Group's result.

Unrealized capital return from revaluations

The basic line adopted in the Accounting Act, and thus also in the company's income statement, is to conform to the cash flow process. In the assessment of the HYY Group, important properties are treated as fixed assets, whose annual unrealized revaluations cannot be included in the income statement above the level of the balance sheet values. In order to give a true and fair view, the Group has, for the third time, included in the notes to the financial statements the market values of its real estate and the changes in these values during the financial year, along with the income return, the capital return, and the total return, all of which are calculated from the market values in accordance with the national accounting conventions, which in turn are based on international standards.

The annual positive capital return on HYY's real estate amounted to about FIM 62 million during the financial year.

More real estate development investments

As a result of the termination of long-term rental agreements in the previous year, major modernization and development investments were started up or carried out in 1998. The tenant took on most of the responsibility in the case of the extensive restaurant investments in the city centre property of Hansatalo and the New Student House. The renovation of the Library Building in Leppäsuo for the Helsinki School of Economics and Business Administration began in the autumn 1998. The construction of the pedestrian tunnel under Mannerheimintie street and the conversion of certain cellar premises in the New Student House continued throughout the year, and were seen to completion in the spring 1999.

Speeding up development of the Travel Group

During the report year, a new cycle in the development of KILROY travels was prepared for and partially launched. The company's market value and development objectives were specified. A strategic development programme extending to the year 2003 was drawn up on the basis of a thorough evaluation of the company's present capabilities and the changes in the business environment. This programme was approved. The objective is to at least double the net sales and operative profit compared with their level in 1998. The growth in net sales stems first and foremost from the current customer segment, products and the countries in which the company does business, as well as from accelerated organic growth that can be speeded up via corporate acquisitions. KILROY travels has begun to make major investments in new information technology which enable the company to engage in multichannel operations, including commerce on the Internet.

At the end of 1998, KILROY travels entered into negotiations with Benns Rejser A/S with a view to purchasing the company's shares outstanding in their entirety. The deal was going ahead at the time of writing. Integrated as a separate subsidiary of KILROY travels International A/S, Benns Rejser will increase the net sales of the Travel Group by about a third and consolidate its competitiveness, especially in Scandinavia.

In order to strengthen the ownership structure of KILROY travels in line with development objectives, HYY Group Ltd sold a minority interest of 35% to the respected Danish investment company Axcel IndustriInvestor a.s. in September 1998.

Successes and setbacks in university services

UniCafe, the university catering company, continued to be successful. It is crucial to expand its operations to meet rising demand. New investments in UniCafe locations were prepared for in 1998. Some of these will already be carried out in the present year.

University Bookstore Ltd abandoned its growth strategy and downsized its operations and operating procedures. The terminated units' negative effect on the result for the year was greater than the losses of the company as a whole. In the spring 1998, the company had to give up its main store at the University of Helsinki due to construction works in the building. The bookstore at the University of Technology has developed favourably.

The publication activities in which University Press Finland Ltd engages under the auxiliary business names Gaudeamus and Otatieto did not fully meet their profit targets but did not significantly burden the Group's earnings, either. The publications are positively regarded within the academic community.

Owner strategies have been decided

The Representative Council of the Student Union, which exercises the owner's highest decision-making power, has dealt with the proposal on the basic lines to be adopted in the Group's business operations over the next few years. The proposal was submitted to the Representative Council by the Board of Directors and Supervisory Board of the HYY Group. The owner strategy document, which does not include essential changes that would have a direct impact on present operations, was approved unanimously.

The owner approves of conversion works and additional construction – and these may even be extensive projects – related to the development of the city centre property's economy and its impact on the cityscape if follow-up assessments indicate that the investments would meet profitability targets. However, in the future investment portfolio, the development and ownership of real estate can be separated from each other, at least in part. The share of the Group's total investments accounted for by real estate will be examined more critically than it has been up to now.

Prospects for the 1999 financial year

In 1999, KILROY travels will continue to expand its network of business locations primarily in the Nordic countries. The corporate acquisition carried out at the end of March significantly improves the net sales and Scandinavian market share of KILROY travels. In spite of the most aggressive investment phase in the subgroup's history, its earnings are not expected to weaken from their level in 1998.

The net sales and profits from rental operations will not improve significantly as yet due to the structure of the rental agreement portfolio and the high occupancy rate in the office space being rented out by the Real Estate Division. The higher level of investments in renovations and development will, however, burden the result in the short term.

The joint profit target in the catering and book divisions is to achieve an acceptable level of earnings. The higher level of investments in UniCafe increases business risks but also opens up new possibilities.

Excluding corporate acquisitions, the net sales budgeted for the Group in 1999 amount to FIM 1.1 billion. The acquisition carried out by the Travel Group increases net sales by about FIM 0.3 billion. As the realization of positive capital returns has not been planned for in 1999, the Group's profits will not reach the same level as in 1998. The budgeted profit before extraordinary items and taxes is about FIM 35 million.

I would like to thank our customers, personnel and owners for making 1998 a good year.

I wish to extend my especial thanks to Pentti Laaksonen, Master of Political Sciences, for his long meritorious service. At the beginning of 1999, Mr Laaksonen resigned his trustee membership of the HYY Group's Board of Directors on his own initiative after serving an uninterrupted term of over thirty years. He has made exceptional contributions to making the Student Union and the HYY Group financially successful and ensuring that they can increase their wealth.

Tapio Kiiskinen

The ground rules of the Group's owner

Management and maintenance of the Student Union's assets

The general premise for the ownership of business operations by the Student Union of the University of Helsinki is to provide financial support for the performance of the real duties of the Student Union, as specified in the regulations of the Union. Another ground for ownership may also be the improvement and maintenance of essential services for the members of the Union if it can be shown that this makes it possible to achieve benefits compared with what is available on the open market.

The general aim of ownership is to preserve and care for the property of the Student Union, so as to safeguard the opportunities available to future generations of members. The purpose of business activities is, in all circumstances, to achieve higher profits in the long term than would be possible with risk-free investments. The maximum risk-taking capacity of the owner's business operations is defined conservatively, so that the ability of the Student Union of the University of Helsinki to handle its basic duties will not be jeopardized under any circumstances.

General principles of business operations

- The Group engages in business and investments with a long-term perspective, taking moderate risks, employing profit targets which are set for each division, and complying with business practices that are ethical and environmentally responsible.
- The company can, above and beyond its own business operations, act on an investment-driven basis as a major or influential shareholder (associated companies, influenced companies) in businesses that fit in with the Group's values.
- The Group has no need to boost net sales as an end in itself. Net profit and the cash flow from operations are more important than net sales.
- The business divisions must be appropriately small or large for their field. The critical factor for growth, if any, is to reach and maintain the critical mass required for successful operations.
- The Group management aims to harmonize the missions and limitations set and/or approved by the owner, the strategic efforts based on the business divisions' requirements for successful operations, the learning capacity of the working community, and individuals' commitment to change.
- The traditional, close-knit integration of decision-making by the owner and the Group management is both accepted and utilized. The ability for rapid decision-making is essential for successful business, and this is maintained by anticipating development and forecasting future scenarios; by preparing in advance for risk facilities and authorizations.
- The Group's business divisions and units are conservative in taking financial risks; this must not, however, lead to passivity. Companies that do well and generate value added for their owner take an active approach to their business operations and their improvement. The Group accepts the occasional losses that may result from dynamic business operations if these losses are proportionate to the gains made over an agreed period of time, and if they are appropriate to the risk-taking facility of the unit in question.
- When the Group decides on the distribution of profits, it takes into account the liquidity of the Group or unit, as well as the need to safeguard future operations. No profit is distributed on the basis of the unrealized capital return of the Real Estate Division, as this represents the prime risk buffer of the entire Group.
- The Group is mindful of the environmental impact of its operations. The Group employs a system for the management of environmental matters. The implementation of this environmental programme is monitored by means of an ecological accounting system and an environmental management system.

The Group's owner and governance by the owner

- Members of the Student Union (30 000)
- Representative Council of the Student Union (60)
- Board of the Student Union (7-13)
- Annual General Meeting
- Supervisory Board of the HYY Group (12-18)
- Board of Directors of the HYY Group (6-9)

The Student Union of the University of Helsinki was founded in 1868. Today, the Union has about 30,000 members. All those who are studying for a Bachelor's or Master's degree at the University of Helsinki are automatically members of the Student Union. Postgraduate students may also enrol as members of the Student Union. The Student Union can, in accordance with its regulations, also accept other university students as its members. The Student Union acts as a service and interest organization for its members. The Student Union funds its operations with membership fees and revenues from the capital in the contingency fund; the capital in the fund comes from the profits distributed by the HYY Group. During the past few years, membership fees funded about one-third of operations, while the remaining two-thirds were funded with revenues from the contingency fund.

Power of decision at the Student Union and the HYY Group

Representative Council

The Student Union's highest power of decision is exercised by the Representative Council, whose 60 members are elected by the members of the Student Union in a proportional and general election which is held every second year. The Representative Council approves the HYY Group's owner strategy documents and thus sets the objectives and central targets of business operations. In addition, the Representative Council decides on the annual investment and risk framework of the Group's parent corporation, that is, the Real Estate Funds

Photo: Eero Roine

of HYY, basing its decision on the report submitted by the Supervisory Board. The Representative Council ratifies the parent corporation's annual target budget as well as decides on adopting the financial statements of the parent corporation and the granting of release from liability. The Representative Council both elects and releases the Student Union's financial manager and the auditors of the HYY Group's parent corporation, who also act as the auditors of HYY Group Ltd and its corporate Group.

Board of the Student Union

The Representative Council elects the Board of the Student Union. The Board approves the proposals concerning the owner strategy documents of the HYY Group, the parent corporation's annual investment and risk frameworks and the target budget for real estate which will be submitted to the Representative Council. The Board of the Student Union holds the Annual General Meeting of HYY Group Ltd and elects the HYY Group's Supervisory Board, Board of Directors and the Real Estate Management Board. The Board of the Student Union has a term of office of one calendar year.

Supervisory Board of the HYY Group

The Supervisory Board acts as the Supervisory Board of the HYY Group and HYY Group Ltd. The Board of Directors of the HYY Group submits to the review of the Supervisory Board such matters as are significant to the entire corporate entity or concern its principles. The Supervisory Board gives reports or opinions on various final acts to the Representative Council and the Board of Directors of the Student Union. The Supervisory Board elects and releases HYY Group Ltd's President and CEO. The Supervisory Board's term of office is the period between Annual General Meetings, or about a year.

Board of Directors of the HYY Group

The Board of Directors of the HYY Group acts as the Board of Directors of the Group's parent corporation – the Real Estate Funds of HYY – and of HYY Group Ltd and its corporate group. About half of the members of the Board are elected from amongst the students who are members of the Student Union and the rest from amongst external professional trustees. The Chair is elected from the Board of Directors of the Student Union. The "student members", including the Chair, have the majority vote when they are unanimous. Professional members are elected for two-year terms, while the other members are elected for terms of one year.

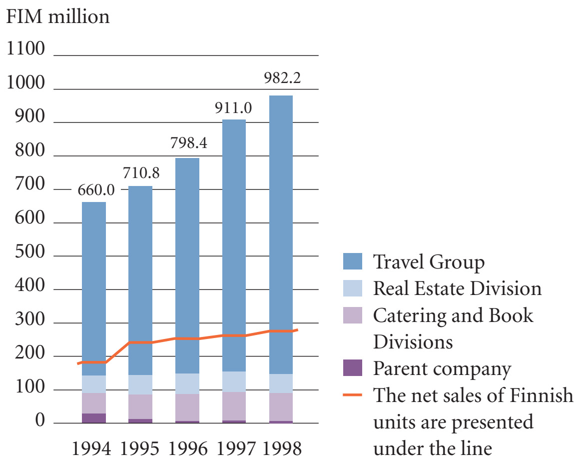
Key Indicators 1994-1998

		1994	1995	1996	1997*	1998
Net sales	FIM mill.	660.0	710.8	798.4	911.0	**982.2**
Change	%	-35.9	7.7	12.3	14.1	**7.8**
Personnel costs	FIM mill.	73.3	85.8	93.5	101.8	**106.8**
Personnel costs as a share of net sales	%	11.1	12.1	11.7	11.2	**10.9**
Result of operations**	FIM mill.	30.7	17.0	22.2	28.1	**49.8**
Gross investments	FIM mill.	12.1	26.0	24.9	15.7	**36.8**
Gross investments as a share of net sales	%	1.8	3.7	3.1	1.7	**3.7**
Net investments	FIM mill.	12.1	26.0	15.0	9.7	**-19.9**
Total assets	FIM mill.	312.2	331.3	337.9	363.3	**377.8**
Shareholders' equity	FIM mill.	28.7	26.2	28.5	47.5	**64.7**
Permanent assets	FIM mill.	168.2	183.6	177.4	173.9	**168.5**
Liquid funds	FIM mill.	109.7	105.4	124.3	148.2	**170.7**
Payment of dividends to minority shareholders	FIM mill.	0.5	1.1	0.3	0.2	**0.7**
Distribution of profits to the Student Union	FIM mill.	11.6	12.0	12.8	13.0	**13.0**
Direct distribution of profits, total	FIM mill.	12.2	12.9	13.1	13.2	**13.7**
Support for HYY's members and operations, which burdens the Group's financial result	FIM mill.	6.3	5.7	4.0	3.9	**3.0**
Return on investment excluding capital gains	%	21.9	17.2	17.1	18.9	**19.1**
Return on investment including capital gains	%	25.7	17.3	18.9	21.1	**33.0**
Return on equity excluding capital gains	%	77.6	40.8	36.2	36.7	**21.0**
Return on equity including capital gains	%	106.1	41.5	45.8	45.6	**58.7**
Equity ratio at book value	%	14.4	11.2	11.6	18.5	**29.2**
Equity ratio including potential revaluation of land areas	% %	54.3	48.9	47.7	51.8	**58.6**
Return on equity (initial yield) if the revaluation of land is realized	%	10.8	8.3	8.0	8.9	**9.2**

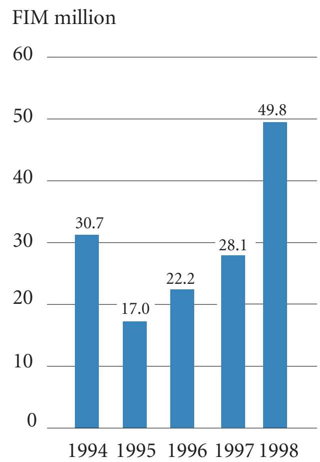
** The figures for 1997 have been converted to correspond to the new accounting practices introduced in 1998.*
*** Profit before extraordinary items and taxes*

The formulas for the key indicators are presented on page 59.

Calculated in accordance with the conventions of the Finnish Committee for Corporate Analysis.

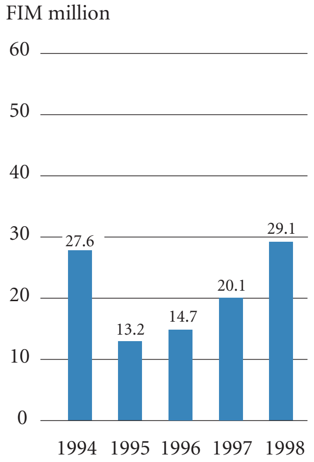


Net sales (FAS)

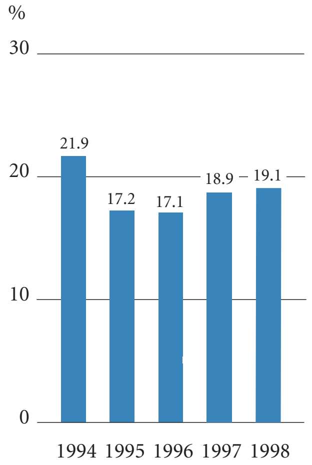


Profit before taxes and extraordinary items (FAS)

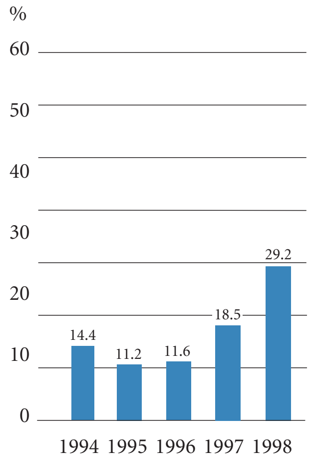
Calculated in accordance with the conventions of the Finnish Committee for Corporate Analysis.



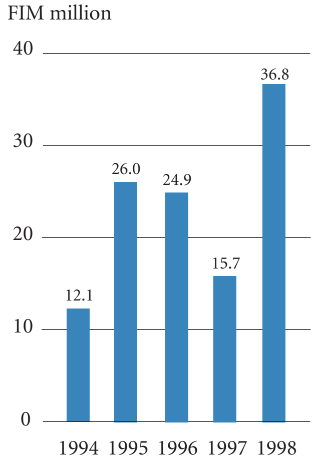
Overall result



Return on investment, %

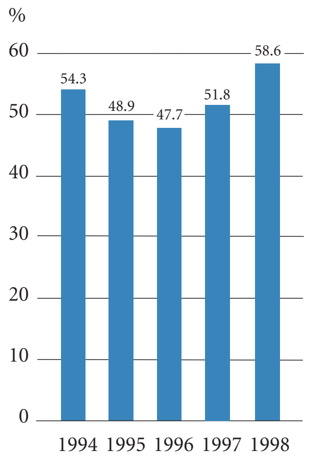


Equity ratio, %

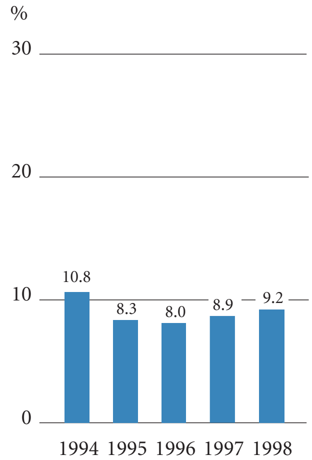


Gross investments

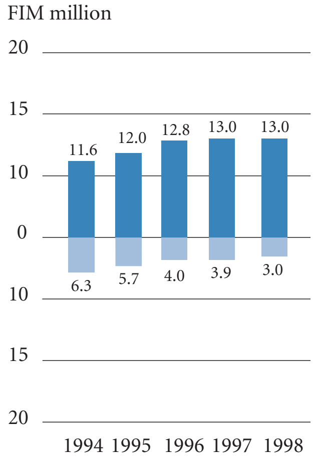
Other key indicators



Equity ratio including potential revaluation of land areas, %

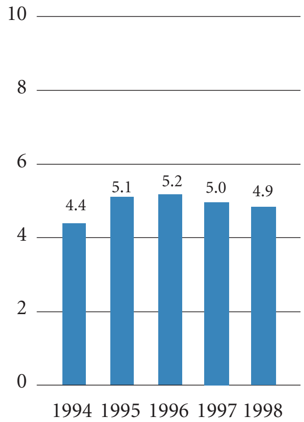


Return on equity (initial yield) if the revaluation of land areas is realized, %

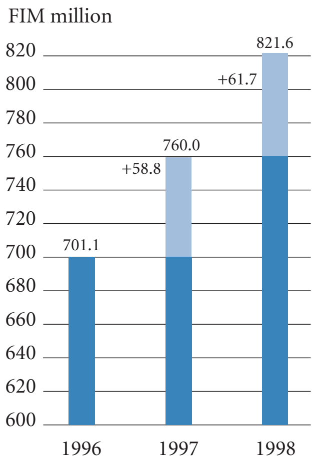


Dividends

- From the HYY Group to the Student Union's contingency fund
- Support for the Student Union's members and operations which burdens the Group's financial result

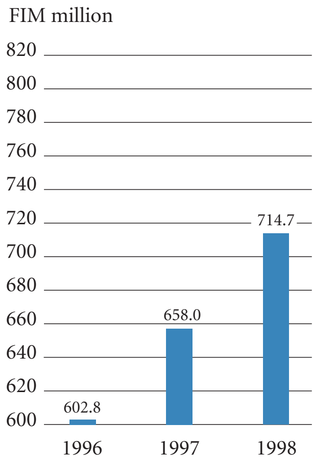


Security ratio

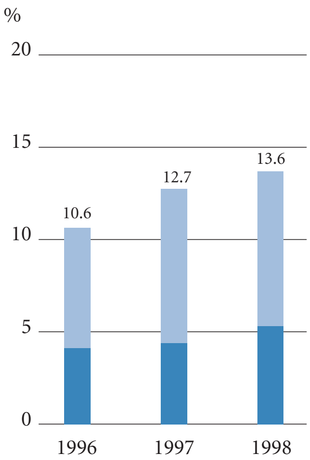


Market value of the HYY's real estate and annual change in capital return

- Market value
- Annual change in capital return

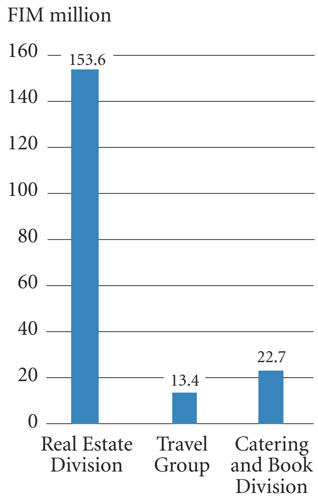


Difference between the market values and book values of the fixed assets in the balance sheet (real estate)



Total return of the HYY's real estate

- Income return, %
- Capital return ratio, %
- Total return, %



Tied-up risks by division, 1998

Information on personnel 31 December 1998

The personnel figures include part-time employees.

Information on the HYY Group's management

The average age of the HYY Group's management was 43 years. Of the directors, eight were women and nine were men. The directors' average time of employment with the Group was about 13 years.

Human resource management is part of the processes of the business units, in line with the operating principles of the HYY Group. General decisions on operational policy as regards the Group's missions and values are handled at the Group level, where the proper allocation and development of the capabilities of key management are also evaluated and attended to.

General personnel policy

When the Group recruits at the managerial level, not only are the basic employment criteria considered – such as having the correct and sufficient education and experience, the ability to work with other people, and other such personal characteristics that are required of successful managers – but so are the recruited person's willingness and ability to accept and commit, in all honesty, to the HYY Group's objectives, values and operating principles, as well as that person's willingness to align his or her personal objectives with those of the Group. The Group strives to set the total compensation for management in such a way that it is always equitable in view of the tasks involved in each position and the results of said work, regardless of gender, when compared with the comparable compensation level in the country of operations in question.

Personnel policy for other personnel also stems from giving fair treatment to employees who are committed to their jobs; the policy is to account for the personal development needs and life situation of each employee, as far as possible, and to ensure the equal treatment of men and women in their positions at work and their compensation. The Group's companies and units cannot always guarantee the continuity of employment relationships when major permanent changes occur in the tasks of the units and the amount of work handled by them, even though the Group's aim is to do so whenever possible.

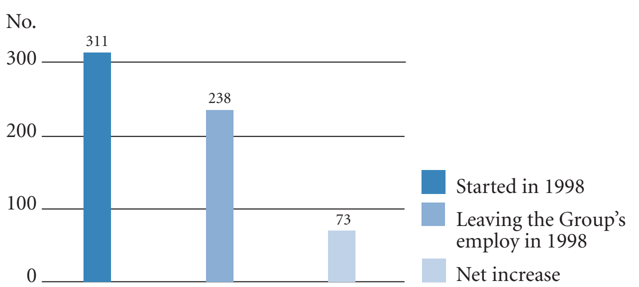
The Group makes outlays on providing many types of multidisciplinary supplementary education, retraining and continuing education for its employees. The personnel have for over twenty years now elected representatives to sit on the Boards of Directors of the Group and its business divisions. This has had a positive effect on the personnel's understanding of the Group's objectives and has led to the creation of a feeling of basic security.

Group cooperation

The Group's domestic companies and business units have a joint personnel board, which elects a representative to sit on the Group's Board of Directors. The personnel of the Danish KILROY travels subgroup engage, by virtue of a voluntary agreement, in separate Group cooperation, which involves matters such as having representatives of different companies in the Shareholders' Committee and their joint representative on the Board of Directors of the subgroup's parent company.

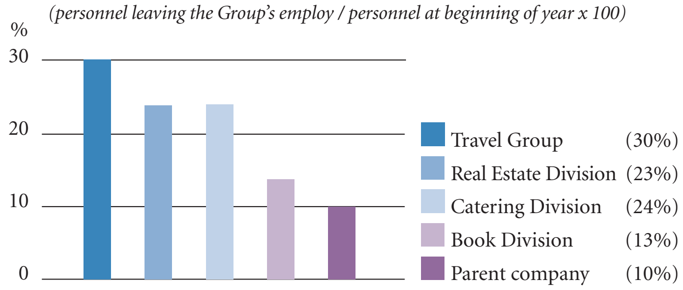
In addition to the information presented in this Annual Report, more detailed separate personnel accounts are available.

Personnel turnover 1998

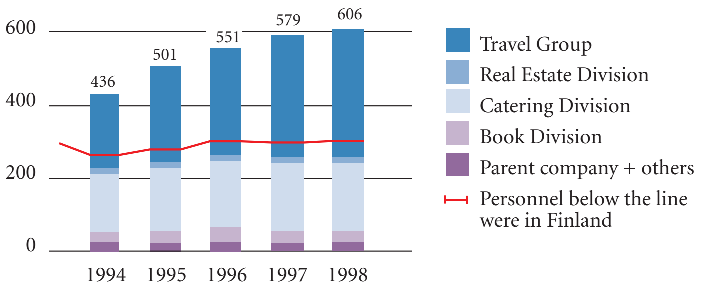


Turnover of permanent employees by division in 1998, %

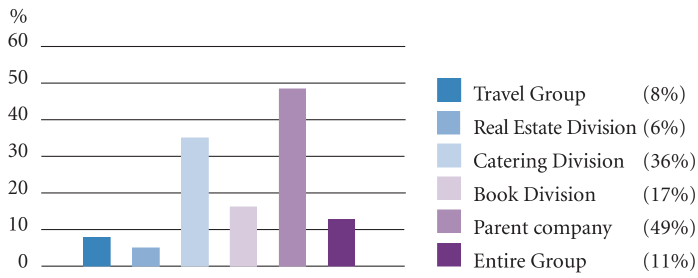
(personnel leaving the Group's employ / personnel at beginning of year x 100)



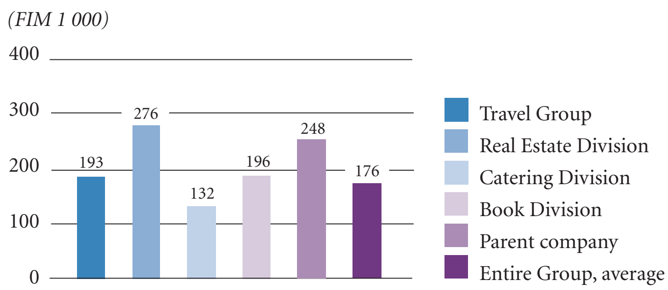
Average number of employees in Finland / abroad 1994-1998



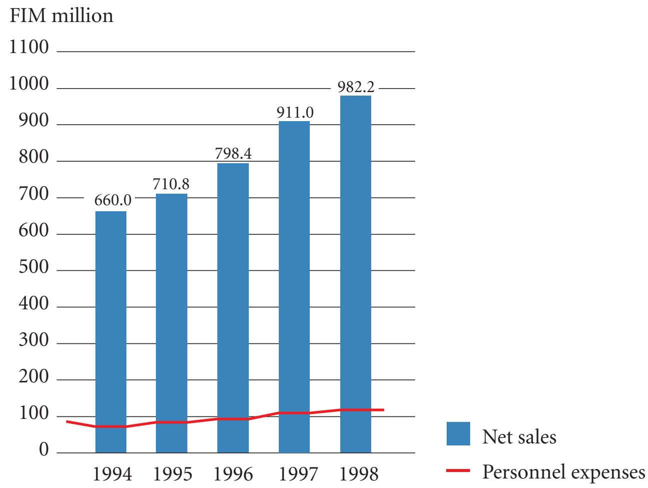
Personnel expenses as a share of net sales by division, 1998



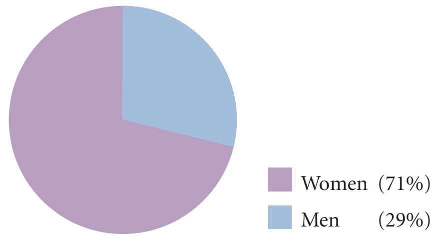
Personnel expenses per employee by division 1998



Personnel expenses as a share of net sales, 1994-1998

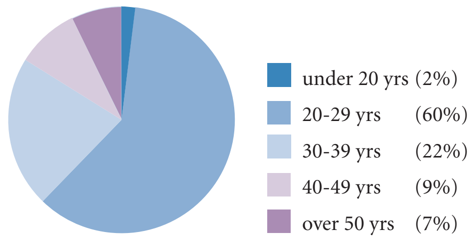


Distribution by gender

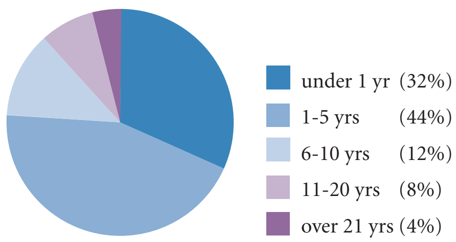


Distribution of personnel ages

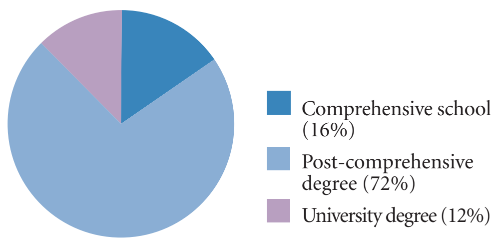
The average age of personnel was 31 years



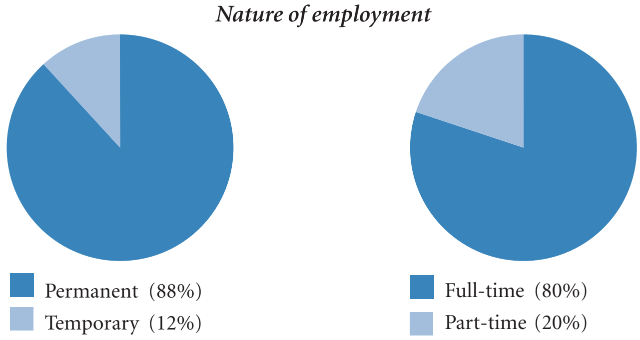
Time of employment in the HYY Group



Educational level



Nature of employment



The Group's parent company, HYY Group Ltd

Vice President Linnea Meder

HYY Group Ltd owns and manages the companies in its corporate group in accordance with the general principles and guidelines laid down by its owner, the Student Union of the University of Helsinki. The company also produces and sells internal services to the Student Union and the companies in its Group.

Duties and basic aims

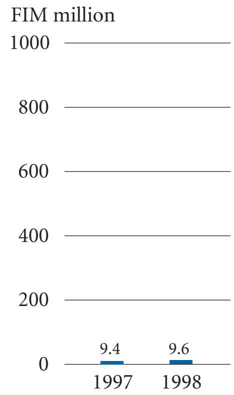
- Organizing the operational and corporate structure of the HYY Group in a manner that is appropriate for the time in question, and attending to its strategic management.
- Attending to the financing of the HYY Group (corporate bank).
- Producing internal services for the HYY Group which are cost-effective and competitive in terms of performance.
- Examining and developing new businesses, either using the Group's risk-taking capacity or on behalf of other divisions, with a view to the possible creation of service or business units, with start-up backing where necessary.
- Implementing centralized changes at the Group's operational level or changes concerning the corporate culture in general.
- Divesting service and business units that do not fit in with the Group strategy or structure, and which are no longer viable within the HYY Group.
- Long-term investments, including shares in subsidiaries, which are included in fixed assets, and the development of their market value, as well as possible return recorded from increases in market value.

Key indicators for the Group's parent company

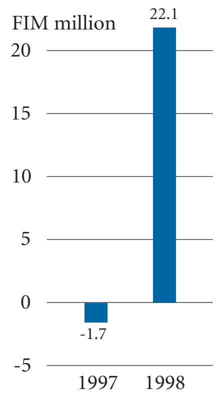
	1997	1998
Invested capital, FIM million	120.4	108.6
Return on investment, %	3.6	8.1
Return on investment, including sales of investments, %	3.6	32.8
Gross investments, FIM million	2.9	4.9

Operations and net profit

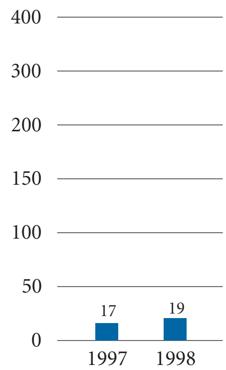
HYY Group Ltd's net sales, which primarily comprise the Group's internal services, were FIM 9.6 million in 1998 (FIM 9.4 million in 1997). Other operating income, FIM 26.8 million, comprised capital gains on the sale of a minority interest in KILROY travels International A/S. The shares were sold in accordance with the LIFO principle. The parent company posted a profit of FIM 19.9 million (FIM 1.0 million in 1997) after net financing income of FIM 0.2 million, FIM 0.2 million in Group contributions that were granted and received and were recorded in extraordinary items, and direct taxes amounting to FIM 2.0 million. The company's shareholders' equity as at 31 December 1998 was FIM 41.4 million (FIM 22.2 million in 1997), of which FIM 25.2 million was distributable funds included in non-restricted equity (FIM 6.0 million in



Net sales



Profit before taxes and extraordinary items



Average personnel

1997). On the basis of the net profit for 1997, a dividend of 5% was paid on share capital, amounting to FIM 15.0 million.

In 1998, the company attended to tasks related to the financial, wage and salary, and treasury administration of its owner – that is, the Student Union – and its subsidiaries (excluding the KILROY travels subgroup).

In connection with the decentralization of functions, the maintenance of various centralized information systems has become a new focal area in internal services, alongside the earlier focal area of maintaining the information systems used in financial administration. As of 1997, the parent company has been responsible for the information network at the Group level.

The UniCard smart card project that was started up in 1996 continued during the entire financial year, and was completed at year's end. The smart card system was put into full operation in the summer 1998. In the autumn, the focal area of operations moved from solving technical problems to launching the smart card on the market. The management and maintenance of the UniCard smart card system and the coordination of the owner/steady customer marketing have been incorporated into the company's internal services, effective from the beginning of 1999.

Research and development/UniCard

The HYY Group's own smart card, the UniCard, is meant to be used by the University of Helsinki's academic community, and it includes payment and bonus card features. At the end of 1998, there were about 10,000 cards in use.

By the end of 1999, the number of smart cards in use will be around 20,000. The UniCard also doubles as a student card for the students of the University of Helsinki, and as an ID card for its personnel.

By virtue of a decision taken earlier, the parent company has shouldered most of the costs of the UniCard's development and launch stage. HYY Group Ltd's financial result for 1998 is burdened by about FIM 1.7 million in development costs, inclusive of the implementation stage.

Near-term outlook

The company's net sales target for 1999 is around of FIM 11.3 million.

The company's key objectives for 1999 are to ensure that all its mission critical equipment is Y2K-compliant, while ensuring that the centralized and decentralized information systems used in financial administration are euro-compatible; to coordinate the introduction of the euro within the Group; and to give the best possible support for subsidaries in the utilization of owner/steady customer marketing.

Real Estate Division

Yrjö Herva (left), Director of the Real Estate Division, and Assistant Director Jukka Leinonen

The Real Estate Division's business is to make long-term investments in real estate and premises, and to develop and maintain these investments. The running profits from business operations are primarily the result of the cash flow from the renting of business premises. Another return component is the change in market value; this added value may periodically be cashed as revenue.

The Real Estate Division's service operations provide the activity units of the Student Union and related organizations with premises, and the division rents out reasonably-priced flats primarily to members of the Student Union.

The City Centre Property stands in the heart of Helsinki and comprises the Kaivopiha Commercial Building and the premises used by the Student Union itself. In the Leppäsuo quarter of the Kamppi district is the Leppäsuo Property, which comprises Domus Academica and the Library Building.

The Kaivopiha Commercial Building provides recreational and cultural services, entertainment and specialised shops. The commercial and office space available for lease amounts to some 26,600 m^2. There are about 65 tenants in the building.

The extensive premises reserved for the use of the Student Union and the organizations and corporations working under it are also located in the City Centre Property. These premises measure about 4,900 m^2 in all, including the Old Student House's above-ground restaurant and entertainment premises.

The Leppäsuo Property has student housing and various facilities, including

The underground walkway running under Mannerheimintie street to Kaivopiha was completed in the spring 1999.


Zetor
Restaurant
Berlitz

a library and classrooms. Operations in the area take place in close partnership with the University of Helsinki, the Helsinki School of Economics and Business Administration, the Foundation for Student Housing in the Helsinki Region and the HYY Group's Catering Division. The Student Union also has student housing in the Haaga district of Helsinki.

In addition to the properties directly owned by HYY, the Real Estate Division also includes Kaivopiha Ltd, which is part of the HYY Group Ltd's corporate group. Kaivopiha Ltd's main task is to attend to the facility management of HYY's real estate, the rental of facilities, building management and maintenance, and to do so with quality and cost-effectiveness. The company also owns, as investments, shares in Finnish residential and real estate corporations.

The Real Estate Division's profit target is to achieve an optimum long-term profit which is not only among the best in this field in Finland but is also based on sustainable business principles. The owner specifies separately the target profit level and maximum approved deficit when premises implementing or supporting the Student Union's operating concept are concerned.

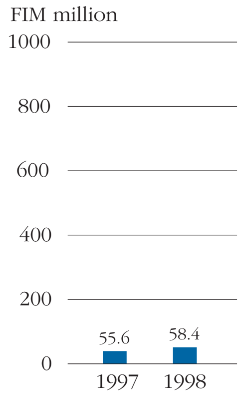
Operations and result

The market situation for business premises improved further, especially in the case of stores in prime commercial locations. In practice, the entire capacity of the HYY Group's rental premises was fully leased out. No major tenant changes took place. About 23% of the rental space in the Kaivopiha Property's tenant portfolio was accounted for by renewed agreements, and 7% by expired agreements. The positive impact on the financial result arising from rent level adjustments and new tenants was still slight in 1998, but will become significant in coming years.

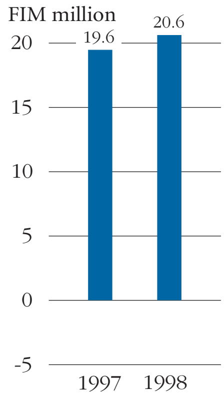
During the past years, a "partnership concept" has been implemented, especially in association with key customers. This means that the landlord and the tenant enter into a confidential, long-term partnership where both parties benefit. For example, the joint design and implementation of investments, and the sharing of risks, has brought good results. Flexibility on the part of both parties in different business situations and according to varying premise requirements lays a solid foundation for long-term, profitable customer relationships.

In 1998, the financial result was burdened by the loss of rental income during the period when two development investments of considerable size were under construction. Most of Hansatalo and part of the New Student Building were under construction for seven months. The renovation of the Library Building was started in the summer 1998.

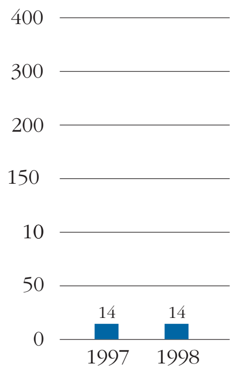
The Real Estate Division's net sales in 1998 were FIM 58.4 million (1997: FIM 55.6 million), representing growth of about 5% on the previous year. The net profit amounted to FIM 20.6 million, after FIM 6.2 million in planned depreciation, FIM 0.8 million in dividends from subsidiaries and FIM 6.0 million in net interest expenses. Earnings from the actual rental of business premises totalled FIM 21.5 million (1997: FIM 18.0 million). The non-re-



Net sales



Profit before taxes and extraordinary items



Average personnel

curring expense of insuring pensions for which the HYY is responsible is recorded in extraordinary items. Indirect taxes and real estate taxes amounted to FIM 3.9 million. The net profit exceeded the target.

Personnel

The average number of people working for the Student Union's real estate unit was five in 1998 (five in 1997), and Kaivopiha Ltd employed an average of nine people (nine in 1997). Thus, the average number of personnel employed by the Real Estate Division was fourteen in 1998 (fourteen in 1997).

Investments

The gross investments made by HYY's real estate unit amounted to FIM 21.4 million in 1998, and Kaivopiha Ltd's totalled FIM 1.1 million, meaning that the Real Estate Division's gross investments totalled FIM 22.5 million. Sales of Kaivopiha Ltd's cooperative housing shares came to FIM 3 million. The Real Estate Division's net investments thus totalled FIM 19.5 million.

Research and development

The division took part in the field's R&D in numerous development projects being organized by the Finnish Institute for Real Estate Economics, together with major Finnish corporations owning real estate. These projects included the development of real estate yield and cost information and real estate return indexes. A new project concerning a feedback system for customer service in the real estate business got under way at the beginning of 1999.

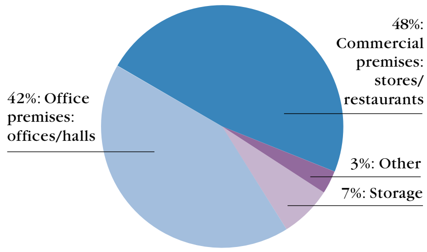
Near-term outlook

The demand for premises in the city centre will remain good but competitive. The net sales target for the Real Estate Division is FIM 59.1 million for 1999, and the profit target, exclusive of capital gains from sales of assets and shares in subsidiaries, and before taxes and extraordinary items, is FIM 20.7 million. The profit target includes an approved deficit of FIM 2.6 million on the Student Union's premises and the Leppäsuo Property.

An investment phase that is even more vigorous than usual will continue in 1999, with the investments concerning new rental agreements and the division's general competitive capabilities. In the case of new rentals, the third and fifth floors of the Citytalo Building will be modernized, as will the last of the old office premises in the Kaivotalo Building. The renovation of the Library Building will be completed by the summer. The basic renovation and extension of Building B of the Domus dormitory will be completed at the end of the year. The underground pedestrian walkway running under Mannerheimintie street to Kaivopiha will be completed in the spring, as will the conversion of the New Student Building's cellar premises into stores. As an investment in the cityscape, the renovation of the Old Student House's facade will be started up in the spring. The investments will burden the financial result for 1999; however, they will improve profit-making capacity in coming years.

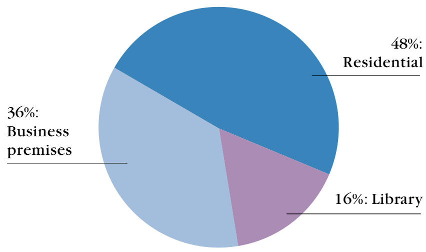
HYY Group properties

Leasable area in the City Centre Property
by type of facility,
31 Dec. 1998



Leasable area:
a total of 31,560 m²

Leasable area in the Leppäsuo Property
by type of facility,
31 Dec. 1998



Leasable area:
a total of 15,620 m²

Key indicators for the Real Estate Division

	1997	1998
Invested capital, FIM million	135.1	144.5
Return on investment, %	20.0	19.6
Gross investments, FIM million	9.1	22.5

Travel Group

Børge Faaborg, Managing Director of the Travel Group

The HYY Group's Travel Group comprises the KILROY travels subgroup. KILROY travels is a large European student and youth travel agency, whose Danish parent company's head office is located in Copenhagen. The target customer group comprises independent travellers in the 16 to 25-year-old bracket and students aged 16 to 32. KILROY has its own subsidiary and network in the Nordic countries, the Netherlands, Germany and Spain. The "Licence to Travel" value added service is run under a worldwide, agreement-based service network.

Operations and net profit

KILROY travels continued to systematically develop its brand and brand-related value added. The four cornerstones of its strategy were segmentation, products that match the brand, personnel capabilities and the best IT in the business. The company's operations were built on the customers themselves and an in-depth knowledge of their needs.

Key indicators for the Travel Group

	1997	1998
Invested capital FIM million	52.9	48.7
Return on investment, %	17.8	26.2
Gross investments, FIM million	5.2	9.3

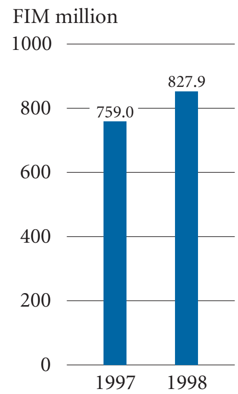
KILROY travels increased its market share and consolidated its market leadership in the Nordic countries, especially in Sweden and Norway.

Denominated in Finnish markkaa, net sales amounted to FIM 827.9 million (FIM 759.0 million in 1997), up 9% on the previous year. The best growth in any one country was racked up in Sweden, where it came up to about 29%.

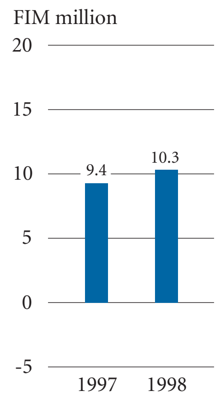
During the year, new business locations were opened in Umeå in Sweden, in Trondheim (2) in Norway, and in Esbjerg and Frederiksberg in Denmark. The share of total sales accounted for by telephone sales continued to grow. All the companies in the Nordic countries racked up good earnings.

In Germany, the Travel Group continued to reduce its number of outlets: at the end of the year, there were three business locations in the key university campuses of Berlin and similar outlets in Dresden and Leipzig. Two outlets were closed in Berlin during the year, and one in Leipzig. The financial result of the German company has remained loss-making, but it is improving. The planned-for measures to revitalize the operational structures were seen to completion during the year. At the end of the year, the company began to focus on strengthening its market position in its present territories, and to prepare for the establishment of new outlets in Germany.

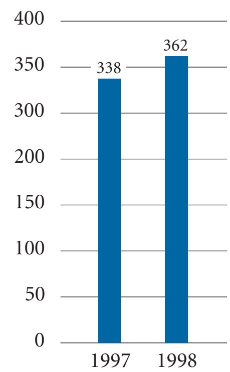
The losses of the first – and, for the time being, only – outlet in Amsterdam shrank according to plan. Preparations



Net sales



Profit before taxes and extraordinary items (after amortization of Group goodwill)



Average personnel

got under way for building up a market base and expanding the network. The marketing company in Spain posted a profit.

The Travel Group's pre-tax profits were FIM 10.3 million (1997: FIM 9.4 million). Depreciation includes FIM 2.5 million in goodwill amortization in accordance with Finnish accounting conventions. FIM 4.2 million was booked in taxes. Minority interest totalled FIM + 0.7 million (FIM + 0.6 million in 1997). Profits in 1998 were in line with the target.

Personnel

KILROY travels had an average of 362 employees in 1998 (338 in 1997).

The distribution of employees by country is:

	1997	**1998**
Denmark	125	**132**
Norway	59	**70**
Finland	53	**56**
Sweden	55	**65**
Spain	7	**8**
Germany	35	**26**
The Netherlands	4	**5**
Total	338	**362**

Investments

KILROY travels' gross investments in 1998 totalled FIM 9.3 million. The investments were related to new business locations and information technology.

Research and development

In its key countries, KILROY travels studies its clientele and the needs of its customers on a regular basis. The awereness and market share of the brand are examined twice a year. The proportional outlays on research are exceptionally large in this low-margin business.

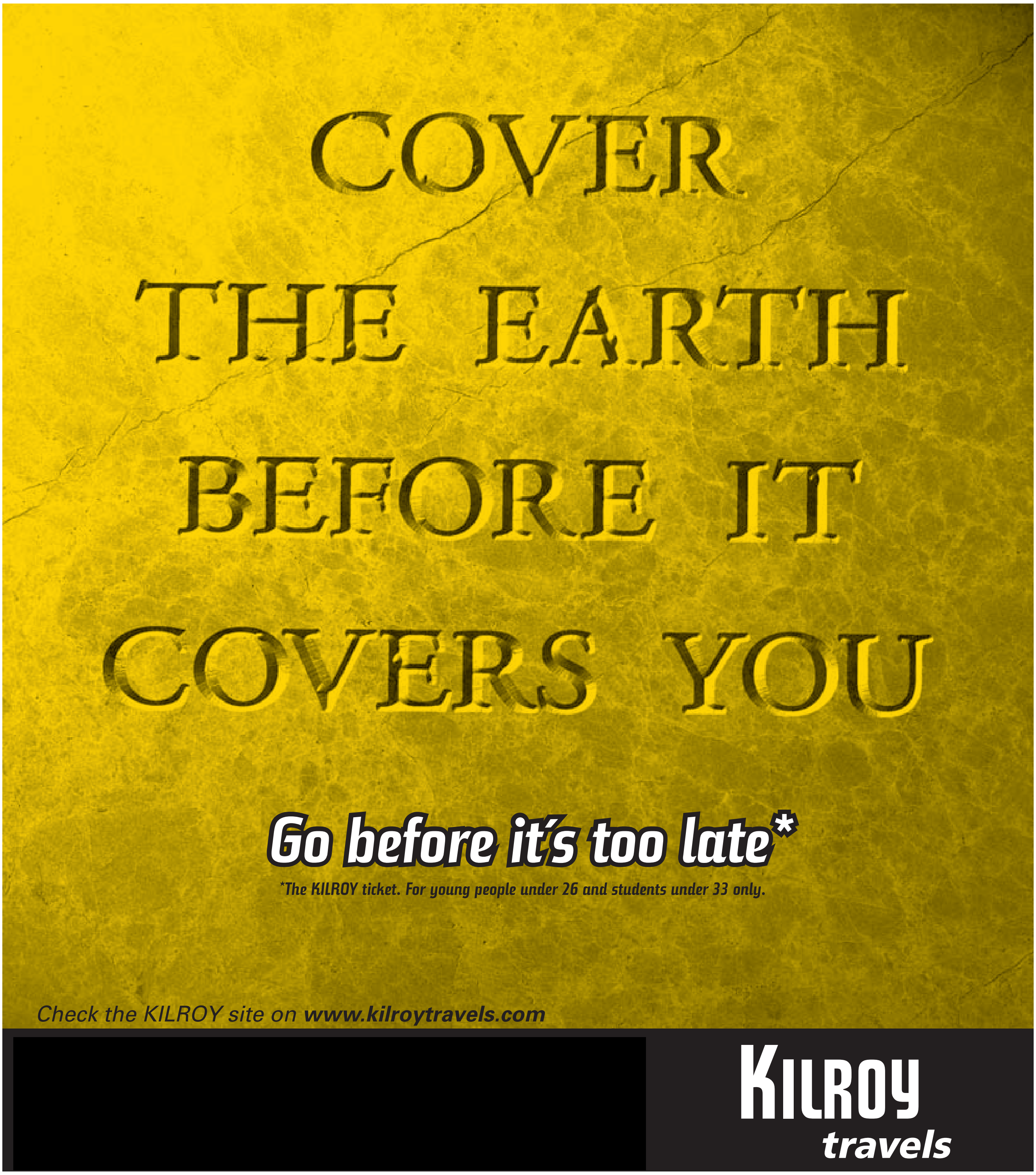
The new phase of strategic development, 1999–2003, has begun. In 1998, the normal level of annual development costs was exceeded by FIM 2 million, and this amount was recorded as a non-recurring item in the result for the year. The consultancies which helped with the development work included A.T. Kearney, KPMG and Heidrick & Struggles.

Near-term outlook

A new and challenging development programme has been approved for the KILROY travels subgroup. This programme focuses on organic growth – new physical outlets, more efficient telephone services, and setting up an online sales feature – but also allows for acquisitions that are in line with the company's strategy. In this context, the subgroup's net sales will grow faster in 1999 than in previous years. In spite of vigorously stepped up investments and possible new goodwill amortization, the subgroup's profits are not expected to weaken from their level in 1998.

In March 1999, KILROY travels International A/S signed an agreement whereby it purchased, in their entirety, the shares in the Danish company Benns Rejser A/S and its Swedish sales company Benns Resor AB. The acquired company's net sales target for 1999 is about FIM 0.3 billion. The company's pre-tax profit in 1998 was approximately FIM 7 million, and it has 135 employees in Denmark and Sweden. Benns Rejser A/S's head office is located in Holstebro, Denmark. The company also has business locations in Copenhagen, Stockholm and Gothenburg.

KILROY's new marketing campaign reaped success at a Danish advertising competition. The campaign, designed by Saatchi & Saatchi, came out on top in the Best Campaign category against tough competition. What's more, the ad, Cover the earth before it covers you, won the award in the Best Magazine Advertisement category.



Catering Division

Marjo Berglund (left), Director of the Catering Division, and Liisa Lehtinen, Assistant Director of UniCafe

The Catering Division comprises Oy UniCafe Ab and Oy Gaudeamus Ab as well as Oy Academica Hotels Ltd, which started its operations at the beginning of 1999. In 1998, Oy Gaudeamus Ab was still running the summer hotel business.

The division's companies serve the students and educational communities and their employees in Finland, in the Helsinki Metropolitan Area and especially at the University of Helsinki. The companies may also operate separately in other market areas, utilizing the know-how and capabilities invested in their core tasks. The aim is to provide financial support for the core tasks and to maintain market-driven efficiency.

The profit target is to achieve a reasonable profit in return for the owner's investment and risk-taking.

Operations and result

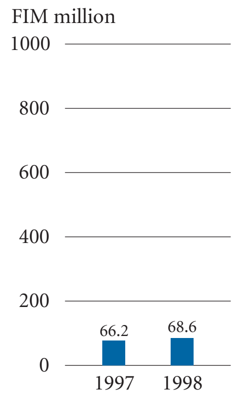
The Catering Division had net sales of FIM 68.6 million in 1998 (FIM 66.2 million in 1997), up 4% on the previous year. Profit amounted to FIM 5.0 million after FIM 1.2 in planned depreciation and FIM 0.7 million in net financing income and before financial statement adjustments. As a whole, the division achieved its profit targets based on the principles it has adopted.

Oy UniCafe Ab's 19 restaurants performed well against heavy competition in Helsinki. The prices of student lunches have not been raised for seven years, although UniCafe's main competitors have regularly raised their prices to the extent allowed by the maximum prices of full meals under the government's meal subsidy system. As calculated from the maximum price allowed, members of the Student Union benefited to the tune of approximately FIM 2.5 million in 1998. Customer satisfaction surveys are conducted on a regular basis, and they indicate that customers are still very satisfied with the price/quality ratio. Oy UniCafe Ab's net sales were FIM 52.6 million, and its profit before taxes and extraordinary items was FIM 1.4 million.

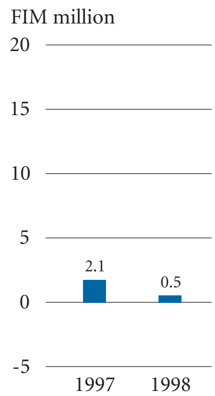
In Oy Gaudeamus Ab's operations, the earnings of Restaurant Vanha weakened and were in the red. The business concepts and premises of the restaurants were modernized between February and April 1998. The time required to complete the construction work and the implementation of new business concepts burdened the financial result. The premises of the Old Student House were rented to an external party and other event organizers a total of 635 times. In addition to renting the building, Oy Gaudeamus handled the catering for these events. The Student Union, as its owner, has required that the Old Student

Key indicators for the Catering Division

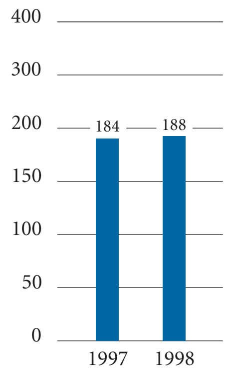
	1997	1998
Invested capital, FIM million	12.4	14.4
Return on investment, %	17.3	3.5
Gross investments, FIM million	0.4	2.7



Net sales



Profit before taxes and extraordinary items



Average personnel

House not only house restaurants, but also organize events. For this purpose, HYY has granted general aid for the Old Student House, and in 1998 this amounted to FIM 0.35 million; this aid has been reduced year by year, and will be discontinued after 1999. Oy Gaudeamus Ab organized a total of 64 events.

Hostel Academica's operations and profits were good in the summer 1998, as in the previous year. People spent a total of 17,141 nights at the hostel.

Oy Gaudeamus Ab's net sales in 1998 were FIM 16.2 million, and it posted a loss before taxes and extraordinary items of FIM 0.9 million.

Number of employees by company:

	1997	**1998**
Oy UniCafe Ab	154	**155**
Oy Gaudeamus Ab	30	**33**
Total	184	**188**

Investments

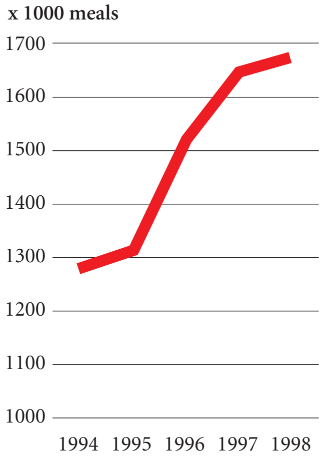
Oy UniCafe Ab	FIM 1.1 million
Oy Gaudeamus Ab	FIM 1.6 million
Total	FIM 2.7 million

Research and development

Oy UniCafe has now methodically examined its customer and personnel satisfaction for the third year running. During the year, the company came up with about 300 UniCafe brand recipes, which are stored on a computer. R&D also zeroes in on special diets and their requirements.

Near-term outlook

Oy UniCafe Ab will invest in the expansion and modernization of its operations. This will increase net sales. However, because the pricing policies are geared towards the Student Union's ordinary members, the profit level will not increase. At the Old Student House, Oy Gaudeamus Ab will concentrate on realizing the objectives of the Group's owner. Oy Academica Hotels Ltd, which was set up to take over the division's summer hotel operations, began to look into alternative methods of expanding operations.



Number of student meals sold, 1994-1998

Book Division

Aila Santanen, Managing Director of the Book Division

The Book Division primarily serves the needs of the students and staff of the University of Helsinki and other members of the Finnish scientific and educational community. It does so by publishing, wholesaling, delivering and retailing Finnish and foreign non-fiction and scientific literature, and through the sale of accessories and the mediation of teaching handouts to supplement its bookstore operations in a manner befitting a stationery store marketing channel.

The basis of the Book Division's operations is to generate a sufficient profit for the owner. Publishing operations are also geared towards increasing the prestige of the academic and scientific community and improving the owner's and Group's corporate image.

Operations and result

The Book Division's net sales in 1998 were FIM 26.0 million (FIM 29.2 million in 1997), or 11% less than in the previous year. The loss was FIM 0.6 million after FIM 0.8 million in planned depreciation and FIM 0.4 million in net interest, and before accounting adjustments. Depreciation includes FIM 0.2 million in amortization on goodwill.

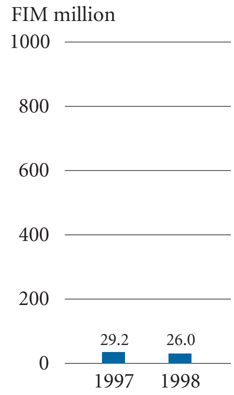
University Press Finland Ltd publishes literature on the humanities, social sciences, the environment and current affairs, under the name of Gaudeamus, and literature on technology under the Otatieto imprint. In 1998, Gaudeamus Kirja published 32 new titles and 18 reprints. Otatieto published 6 new titles and 49 reprints during the year. In addition, the company prints teaching handouts for the students of the University of Technology and other Finnish technical educational institutions. The company's net sales in 1998 were FIM 6.2 million, and it posted a loss before taxes and extraordinary items of FIM 0.2 million.

University Bookstore Finland Ltd is engaged in the bookstore and retail stationery business. The University Bookstore chain comprises the bookstores in the city centre, Porthania, Viikki and at the University of Technology.

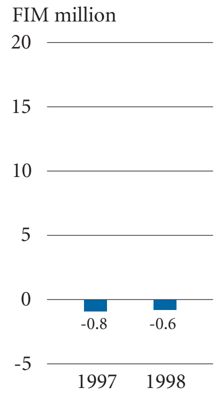
In bookstore operations, the company has striven to rationalize the Group's and the University of Helsinki's overlapping bookstore, import and publishing functions since 1994. In the autumn 1995, the University became a minority shareholder (20%) in University Bookstore Finland Ltd and closed the bookstore run by the Helsinki University Press. In the case of imports, the joint University Bookstore has not developed to a sufficient extent. The import and wholesale unit was terminated in the

Key indicators for the Book Division

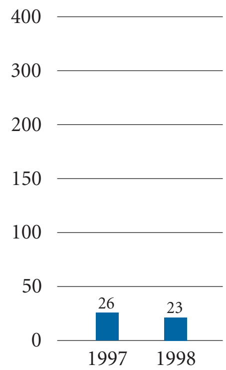
	1997	1998
Invested capital, FIM million	6.7	6.1
Return on investment, %	– 4.4	– 0.4
Gross investments, FIM million	0.2	0.2



Net sales



Profit before taxes and extraordinary items



Average personnel

autumn 1998. The store at the University of Art and Design, which specialized in artists' supplies and required separate logistics functions, was closed at the same time.

The company's net sales in 1998 were FIM 20.6 million, and it reported a loss before taxes and extraordinary items of FIM 0.5 million. The loss was the result of the terminated units and their non-recurring winding up costs. The move of the main store also burdened the financial result.

Near-term outlook

As part of its ordinary bookstore operations, the company will continue to import and deal in course books and reference works that are in sufficiently high demand. The company will focus on acting as the "inhouse bookstore" for the students and departments of the University of Helsinki and the University of Technology, and as such the sale of stationery and computer supplies plays a major role. In 1999, the objective is to attain a financial result that is slightly in the black. Net sales will decrease due to adaptation measures.

Environmental operations 1998

Ritva Kuuluvainen, Manager of Group Financing and Coordinator of Environmental Affairs

The objective of the HYY Group's environmental operations is to reduce its indirect environmental load, which is typical of a company in the service sector; that is, the consumption of energy and water, waste management, and the products and packaging materials used during the provision of services, plus their transport.

In accordance with the general principles of the HYY Group's business operations, the Group employs environmentally sound business practices and takes its environmental load into consideration. The Group's environmental administration system, comprising an environmental programme, ecological accounting and an environmental management system, is used to monitor the realization of objectives and continuous development.

During the report year, a study was carried out in which the business divisions' major cooperative and contractual partners, numbering one hundred in all, were requested to submit an environmental report in writing. This was the first time this has been done, and following the study the respondent companies' environmental projects have heeded the HYY Group's needs and have increased the amount of environmental information on products and services.

The Group's personnel were surveyed on their need for environmental training. As a direct consequence of the survey's results, the personnel's environmental awareness has been stepped up, especially as regards environmental markings. Training sessions were organized at the individual business locations, and instructions concerning the dissemination of information on environmental issues were prepared for the managerial echelon.

The HYY Group took part in Motiva's Energy Conservation Week for the second time. This week was spent in various pursuits: for example, employees carried out the ecological tasks described in the "energy passport" and received "info flash" training on energy efficiency. The HYY Group received a diploma from the Ministry of Trade and Industry for having taken part in the Energy Conservation Week. HYY's properties have not, to date, been connected to eco-electricity. However, the owner has taken a decision whereby the changeover to the use of environmentally-labelled electricity at the Student Union's properties will be looked into. The HYY Group donated FIM 13,000 to Lumituuli Oy for the promotion of a wind energy project.

HYY Group must comply statutorily with the general waste management regulations based on the Waste Act. Tenants of the Student Union's properties have the option of sorting their trash into ten different types. The collection of biowaste was extended to cover all tenants; previously, biowaste was collected only from restaurant tenants.

Separate ecological accounts have been drawn up concerning the HYY Group's environmental operations.

Financial statements, 31 Dec. 1998

Annual Report of the Board of Directors for 1998

BUSINESS ENVIRONMENT AND TRENDS

The travel industry and air travel in particular continued to grow briskly in the European countries and market segment in which KILROY travels does business, with the exception of Germany. KILROY travels increased its market share and consolidated its market leadership in the Nordic countries.

The demand for business premises in central Helsinki and elsewhere picked up even further. It has been easy to market the vacated business premises that have become available, even at a comparatively high rent per square metre. However, offices in the prime locations of Helsinki are still inexpensive compared to those in most large European cities. The average rent of commercial premises in the heart of Helsinki rose by almost 10% during the year. The trend in the business premises rented by the HYY Group and the renewal of agreements has corresponded with the prevailing trends in this field.

In the case of business related primarily to university and educational communities, demand has been stable. The Book Division's business is an exception to this, as the public administration's cost-cutting measures have affected the demand pattern.

NET SALES

The Group's net sales amounted to FIM 982.2 million in 1998 (FIM 911.0 million in 1997), up 8% on the previous year.

The net sales of the Group's parent company and domestic companies accounted for 29% of the aggregate net sales. The remainder, 71%, came from the net sales of the Travel subgroup's foreign companies.

Net sales by division:

FIM million	1998	1997	Change, %
Real Estate Division	**58.2**	55.3	5
Travel Group	**828.2**	759.4	9
Catering Division	**68.6**	66.2	4
Book Division	**26.0**	29.1	-11
Parent company: HYY Group Ltd *)	**1.2**	1.1	8
Total	982.2	911.0	8

*) internal sales have been eliminated

DIVISIONS

Real Estate Division

The Real Estate Division's net sales in 1998 were FIM 58.4 million (1997: FIM 55.6 million), representing growth of about 5% on the previous year. The net profit amounted to FIM 20.6 million, after FIM 6.2 million in planned depreciation, FIM 0.8 million in dividends from subsidiaries and FIM 6.0 in net interest expenses. Earnings from the actual rental of business premises totalled FIM 21.5 million (1997: FIM 18.0 million). The non-recurring expense of insuring pensions for which the Student Union is responsible is recorded in extraordinary items. Indirect taxes and real estate taxes amounted to FIM 3.9 million. The net profit exceeded the target.

The annual revaluation of the Group's primary real-estate holdings and the total return on real estate (net income return + revaluation income return), calculated at the market values, are presented in detail in the notes to the financial statements.

Travel subgroup

Denominated in Finnish markkaa, net sales amounted to FIM 827.9 million (FIM 759.0 million in 1997), up 9% on the previous year.

Calculated according to the business principle of prudence, the Travel Group's pre-tax profits were FIM 10.3 million (1997: FIM 9.4 million) after income and expense entries, planned depreciation amounting to FIM 10.5 million, and net

The Real Estate Division's net sales and profit) by division:*

FIM million	1998		1997	
	Net sales	Profit	Net sales	Profit
The HYY's real estate				
Corporate real estate	44.5	22.3	41.4	19.5
Service real estate	13.1	0.1	13.4	-0.7
Other income from operations		0.1		3.9
Dividend income		0.8		2.0
Interest expenses of investment activities		-0.8		-0.8
Kaivopiha Oy	4.2	-0.8	3.9	-0.3
Total	**58.4**	**20.6**	**55.6**	**23.5**

*) before extraordinary items and taxes

	1998	1997
Return on investment, %	**19.6**	20.0
Return on equity (initial yield), if the revaluation of land is added to shareholders' equity, %	**8.2**	8.1

financing income of FIM 2.9 million. Depreciation includes FIM 2.5 million in goodwill depreciation in accordance with Finnish accounting conventions. FIM 4.2 million was booked in taxes. Profit after taxes and before minority interest was FIM 7.1 million (FIM 4.1 million in 1997). Minority interest totalled FIM + 0.7 million (FIM + 0.6 million in 1997).

Profits in 1998 were in line with the target. A total of FIM 2.0 million in expenditures on the development of a new strategy, organization and information technology were recorded as non-recurring annual costs.

New business locations were opened in the Nordic countries: in Umeå in Sweden, in Trondheim in Norway (2), and in Esbjerg and Frederiksberg in Denmark. The share of total sales accounted for by telephone sales continued to grow buoyantly. All the companies in the Nordic countries racked up good earnings.

In Germany, the Travel Group continued to prune down its outlets: at the end of the year, there were three business locations in the key university campuses of Berlin and similar outlets in Dresden and Leipzig. Two outlets were closed in Berlin during the year, and one in Leipzig. The financial result of the German company has remained loss-making, but it is improving. The planned-for measures to revitalize the operational structures were seen to completion during the year. At the end of the year, the company began to focus on strengthening its market position in its present territories, particularly through telephone sales, and to prepare for the establishment of new outlets in virgin areas in Germany.

The financial result of the first – and, for the time being, only – outlet in the Netherlands was still in the red, but the loss is shrinking according to plan. This outlet, located in Amsterdam, is a move towards building a market base there.

The marketing company in Spain posted a profit.

The net sales of the Travel subgroup's parent company, after the elimination of sales to subsidiaries, come from sales to the travel agencies acting as its agents outside its own territories, such as in Greece, Austria, Iceland and Australia.

According to the subgroup's Danish financial statements, KILROY travels' net sales were about DKK 1038 million in 1998. Profit before taxes and minority interest was DKK 17.3 million.

In the subgroup's own financial statements, drawn up according to Finnish Accounting and IAS conventions, shareholders' equity was FIM 46.1 million as of 31 December 1998 (FIM 50.5 million in 1997), of which FIM 27.4 million was non-restricted equity. On the basis of the net profit for 1997, a dividend of 30% was paid on share capital, or about 80% of profits after taxes.

The Travel Group's net sales by company:

FIM million	**1998**	**1997**	**Change-%**[1]
KILROY travels International A/S [2]	22.7	27.0	-15.9
KILROY travels Denmark A/S	182.9	174.6	4.8
KILROY travels Finland OY AB	126.3	112.7	12.1
KILROY travels Norway A/S	199.3	189.2	5.3
KILROY travels Sweden AB	198.6	154.1	28.9
KILROY travels Spain S.A.	50.0	42.9	16.6
KILROY travels Germany GmbH	38.6	54.5	-29.2
KILROY travels Netherlands B.V.	9.3	3.9	138.5
Net sales	**827.9**	**759.0**	**9.1**

[1] these percentages may vary when presented in the company's home currency

[2] parent company's sales to subsidaries have been eliminated

	1998	1997
Return on investment, %	**26.2**	17.8

Catering Division

The Catering Division had net sales of FIM 68.6 million in 1998 (FIM 66.2 million in 1997), up 4% on the previous year. Profit amounted to FIM 0.5 million, after FIM 1.2 in planned depreciation and FIM 0.7 million in net financing income, and before financial statement adjustments. As a whole, the division achieved its profit targets set on principle.

The UniCafe restaurants performed well against heavy competition in Helsinki. The prices of student lunches have not been raised for seven years, although UniCafe's main competitors have regularly raised their prices to the extent allowed by the maximum prices of full meals as set by the KELA Centre for Student Financial Aid. As calculated from the maximum price allowed, members of the Student Union benefited to the tune of approximately FIM 2.5 million in 1998. Customer satisfaction surveys are conducted on a regular basis, and they indicate that customers are still very satisfied with the price/quality ratio.

In Oy Gaudeamus Ab's operations, the earnings of Restaurant Vanha weakened, *The Catering Division's net sales and profit*) by company:*

FIM million	1998		1997	
	Net sales	Profit	Net sales	Profit
Oy UniCafe Ab	52.6	1.4	50.6	2.4
Oy Gaudeamus Ab	16.2	-0.9	15.9	-0.2
Total	**68.6**	**0.5**	**66.2**	**2.1**

*) before extraordinary items and taxes

	1998	1997
Return on investment, %	**3.5**	17.3

and fell short of the profit target set for it. The business concepts and premises of the restaurants were modernized in February to April 1998. The time required to complete the construction work and fully implement the new business concepts had not been sufficiently accounted for when the targets were being set. Likewise, HYY's general aid for the activities of the Old Student House has been systematically reduced year by year, with the aim of terminating the aid after 1999.

Hostel Academica posted good profits, as in the previous year.

Book Division

The Book Division's net sales in 1998 were FIM 25.9 million (FIM 29.2 million in 1997), or 11% less than in the previous year. The loss was FIM 0.6 million, after FIM 0.8 million in planned depreciation and FIM 0.4 million in net interest, and before accounting adjustments. Depreciation includes FIM 0.2 million in depreciation on goodwill.

University Bookstore Finland Ltd's earnings were burdened by the fact that its main store had to move from its premises when property renovation works got underway at the building; after being opened, the premises the store moved into were hidden behind a tunnel construction site in the downtown area. The company had to note that it did not achieve sufficient sales growth, especially in the University of Helsinki segment, in spite of the major outlays it has made in recent years on its service IT systems as well as organizational and competence capabilities. A new adaptation strategy was decided on in the autumn 1998, as a result of which the separate import and wholesale unit was terminated at year's end. In the spring, the store at the University of Art and Design was closed; this store operated independently of the company's logistic flows. The costs of the terminated units, including the winding up costs, had a loss-making impact of FIM 1.1 million on the financial result for 1998.

University Press Finland Ltd posted a slight loss, but its financial result, when viewed from a long-term perspective, remained within normal annual fluctuations.

The Book Division's net sales and profit) by company:*

FIM million	1998		1997	
	Net sales	Profit	Net sales	Profit
University Bookstore Finland Ltd	20.6	-0.5	22.1	-0.5
Otatieto Oy			5.3	0.0
University Press Finland Ltd	6.2	-0.2	4.7	0.0
Elimination of intra-company sales / Group depreciation	-0.8		-2.9	-0.3
Total	**26.0**	**-0.6**	**29.2**	**-0.8**

*)before extraordinary items and taxes

	1998	1997
Return on investment, %	**-0.4**	-4.4

The parent company HYY Group Ltd and its corporate group (exclusive of the parent corporation of the HYY Group, the Real Estate Funds of HYY)

HYY Group Ltd's net sales, which primarily comprise the Group's internal services, were FIM 9.6 million in 1998 (FIM 9.4 million in 1997). Other operating income, FIM 26.8 million, comprised capital gains on the sale of a minority interest in a subsidiary. The shares were sold in accordance with the LIFO principle. The capital gains are larger if calculated at the average price of the entire lot of shares. The parent company posted a profit of FIM 19.9 million (FIM 1.0 million in 1997) after net financing income of FIM 0.2 million, FIM 0.2 million in Group contributions that were granted and received and were recorded in extraordinary items, and direct taxes amounting to FIM 2.0 million. The company's shareholders' equity as of 31 December 1998 was FIM 41.4 million (FIM 22.2 million in 1997), of which FIM 25.2 million were distributable funds included in non-restricted equity (FIM 6.0 million in 1997). On the basis of the net profit for 1997, a dividend of 5% was paid on share capital amounting to FIM 15.0 million.

	1998	1997
HYY Group Ltd's consolidated return on investment, %	**10.9**	11.4
HYY Group Ltd's consolidated return on investment including capital gains from the sale of investment-driven fixed assets, %	**35.9**	11.4

HYY Group Ltd's consolidated net sales amounted to FIM 930.4 million in 1998 (FIM 862.3 million in 1997), up 8% on the previous year. Operating profit came in at FIM 27.8 million (FIM 1.6 million in 1997). The book profit was FIM 18.1 million (FIM 1.4 million in 1997), after FIM 1.4 million in financing income, FIM – 4.9 million in extraordinary items, FIM 6.1 million in direct taxes and a minority interest of FIM – 0.05 million. The consolidated shareholders' equity as of 31 December 1998 was FIM 45.3 million (FIM 26.9 million in 1997), of which FIM 30.0 million were distributable funds included in non-restricted equity.

CONSOLIDATED RESULT

The Group improved its financial result. Profit before extraordinary items and taxes came in at FIM 49.8 million, which is FIM 21.7 million higher than in the previous year. This is the HYY Group's best profit figure of all time.

Income from revaluations is the second major income component for the Group, due to the nature of its main fields of business – real estate and travel – and the investment objectives of the Group's owner. Recorded as capitalized revaluations in other operating income are FIM 28.7 million in capital gains from the sale of fixed assets (FIM 3.9 million in 1997). A non-recurring cost of FIM 2.9 million on the development of the main business divisions has been recorded in other operating costs.

Operating profit was FIM 53.7 million (FIM 29.9 million in 1997).

A non-recurring payment of FIM 5.8 million, which was used to insure all the outstanding additional pensions of those employees of the Real Estate Funds of HYY who have already retired, has been recorded under extraordinary items. The depreciation, FIM 4.9 million, of the real estate of a Danish company that has terminated its operations has also been booked as an extraordinary item.

The book value of the return on investment (excluding non-recurring income/expenses) was 19.1% (18.9% in 1997).

The audited figure for the unrealized capital return or change in value of the Student Union's real estate for the financial year, calculated by the Finnish Institute for Real Estate Economics, was approximately FIM 62 million, and is included in the notes to the financial statements rather than the income statement. The market value of the Student Union's real estate (the present-day value of net rental income receivable in the future) was about FIM 760 million at the beginning of the year and about FIM 822 million at year's end. The calculation of market values is based on a 6.78% total return requirement and a 95% occupancy rate. The income return of the real estate (net rental yield as a percentage of the market value at the beginning of the financial year) was 5.3%. The capital return ratio (change in the market value since the beginning of the year, expressed as a percentage) was 8.3%. The total income return of the real estate was thus 13.6% in 1998.

INVESTMENTS

Gross investments by division:

Real Estate Division	FIM 22.5 million
Travel Group	FIM 9.3 million
Others	FIM 5.0 million
Total	**FIM 36.8 million**

Investments in real estate were allocated to the modernization of the existing capacity and the improvement of commercial competitiveness. Investments by the Travel Group were primarily allocated to its network of branches and information technology systems, along with the acquisition of software and IT equipment.

The Group's net investments totalled FIM -19.9 million after sales of fixed assets amounting FIM 56.8 million.

FINANCING

Liquid assets at year's end totalled FIM 170.7 million (FIM 148.2 million in the previous year). The Group's liquidity has been good. The net amount of the principal of interest-bearing loans at year-end was FIM 107.2 million (FIM 126.9 million in 1997). Net financing expenses amounted to FIM 3.9 million (FIM 1.8 million in 1997). Previously capitalized exchange rate differences on foreign currency loans which have not yet fallen due were recorded as a non-recurring item in net financing expenses.

The equity ratio at book values was 29.2% (18.5% in 1997). The audited potential revaluation of the Group's land areas, as given in the notes to the financial statements and figuring in solvency, leads to 58.6% (51.8% in 1997) equity ratio.

The cash flow generated by the Group's ordinary business activities was a surplus of FIM 29.5 million. The cash flow from cash-based net investments was FIM 21.0 million in the black.

The average weighted effective interest rate on the principal of the Group's loans was 5.6% (5.7% in 1997).

PERSONNEL

The HYY Group employed an average of 606 people during the report year, an increase of 27 employees on the previous year. The growth of personnel was primarily due to the increase in the number of branches of the KILROY companies in the Nordic countries. Of the personnel, 300 were employed in Finland and 306 in other countries. The parent organization employed an average of 5 people.

Trends in personnel, by division:

	1998	**1997**
Real Estate Division	14	14
Travel Group	362	338
Catering Division	188	184
Book Division	23	26
Parent company HYY Group Ltd	19	17
Group, total	**606**	**579**

ECOLOGICAL STANDARDS FOR OPERATIONS

The HYY Group's ecological activities continued in the form of the implementation of the Group's ecological programme in all the business divisions. A new key feature of the programme was that a written environmental report was requested from the major partners of the Group's different units. Of the 54 companies that replied, about 40% have already completed their own environmental programme, while many are still working on theirs.

The HYY Group took part in Motiva's Energy Conservation Week for the second time. This week was spent in various pursuits: for example, employees carried out the ecological tasks described in the "energy passport" and received info flash-type training on energy efficiency. The HYY Group received a diploma from the Ministry of Trade and Industry for having taken part in the Energy Conservation Week.

The HYY Group donated FIM 13,000 to Lumituuli Oy for the promotion of a wind energy project.

Towards the end of the year, the divisions began the task of appointing persons to take on the responsibility for ecological activities. The amount of environmental training that is provided to employees remains slight, although the training needs survey that was carried out in the spring indicates that there is evidently a need for this type of information. At two events, employees were rewarded for their environmental accomplishments.

YEAR 2000

A Year 2000 programme was started up within the HYY Group in 1998. The monitoring of problem areas, which was partially carried out by external experts, has now been completed. Non-compliant software is currently being updated or replaced. Most of the HYY Group's business divisions use off-the-shelf applications in their data management, and in most cases it is sufficient to acquire new versions of these programs. In addition to the information technology itself, efforts have been made to ascertain the Y2K risks of other machines and equipment used in operations.

EURO

In 1998, the HYY Group began preparations for the implementation of the euro. The Group's aim is to make a controlled changeover to the new currency. No decision has been taken as yet concerning the date when the euro will be adopted as the accounting currency.

PRESIDENT AND AUDITOR

Tapio Kiiskinen, M.Sc. (Econ.), was the President and CEO of the Group for the duration of the entire financial year.

KPMG Wideri Oy Ab, Authorized Public Accountants, were selected by the Representative Council of the Student Union to act as the auditor of the parent corporation, and they were likewise selected by the Annual General Meeting to act as the auditors of HYY Group Ltd and its corporate group in 1998.

OWNERSHIP OF THE GROUP

The Student Union of the University of Helsinki is a public sector entity having the right to autonomy. Its status is based on the Universities Act (645/1997) and the Student Union Decree; the latter was passed on 6 February 1998 on the basis of the Universities Act and entered into force on 1 August 1998. As per the rules ratified by the Student Union on the basis of the decree, the real estate funds that are owned by the Student Union, and which are subject to the Accounting Act, function as the parent corporation of a separate corporate body in the manner defined in the Accounting Act, that is, the real estate funds are the parent corporation of the HYY Group. The Real Estate Funds of HYY owns 100% of HYY Group Ltd's shares. HYY Group Ltd is the parent company of its corporate group. The HYY Group Ltd has a 100% or majority holding in all its subsidiaries.

Funds of the Student Union

The current funds required in the performance of the Student Union's purpose, as specified in the decree, are funds which are tied to the budget of the public sector entity, and as such are not subject to bookkeeping requirements on the basis of the Accounting Act. The regulations concerning the Student Union (the decree, the rules of the Student Union, financial rules) lay down rules concerning the Funds of the Student Union and its budget, accounting, financial statements and auditing. The Funds of the Student Union and the HYY Group are not consolidated. The Group's distribution of profits is performed as a transfer of funds from the parent corporation's non-restricted equity to the contingency fund of the Funds of the Student Union.

The operating costs of the Funds of the Student Union amounted to about FIM 15.4 million in 1998. Of this amount, FIM 0.8 million was covered with self-acquired funding, grants and income from collections, and FIM 5.3 million was covered with membership fees collected by the Student Union. This fee – FIM 180/member/semester – has remained unchanged since 1991. The FIM 9.3 million deficit of the Funds of the Student Union was covered with funds from the HYY Group's contingency fund, which had been enlarged by dividends.

On 31 December 1998, the Funds of the Student Union had a balance sheet total of FIM 11.3 million. Of this amount, FIM 0.7 million was accounted for by the capital in the member loan fund which was covered by the Funds of the Student Union, and FIM 6.7 million by shareholders' equity.

CHANGES IN THE GROUP STRUCTURE

No major changes took place in the Group's operational structure. HYY Group Ltd sold a 35% minority holding in KILROY travels International A/S, the Danish parent company of the Travel subgroup, to Axcel IndustriInvestor a.s. After the sale, HYY Group Ltd's holding is 55.5%.

OUTLOOK FOR THE 1999 FINANCIAL YEAR

A new and challenging development programme has been approved for the KILROY travels subgroup. This programme focuses on organic growth – new outlets, more efficient telephone service and setting up an online sales feature – but also allows for corporate acquisitions that are in line with the company's strategy. In this context, the subgroup's net sales may well grow faster in 1999 than in previous years, when annual growth of 10–15% was attained. In spite of vigorously stepped up investments and possible new goodwill depreciation, the subgroup's profits are not expected to weaken from their level in 1998.

As the Real Estate Division already has a high occupancy rate in its office premises, the net sales from rental operations are not expected to essentially grow with the present real estate capacity. It is likely that real estate capacity will be increased, but this will not take place in 1999. In addition, due to the structure of the long-term rental agreement portfolio, there will be no major level adjustments of agreements that are ending or being renewed. The increased level of modernization and development investments in recent years mean that profits will not improve significantly, but will remain at the good level that has previously been achieved.

In the Catering Division, Oy UniCafe Ab will invest in the expansion and modernization of its operations. This will increase net sales. However, because the pricing policies are geared towards the Student Union's ordinary members, the profit level will not increase. At the Old Student House, Oy Gaudeamus Ab will concentrate on realizing the objectives of the Group's owner without having the opportunity to generate distributable profits. At the beginning of 1999, Oy Academica Hotels Ltd, which was set up to take over the summer hotel operations of Oy Gaudemus Ab, began to look into alternative methods of expanding operations.

The primary goal of the adaptation strategy deployed by the Book Division's companies is to achieve an acceptable profit level.

The budgeted net sales for the entire Group in 1999 are FIM 1.1 billion, excluding corporate acquisitions. As no investment-driven capitalization of revaluation has been planned for 1999, the Group's profit will not rise to the same level as in 1998. The budgeted profit before extraordinary items and taxes is FIM 35 million.

DIVIDENDS

According to the consolidated balance sheet, the distributable funds in non-restricted equity amount to FIM 44,455,114. According to the separate balance sheet of the Real Estate Funds of HYY, the distributable funds in non-restricted equity amount to FIM 14,930,930. The Board of Directors proposes that the Funds of the Student Union be paid a dividend of FIM 13,000,000, with the remainder being kept in the profit and loss account.

Income Statement, IAS

IAS = International Accounting Standards

	1998	*1997*
Net sales	1 011 378 985	915 390 711
Expenses	-957 905 705	-885 039 512
Operating profit	53 473 280	30 351 199
Financing income and expenses	258 611	-1 252 346
Profit before taxes and minority interest	53 731 891	29 098 853
Taxes	-10 013 611	-10 011 601
Minority interest	-47 222	144 492
Profit before extraordinary items	43 671 058	19 231 744
Extraordinary items	-4 932 402	208 523
Net profit for the year	**38 738 657**	**19 440 266**

Balance Sheet, IAS

	1998	*1997*
Fixed assets and other long-term expenditure		
Material fixed assets	139 612 691	147 787 631
Stocks and shares, goodwill, immaterial rights and other long-term expenditure	24 512 879	21 707 077
Long-term loans receivable	4 330 131	4 407 426
	168 455 700	**173 902 134**
Inventory and financial assets		
Inventory	7 289 263	8 071 429
Receivables and advance payments	31 434 648	31 787 850
Cash and bank	142 654 386	124 370 330
Other liquid assets	28 005 685	23 808 659
	209 383 982	**188 038 268**
Current liabilities		
Advance payments and deferred liabilities	73 869 046	92 170 936
Instalments on long-term loans	6 491 920	13 174 488
Other short-term debts	107 848 994	91 550 596
	188 209 960	**196 896 020**
Net working capital	21 174 022	-8 857 752
	189 629 722	**165 044 382**
Shareholders' equity	64 719 864	40 956 709
Minority interest	17 085 223	6 189 233
Long-term liabilities	107 824 635	117 898 439
	189 629 722	**165 044 382**

Cash Flow Statement, FAS and IAS

FAS = Finnish Accounting Standards
(FIM 1 000)

	1998	*1997*
Ordinary operations		
Cash inflow		
From sales	984 240	908 261
Cash payments		
Purchases	-739 587	-673 920
Wages and salaries	-108 212	-104 557
Other expenses	-84 668	-63 645
Extraordinary expenses	-6 688	-426
Interest	-4 016	-2 312
Taxes	-11 564	-13 165
	-954 735	-858 024
Net cash flow from ordinary operations	**29 505**	**50 237**
Investments		
Investment loans, decrease	116	39
Sales income of associated companies	0	1 573
Investments in associated companies	-850	0
Investments in subsidaries	42 376	-37
Income from sale of fixed assets	12 034	3 980
Investments in fixed assets	-32 660	-15 091
Net cash flow from investments	21 016	-9 536
Financing		
Current liabilities, decrease	0	0
Non-current liabilities, decrease	-18 891	-11 084
Quasi-equity financing, increase	40	395
Loans receivable and deposits, change	4 643	-8 115
Income from sale of share investments	0	110
Securities included in fixed assets, change	-4 130	-10 243
Dividends received	141	20
Dividends from associated companies	0	32
Dividends paid to minority shareholders	-649	-228
Distribution of profit	-13 000	0
Net cash flow from financing	-31 846	-29 113
Net change in cash assets	**18 675**	**11 589**
Cash assets, 1 Jan.	124 370	111 003
Effect of exchange rate fluctuations	-334	1 778
Effect of changes in the Group structure	-57	0
Cash assets, 31 Dec.	**142 654**	**124 370**

Income Statement, FAS

	1.1.-31.12.1998	1.1.-31.12.1997
Net sales	**982 216 100**	**911 044 505**
Other operating income	29 162 885	4 420 799
Materials and services		
Raw materials and consumables		
Purchases during the financial year	-735 416 807	-683 991 599
Increase/decrease in inventories	-792 549	14 242
External services	-8 200 917	-7 283 586
Personnel costs	-106 826 717	-101 778 713
Depreciation and value adjustments	-19 249 522	-18 684 063
Other operating expenses	-87 201 218	-73 884 337
Total	-957 687 731	-885 608 055
Operating profit	**53 691 254**	**29 857 248**
Financial income and expenses		
Income from shares in Group companies	0	32 319
Income from investments in fixed assets	151 361	27 833
Other interest and financial income	7 085 088	5 824 454
Interest expenses and other financial expenses	-11 129 985	-7 678 477
Total	-3 893 537	-1 793 871
Profit before extraordinary items	**49 797 718**	**28 063 377**
Extraordinary items		
Extraordinary income	0	1 139 323
Extraordinary expenses	-10 683 961	-930 800
Total	-10 683 961	208 523
Profit before appropriations and taxes	**39 113 757**	**28 271 900**
Income taxes	-10 013 611	-10 073 753
Minority interest	-47 222	144 492
Net profit for the year	**29 052 925**	**18 342 639**

Balance Sheet, FAS

Assets

	31.12.1998	31.12.1997
Fixed assets		
Intangible assets		
Intangible rights	1 103 140	751 351
Group goodwill	1 102 786	6 329 446
Other capitalized expenditure	12 424 156	7 839 312
	14 630 082	14 920 108
Tangible assets		
Land	4 804 295	8 733 495
Buildings and structures	96 726 312	111 246 275
Machinery and equipment of the buildings	8 491 987	6 148 424
Machinery and equipment	21 071 632	20 950 331
Other tangible assets	51 560	51 560
Advance payments and acquisitions in progress	8 466 905	657 547
	139 612 691	147 787 631
Investments		
Shares in Group undertakings	3 403 603	332 380
Receivables from Group undertakings	4 330 131	4 407 426
Other shares and participations	6 479 194	6 454 589
	14 212 927	11 194 395
Fixed assets, total	168 455 700	173 902 134
Current assets		
Inventories		
Completed products/goods	7 173 664	7 955 468
Advance payments	115 599	115 961
	7 289 263	8 071 429
Receivables		
Current		
Accounts receivable	16 750 029	20 689 244
Receivables from Group undertakings	2 045 500	206 410
Receivables from the owner	125 483	94 174
Loan receivables	16 211	653 689
Other receivables	580 000	0
Prepaid expenses and accrued income	11 917 425	11 535 185
	31 434 648	33 178 702
Securities included in financial assets		
Other shares and participations	4 446 812	3 000 000
Other securities	23 558 873	20 808 659
	28 005 685	23 808 659
Cash at bank and in hand	142 654 386	124 370 330
Current assets, total	209 383 982	189 429 119
Assets	**377 839 682**	**363 331 253**

Balance Sheet, FAS

Liabilities

	31.12.1998	31.12.1997
Shareholders' equity		
Capital	17 250 000	17 250 000
Retained earnings	18 416 939	11 941 857
Net profit for the year	29 052 925	18 342 639
Shareholders' equity, total	64 719 864	47 534 496
Minority interest	17 085 223	6 189 233
Liabilities		
Non-current		
Loans from financial institutions	50 401 680	54 464 964
Pension loans	20 803 817	23 323 583
Debts to Group undertakings	160 000	0
Debts to the owners	9 190 000	4 760 000
Other debts	16 576 544	30 049 892
Imputed deferred tax liabilities	10 692 594	8 885 186
	107 824 635	121 483 625
Current		
Loans from financial institutions	4 528 192	11 096 369
Pension loans	1 963 728	2 078 119
Advances received	97 344 169	73 264 996
Accounts payable	59 784 935	73 036 227
Debts to Group undertakings	5 364	0
Debts to the owner	87 502	888 002
Other debts	10 504 825	8 662 476
Accrued liabilities and prepaid income	13 991 245	19 097 711
	188 209 960	188 123 898
Liabilities, total	296 034 595	309 607 524
Liabilities	**377 839 682**	**363 331 253**

Comparison of Finnish (FAS) and IAS Financial Statement

	1998	1997
Net profit for year in Finnish financial statement	**29 052 925**	**17 420 583**
Untaxed reserves	0	984 207
Previously booked pension expenses	5 533 585	493 951
Unrealized gains/losses on exchange rates, proportion for accounting period	4 152 148	541 525
Net profit for year according to IAS financialstatement	**38 738 657**	**19 440 266**
Shareholders' equity in Finnish financial statements	**64 719 864**	**45 880 871**
Unrealized losses/gains on exchange rates	0	-1 390 852
Pension liability	0	-5 533 585
Untaxed reserves	0	2 000 275
Shareholders' equity in IAS financial statements	**64 719 864**	**40 956 709**

Notes to the Financial Statements

The parent corporation of the HYY Group is the Real Estate Funds of the Student Union of the University of Helsinki, which is domiciled in Helsinki. The subgroup's parent company is HYY Group Ltd, which is domiciled in Helsinki. Copies of the consolidated financial statements of the aforementioned groups can be had from the head office of the HYY Group, Mannerheimintie 5 C, 00100 Helsinki.

Accounting principles

The HYY Group's financial statements have been prepared in accordance with the new Finnish accounting regulations which became effective on 31 December 1997. In addition, financial statements complying with the regulations of the International Accounting Standards Committee (IASC) are being prepared. Information concerning previous financial years has been arranged so as to correspond to the new accounting principles.

Scope

The consolidated financial statements include all Finnish and foreign subsidiaries in which the parent company owns more that 50% either directly or indirectly. The income statement and balance sheet items of joint ventures (ownership 50%/50%), and the notes to them, have been consolidated in accordance with the degree of holding.

Associated companies

Companies in which the Group has a direct or indirect holding of 20-50% are classified as associated companies. Associated real estate companies are not, however, included in the consolidated financial statements, as they have no effect on the Group's financial result or shareholders' equity. At the end of the financial year, the Group had no associated companies with the exception of two associated real estate companies which fall outside the consolidated financial statements.

A cooperative housing share company which previously belonged to the Group has not been included in the consolidated financial statements either, as the majority stake has moved out of the Group before the signing of the financial statements. The fact that this company has not been consolidated does not have a material effect on the Group's figures.

Accounting policies

The consolidated financial statements are presented in Finnish markkaa and the figures are based on the original acquisition cost. Book values based on the acquisition cost have been reduced to match the market value when necessary. The Group's internal business transactions, distribution of profit, receivables and liabilities have been eliminated in their entirety. There were no internal margins that had to be eliminated.

Intra-Group share ownership has been eliminated using the acquisition-cost method. The difference between the acquisition cost and shareholders' equity has been presented as Group goodwill, which will be depreciated over the five years in which it has a financial effect. In the income statement, minority interest has been stated separately as a share of the profit for the financial year, and in the balance sheet it is included in shareholders' equity.

Items denominated in foreign currency

The income statements of foreign subsidiaries have been converted to Finnish markkaa at the average rate for the financial year, and the balance sheets at the rate on the closing date. Translation differences arising from conversion and the elimination of the shareholders' equity of foreign subsidiaries have been recorded in non-restricted equity. Receivables and liabilities denominated in foreign currency have been valued at the rate on the closing date.

Net sales

Net sales comprise capital gains from the sale of products and services, rental income from real estate operations and charges for consumption less indirect taxes, discounts and exchange rate differences.

Pensions and pension funding

The pension security of the employees of the Group's Finnish companies, including additional benefits, has been handled through external insurance companies. The pension arrangements of foreign subsidiaries have been handled in accordance with local practices.

In 1998, the parent company insured the entire pension liability related to the voluntary pension arrangements of persons who have already retired.

Extraordinary items

Presented as extraordinary income and expenses are major non-recurring income and expense items that are not part of ordinary business operations or are related to the capitalization of a business that is being wound down. Recurring operating income and expenses are included in items presented before operating profit.

Fixed assets and depreciation

Fixed assets are recorded in the balance sheet at the direct acquisition cost minus planned depreciation, which is calculated on a straight-line basis from the economically useful life of fixed assets.

The recommended useful life periods used in planned depreciation are:

	years
Incorporation and adjusting expenses	3
Intangible rights	3 - 10
Group goodwill	5
Other capitalized expenditure	3 - 20
Buildings	30 - 40
Machinery and equipment of the buildings	5 - 15
Machinery and equipment	3 - 5

Fixed asset acquisitions - including all mobile phones and computers having an estimated economically useful life under three years - have been recorded directly as annual costs. Land areas have not been depreciated. The securities included in fixed assets have been valued at the acquisition cost or, if their market value has permanently fallen, at the lower market value.

Other capitalized expenditure primarily includes the cost of the renovation of rental premises, where the depreciation period is the probable rental period at most. In the Real Estate Division, the other capitalized expenditure comprises such renovation costs of rented premises as have been agreed, during rent agreement negotiations, to be the responsibility of the landlord and whose effect has been accounted for when determining the rent. In these cases, the depreciation period is generally the duration of the rental period.

Separate information on the market values of fixed assets, their potential revaluation and collateral value is provided in the notes to the balance sheet. Information on capital return, or changes in value, is presented separately in the notes to the income statement.

Current assets

Inventories have been valued using a weighted average price. In the case of self-manufactured products, the price includes the indirect wage and raw material costs of production. The upper limit used in the valuation of inventory assets is the probable sale price and the probable acquisition cost.

Securities included in fixed assets are valued at acquisition cost or market value, whichever is lower.

Appropriations

Appropriations are those depreciation differences causing a change in the imputed deferred tax liability which is presented in the consolidated financial statements under the taxes for the financial year. In the consolidated balance sheet, accumulated appropriations have been divided into a tax liability and non-restricted equity.

Advances received

The bulk of the Travel subgroup's net sales is generated by the subgroup's air ticket system – a system which is unusual in the travel business – where customers pay a considerable amount in advance. Presented as advances received is the share of advance airfares paid by customers, who have the right to a refund, for which accounts receivable had not materialized between the subgroup and the airlines by the closing date, or a total of FIM 86.6 million (1997: FIM 63.5 million). The advances received are presented in current liabilities under the liabilities side of the balance sheet.

Notes to the Financial Statements

Notes to the income statement

	1998	1997
Net sales by division		
Real Estate Division	58 219 508	55 342 902
Travel Group	828 176 914	759 365 078
Catering Division	68 646 254	66 172 232
Book Division	25 982 411	29 068 050
Other	1 191 013	1 096 243
Total	**982 216 100**	**911 044 505**
Net sales by market area		
Finland	280 619 826	264 342 768
Other Nordic countries	568 906 126	515 733 003
Other European countries	130 553 934	129 228 917
Other	2 136 214	1 739 817
Total	**982 216 100**	**911 044 505**
Other operating income		
Capital gains from sales of investments in non-current fixed assets	28 942 885	4 030 346
Other	220 000	390 453
Total	**29 162 885**	**4 420 799**
Notes on personnel and members of institutions		
Salaries, remunerations and other compensation *) paid to members of the Board of Directors and the President and CEO	5 571 259	5 333 277
Salaries	83 539 516	79 869 970
Pensions	534 712	697 790
Pension costs	5 864 239	6 371 708
Other personnel costs	11 316 991	9 505 968
Total	**106 826 717**	**101 778 713**

*) The salaries and remunerations paid to the Boards of Directors and managing directors comprise the salaries and remunerations paid to the members of 17 Boards of Directors and 10 managing directors (1997: 9 managing directors). The remunerations paid to the Board of Directors of the Student Union, which acts as the public sector Board of the Group's parent corporation, are not included in the figures, as they are primarily paid from the funds of the Student Union. Some of the aforementioned remunerations are made payable by the HYY Group.

Management's pension commitments and loans granted to management or shareholders

The agreed retirement age of managing directors and managers in the HYY Group is 60 years. The agreed retirement age for the President and CEO of the Group is 55 years. The members of the Board of Directors have no pension commitments. No loans have been granted to management or shareholders with the exception of HYY Group Ltd's mediation of loans to its sole shareholder, the Real Estate Funds of the Student Union, through guarantees handed over directly to its providers of credit, in accordance with the definition of the HYY Group's field of operations in its Articles of Association. HYY Group Ltd can also grant a cash loan to the Real Estate Funds of HYY on the basis of point 3 (12:7.2) of the Companies Act irrespective of the restrictions specified in section 12:7.1 of the Companies Act.

Notes to the Financial Statements

Notes to the income statement

	1998	1997
Average number of people employed by the company		
Salaried employees	143	140
Employees	463	439
	606	**579**
In Finland	300	294
Abroad	306	285
	606	**579**
Depreciation and value adjustments		
Depreciation from tangible and intangible assets	16 604 325	15 111 190
Depreciation of Group goodwill	2 645 198	3 572 873
	19 249 522	18 684 063
Financial income and expenses		
Income from long-term investments		
Dividend income		
From Group undertakings	0	32 319
From others	151 361	27 834
	151 361	60 153
Income from long-term investments, total	**151 361**	**60 153**
Other interest and financial income	**7 085 088**	**5 824 454**
Interest and other financial income, total	**7 236 448**	**5 884 607**
Interest and other financial expenses		
To Group undertakings	12 210	0
To others	11 117 774	7 678 477
	11 129 985	**7 678 477**
Interest and other financial expenses, total	**11 129 985**	**7 678 477**
Financial income and expenses, total	**-3 893 537**	**-1 793 871**
Extraordinary items		
Extraordinary income		
Capital gains from the sale of shares in an associated company	0	1 139 323

Notes to the Financial Statements

Notes to the income statement

	1998	1997
Extraordinary expenses		
Income adjustment concerning financial years previous to 1997 due to a permanent change in the practice of recording rents in the accounts	0	426 730
VAT and other taxes allocated to previous years, most of which are being appealed	0	504 070
Losses from the sale of the terminated real estate investment operations of the Danish subgroup	4 930 401	0
Pension insurance	5 751 560	0
Total	10 681 961	930 800
Extraordinary income and expenses, total	**- 10 681 961**	**208 523**
Direct taxes		
Real estate taxes	2 375 256	2 446 142
Income taxes on ordinary operations		
For the current year	5 749 440	6 076 361
For the previous year	-34 084	-1 947
Change in the imputed deferred tax liability	1 922 999	1 553 197
Total	10 013 611	10 073 753

The revaluation or the capital return of central real estate which is included in the parent company's fixed assets but is not included in the income statement

	Market value 31.12.1998	*Market value 31.12.1997*	*Capital return (revaluation) 1998*	*Capital return ratio %*
City Centre Property	715 968 558	663 311 155	52 657 403	8.2
Leppäsuo Property	105 669 815	96 666 731	9 003 084	9.5
Market value, total	821 638 373	759 977 886		
Capital return, total			61 660 487	
Average capital return ratio, %				8.3

Total return of the central real estate

	Income return %		*Capital return %*		*Total return %*	
	1998	1997	1998	1997	1998	1997
City Centre Property	5.6	4.6	8.2	8.3	13.7	12.9
Leppäsuo Property	3.4	2.5	9.5	9.3	12.9	11.8
Average (weighted)	5.3	4.4	8.3	8.4	13.6	12.7

The income return is the net rental yield as a percentage of the capital value at the beginning of the financial year. The capital return ratio is the change in the market value as a percentage since the beginning of the year.

Total return = Income return + Capital return
The notes to the balance sheet present detailed information on the properties, and the calculation of their market values and yield in accordance with the formulae of the Finnish Institute for Real Estate Economics.

Notes to the Financial Statements

Notes to the balance sheet

Fixed assets	***1998***
Intangible assets	
Intangible rights	
Acquisition cost, 1 Jan.	1 775 202
Increases	787 284
Decreases	0
Acquisition cost, 31 Dec.	2 562 486
Accumulated depreciation, 1 Jan.	-1 052 501
Depreciation for the period	-406 845
Accumulated depreciation, 31 Dec.	-1 459 346
Book value, 31 Dec.	1 103 140
Goodwill	
Acquisition cost, 1 jan.	13 479 112
Increases	9 600
Decreases	0
Acquisition cost, 31 Dec.	13 488 712
Accumulated depreciation, 1 Jan.	-9 740 728
Depreciation for the period	-2 645 198
Accumulated depreciation, 31 Dec.	-12 385 926
Book value, 31 Dec.	1 102 7860
Other capitalized expenditure	
Acquisition cost, 1 Jan.	16 459 130
Increases	7 050 450
Decreases	-333 734
Exchange rate differences	-474 347
Acquisition cost, 31 Dec.	22 701 499
Accumulated depreciation, 1 Jan.	-8 638 362
Accumulated depreciation on deductions and transfers	657 990
Depreciation for the period	-2 296 971
Accumulated depreciation, 31 Dec.	-10 277 343
Book value, 31 Dec.	12 424 156
Tangible assets	
Land	
Acquisition cost, 1 Jan.	**7 983 495**
Increases	0
Decreases	-3 192 800
Exchange rate differences	13 600
Book value, 31 Dec.	4 804 295
Buildings	
Acquisition cost, 1 Jan.	**192 179 225**
Increases	6 534 214
Decreases	-26 266 042
Exchange rate differences	159 556
Acquisition cost, 31 Dec.	172 606 953
Accumulated depreciation, 1 Jan.	-84 033 443
Accumulated depreciation on deductions and transfers	12 427 208
Depreciation for the period	-4 274 407
Accumulated depreciation, 31 Dec.	-75 880 641
Book value, 31 Dec.	96 726 312

Notes to the balance sheet

	1998
Machinery and equipment of the buildings	
Acquisition cost, 1 Jan.	10 032 605
Increases	3 062 726
Decreases	0
Acquisition cost, 31 Dec.	13 095 331
Accumulated depreciation, 1 Jan.	-3 911 409
Depreciation for the period	-691 935
Accumulated depreciation, 31 Dec.	-4 603 344
Book value, 31 Dec.	8 491 987
Machinery and equipment	
Acquisition cost, 1 Jan.	55 807 677
Increases	9 931 079
Decreases	-2 479 721
Exchange rate differences	-622 765
Acquisition cost, 31 Dec.	62 636 271
Accumulated depreciation, 1 Jan.	-34 966 021
Accumulated depreciation on deductions and transfers	2 323 707
Depreciation for the period	-8 922 325
Accumulated depreciation, 31 Dec.	-41 564 639
Book value, 31 Dec.	21 071 632
Other tangible assets	
Acquisition cost, 1 Jan.	51 560
Increases	0
Decreases	0
Book value, 31 Dec.	51 560
Advance payments and acquisitions in progress	
Acquisition cost, 1 Jan.	657 547
Increases	7 841 905
Decreases	-32 547
Book value, 31 Dec.	8 466 905

The changeover to planned depreciation has been made gradually, fixed asset group by group, over the years, and was completed on 1 Jan. 1993. In the case of Finnish real estate, planned depreciation was adopted in 1982. The data does not record the acquisition cost of those fixed assets whose acquisition cost has not as yet been completely recorded as an expense in accordance with planned depreciation.

Notes to the Financial Statements

Notes to the balance sheet

	1998	1997
Market values of fixed assets [1]) insofar as they significantly deviate from the book values		
City Centre Property	715 968 558	663 311 155
Mannerheimintie 5		
Kaivokatu 10		
Aleksanterinkatu 23		
Land area 8 984 m²		
Building area 38 141 m²		
Commercial and office premises		
Leasable area: 31 560 m²		
Parking places: 70		
Leppäsuo Property	105 669 815	96 666 731
Leppäsuonkatu 9		
Hietaniemenkatu 14		
Land area 6 882 m²		
Building area 18 570 m²		
Residential, library and commercial premises		
Leasable area: 15 620 m²		
Parking places: 70		
Market value, total	821 638 373	759 977 886
Equivalent book value, total	106 968 565	101 949 243
Difference between market values and book values	**714 669 808**	**658 028 643**

The combined market value of other real estate as well as real estate and premises based on share ownership equals at least their combined book value, which is FIM 11 965 477.

[1]) In accordance with the formula of the Finnish Institute for Real Estate Economics, the market value has been calculated as being the present value of future net rental income returns. The market values as at 31 Dec. 1998 have been calculated on the basis of a 6.78% total return requirement and a 95% occupancy rate. The total return requirement is based on the interest on the government's 10-year bonds, 4.78, with an added risk premium of 2.00%. The previous year's market values have been calculated on the basis of a corresponding 7.95% total return and a 95% occupancy rate.

Revaluation contingency of fixed assets (land areas)

The plot of the city centre property (the Kaivopiha Commercial Building), which is owned by the parent corporation of the Group and has a land area of 8 954 m² (commercial and office premises) with builded area of 39 141 m², meets the Finnish Accounting Act's requirements for revaluation contingency. The taxable value of the plot was FIM 211 303 680 in 1997, and its balance sheet value as at 31 December 1998 was FIM 4 229 570. Using the cost of the building rights of commercial and office plots in the district as the reference value, the value of the plot exceeds its taxable value. The revaluation contingency indicated in the notes to the financial statements as at 31 December 1998 is FIM 200 000 000.

Security value of the securable assets

The security value (market value - realization reserve) of the securable assets in the Group's fixed assets was about FIM 700 000 000. At least 30% of the market value of each asset item has been used as a realization reserve. Included in the securable assets are not only the Finnish real estate, housing shares and cooperative housing shares, but also the value of the share lot in KILROY travels International A/S. The calculation also includes a lesser amount of marketable Finnish securities. Liabilities allocated to securable assets, i.e. mortgages and pledges granted, amounted to a total of FIM 107 434 638 on 31 December 1998.

Notes to the Financial Statements

Notes to the balance sheet

	1998
Investments	
Shares/Group undertakings	
Acquisition cost, 1 Jan.	3 403 603
Increases	0
Decreases	0
Acquisition cost, 31 Dec.	3 403 603
Accumulated depreciation, 31 Dec.	0
Book value, 31 Dec.	3 403 603
Shares/others	
Acquisition cost, 1 Jan.	6 455 966
Increases	46 586
Decreases	-23 359
Acquisition cost, 31 Dec.	6 479 194
Accumulated depreciation, 31 Dec.	0
Book value, 31 Dec.	6 479 194
Receivables/Group undertakings	
Acquisition cost, 1 Jan.	4 407 426
Increases	0
Decreases	-77 295
Book value, 31 Dec.	4 330 131

Notes to the Financial Statements

Notes to the balance sheet

	1998	1997
Receivables		
Current receivables		
Receivables from Group undertakings		
Accounts receivable	3 834	0
Loan receivables	2 041 665	115 943
Prepaid expenses and accrued income	0	90 467
	2 045 500	206 410
Receivables from the owner		
Accounts receivable	125 483	63 828
Prepaid expenses and accrued income	0	30 346
	125 483	94 174
Significant items included in prepaid expenses and accrued income		
Capitalized losses on exchange rates	0	1 390 852

Securities included in financial assets

Securities included in financial assets include not only those shares which are presented under the Group's own companies, but also short-term share-holdings in KILROY travels Int. A/S.

	1998	1997
Shareholders' equity		
Share capital, 31 Dec.	17 250 000	17 250 000
Retained earnings, 1 Jan.	30 284 496	11 282 669
Dividend payment to minority shareholders	-652 280	-228 470
Translation difference	2 760 996	0
Change in accounting entry principles	-201 665	731 569
Exchange rate differences	-774 607	156 089
Distribution of profits	-13 000 000	0
Retained earnings, 31 Dec.	18 416 939	11 941 857
Profit for the financial year	29 052 925	18 342 639
Shareholders' equity, total	64 719 864	47 534 496
Share of the accumulated depreciation difference recorded in shareholders' equity	3 014 750	1 653 624
Distributable funds in non-restricted equity	44 455 114	28 630 872

Notes to the Financial Statements

Notes to the balance sheet

	1998	1997
Liabilities		
Non-current liabilities		
Loans falling due in more than five years		
Loans from financial institutions	28 968 912	17 813 104
Pension loans	13 577 921	15 714 785
Other loans	3 314 216	3 621 084
Total	45 861 049	37 148 973
Debts to Group undertakings		
Other debts	160 000	0
Debts to the owners		
Other debts	9 190 000	4 760 000
Current liabilities		
Debts to Group undertakings		
Accounts payable	5 364	0
Current debts to the owners		
Accounts payable	82 379	35 968
Other liabilities	0	851 003
Accrued liabilities and prepaid income	5 123	1 030
	87 502	888 002
Significant items included in accrued liabilities and prepaid income		
Difference between advance and final rent	1 091 392	1 079 008
Imputed deferred tax liability	1 702 231	0

Notes to the balance sheet

	1998	1997
Other notes		
Collateral granted, contingent liabilities and other liabilities		
Liabilities for which real estate mortgages have been granted as collateral		
Pension loans	19 384 360	21 165 978
Mortgages granted	21 790 000	21 490 000
Loans from financial institutions	34 694 572	19 644 064
Mortgages granted	34 890 000	27 370 000
Other debts	18 737 222	3 888 610
Mortgages granted	25 578 950	9 612 950
Mortgages granted as collateral, total	82 258 950	58 472 950
Liabilities on behalf of Group companies		
Guarantees	34 618 485	72 654 205
Mortgaged promissory notes	51 800 000	80 500 000
Pension responsibilities which have not been recorded as expenses and liabilities	0	5 533 585
Leasing commitments		
Unpaid leasing agreements		
To be paid during current financial year	75 024	56 348
To be paid later	105 423	89 271
Total	180 447	145 619
Guarantees on behalf of Group companies		
Endorsed guarantees granted by HYY Group Ltd		
For a loan to a Group company	720 000	720 000
Endorsed guarantees granted by the parent corporation		
For loans of HYY Group Ltd	9 000 000	22 138 788
Guarantees on behalf of others		
Endorsed guarantees granted by the parent corporation		
For the debt of an associated company	33 750	56 250
For debts of others	0	50 000

Signatures

Signatures of the Board of Directors and the President and CEO of the HYY Group and HYY Group Ltd.

Helsinki, 24 March 1999

Nora Malin
Chair

Sami Hyryläinen

Petteri Huovinen

Miska Kuhalampi

Panu Laturi

Mika Ihamuotila

Harri Tanhuanpää

Tapio Kiiskinen
President and CEO

Statement by the Supervisory Board of HYY Group Ltd

The Supervisory Board has examined the 1998 financial statements and consolidated financial statements of the HYY Group and HYY Group Ltd as well as the auditors' reports and consolidated auditors' reports, and has not found any such defects in them as would give cause for comments. The Supervisory Board is thus in favour of the adoption of the financial statements, and is in accord with the Board of Directors' proposal on the distribution of profits.

Helsinki, 28 April 1999

On behalf of the Supervisory Board,

Tatu Rauhamäki,
Chair of the Supervisory Board

Auditors' report

To the Representative Council of the Student Union of the University of Helsinki

We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the President and CEO of the Real Estate Funds of the University of Helsinki (the parent corporation) and the HYY Group, which is formed by the Real Estate Funds, HYY Group Ltd and its corporate group, for the financial year from 1 January to 31 December 1998. The financial statements, which include the report of the Board of Directors, consolidated and parent corporation income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the President and CEO. Based on our audit we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order 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 and 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 the administration has been to examine that the members of the Board of Directors and the President and CEO have complied with the rules of the Student Union and the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent corporation result of operations, as well as of the financial position. The financial statements, including the consolidated financial statements, can be adopted and the members of the Board of Directors and the President and CEO of the parent corporation can be discharged from liability for the period audited by us. We support the proposal made by the Board of Directors on how to deal with the earnings for the financial year.

Helsinki, 31 March 1999
KPMG WIDERI OY AB

Reino Tikkanen
Authorized Public Accountant

Report of the Auditors

We have reviewed the accounts of HYY Group. These accounts have been adapted from the Company's consolidated statutory accounts, which have been prepared in accordance with Finnish accounting practice.

In our opinion the accounting policies used in this adaptation are in accordance with International Accounting Standards (IAS).

Helsinki 31 March 1999
KPMG WIDERI OY AB

Reino Tikkanen
Authorized Public Accountant

Auditors

KPMG Wideri Oy Ab
- Book Division
- Catering Division
- HYY Group Ltd
- Real Estate Division

KPMG C. Jespersen

KPMG Wideri Oy Ab
- Travel subgroup KILROY travels International A/S

Administration and Boards of Directors 24 March 1999

Representative Council of the Student Union

Chair of the Student Union

Veijo Åberg

Deputy Chair

Kimmo Kivelä

Sami Heistaro

Members

The Student Union has 60 members who are chosen by general election for a two-year term.

Board of the Student Union

Chair

Panu Laturi

Deputy Chair

Sebastian Gripenberg

Members

Teppo Hujala

Hanna Järvinen

Vertti Kiukas

Riina-Riikka Kuparinen

Nora Malin

Jukka Pajarinen

Esa Perkiö

Hannes Saarinen

Johanna Sumuvuori

Anu Säilä

Kaisa Väänänen

Supervisory Board of the HYY Group

Chair

Tatu Rauhamäki

Deputy Chair

Johanna Haltia-Tapio

Members

Tommi Björklund

Maria Carlsson

Timo Fager

Sami Heistaro

Perttu Iso-Markku

Esa-Pekka Keskitalo

Ulla Kuisma

Otto Lehtipuu

Hannu Liekso

Pia Majonen

Ville Mujunen

Jussi Pakari

Anu Piilola

Katja Pätiälä

Minna Romppanen

Taneli Vuori

Board of Directors of the HYY Group

Chair

Nora Malin

a member of the Board of Directors since 1999

Deputy Chair

Sami Hyryläinen

a member of the Board of Directors since 1998

Members

Petteri Huovinen

a member of the Board of Directors since 1996

Panu Laturi

a member of the Board of Directors since 1998

Miska Kuhalampi

a member of the Board of Director since 1998

Mika Ihamuotila

Financial Manager at Mandatum Bank and a member of the Management Group

a member of the Board of Directors since 1996

Harri Tanhuanpää

Neptun Maritime Oyj, Cash Manager

a member of the Board of Directors since 1993

Personnel Representative

Kaisa Siitonen

a member of the Board of Directors since 1997

Board of Directors of KILROY travels International A/S

Chair

Tapio Kiiskinen

Deputy Chair

Christian Frigast

Members

Børge Faaborg

Petteri Huovinen

Jacob Thygesen

Odd Wilhelmsen

Personnel Representative

Robert Doeleman

The HYY Group's Board of Directors

Executive Management 1 April 1999

HYY Group

Tapio Kiiskinen

President and Chief Executive Officer
Chair of the Boards of Directors, Travel Group and Book Division
Finance Director of the Student Union
Employed by the Student Union and the HYY Group since 1969

Linnea Meder

Vice President
HYY Group Ltd
Corporate Finance and Internal Auditing
Employed by the Student Union and HYY Group since 1973

Real Estate Division

Yrjö Herva

Director
Kaivopiha Ltd
Student Union's real estate
Employed by the HYY Group since 1990

Jukka Leinonen

Assistant Director
Kaivopiha Ltd
Technical and building superintendent operations
Employed by the HYY Group since 1995

Book Division

Aila Santanen

Managing Director
University Press Finland Ltd
University Bookstore Finland Ltd
Oy Academica Hotels Ltd
Employed by the HYY Group since 1976

Travel Group

Børge Faaborg

Managing Director and Chief Executive Officer of the Travel subgroup
KILROY travels International A/S
Employed by the HYY Group since 1987

Carsten Clemmensen

Director, Corporate Financial Services
KILROY travels International A/S
Employed by the HYY Group since 1997

Dagmar Thomsen

Director, Corporate Commercial Services
KILROY travels International A/S
Employed by the HYY Group since 1988

Arnar Thorisson

Director, Corporate IT
KILROY travels International A/S
Employed by the HYY Group since 1995

Henrik Bjørn-Hansen

Country Manager
KILROY travels Denmark A/S
Employed by the HYY Group since 1998

Leena Dahl-Mäkinen

Country Manager
OY KILROY travels Finland AB
Employed by the HYY Group since 1991

Claus H. Hejlesen

Country Manager
KILROY travels Germany GmbH
Employed by the HYY Group since 1990

Åsne Trommald

Country Manager
KILROY travels Norway A/S
KILROY travels Trondheim A/S
Employed by the HYY Group since 1997

Luis Almonacid

Country Manager
KILROY travels Spain S.A.
Employed by the HYY Group since 1989

Monica Murphy

Country Manager
KILROY travels Sweden AB
Employed by the HYY Group since 1991

Annelise Dam Larsen

Managing Director
Benns Rejser A/S
Benns Resor AB
Employed by the HYY Group since 1999

Catering Division

Marjo Berglund

Director
Oy UniCafe Ab
Oy Gaudeamus Ab
Employed by the HYY Group since 1992

Liisa Lehtinen

Assistant Director
Oy UniCafe Ab
Employed by the HYY Group since 1978

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Oy Gaudeamus Ab

Restaurant Vanha
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Oy Academica Hotels Ltd

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BOOK DIVISION

University Press Finland Ltd
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Otatieto Publishing House
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University departments in Viikki
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Telefax +358 9 347 4660

University Bookstore, University of Technology
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Formulas for Key Indicators

Calculated in accordance with the conventions of the Finnish Committee for Corporate Analysis

Overall result	Profit before taxes and minority interest - taxes +/- adjustment of exchange rate differences
Return on investment (ROI), %	$\frac{\text{Net profit + financing expenses + taxes x 100}}{\text{Balance sheet total - non-interest-bearing liabilities (average)}}$
Return on equity (ROE), %	$\frac{\text{Net profit x 100}}{\text{Shareholders' equity (average)}}$
Equity ratio, %	$\frac{\text{Shareholders' equity + minority interest + reserves x 100}}{\text{Balance sheet total - advance payments}}$

The key indicators are calculated in accordance with the conventions of the Finnish Committee for Corporate Analysis. These conventions were renewed in 1995.

Other Key Indicators

Return on equity, %, if revaluation of land areas is realized [1]	$\frac{\text{Net profit + financing expenses + taxes x 100}}{\text{Balance sheet total + revaluation contingency - non-interest-bearing liabilities (average)}}$
Equity ratio, if revaluation of land areas is included, % [2]	$\frac{\text{Shareholders' equity + minority interest + reserves + revaluation contingency x 100}}{\text{Balance sheet total - advance payments + revaluation contingency}}$
Security ratio	$\frac{\text{Security value of the securable assets}}{\text{Pledges, mortgages and other guarantees}}$
Market value of real estate	The discounted present value of the net rental income receivable in the future
Income return	Net rental income as a percentage of the market value of real estate at the beginning of the financial year
Capital return	Change in the market value as a percentage of the market value at the beginning of the year
Total return	The sum of the income return and capital return for the report year
Tied-up risk by division	Owner's total risk = equity and quasi-equity investments + loans granted + collateral provided as pledges and guarantees given

The capital value and annual capital return of the main items of real estate have been calculated in accordance with the conventions of the Finnish Institute of Real Estate Economics.

[1] Income return without forthcoming capital return at the beginning of the year, if the revaluation had been realized at the end of the previous year. Does not indicate the realized overall result or return on investment.

[2] In the officially audited financial statements, the requirements for revaluation contingency under the Finnish Accounting Act are added to the shareholders' equity in the capital structure review.

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