





# Annual Report for Novo Group plc for 1998

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We make  
IT  
for you.



## Shareholder information

### Annual General Meeting

The Annual General Meeting of Novo Group plc will be held on Thursday 8 April 1999 starting at 10 a.m. at Novo Group plc Head Quarters at Valimotie 17, 00380 Helsinki.

A shareholder who was registered as a shareholder in the shareholders' register of Novo Group plc maintained by the Finnish Central Securities Depository Ltd, by 3 April 1999 at the latest, is entitled to participate in the meeting.

Furthermore, shareholders whose shares have not been transferred to the book-entry securities system are also entitled to participate in the company meetings, provided that the shareholders were registered as shareholders in the company shareholders' register before 9 September 1997, or that the shareholders have informed the company on their title and provided the required evidence. In such a case, the shareholders must present their share certificates at the meeting, or be able to account for their whereabouts, or provide an explanation as to why their titles have not been booked in the book-entry securities account.

Shareholders who wish to participate in the company meeting must register with the company by notifying Ms Tuulia Salminen, either in writing to Novo Group plc, P.O. Box 38, 00381 Helsinki, or by phone to +358 9 5067 2301, or by fax to +358 9 5067 2770, no later than 4 p.m. on 6 April 1999.

When registering for the meeting in writing, the letter should reach the company before the end of the registration day. Any proxies should be delivered to the same place within the registration period.

### Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 3.60 per share be paid as a dividend for the financial year ended on 31 December 1998. The record date for the payment of dividends is 13 April 1999 and the payment date 20 April 1999.

### Bonds with warrants

The Board of Directors of Novo Group plc proposes to the Annual General Meeting of 8 April 1999 that a bond loan with warrants in the amount of no more than EUR 800,000 be offered for subscription by the Group's entire personnel.

No more than 40,000 bond certificates with a nominal value of EUR 20 will be issued for the bond loan. To each bond certificate, 10 warrant certificates will be attached, five (5) of which shall be marked with the letter A and five (5) with the letter B. Warrant certificates marked with the letter A shall be separated from the bonds to form an independent type of security on 4 September 2001, and warrant certificates marked with the letter B on 14 June 2002. The subscription period for the bond loan with warrants is from 17 May to 4 June 1999. The term of the bonds is three (3) years, and the interest rate is three (3) percent. The loan will be repaid as a single instalment on 14 June 2002.

Warrant A entitles its holder to the subscription of shares from 4 September 2001 to 4 September 2004, and warrant B from 14 June 2002 to 4 September 2004. One warrant entitles the holder to subscribe one (1) Novo Group plc share. The subscription price is the average price of Novo Group plc's share quoted during the period between 1 January and 28 February 1999.

If the subscription rights provided by the bonds with warrants are used in their full amount to subscribe shares, the new shares subscribed with warrants shall represent approximately 5.76 % of the total share capital and voting rights.

Offering the bond loan with warrants is a part of the incentive system used at Novo Group plc. The objective is to encourage personnel to work persistently towards increasing shareholder value.

### Financial information

Novo Group plc will publish three Interim Reports during 1999:

- January – March 1999 on Thursday 6 May, at 9 a.m.
- January – June 1999 on Thursday 5 August, at 9 a.m.
- January – September 1999 on Thursday 4 November at 9 a.m.

The Annual Report and Interim Reports will be available in Finnish and English.

### To order publications and for further information, please contact:

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## Novo in brief

Novo focuses on business activities that employ the company's core IT competencies. These core competence areas are developed in such a way as to provide the company with permanent competitive advantages. Our core competence areas include consultancy, software services, network and operating services, and hardware deliveries complete with all the expert services required.

We are constantly in the process of developing new services to support our traditional key expertise. The most important new business activities geared at producing more core competencies include electronic services and solutions for the Internet, and outsourcing those of our customers' business processes that do not constitute their key business.

### Why Novo?

- ◆ Future business potential in the IT business
- ◆ Committed and competent management and highly professional personnel
- ◆ Clear and sharply focused plans on how to benefit from future opportunities

### Mission

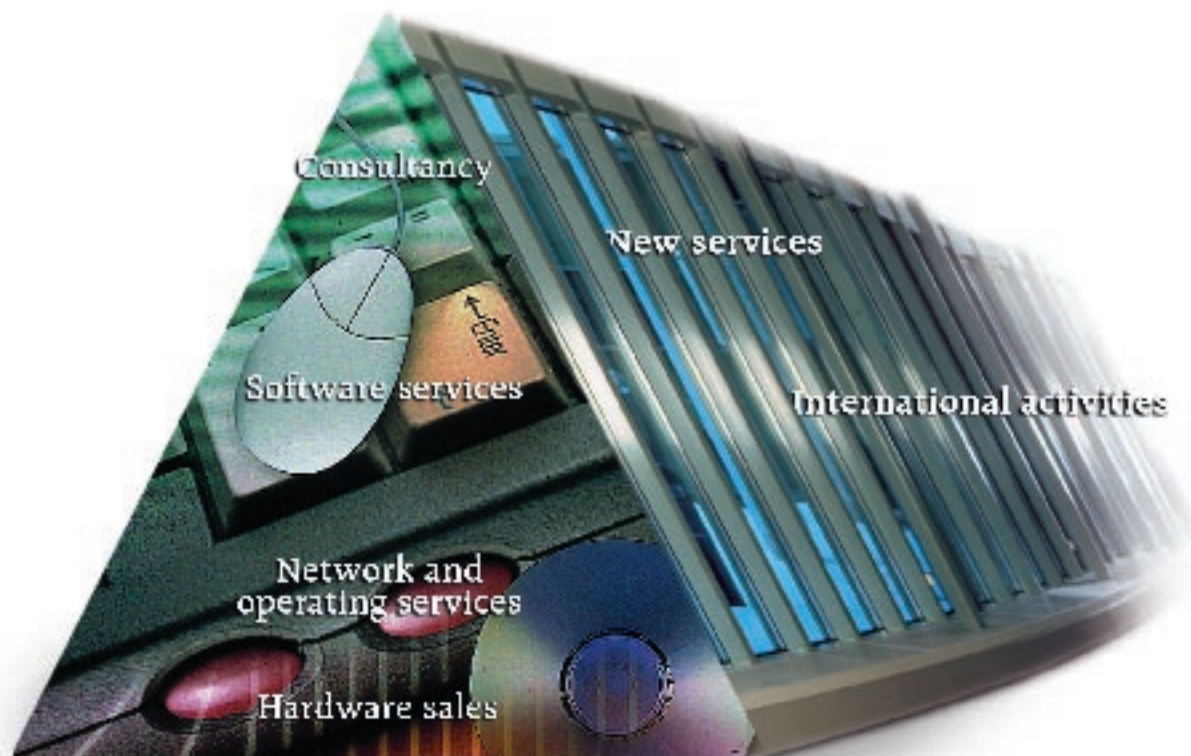
Our objective is to increase shareholder value by responding quickly and reliably to our customers' changing needs. We exploit the potential offered by advanced information technology to improve the quality of our customers' services, operational efficiency and competitive edge. This allows our customers to concentrate on their key businesses.

### A strategy devised to ensure growth and profitability

We aim to achieve a faster growth than the average market growth and ensure profitability at the same time. We seek to achieve this goal through business growth and acquisitions.

### Business strategy

We anticipate technological changes and take advantage of the opportunities they offer to build new, profitable business activities that give us a competitive advantage.



NOVO IS A GROUP OF SEVERAL COMPANIES ENGAGED IN THE SAME LINE OF BUSINESS. WE OFFER OUR CUSTOMERS ALL THE IT PRODUCTS AND SERVICES THEY REQUIRE. OUR BUSINESS STRATEGY IS TO PROVIDE A FULL SERVICE PACKAGE COVERING THE CONSULTATION REQUIRED WITH NEW TECHNOLOGIES AND THE OPPORTUNITIES THEY OFFER. HARDWARE AND NETWORK INFRASTRUCTURE, AND BUSINESS ENHANCING SYSTEM SOLUTIONS. OUR EXPERTISE IN INTEGRATION COMBINED WITH OUR OPERATING AND SUPPORT SERVICES GUARANTEE THAT OUR SOLUTIONS WORK SMOOTHLY AND FREE OF PROBLEMS. TO SECURE GROWTH IN THE FUTURE, WE NEED TO GROW GLOBALLY AND DEVELOP NEW BUSINESS OPERATIONS. IF REQUIRED, WE ARE PREPARED TO TAKE FULL RESPONSIBILITY FOR OUR CUSTOMERS' INFORMATION TECHNOLOGY SOLUTIONS AND THE RELATED BUSINESS PROCESSES.



## Human resources strategy

People are Novo's key strategic resource. We provide our qualified experts with the kind of working environment that encourages them to use their expertise for the benefit of our customers.

We aim to build an organisation that is customer-driven, able to cooperate and transform, and that encourages people to work hard to produce good results. We want to be a respected and highly regarded employer among both students and professionals.

## Global growth strategy

To achieve continued growth we have to grow globally. Our global growth strategy is two-fold: firstly, we want to gain ground on global markets with our selected niche products and secondly, we aim to expand operations in Finland's neighbouring regions.

## Dividend policy

Although dividends paid are in line with the year's financial performance, it is our objective to maintain a rather steady level of annual dividends. Novo Group plc aims to distribute at least 25% of the post-tax profits to shareholders in dividends.

## Expertise in many sectors

- Private sector
  - major companies, small and medium-sized enterprises
  - commerce, transport, industry, finance and insurance
- Local administration
- Public administration
- Health care sector
- International markets

## The year's highlights

- |                  |  |
|------------------|--|
| 30 June 1998     | The software business acquired from a UK-based company Inn-Ventory Computers Ltd (Ivc Ltd) was transferred to a new subsidiary, Novo Ivc Ltd. Novo Ivc Ltd specialises in developing point-of-sales and logistics systems for passenger carrier companies and marketing these products customers all over the world. The company's clients include 40 airline companies and other passenger transport companies, primarily European. |
| 20 August 1998   | Novo acquired the entire business operations of CardPLUS Oy, a company engaged in designing solutions for electronic commerce.   |
| 1 October 1998   | Novo purchased the entire share capital of the Lahti-based Nouveltech Oy. Operating in the Lahti region, Nouveltech focuses on delivering hardware systems and related services.   |
| 1 October 1998   | Business activities in Estonia were expanded. Novo Eesti AS acquired the software businesses of two Estonian IT companies; AS Andreomar and Baltic Computer Systems. Following this business arrangement, Novo Eesti AS (subsequently Novo Bcs AS) became one of the largest IT companies in Estonia.  |
| 1 November 1998  | The entire share capital of Meridian Systems Oy was purchased. Meridian Systems is involved in the development and marketing of software based on geographic information systems (GIS) technology.   |
| 5 November 1998  | A new type of partnership was established with Fujitsu Computers Oy in order to boost the efficiency of our logistics chain. The Fujitsu Fast Track system enables the delivery of selected workstation hardware in five days.   |
| 31 December 1998 | Novo acquired a 60% interest in HM&V Research, a management IT consultant firm.  |
| 31 December 1998 | The entire share capitals of two companies, New Generation Software (NGS) Oy and Oy Artis Ltd, were acquired. Established in 1988, New Generation Software is a Finnish software house that specialises in software applications for knowledge engineering and documentation management.   |
| 4 January 1999   | Novo Group plc subscribed 60% of the company's shares to resume the activities of the National Land Survey of Finland's Satellite Image Centre. This company launched business operations under the name Novosat Ltd. Its business operations will focus on the import and sale of satellite images as well as on processing and expert services.  |



## Continued profitability and growth

In an international survey published in 1998, indicating the development towards the information society, Finland ranked second after the United States (IDC/WorldTimes, Information Society Index Toward the Third Revolution). This survey emphasised technological infrastructure, that is, the number of mobile phones, Internet connections and home computers, but the increased number of IT companies was also an indication of a generally positive attitude towards information technology.

For many years, the Novo Group has aimed to outperform market growth while at the same time improving profitability. 1998 was another successful year for us in this respect: Our net sales were up by 20.8% while the average market growth was 10 - 15 %. Our operating profit improved by 36.6% to FIM 74.6 million.

The increasingly network-based information technology enables the rise of a new economy. Over the course of 1998, Novo's customers became more and more interested in new hardware and network solutions as well as performance-boosting software solutions. This rapid change triggered the demand for consultation services.

### **A full service strategy in Finland**

At the end of 1998, the Novo Group had grown to comprise eleven companies, two of which are located outside Finland. Our strategy in Finland is customer-driven; in other words, we want to provide as many customers as possible full access to the Group's entire range of services from technological infrastructure to software and the operating, network, expert and consultant services that support them.

Of all Novo's market sectors, the business sector saw, once again, the most dramatic growth in net sales. We signed several agreements covering the delivery of complete service packages and the construction of customer-specific systems. The public administration sector's potential to invest in information technology did not grow as vigorously as the business sector's. In the local administration sector, demand focused on various outsourcing services. Towards the end of the year, the local administration sector began to show emerging interest in operational control systems, which are becoming increasingly popular in companies. In the public sector, the most significant individual agreements covered personnel administration system deliveries. Furthermore, we enjoyed considerable success in tenders involving the construction of customer-specific systems.

In Finland, the health care sector aims to develop and improve



operations by employing systems based on the continuing health care concept. Novo is actively involved in this work. The approach of the year 2000 will continue to affect all our business groups. Most of the year 2000 upgrades on our own software packages have been completed and tested. Production environments of the operating services we offer have been rendered year 2000 compliant. During the course of this year, the technological infrastructure of systems will be modernised at an accelerated pace.

In most big companies and organisations, the data processing environment consists of modules delivered by several suppliers and is often highly networked. Ultimately, the users themselves are responsible for making sure that the functionality of individual components and the entire data processing environment is secured.

## Two roads to global growth

Securing our future growth requires a global approach. Therefore, our global growth strategy is two-fold: firstly, we aim to gain a strong foothold in the global market with our selected niche products. Secondly, we will expand our business operations and service selection in Finland's neighbouring regions.

The starting point for our first international niche product was the creation of TaxTop and FlyTop systems that have been developed in close co-operation with Finnair since 1995. These systems are used for sales activities in passenger transport vehicles. In mid-1998 we acquired the software business of the UK based Inn-Ventory Computers Ltd (Ivc Ltd), the leading company in this business. The acquired business was transferred to a new subsidiary, Novo Ivc Ltd. Novo Ivc's customer base is made up of approximately forty, primarily European, airlines and other passenger carrier companies. We plan to benefit from the work performed for Finnair to serve both current and future customers of Novo Ivc. The company wants to expand its business operations to provide more services to other customers in addition to airline companies.

To cement our position in Finland's neighbouring regions, we expanded the operations of our Estonian subsidiary through business acquisitions carried out in the autumn. After the acquisition of Baltic Computer Systems AS and AS Andremar's software businesses, Novo Eesti AS (subsequently Novo Bcs AS) employed some 40 people and ranked one of the largest software houses in the Baltic countries.

A third project associated with our global growth efforts is our

co-operation with the Chinese Academy of Surveying and Mapping. Our objective in this project is to develop a satellite image processing software application for the Chinese market. To further develop our satellite image business, we acquired a majority holding of the satellite-imaging centre of the National Land Survey of Finland. The centre became Novo's subsidiary in the beginning of 1999 and it took the name of Novosat Ltd.

## Investing in new business activities

The IT business will undergo a dramatic change within the next few years. Global network ideology will gain ground, evolve and become everyday reality. A larger range of more user-friendly services will be offered in electronic networks. Along with the introduction of third-generation mobile phone technology, wireless technology will replace workstations in user interfaces. Services offered through the network will, in most cases, also be available from several user interfaces, including digital television.

A changing business requires that the players in the field change too. IT and teletechnology companies, as well as content-producing companies are in turmoil. Data security and privacy protection will have increased importance as companies begin to offer services through the networks. Services offered through networks, electronic transactions and e-commerce change the traditional consumer habits and create entirely new products, as well as companies offering them. It is likely that the companies currently operating in the field will see their roles redefined in the new marketplace.

Novo's strategy is to offer complete service packages in the future market place as well. We will be engaged in the hardware and software businesses, as well as the in the network operating, monitoring, management and support services business.

In 1998, we followed our corporate strategy and focused on enhancing our expertise in services involving the Internet, inter-company electronic trading, data management solutions and IT consulting.

Entirely new products and services associated with the Internet were by and large developed by Novostore Ltd. Business acquisitions were carried out to expand the company; in August, Novostore purchased CardPlus Oy, a company specialising in electronic trading solutions, and in December, New Generation Software (NGS) Oy and Oy Artis Ltd, both who offer knowledge engineering solutions.

The acquisition of HM&V Research Oy helped strengthen our know-how in business management IT consulting. This company has special expertise in services associated with network solutions; in fact, it is one of the leading companies in Finland in this field. Over the year, among other things, Novo's R&D unit focused on developing new testing service products.

## First full year as a listed company

For Novo, 1998 was the first full year as a listed company. It was a year of major improvements and changes within the company. We developed and honed the methods for strategic planning, operative management and results monitoring. Furthermore, we focused sharply on fortifying our team spirit in the rapidly growing Group.

Our objective will continue to be to grow faster than the markets on average, partly powered by business acquisitions. We will also endeavour to improve profitability and increase the share of international operations of our net sales.

We will make Novo a more and more desirable workplace for the top IT professionals. With this in mind, we have launched several projects geared at improving the personnel's physical and psychological well-being, as well as sharpening the professional skills of both individuals and the whole company.

At the end of the year, there were 1,827 Novo shareholders and the Novo Group employed 1,457 personnel. I would like to express my gratitude to shareholders and the people at Novo for everything we achieved in the past year. Furthermore, I want to thank our customers and business partners for their unwavering confidence in us, and assure you we will do our very best to win it again this year.



Jorma Kielenniva  
President and CEO



## Shares and shareholders

### Share capital

According to the articles of association, the company's minimum share capital is FIM 15,000,000 and maximum share capital is FIM 60,000,000. Within these limits the share capital can be increased or decreased without amending the articles of association. The company's fully paid share capital shown in the trade register is FIM 31,734,940 and it consists of 6,346,988 shares, each with a nominal value of five Finnish marks.

### Share series

The company has one share series and each share is entitled to one vote at the company meetings.

### Share listing

Company shares are listed on the HEX Helsinki Stock Exchange. Company shares were included in the book-entry securities system on 9 September 1997.

### Management bond loans with warrant and convertible bonds

The Annual General Meeting held on 7 April 1998 approved the Board of Directors' proposal concerning rights of option. No more than 200,000 warrants drawn on designated persons will be issued, which entitle the holders to subscribe a total of 200,000 of Novo Group plc's shares.

The rights of options will be granted, by way of derogation from the shareholders' subscription privilege, for subscription by the managerial personnel of the Novo Group and the Group companies. This exception to the shareholders' subscription privilege constitutes a part of the management incentive system.

The Board of Directors did not exercise its right to issue warrants in 1998.

### Bonds with warrants

The Board of Directors of Novo Group plc proposes to the Annual General Meeting of 8 April 1999 that a bond loan with warrants in the amount of no more than EUR 800,000 be offered for subscription by the Group's entire personnel. See page 5.

### Acquiring the company's own shares

On 7 April 1998, the Annual General Meeting authorised the Board of Directors to decide on acquiring the company's own shares using the distributable profit funds. The Board may acquire shares to improve the company's capital structure, to be used as payment when the company acquires assets for its business operations, and as payment for potential business acquisitions. The Board of Directors exercised its right to acquire the company's own shares.

### Management ownership

According to the shareholders' register, the President and CEO of Novo Group plc owned 7,180 shares of Novo Group plc on 31 December 1998. These shares represent 0.1% of Novo Group plc's share capital and voting rights.

According to the shareholders' register, members of the Supervisory Board and Board of Directors owned a total of 142 shares of Novo Group plc on 31 December 1998. These shares represent 0.002% of Novo Group plc's share capital and voting rights.

### Dividend policy

Although the dividend paid is in line with the year's financial performance, it is our objective to maintain a rather steady level of annual dividends. Novo Group plc aims to distribute at least 25% of the post-tax profits to shareholders in dividends. The amount of dividends paid depends, however, on Novo Group plc's and the Group's future financial position, financial result of operations, cash flow, need for working capital and other factors deemed relevant by Novo Group plc's Board of Directors, and ultimately on the decisions made at the Annual General Meeting.

### Distribution of ownership on 31 December 1998

#### Major shareholders

Shareholders	No. of shares	Shareholding and votes, %
The City of Helsinki	1 020 320	16.3
Leonia Bank plc	601 281	9.6
The City of Vantaa	511 661	8.2
The City of Espoo	482 086	7.7
The Association of Finnish Local Authorities	446 078	7.1
Varma-Sampo Mutual Pension Insurance Company	284 900	4.5
The Local Government Pensions Institution	277 363	4.4
Leonia Finance Ltd	201 837	3.2
Tapiola Mutual Pension Insurance Company	129 508	2.1
Tapiola Mutual Life Assurance Company	89 000	1.4
Others	2 227 954	35.5
Total	6 271 988	100.0



## Distribution of ownership by number of shares owned on 31 December 1998

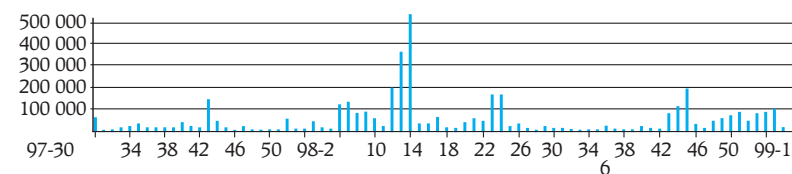
Number of shares owned	No. of shareholders	Proportion of all shareholders, %	No. of shares	Proportion of all shares, %
1 – 100	835	45.7	59 529	0.9
101 – 1 000	797	43.6	285 529	4.6
1 001 – 10 000	137	7.5	440 839	7.0
10 001 – 100 000	48	2.6	1 317 860	21.0
100 001 – 1 000 000	9	0.5	3 093 209	49.3
1 000 001 –	1	0.1	1 020 320	16.3
Total	1 827	100.0	6 217 286	99.1
Joint account and waiting list			54 702	0.9
Grand total			6 271 988	100.0

For the calculation of 1998 ratios, the number of own shares has been deducted from the total number of shares, and the reserve value from shareholders' equity, except in the case of profit per share and dividend per profit percentage ratios, in which the divider is the company's total number of shares: 6,346,988.

## Shareholders by sector on 31 December 1998

Shareholder sector	Shareholders		Proportion of all shares and voting rights	
	No. of	%	No. of	%
Companies	124	6.85	257 009	4.1
Financial and insurance institutions	43	2.36	1 699 057	27.1
Public corporations	186	10.20	3 127 386	49.9
Non-profit organisations	33	1.81	586 000	9.3
Private households	1 431	78.45	319 589	5.1
In administrative registration and foreign holding	10	0.33	228 245	3.6
Joint account and waiting list			54 702	0.9
Total	1 827	100.00	6 271 988	100.0

## Development of share price and trading 21 July 1997 - 24 February 1999



Kauppaletti Online

## Financial indicators and per-share ratios for five years

	*) 1998	1997	1996	1995	1994	1998	1997	1996	1995	1994
	FIM	FIM	FIM	FIM	FIM	EUR	EUR	EUR	EUR	EUR
<b>FINANCIAL INDICATORS</b>										
Net sales, million	1 555.5	1 287.2	1 144.3	818.3	698.8	261.6	216.5	192.5	137.6	117.5
Operating profit (loss), million	74.6	54.6	48.5	27.4	11.9	12.5	9.2	8.2	4.6	2.0
Percentage of net sales	4.8	4.2	4.2	3.3	1.7	4.8	4.2	4.2	3.3	1.7
Profit before extraordinary items, million	79.5	56.7	47.3	26.5	11.0	13.4	9.5	8.0	4.5	1.9
Percentage of net sales	5.1	4.4	4.1	3.2	1.6	5.1	4.4	4.1	3.2	1.6
Profit before appropriations and taxes, million	79.5	59.1	47.3	26.9	11.2	13.4	9.9	8.0	4.5	1.9
Percentage of net sales	5.1	4.6	4.1	3.3	1.6	5.1	4.6	4.1	3.3	1.6
Balance sheet total, million	701.6	561.3	454.2	321.9	308.5	118.0	94.4	76.4	54.1	51.9
Return on investment, %	21.5	20.6	25.9	19.6	10.9	21.5	20.6	25.9	19.6	10.9
Return on equity, %	16.1	15.5	22.1	18.6	5.8	16.1	15.5	22.1	18.6	5.8
Solvency ratio, %	55.4	61.0	42.5	35.0	30.9	55.4	61.0	42.5	35.0	30.9
Gross investments in fixed assets, million	134.4	68.8	57.4	47.6	33.2	22.6	11.6	9.6	8.0	5.6
Percentage of net sales	8.6	5.3	5.0	5.8	4.8	8.6	5.3	5.0	5.8	4.8
Average number of personnel	1 279	1 063	938	843	718	1 279	1 063	938	843	718
<b>PER-SHARE RATIOS</b>										
Profit/share,	9.0	7.1	6.7	3.8	1.1	1.51	1.19	1.13	0.64	0.19
Dividend/share,	3.6	2.6	0.9	0.4	0.3	0.61	0.44	0.15	0.07	0.05
Dividend/profit, %	40.0	36.6	13.9	9.8	29.4	40.00	36.6	13.9	9.8	29.4
Equity/share	58.5	53.6	34.3	22.4	18.9	9.84	9.01	5.77	3.77	3.18
Share price at the end of the year	204	128				34.34	21.53			
Average price	198	154				33.33	25.88			
Highest price	265	205				44.57	34.48			
Lowest price	125	128				21.02	21.53			
Market value, million	1 294.8	812.4				217.8	136.6			
Development of share trading										
No. of shares traded	2 992 427	497 142								
Percentage of shares	47.7	7.8								

\* For the calculation of 1998 ratios, the number of own shares has been deducted from the total number of shares and the reserve value from shareholders' equity, except in the case of profit per share and dividend per profit percentage ratios, in which the divider is the company's total number of shares: 6,346,988.

## Calculation of key figures

Return on equity (ROE), %	$\frac{\text{Profit before extraordinary items - taxes}^*}{\text{Shareholders' equity + voluntary provisions and depreciation difference}^* + \text{minority interest (average)}} \times 100$
Return on investment (ROI), %	$\frac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{Balance sheet total - non-interest bearing liabilities (average)}} \times 100$
Solvency ratio	$\frac{\text{Shareholders' equity + voluntary provisions and depr. difference}^* + \text{minority interest}}{\text{Balance sheet total - advances received}} \times 100$
Profit/share	$\frac{\text{Profit before extraordinary items - taxes}^* - \text{minority interest}}{\text{The average share issue adjusted number of shares}} \times 100$
Shareholders' equity/share	$\frac{\text{Shareholders' equity + voluntary provisions and depr. difference}^* - \text{minority interest}}{\text{The share issue adjusted number of shares at the end of the period}} \times 100$
Dividend/share (share issue adjusted)	$\frac{\text{Dividend per share for the financial year divided by the adjustment factors based on subsequent share issues}}{\text{The average share issue adjusted number of shares}} \times 100$
Dividend/profit, %	$\frac{\text{Dividend/share}}{\text{Earnings/share}} \times 100$
Price/earnings (P/E) ratio	$\frac{\text{Share issue adjusted average rate on the closing date}}{\text{earnings/share}}$
Effective dividend yield, %	$\frac{\text{Dividend/share}}{\text{Average rate on the closing date}} \times 100$

\*) Deferred tax liability has been taken into account in accordance with the tax rate valid at the time the financial statements were drawn up.



## Board of Directors' report for 1998

### Market situation

The Finnish economy was characterised by a positive growth trend in 1998, which helped boost the demand for IT services. The Novo Group offers the full spectrum of IT services, from IT consultation to delivery of hardware and software to systems development, support and maintenance. Our corporate strategy in Finland is to organise the array of services offered by the group companies in such a way as to provide the customer with package solutions complete with all equipment and services required.

Powerful development towards networking in the IT sector continued in 1998. Demand for services associated with the operational reliability of networks, such as network monitoring and management and the integration of system components, as well as services designed to guarantee the functionality grew considerably.

Networking creates entirely new operational policies and provides the opportunity to renew business processes. Skilled consultation gained emphasised significance, particularly in dealings with solutions related to the Internet, electronic transactions, e-commerce and knowledge management.

All business sectors showed a tremendous demand for expert services. Demand for our software products and services was further prompted by the introduction of a common European currency and the approach of the year 2000.

Outsourcing gained wider popularity in the business world. As organisations become more and more dependent on information technology, they focus more sharply on their own key businesses and leave IT management matters to specialised service providers.

For several consecutive years, the Group's organic growth has originated primarily in new customer contracts in the business sector. In 1998, the Group followed its strategy and expanded through both domestic and international business acquisitions. The acquisitions were geared at increasing the number of network solutions we offer and on boosting international activities.

### Development in net sales

According to preliminary information obtained from IDC Finland Oy and the IT Services Association, the IT market in Finland saw a growth of approximately 12%. The growth of Novo's consolidated net sales exceeded market growth, as planned. Net sales improved by 20.8% over the previous year to FIM 1,555.5 million (FIM 1,287.2 million).

Net sales of the parent company Novo Group plc grew by 21.2% and totalled FIM 466.4 million (FIM 384.9 million). Novosys Ltd posted net sales of FIM 1 053.0 million (FIM 899.3 million) and Novobit Ltd FIM 36.8 million (FIM 30.6 million).

### Financial performance and solvency

The Novo Group performed well with operating profit up by 36.6% to FIM 74.6 million (54.6 million) and profit before taxes up by 34.4% to FIM 79.5 million (59.1 million).

The parent company reported a profit of FIM 28.0 million (19.6 million); an increase of 42.9% over the previous year. Profit before appropriations and taxes grew by 114.1% and totalled FIM 56.3 million (26.3 million).

The Group's solvency ratio was 55.4% (61.0%).

### Investments and R&D

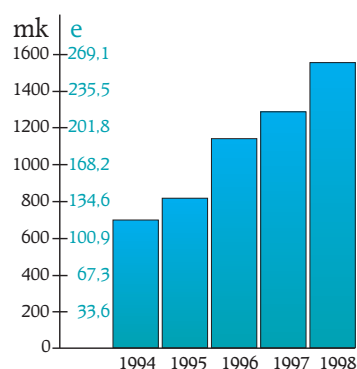
The Group's gross spending on investments amounted to FIM 134.4 million; the parent company accounted for FIM 104.3 million. Investments during the year under review focused on business acquisitions and computer hardware. R&D costs have been handled as annual expenses.

### Group structure and reorganisation

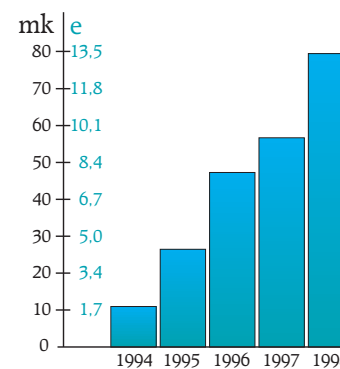
The parent company of the Novo Group is Novo Group plc. Finnish subsidiaries engaged in business activities include Novobit Ltd, Novo Meridian Ltd and its subsidiary Jussi Puttonen Development Oy; Novo App Ltd, Novostore Ltd and its subsidiaries Oy Artis Ltd and New Generation Software (NGS) Oy; HM&V Research Oy and its subsidiary HM&V Telecommunications Oy; and Novosys Ltd and its subsidiary Nouveltech Oy. Foreign subsidiaries include Novo Eesti AS and Novo Ivc Ltd. Companies partly owned by the group include VR-Data Oy (40% interest), Medici Data Oy (36%), Solid Information Technology Ltd (25%) and Pohjolan Paikkatiety Oy (32%).

On 30 June 1998, Novo Group plc acquired the software business of UK-based company Inn-Ventory Computers Ltd and transferred the

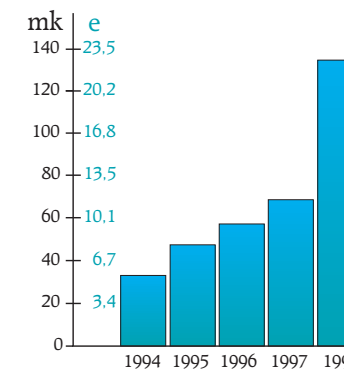
Net sales, million



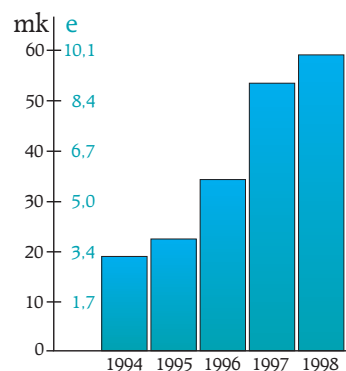
Profit, million



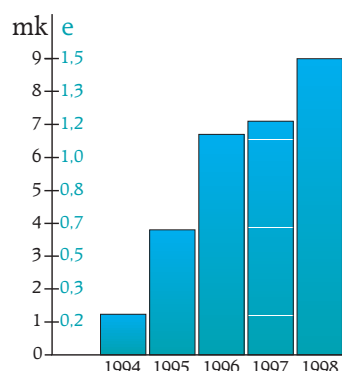
Gross investments, million



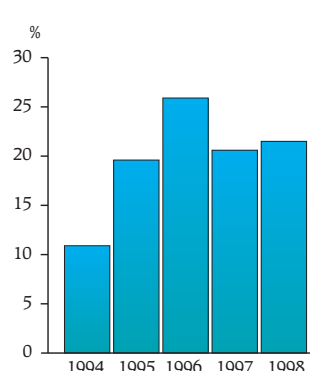
### Shareholders' equity / share



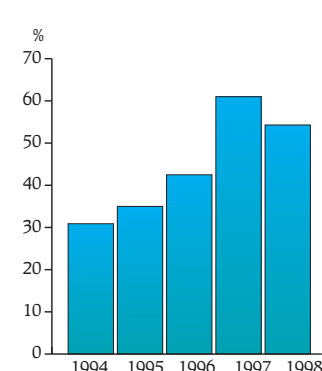
### Profit / share



### Return on investment



### Solvency ratio



business to a new company, Novo Ivc Ltd. Novo Group plc owns 100% of the shares of Novo Ivc Ltd.

Novo Eesti AS, a subsidiary of Novo Group plc operating in Estonia, acquired the software businesses of AS Andremar and Baltic Computer Systems AS on 1 October 1998. A decision has been made to change the company's name to Novo Bcs AS.

On 1 November 1998 Novo Group plc acquired the entire share capital of Meridian Systems Oy, a company involved in the development and marketing of geographic information systems (GIS) technology. The company name was changed to Novo Meridian Ltd. A decision was made to dissolve the company's subsidiary, Jussi Puttonen Development Oy.

On 31 December 1998, Novo Group plc acquired a 60% interest in HM&V Research Oy, a company specialised in IT consulting for business management.

On 20 August 1998, Novostore Ltd, a specialised Internet service provider, acquired the business operations of CardPlus Oy, a company engaged in designing solutions for electronic commerce. On 31 December 1998, Novostore expanded its area of expertise to cover knowledge engineering solutions by purchasing the entire share capital of Oy Artis Ltd and a 53.3% interest in New Generation Software (NGS) Oy. Artis holds a 46.7% interest in New Generation Software (NGS) Oy.

On 1 October 1998, Novosys Ltd purchased the entire share capital of the Lahti-based Nouveltech Oy, thereby achieving a market-leader position in the Lahti economic area. VTKK-Toimistojärjestelmät Oy was dissolved at the end of the year.

The company name of Tiihonen Oy was changed to Novo App Ltd in July. Novobit Ltd, Baltic Data Ltd and Adiutor Oy were merged into the new Novobit Ltd at the end of the year. After share acquisitions completed on 31 December 1998, Novo Group plc's interest in Novostore Ltd and Novo App Ltd increased to 100 percent.

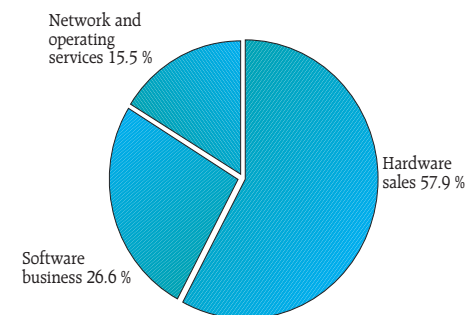
### Share capital

According to the articles of association, the company's minimum share capital is FIM 15,000,000 and maximum share capital is FIM 60,000,000. Within these limits the share capital can be increased or decreased without amending the articles of association. The share capital that is registered in the company's trade register and is fully paid is FIM 31,734,940.00 and it is divided into 6,346,988 shares, each with a nominal value of five Finnish marks.

In the Annual General Meeting, the Board of Directors was authorised to decide on acquiring the company's own shares using distributable profit funds. The Board was authorised to acquire shares to improve the company's capital structure, and to be used as payment when the company acquires assets for its business operations, and as payment for potential business acquisitions. The Board of Directors has exercised this authorisation and decided to acquire a maximum of 150,000 shares, which represents 2.4% of the company shares and share capital.

A breakdown of the shares acquired is presented in the Notes to the Financial Statements. The company purchased shares during the period from 1 December 1998 to 16 December 1998 at an average price of FIM 179.5 per share. At the end of 1998, there were 75,000 shares

### Distribution of net sales by business sector



with a nominal value of FIM 375,000 which represents 1.2% of the share capital and voting rights. After the financial year, the company purchased the remaining 75,000 shares at a total price of FIM 13,522,590.45.

### Right of option

The Board of Directors did not exercise its right to issue warrants in 1998.

### Euro introduced on 1 January 1999

The euro will be the primary currency used in the external reports of Novo Group plc as of 1 January 1999.

### Year 2000

Novo Group plc introduced its internal Year 2000 project organisation in 1996. The company's own software packages were scanned in 1997, and most of the upgrading work, testing and operating environment specifications required for software packages to be carried through the year 2000 were completed in 1997 and 1998. The last of the work will be completed in 1999. During the course of the project, production environments of the company's operating and network services centres were scanned and tested. Novo offers its customers consultant services for performing check-ups on data processing environments and for possible upgrades required.

In September 1997, Novo Group plc published a report on measures to be taken and the plans, principles and schedules to be followed in dealing with the year 2000 problem. As the project proceeds, the report is being continuously updated with new information regarding testing, operating environment and deliveries of upgraded versions.

The most important software used at Novo include the same products used by our customers. Moreover, the company runs the systems in the same production environments used by customers. Integrated systems that affect Novo's own operations were charted and standby plans were prepared in 1998.

Novo Group's Year 2000 project organisation will continue its activities throughout 1999 to strengthen the company's ability to prevent Year 2000 failures both in the company's own and its customers' IT environments.

### Personnel and human resources development

At the end of the year, Novo Group employed 1,457 people, 889 of whom were employed by the parent company and 568 by subsidiaries. The average number of personnel during the year increased by 20.3%, from 1,063 to 1,279.

During the year under review, a personal objectives card system was introduced in the entire Group. Development of a team-based network organisation that aims to refine individual and organisational competence continued. The objective of management reorganisation was to link the monitoring of financial performance to the follow-up of added value generated for customers. To raise the added value produced for customers, the management scheme also considers the efficiency of internal process development and co-operation.

### Events after the financial year

On 4 January 1999, Novo Group plc subscribed 60% of the shares of a company that was established to resume the operations of the Satellite Image Centre of the National Land Survey of Finland. Business operations were launched on 1 January 1999 under the name Novosat Ltd. Operations focus on the import and sale of satellite images and on processing and expert services.

### Administration

Mr Jorma Kielemniva acted as the President of Novo Group plc Mr Lauri A. Manninen acted as the Chairman of the Board of Directors, Mr Simo Lämsä as the Vice Chairman, and Mr Ilkka Hallavo, Mr Jouko Juppala, Mrs Marketta Nordman (until 7 April 1998), Mr Ilkka J. Kari (as of 7 April 1998), Mrs Christel von Martens and Mr Antti Salonen as members of the Board. The Supervisory Board was chaired by Mr Timo Kietäväinen, with Mr Juhani Paloheimo acting as the First Vice Chairman and Mr Pekka Alanen as the Second Vice Chairman. The company's auditors were Ernst & Young Auditors and Mr Jorma Jäske, Authorised Public Accountant.

### Outlook for 1999

Our objective is to further improve our profits and to grow faster than the markets. Part of the growth is generated through business acquisitions.

The approach of the year 2000 will boost demand in all business sectors. At the same time, however, the Year 2000 project requires even more in-house resource allocation throughout 1999.

We will aim to further increase the share of services requiring human resources of the Group's overall business activities. We will also invest heavily in developing new businesses and in going global.

Continued economic growth and the development towards networks as well as the organisations' desire to sharpen their competitive edge by making business processes more efficient through IT solutions will provide us with a good chance to attain our goals.

### Proposal for the distribution of profits

The Board of Directors proposes that a dividend of FIM 3.60 per share, for a total of maximum FIM 22,849,156.80 be paid from the financial year's profit funds and that the remainder be retained on the profit account.

Helsinki, 16 February 1999



Lauri A. Manninen  
Chairman of the Board



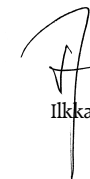
Simo Lämsä  
Vice Chairman



Ilkka Hallavo



Jouko Juppala



Ilkka J. Kari



Christel von Martens



Antti Salonen



# The Novo Group

FIGURES IN EUROS ARE NOT PART OF THE  
OFFICIAL FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT	1.1.–31.12.1998 FIM 1 000	1.1.–31.12.1997 FIM 1 000	1.1.–31.12.1998 EUR 1 000	1.1.–31.12.1997 EUR 1 000
<b>NET SALES</b>	<b>1 555 487</b>	<b>1 287 222</b>	<b>261 614</b>	<b>216 495</b>
Other operating income	6 933	5 755	1 166	968
Materials and services				
Materials and supplies				
Purchases during the year	927 625	756 624	156 015	127 255
Increase/decrease in inventories	-16 695	9 675	-2 808	1 627
Services purchased	38 483	25 179	6 473	4 235
Total materials and services	949 413	791 478	159 680	133 117
Personnel expenses				
Wages and salaries	246 885	194 573	41 523	32 725
Indirect employee costs				
Pension costs	36 541	28 815	6 146	4 846
Other indirect empl.costs	24 937	19 499	4 194	3 280
Total personnel expenses	308 363	242 887	51 863	40 851
Depreciations and value adjustments				
Depreciation according to plan	54 090	44 085	9 097	7 414
Depreciation on Group goodwill	3 740	2 122	629	357
	57 830	46 207	9 726	7 771
Other operating expenses	172 255	157 833	28 971	26 546
<b>OPERATING PROFIT</b>	<b>74 559</b>	<b>54 572</b>	<b>12 540</b>	<b>9 178</b>
Financial income and expenses				
Equity earnings in partly-owned companies	2 346	2 402	395	404
Income from fixed asset investments				
from partly-owned companies	50	–	9	–
other investments	17	64	3	11
Interest receivable and financial income				
from partly-owned companies	234	148	39	25
other interest receivable and financial income	6 168	5 724	1 037	963
Interest payable and other financial expenses	-3 901	-6 223	-656	-1 047
Total financial income and expenses	4 914	2 115	827	356
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>	<b>79 473</b>	<b>56 687</b>	<b>13 367</b>	<b>9 534</b>
Extraordinary items				
Extraordinary income	–	2 426	–	408
<b>PROFIT BEFORE TAXES</b>	<b>79 473</b>	<b>59 113</b>	<b>13 367</b>	<b>9 942</b>
Change in deferred tax liability	3 699	1 756	622	295
Income tax	-26 203	-17 851	-4 407	-3 002
<b>PROFIT BEFORE MINORITY INTEREST</b>	<b>56 969</b>	<b>43 018</b>	<b>9 582</b>	<b>7 235</b>
Minority interest of the financial year's profit	242	-27	40	-5
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>57 211</b>	<b>42 991</b>	<b>9 622</b>	<b>7 230</b>



## The Novo Group

CONSOLIDATED BALANCE SHEET	31.Dec.1998 FIM 1 000	31.Dec.1997 FIM 1 000	31.Dec.1998 EUR 1 000	31.Dec.1997 EUR 1 000
<b>ASSETS</b>				
<b>FIXED ASSETS</b>				
<b>Intangible assets</b>				
Intangible rights	23 002	21 579	3 869	3 630
Goodwill	26 793	7 225	4 506	1 215
Group goodwill	26 472	4 199	4 452	706
Other long-term expenditure	409	406	69	68
Total intangible assets	76 676	33 409	12 896	5 619
<b>Tangible assets</b>				
Land	2 029	2 029	341	341
Buildings and constructions	30 449	31 645	5 121	5 323
Machinery and equipment	100 261	85 648	16 863	14 405
Other tangible assets	1 883	1 017	317	171
Total tangible assets	134 622	120 339	22 642	20 240
<b>Financial assets</b>				
Interests in partly-owned companies	14 444	12 552	2 429	2 111
Loans to partly-owned companies	900	-	151	-
Own shares	13 469	-	2 265	-
Other shares and interests	4 789	3 437	806	578
Other receivables	288	-	49	-
Total investments	33 890	15 989	5 700	2 689
<b>TOTAL FIXED ASSETS</b>	<b>245 188</b>	<b>169 737</b>	<b>41 238</b>	<b>28 548</b>
<b>CURRENT ASSETS</b>				
<b>Inventories</b>				
Goods and products	65 862	49 167	11 077	8 269
<b>Receivables</b>				
Deferred tax income	330	-	55	-
Accounts receivable	220 476	160 352	37 081	26 969
Loans to partly-owned companies	2 644	3 184	445	535
Loans receivable	113	-	19	-
Other receivables	1 610	1 553	271	261
Deferred income	50 122	29 958	8 430	5 039
Total current receivables	275 295	195 047	46 301	32 804
<b>Investments</b>				
Other securities	19 883	12 033	3 344	2 024
<b>Cash in hand and at banks</b>	<b>95 376</b>	<b>135 296</b>	<b>16 041</b>	<b>22 755</b>
<b>TOTAL CURRENT ASSETS</b>	<b>456 416</b>	<b>391 543</b>	<b>76 763</b>	<b>65 852</b>
	<b>701 604</b>	<b>561 280</b>	<b>118 001</b>	<b>94 400</b>

# The Novo Group

FIGURES IN EUROS ARE NOT PART OF  
THE OFFICIAL FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET	31.Dec.1998 FIM 1 000	31.Dec.1997 FIM 1 000	31.Dec.1998 EUR 1 000	31.Dec.1997 EUR 1 000
<b>LIABILITIES</b>				
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	31 735	31 735	5 337	5 337
Share premium account	164 403	164 403	27 651	27 651
Reserve for own shares	13 469	-	2 266	-
Retained earnings/losses	114 064	101 045	19 184	16 994
Translation difference	-391	4	-66	2
Profit for the financial year	57 211	42 991	9 622	7 230
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>380 491</b>	<b>340 178</b>	<b>63 994</b>	<b>57 214</b>
<b>MINORITY INTEREST</b>	<b>1 101</b>	<b>215</b>	<b>185</b>	<b>36</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>				
Other provisions	2 833	2 004	476	337
<b>LIABILITIES</b>				
<b>Deferred tax liability</b>	<b>5 949</b>	<b>10 102</b>	<b>1 001</b>	<b>1 699</b>
<b>Long-term liabilities</b>				
Loans from financial institutions	1 063	468	179	78
Pension loans	28 864	31 060	4 855	5 224
Other long-term debt	1 043	0	175	0
<b>Total long-term liabilities</b>	<b>30 970</b>	<b>31 528</b>	<b>5 209</b>	<b>5 302</b>
<b>Short-term liabilities</b>				
Pension loans	2 196	2 353	369	396
Advances received	23 347	3 385	3 927	569
Accounts payable	150 901	94 159	25 380	15 836
Loans from partly-owned companies	620	499	104	84
Other debt	28 159	14 000	4 736	2 355
Accrued liabilities	75 037	62 857	12 620	10 572
<b>Total short-term liabilities</b>	<b>280 260</b>	<b>177 253</b>	<b>47 136</b>	<b>29 812</b>
<b>TOTAL LIABILITIES</b>	<b>317 179</b>	<b>218 883</b>	<b>53 346</b>	<b>36 813</b>
	<b>701 604</b>	<b>561 280</b>	<b>118 001</b>	<b>94 400</b>



# The Novo Group

CONSOLIDATED FUNDS FLOW STATEMENT	1.1.–31.12.1998	1.1.–31.12.1997	1.1.–31.12.1998	1.1.–31.12.1997
	FIM 1 000	FIM 1 000	EUR 1 000	EUR 1 000
<b>SOURCES OF FUNDS</b>				
Income financing				
Operating profit	74 559	54 572	12 540	9 178
Depreciations	57 830	46 207	9 726	7 771
Capital gains/losses	1 962	-345	330	-58
Provisions	-171	970	-29	163
Financial income	6 469	5 936	1 088	998
Profit from the assignment of fixed assets	3 052	2 477	514	417
Other income financing (net)	560	2 426	94	408
	144 261	112 243	24 263	18 877
Capital financing				
Share issue parent co., minority	–	110 280	–	18 548
Increase in long-term liabilities	1 638	468	275	79
	145 899	222 991	24 538	37 504
<b>APPLICATION OF FUNDS</b>				
Distribution of profits				
Interest on liabilities	3 901	6 223	656	1 047
Taxes	26 203	17 851	4 407	3 002
Dividends	16 502	4 675	2 775	786
Investments				
Investments in fixed assets	134 372	68 806	22 600	11 572
Change in loans receivable	1 188		200	
Repayment of capital				
Decrease in long-term liabilities	2 354	10 619	396	1 786
	184 520	108 174	31 034	18 193
Change in current assets				
Change in inventories	47 848	93 627	8 047	15 747
Change in short-term liabilities	16 695	-9 675	2 808	-1 627
	-103 164	30 865	-17 351	5 191
	-38 621	114 817	-6 496	19 311

FIGURES IN EUROS ARE NOT PART OF  
THE OFFICIAL FINANCIAL STATEMENTS



# Novo Group plc

FIGURES IN EUROS ARE NOT PART OF  
THE OFFICIAL FINANCIAL STATEMENTS

INCOME STATEMENT	1.1.–31.12.1998	1.1.–31.12.1997	1.1.–31.12.1998	1.1.–31.12.1997
	FIM 1 000	FIM 1 000	EUR 1 000	EUR 1 000
<b>NET SALES</b>	<b>466 377</b>	<b>384 903</b>	<b>78 439</b>	<b>64 736</b>
<b>Other operating income</b>	<b>8 234</b>	<b>5 470</b>	<b>1 385</b>	<b>920</b>
Materials and services				
Materials and supplies				
Purchases during the year	21 780	17 959	3 663	3 020
Increase/decrease in inventories	910	-1 601	153	-269
Services purchased	34 922	20 395	5 874	3 430
Total materials and services	57 612	36 753	9 690	6 181
Personnel expenses				
Wages and salaries	167 147	134 586	28 112	22 636
Indirect employee costs				
Pension costs	25 369	18 912	4 267	3 181
Other indirect employee costs	17 197	13 920	2 892	2 341
Total personnel expenses	209 713	167 418	35 271	28 158
Depreciations and value adjustments				
Depreciations according to plan	41 506	35 897	6 981	6 037
Other operating expenses	137 732	130 675	23 165	21 978
<b>OPERATING PROFIT</b>	<b>28 048</b>	<b>19 630</b>	<b>4 717</b>	<b>3 302</b>
Financial income and expenses				
Income from				
Group companies	13 106	–	2 204	–
partly-owned companies	778	125	131	21
Income from other fixed asset investments				
in Group companies	903	3 003	152	505
in partly-owned companies	50	–	8	–
other investments	17	64	3	10
Interest receivable and financial income				
from Group companies	531	415	90	70
from partly-owned companies	231	148	39	25
other interest receivable and financial income	5 083	5 436	855	914
Interest and other financial charges payable				
to Group companies	-3	-6	-1	-1
other interest payable and financial expenses	-2 903	-4 929	-488	-829
Total financial income and expenses	17 793	4 256	2 993	715
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>	<b>45 841</b>	<b>23 886</b>	<b>7 710</b>	<b>4 017</b>
Extraordinary items				
Extraordinary income	10 500	2 426	1 766	408
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>	<b>56 341</b>	<b>26 312</b>	<b>9 476</b>	<b>4 425</b>
Appropriations				
Change in depreciation difference	5 365	-6 809	903	-1 145
Change in voluntary provisions	–	10 321	–	1 736
Income tax	-17 674	-8 757	-2 973	-1 473
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>44 032</b>	<b>21 067</b>	<b>7 406</b>	<b>3 543</b>

## Novo Group plc

BALANCE SHEET	31.Dec.1998 FIM 1 000	31.Dec.1997 FIM 1 000	31.Dec.1998 EUR 1 000	31.Dec.1997 EUR 1 000
<b>ASSETS</b>				
<b>FIXED ASSETS</b>				
<b>Intangible assets</b>				
Intangible rights	21 839	21 214	3 673	3 568
Goodwill	3 381	5 205	569	875
Other long-term expenditure	409	406	69	68
<b>Total intangible assets</b>	<b>25 629</b>	<b>26 825</b>	<b>4 311</b>	<b>4 511</b>
<b>Tangible assets</b>				
Land	2 029	2 029	341	341
Buildings and constructions	30 449	31 645	5 121	5 322
Machinery and equipment	81 841	72 518	13 765	12 197
Other tangible assets	1 849	1 016	311	171
<b>Total tangible assets</b>	<b>116 168</b>	<b>107 208</b>	<b>19 538</b>	<b>18 031</b>
<b>Financial assets</b>				
Interests in Group companies	48 979	11 368	8 238	1 912
Loans to Group companies	18 640	5 000	3 135	841
Interests in partly-owned companies	10 057	10 057	1 691	1 692
Loans to partly-owned companies	900	-	151	-
Own shares	13 469	-	2 265	-
Other shares and interests	2 780	2 897	468	487
Other receivables	289	-	49	-
<b>Total financial assets</b>	<b>95 114</b>	<b>29 322</b>	<b>15 997</b>	<b>4 932</b>
<b>TOTAL FIXED ASSETS</b>	<b>236 911</b>	<b>163 355</b>	<b>39 846</b>	<b>27 474</b>
<b>CURRENT ASSETS</b>				
<b>Inventories</b>				
Goods and products	929	1 839	156	309
<b>Receivables</b>				
Accounts receivable	57 905	43 581	9 739	7 330
Loans to subsidiaries	30 340	17 274	5 103	2 905
Loans to partly-owned companies	2 449	3 181	412	535
Loans receivable	72	-	12	-
Other receivables	1 514	1 553	254	261
Deferred income	34 180	27 157	5 749	4 568
<b>Total short-term receivables</b>	<b>126 460</b>	<b>92 746</b>	<b>21 269</b>	<b>15 599</b>
<b>Investments</b>				
Other securities	19 183	12 033	3 226	2 024
<b>Cash in hand and at banks</b>	<b>46 457</b>	<b>116 613</b>	<b>7 814</b>	<b>19 613</b>
<b>TOTAL CURRENT ASSETS</b>	<b>193 029</b>	<b>223 231</b>	<b>32 465</b>	<b>37 545</b>
	<b>429 940</b>	<b>386 586</b>	<b>72 311</b>	<b>65 019</b>

# Novo Group plc

FIGURES IN EUROS ARE NOT PART OF  
THE OFFICIAL FINANCIAL STATEMENTS

BALANCE SHEET	31.Dec.1998 FIM 1 000	31.Dec.1997 FIM 1 000	31.Dec.1998 EUR 1 000	31.Dec.1997 EUR 1 000
<b>LIABILITIES</b>				
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	31 735	31 735	5 337	5 337
Share premium account	164 403	164 403	27 651	27 651
Reserve for own shares	13 469	–	2 265	–
Retained earnings/losses	39 995	48 900	6 727	8 224
Profit for the financial year	44 032	21 067	7 406	3 543
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>293 634</b>	<b>266 105</b>	<b>49 386</b>	<b>44 755</b>
<b>ACCRUED APPROPRIATIONS</b>				
Depreciation difference	27 660	33 025	4 652	5 554
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>				
Other provisions	1 393	1 704	234	287
<b>LIABILITIES</b>				
<b>Long-term liabilities</b>				
Loans from financial institutions	423	–	71	–
Pension loans	19 221	20 668	3 233	3 476
<b>Total long-term liabilities</b>	<b>19 644</b>	<b>20 668</b>	<b>3 304</b>	<b>3 476</b>
<b>Short-term liabilities</b>				
Pension loans	1 447	1 556	243	262
Advances received	3 194	2 529	537	425
Accounts payable	13 975	9 126	2 351	1 535
Loans from Group companies	8 861	3 716	1 490	625
Loans from partly-owned companies	620	498	104	84
Other loans	13 691	10 749	2 303	1 808
Accrued liabilities	45 821	36 910	7 707	6 208
<b>Total short-term liabilities</b>	<b>87 609</b>	<b>65 084</b>	<b>14 735</b>	<b>10 947</b>
<b>TOTAL LIABILITIES</b>	<b>107 253</b>	<b>85 752</b>	<b>18 039</b>	<b>14 423</b>
	<b>429 940</b>	<b>386 586</b>	<b>72 311</b>	<b>65 019</b>

## Novo Group plc

FUNDS FLOW STATEMENT	1.1.-31.12.98 FIM 1 000	1.1.-31.12.97 FIM 1 000	1.1.-31.12.98 EUR 1 000	1.1.-31.12.97 EUR 1 000
<b>SOURCES OF FUNDS</b>				
Income financing				
Operating profit	28 048	19 630	4 717	3 302
Deprecations	41 506	35 897	6 981	6 037
Capital gain/loss from the sale of fixed assets	2 275	-131	383	-22
Provisions	-311	670	-52	113
Financial income	20 699	9 191	3 481	1 546
Profits from the assignment of fixed assets	1 786	1 561	301	263
Other income financing (net)	10 500	2 426	1 765	407
	104 503	69 244	17 576	11 646
Capital financing				
Share issue	-	110 200	-	18 534
	104 503	179 444	17 576	30 180
<b>APPLICATION OF FUNDS</b>				
Distribution of profits				
Interest on liabilities	2 906	4 934	489	830
Taxes	17 674	8 757	2 973	1 473
Dividends	16 502	4 675	2 775	786
Investments				
Investments in fixed assets	104 296	62 135	17 541	10 450
Change in loans receivable	14 828		2 494	
Repayment of capital				
Decrease in long-term liabilities	1 024	8 985	172	1 511
	157 230	89 486	26 444	15 050
Change in current assets	-29 292	59 547	-4 927	10 015
Change in inventories	-910	1 602	-153	269
Change in short-term liabilities	-22 525	28 809	-3 788	4 846
	-52 727	89 958	-8 868	15 130



## Notes to the Financial Statements (in FIM thousands)

### Scope of the consolidated financial statements

The consolidated financial statements include the figures for all Group companies and partly-owned companies, apart from Kiinteistö Oy Rukavarri and Suomen Tietoverkkopalvelu Oy, which are not engaged in actual business operations and have no significant effect on the Group's financial performance.

More detailed information on Group companies and partly-owned companies will be provided below under section investments.

### Preparation principles for the consolidated financial statements

The consolidated financial statements have been prepared using the acquisition cost method. The price paid for subsidiaries' shares in excess of shareholders' equity has been shown as Group goodwill.

Internal business transactions, the unrealised profits margins of internal deliveries, internal receivables and debts as well as internal profit distribution have been eliminated.

Minority interests have been removed from consolidated shareholders' equity and profits and booked as a separate item. Income statements of the foreign subsidiaries have been converted using the financial year's average exchange rate, and balance sheets have been translated into Finnish marks at the exchange rate valid on the closing day. These translation differences and the differences generated in the conversion of shareholders' equities have been booked as a separate item under shareholders' equity.

Partly owned companies have been consolidated using the equity method. The Groups' share of the partly-owned companies' profit for the financial year, equivalent to the Group's holding in these companies, is shown under financial items.

Accrual-based deferred tax liabilities and receivables have been shown as separate items in the income statement and balance sheet. Deferred tax liability, calculated on the basis of appropriations, has been revised retroactively in the 1997 income statement and balance sheet.

### Principles for the preparation of financial statements

The method of presentation used in the income statement and balance sheet has been changed to comply with the new Bookkeeping Act, and the comparison data from the previous year has also been changed to be in line with the new method of presentation.

The method for calculating net sales has been changed to meet the requirements of the new Bookkeeping Act.

Research and development costs have been booked as annual expenses for the year in which they were generated.

Long-term projects are booked as income based on their degree of manufacturing. The degree of manufacturing is calculated by proportioning the real costs to the total cost estimate. Anticipated losses involved in the projects have been booked as expenses.

Extraordinary items include significant items outside the Group's business activities.

### Valuation principles followed in the preparation of financial statements

Fixed assets have been activated at the direct acquisition cost. Depreciation according to plan has been calculated as straightline depreciation based on the useful economic life of assets.

In accordance with the FIFO principle, inventories have been shown at the acquisition cost, at a lower replacement value or at the likely sales value.

Investments have been valued at the acquisition cost or at a lower market value.

Receivables, debts and other liabilities in foreign currencies have been translated into Finnish marks at the exchange rate quoted by the Bank of Finland on the closing day.

## NOTES TO THE INCOME STATEMENT

### 1. Net sales by business operations and by market areas

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
<b>Distribution by business operations</b>				
Software services	265 088	221 882	413 924	323 338
Operating and network services	195 698	160 462	241 600	192 138
Hardware sales	5 591	2 559	899 963	771 746
<b>Total</b>	<b>466 377</b>	<b>384 903</b>	<b>1 555 487</b>	<b>1 287 222</b>

### Geographical distribution

Finland	465 586	383 640	1 174 022	1 185 253
Other European countries	689	1 161	211 810	43 513
Other countries	102	102	169 655	58 456
<b>Total</b>	<b>466 377</b>	<b>384 903</b>	<b>1 555 487</b>	<b>1 287 222</b>

### 2. Partial debiting

Based on the degree of completion, FIM 9,120 thousand was booked as income for the financial year. A total amount of FIM 14,249 thousand from non-completed long-term projects was booked as net sales. The estimated overall net sales of non-completed projects is FIM 23,893 thousand. All non-completed projects in the financial year have been debited in the parent company.

### 3. Other income from business operations

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Proceeds from the sale of fixed assets	2 883	1 264	3 296	1 325
Contributions received etc.	2 278	-	2 427	128
Other	3 073	4 206	1 210	4 302
<b>Total</b>	<b>8 234</b>	<b>5 470</b>	<b>6 933</b>	<b>5 755</b>

### 4. Financial performance of the Group, rolling figures for 12 months in FIM million

	1-3/98	4-6/98	7-9/98	10-12/98	1-12/98
Net sales	398.1	378.7	338.9	439.8	1 555.5
Operating profit	10.5	16.5	14.9	32.7	74.6
Net financial income	1.7	1.8	0.5	0.9	4.9
Profit before taxes	12.2	18.3	15.4	33.6	79.5

Financial result in 1998, Finland FIM 74.611 thousand, Estonia FIM -1.740 thousand, England FIM 1.688 thousand.

Financial result in 1997, Finland FIM 54.719 thousand, Estonia FIM -147 thousand.

### 5. Performance-related personnel expenses, fringe benefits and the average number of personnel

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Average number of personnel during the financial year	842	719	1 279	1 063
Personnel at the year-end	889	771	1 457	1 145
Design engineering personnel	573	469	840	604
Operative personnel	125	128	161	153
Sales, marketing and customer service	112	106	291	259
Administration	66	59	98	78
Others	13	9	67	51
Total	889	771	1 457	1 145
Finland	889	771	1 398	1 139
Estonia	-	-	43	6
England	-	-	16	-
Total	889	771	1 457	1 145
Payments to members of the Supervisory Board and Board of Directors and to the President				
- salaries	1 045	829	3 482	2 083
- remuneration	97	68	524	190
- fringe benefits	42	41	372	137
Other wages and salaries	166 004	133 690	242 879	192 300
Other fringe benefits	2 064	1 913	5 788	5 165
Pension costs	25 369	18 913	36 541	28 815
Other indirect personnel costs	17 197	13 919	24 937	19 499
	211 818	169 373	314 523	248 189

Within the Group, payments to the Supervisory Board totalled FIM 71 thousand and to members of the Board of Directors FIM 113 thousand. Salaries to the Group's President and Vice Presidents amounted to FIM 2,706 thousand, fringe benefits FIM 218 thousand and remuneration FIM 408 thousand.

### 6. Other expenses from business operations

Other expenses from business operations include the Group's hardware and software maintenance costs in the amount of FIM 37,207 thousand (FIM 36,819 thousand in the parent company), rents in the amount of FIM 27,617 thousand (FIM 17,656 thousand in the parent company), fixed external services in the amount of FIM 22,804 thousand (FIM 21,637 thousand in the parent company) and data communications costs in the amount of FIM 16,384 thousand (FIM 11,342 thousand in the parent company).

Other expenses from business operations include provisions for liabilities and charges in the amount of FIM 50 thousand.

### 7. Financial income and expenses

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Interests receivable and financial income				
include exchange rate gains/losses (net)	-1 476	-	-1 540	-
<b>8. Extraordinary items</b>				
The parent company's extraordinary items consist of Group contribution received.				
<b>9. Direct taxes</b>				
	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Income tax on extraordinary items	2 940	679	-	679
Income tax on business operations	14 734	8 078	26 203	17 171
Change in deferred tax liability	-	-	-3 699	-1 756
Total	17 674	8 757	22 504	16 094

### NOTES TO THE BALANCE SHEET

#### 10. Fixed assets and other long-term investments

Depreciation periods according to plan are as follows:

	Years
<b>INTANGIBLE RIGHTS AND OTHER LONG-TERM EXPENDITURE</b>	
PC software	3
Software	5
Goodwill	5
Other long-term expenditure	5
Group goodwill	5
<b>BUILDINGS</b>	
Buildings	35
Building materials	15
Fallout shelters	35
Asphalt work	5
<b>MACHINERY AND EQUIPMENT</b>	
Computer hardware	5
Personal computers	3
Other fixed assets	5
Cars	5
<b>OTHER TANGIBLE ASSETS</b>	
Other tangible assets	5



GROUP Intangible assets	PARENT COMPANY			
	Intangible rights and other long-term expenditure	Goodwill	Group goodwill	Total
Acquisition cost on 1 Jan.98	32 269	20 383	7 613	60 265
Translation difference	-	-	-	-
Increases	11 763	24 748	26 094	62 605
Decreases	-740	-	-23	-763
<b>Acquisition cost on 31 Dec. 98</b>	<b>43 292</b>	<b>45 131</b>	<b>33 684</b>	<b>122 107</b>
Accumulated depreciation 1 Jan. 98	-10 284	-13 158	-3 417	-26 859
Accumulated depreciation, new companies	-160	-	-58	-218
Translation difference	-	65	3	68
Depreciation on elimination 1 Jan.-31 Dec. 98	740	-	-	740
Depreciation 1 Jan.-31 Dec. 98	-10 177	-5 245	-3 740	-19 162
<b>Accumulated depreciation 31 Dec. 98</b>	<b>-19 881</b>	<b>-18 338</b>	<b>-7 212</b>	<b>-45 431</b>
<b>Book value 31 Dec. 98</b>	<b>23 411</b>	<b>26 793</b>	<b>26 472</b>	<b>76 676</b>

The amount of non-depreciated  
Group assets held by partly-owned  
companies on 31 Dec. 98

1 962

#### Tangible assets

	PARENT COMPANY				Total
	Land	Buildings	Machinery and equipment	Other tangible assets	
Acquisition cost on 1 Jan.98	2 029	46 265	149 496	1 418	199 208
Translation difference	-	-	1	-	1
Increases	-	249	57 432	1 335	59 016
Decreases	-	-	-8 096	-	-8 096
<b>Acquisition cost on 31 Dec. 98</b>	<b>2 029</b>	<b>46 514</b>	<b>198 833</b>	<b>2 753</b>	<b>250 129</b>
Accumulated depreciation 1 Jan. 98	-	-14 620	-63 848	-401	-78 869
Accumulated depreciation, new companies	-	-	-1 269	-89	-1 358
Translation difference	-	-	2	-	2
Depreciation on elimination 1 Jan.-31 Dec.98	-	-	3 386	-	3 386
Depreciation 1 Jan.-31 Dec. 98	-	-1 445	-36 843	-380	-38 668
<b>Accumulated depreciation 31 Dec. 98</b>	<b>-</b>	<b>-16 065</b>	<b>-98 572</b>	<b>-870</b>	<b>-115 507</b>
<b>Book value 31 Dec. 98</b>	<b>2 029</b>	<b>30 449</b>	<b>100 261</b>	<b>1 883</b>	<b>134 622</b>

Balance sheet value of machinery  
and equipment on 31 Dec. 98

79 934

PARENT COMPANY Intangible assets	GROUP		
	Intangible rights and other long-term expenditure	Goodwill	Total
Acquisition cost on 1 Jan.98	32 380	9 118	41 498
Increases	8 153	-	8 153
Decreases	-740	-	-740
<b>Acquisition cost on 31 Dec. 98</b>	<b>39 793</b>	<b>9 118</b>	<b>48 911</b>
Accumulated depreciation 1 Jan. 98	-10 760	-3 914	-14 674
Depreciation on elimination 1 Jan.-31 Dec. 98	740	-	740
Depreciation 1 Jan.-31 Dec. 98	-7 525	-1 823	-9 348
<b>Accumulated depreciation 31 Dec.98</b>	<b>-17 545</b>	<b>-5 737</b>	<b>-23 282</b>
<b>Book value 31 Dec. 98</b>	<b>22 248</b>	<b>3 381</b>	<b>25 629</b>

#### Tangible assets

	GROUP				Total
	Land	Buildings	Machinery and equipment	Other tangible assets	
Acquisition cost on 1 Jan.98	2 029	46 265	123 320	1 418	173 032
Increases	-	249	43 418	1 212	44 879
Decreases	-	-	-6 974	-	-6 974
<b>Acquisition cost on 31 Dec. 98</b>	<b>2 029</b>	<b>46 514</b>	<b>159 764</b>	<b>2 630</b>	<b>210 937</b>
Accumulated depreciation 1 Jan.98	-	-14 620	-50 802	-401	-65 823
Depreciation on elimination 1 Jan.-31 Dec.98	-	-	3 212	-	3 212
Depreciation 1 Jan.-31 Dec.98	-	-1 445	-30 333	-380	-32 158
<b>Accumulated depreciation 31 Dec.98</b>	<b>-</b>	<b>-16 065</b>	<b>-77 923</b>	<b>-781</b>	<b>-94 769</b>
<b>Book value 31 Dec. 98</b>	<b>2 029</b>	<b>30 449</b>	<b>81 841</b>	<b>1 849</b>	<b>116 168</b>
<b>Balance sheet value of machinery and equipment on 31 dec. -98</b>			<b>73 347</b>		

Only the acquisition cost of non-depreciated assets in active use are shown.



11. Taxable value of fixed assets	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Land	4 302	4 302	4 302	4 302
Buildings	18 227	17 884	18 227	17 884
Shares of subsidiaries	26 323	6 737	-	-
Shares of partly-owned companies	6 919	3 738	6 957	3 738
Other shares and interests	3 600	2 224	4 794	2 385
	<u>59 371</u>	<u>34 885</u>	<u>34 280</u>	<u>28 309</u>

## 12. Financial assets

GROUP Shares	Partly-owned companies	Others	Total
Acquisition cost on 1 Jan.98	12 552	3 437	15 989
Translation difference	-	-	-
Increases	1 892	14 947	16 839
Decreases	-	-126	-126
Acquisition cost on 31 Dec. 98	<u>14 444</u>	<u>18 258</u>	<u>32 702</u>

Long-term loans receivable	From partly-owned companies	From others	Total
Acquisition cost on 1 Jan.98	-	-	-
Translation difference	-	-	-
Increases	900	288	1 188
Decreases	-	-	-
Acquisition cost on 31 Dec. 98	<u>900</u>	<u>288</u>	<u>1 188</u>

PARENT COMPANY Shares	Subsidiaries	Partly-owned companies	Others*)	Total
Acquisition cost on 1 Jan.98	11 368	10 057	2 897	24 322
Increases	37 799	-	13 469	51 268
Decreases	-187	-	-117	-304
Acquisition cost on 31 Dec. 98	<u>48 980</u>	<u>10 057</u>	<u>16 249</u>	<u>75 286</u>

Long-term loans receivable	From subsidiaries	From partly-owned companies	From others	Total
Acquisition cost on 1 Jan.98	5 000	-	-	5 000
Increases	18 640	900	288	19 828
Decreases	-5 000	-	-	-5 000
Acquisition cost on 31 Dec.98	<u>18 640</u>	<u>900</u>	<u>288</u>	<u>19 828</u>

\*) Other shares include company's own shares in the amount of FIM 13,469 thousand.

## 13. Shares and interests on 31 Dec. 1998

Group companies	Holding/ votes %	No. of shares	Proportion of share- holders' equity	Nominal value	Book value	Share- holders' equity	Profit/ loss	The latest financial statements showed
<b>Owned by the parent company</b>								
Novosys Ltd, Helsinki	100	15 000	65 795	1 500	1 599	65 795	20 505	
Novobit Ltd, Helsinki	100	200	6 904	200	8 654	6 904	3 688	
Novo App Oy, Helsinki	100	80	1 539	80	2 032	1 539	258	
Novo Eesti AS Tallinn, Estonia	60	900	-276 EEK	900	446	-460	-995	
Novo IVC Ltd, England	100	600 000	4 990 £	600	5 460	4 990	-69	
Novostore Ltd, Helsinki	100	12 400	5 086	6 200	7 347	5 086	-1 025	
Novo Meridian Oy, Espoo, Group	100	7 510	4 224	751	14 265	4 224	1 290	
HM & V Research Oy, Espoo, Group	60	966	1 656	97	9 177	2 760	333	
<b>Owned by the subsidiaries</b>								
Nouveltech Oy, Lahti	100	2 000	5 598	200	7 819	5 598	1 716	
HM & V Telecommunications Oy Oy Artis Ltd	77,5	1 550	492	60	1 873	492	117	
New Generation Software (NGS) Oy	100	60	313	60	693	313	120	
Jussi Puttonen Development Oy, Turku	100	15	36	15	914	36	-1	
<b>Partly-owned companies</b>								
<b>Owned by the parent company</b>								
Suomen Tietoverkkopalvelu Oy, Helsinki	41	41	29	6	31	70	-1	
Medici Data Oy, Oulu	36	250	1 375	250	1 500	3 783	983	
Solid Information Technology Oy, Helsinki	25	63 584	1 544	127	4 369	6 175	-1 580	
Kiinteistö Oy Rukavarri, Kuusamo	33	10	1 922	10	2 157	5 824	16	
VR-Data Oy, Helsinki	40	100	7 296	1 000	2 000	18 240	7 470	
<b>Owned by the subsidiaries</b>								
Pohjolan Paikkatieto Oy	32	480	49	48	48	154	-82	

Financial statements of the Group companies and partly-owned companies were prepared on 31 December 1998.



<b>Other shares and interests</b>	Holding %	No. of shares	Nominal value	Book value	
<b>Owned by the parent company</b>					
Own shares	1	75 000	375	13 469	
Kiinteistö Oy Kuusankosken Ostoskeskus, Kuusankoski Kiinteistö Oy	7	225	151	808	
Satakunnankatu 19-21, Tampere	4	102	102	926	
Shares of phone companies		1 734		978	
<b>Owned by the subsidiaries</b>					
Other shares					
Lupporinki Oy	17	14	98	341	
Etäyhteys Pace Oy	18	9	9	0	
Shares of phone companies		116		225	
<b>14. Inventories</b>					
		Parent company 1998	Parent company 1997	Group 1998	Group 1997
Materials and supplies		411	294	64 967	47 751
Other inventories		518	1 545	895	1 416
Total		929	1 839	65 862	49 167
<b>15. Fire insurance value of fixed assets and inventories</b>					
		Parent company 1998	Parent company 1997	Group 1998	Group 1997
		214 424	200 541	299 753	281 162
<b>16. Receivables</b>					
		Parent company 1998	Parent company 1997		
<b>Receivables from Group companies</b>					
Accounts receivable		217	226		
Loans receivable, short-term		16 284	12 930		
Other receivables		20	-		
Deferred income		13 819	4 118		
		30 340	17 274		

#### Receivables from partly-owned companies

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Accounts receivable	1 918	1 712	1 923	1 712
Loans receivable, short-term	300	1 236	480	1 236
Other receivables	-	-	-	-
Deferred income	231	233	241	236
	2 449	3 181	2 644	3 184

#### 17. Receivables maturing within one year or more

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Deferred income	570	662	570	662

#### 18. Significant items included in deferred income

Deferred income for the financial year in the parent company include advance payments in the amount of FIM 10,767 thousand, accrual of social security payments in the amount of FIM 7,827 thousand and non-invoiced sales income in the amount of FIM 3,305 thousand. The Group's deferred income for the financial year include FIM 11,287 thousand worth of advance payments, FIM 8,094 thousand of accrual of social security payments and FIM 7,958 thousand of non-invoiced sales income.

#### 19. Partial debiting

Net principle has been applied to items debited partially in the balance sheet.

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Deferred income				
Non-invoiced receivables	14 249	16 272	20 822	16 272
Advances received	11 432	14 034	16 854	14 034

#### 20. Investments

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Market value	19 834	12 033	20 564	12 033
Book value	19 183	12 033	19 883	12 033
	651	0	681	0

**21. Changes in shareholders' equity**

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Share capital on 1 January	31 735	24 935	31 735	24 935
Share issue	-	6 800	-	6 800
Share capital on 31 December	31 735	31 735	31 735	31 735
Share premium account on 1 January.	164 403	58 003	164 403	58 003
Share premium	-	106 400	-	106 400
Share premium account on 31 December	164 403	164 403	164 403	164 403
<b>Total</b>	<b>196 138</b>	<b>196 138</b>	<b>196 138</b>	<b>196 138</b>
Reserve for own shares 1 Jan.	-	-	-	-
Increase	13 469	-	13 469	-
Reserve for own shares 31 Dec.	13 469	-	13 469	-
Retained earnings 1 Jan.	69 967	53 575	144 040	75 060
Distribution of dividends	-16 503	-4 675	-16 503	-4 675
Transfer into reserve for own shares	-13 469	-	-13 469	-
Change in translation difference	-	-	-395	4
Proportion of shareholders' equity of appropriations retroactively	-	-	-	30 660
Retained earnings 31 Dec.	39 995	48 900	113 673	101 049
Profit for the financial year	44 032	21 067	57 211	42 991
Total 31.12.	84 027	69 967	170 884	144 040
<b>Total</b>	<b>97 496</b>	<b>69 967</b>	<b>184 353</b>	<b>144 040</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>293 634</b>	<b>266 105</b>	<b>380 491</b>	<b>340 178</b>
<b>Calculation of distributable funds</b>				
Other reserves	13 469	-	13 469	-
Retained earnings	39 995	48 900	113 673	101 049
Profit for the financial year	44 032	21 067	57 211	42 991
- reserve for own shares	-13 469	-	-13 469	-
- share of accumulated depreciation difference and voluntary provisions entered under shareholders' equity	-	-	-20 785	-25 977
	84 027	69 967	150 099	118 063

The parent company's share capital is made up of 6,346,988 shares, each with a nominal value of FIM 5 (1 vote/share).

The company holds 75,000 of its own shares, each with a nominal value of FIM 5, the total value of which is FIM 375,000, acquisition cost FIM 13,469 thousand.

	Purchase date	Unit price	No. of shares	Payment FIM
	1.12.98	170.3060	5 000	851
	2.12.98	175.3150	5 000	876
	4.12.98	178.3204	5 000	892
	7.12.98	180.3240	5 000	902
	8.12.98	186.3348	5 000	932
	16.12.98	180.3240	50 000	9 016
			75 000	13 469

**22. Provisions for liabilities and charges**

The Group's provisions include guarantee provisions involved in software deliveries.

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Guarantee provisions	1 393	1 704	2 833	2 004

**23. Long-term liabilities**

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Debts maturing within five years or more				
Pension loans	14 378	15 461	21 599	23 234
Other long-term debts	91	-	91	-
	14 469	15 461	21 690	23 234

**Deferred tax liabilities and receivables**

	Group 1998	Group 1997
Deferred tax receivables from accrual difference	330	-
Deferred tax liabilities from appropriations from accrual difference	8 106	1 102
	-2 157	-
	5 949	1 102



#### 24. Short-term liabilities

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
<b>Amounts payable to Group companies</b>				
Advances received	15	16		
Accounts payable	8 640	3 317		
Other liabilities	-	-		
Accrued liabilities	206	383		
	<u>8 861</u>	<u>3 716</u>		
<b>Amounts payable to partly-owned companies</b>				
Advances received	12	-	12	-
Accounts payable	608	496	608	496
Other liabilities	-	-	-	-
Accrued liabilities	-	3	-	3
	<u>620</u>	<u>499</u>	<u>620</u>	<u>499</u>

#### 25. Significant items included in accrued liabilities

The parent company's accrued liabilities include holiday pay with social security expenses in the amount of FIM 21,766 thousand, accrual of statutory insurance premiums in the amount of FIM 7,958 thousand and tax liabilities in the amount of FIM 5,079 thousand.

The Group's accrued liabilities include holiday pay with social security expenses in the amount of FIM 34,477 thousand, accrual of statutory insurance premiums in the amount of FIM 11,336 thousand and tax liabilities in the amount of FIM 7,756 thousand.

#### 26. Pledges and other contingent liabilities

Loans involving mortgages as security	Parent company 1998	Parent company 1997	Group 1998	Group 1997
Pension loans	12 784	13 746	15 761	16 948
Mortgages given	19 000	19 000	19 000	19 000
<b>Other securities given</b>				
<b>For own debt</b>				
Pledges	8 315	4 751	10 102	4 802
Mortgages on real estates	26 000	26 000	26 000	26 000
Mortgages on company assets	-	-	15 400	14 000
	<u>34 315</u>	<u>30 751</u>	<u>51 502</u>	<u>44 802</u>
<b>For a group company's debt</b>				
Pledges	-	-	-	-
Guarantees	40 473	29 163	-	-

	Parent company 1998	Parent company 1997	Group 1998	Group 1997
<b>Other contingent liabilities</b>				
Pension loan liabilities	296	317	296	317
Other liabilities	16 433	10 431	16 433	10 431
<b>Leasing liabilities</b>				
Leasing payments in 1999/1998	2 439	1 672	3 469	2 288
Leasing payments in 2000/1999 or later	5 226	1 027	6 369	1 163
Repurchase liabilities	21	60	21	60

#### 27. Share issues

In the Annual General Meeting on 7 April 1998, it was decided that 200,000 rights of option be offered for subscription to the managerial personnel of the Novo Group and the group companies, which entitle the holder to subscribe a total of 200,000 Novo Group plc shares. As a result of the subscription, the share capital of Novo Group plc can increase by a maximum of FIM 1,000,000. Fifty thousand of the warrants will be marked with the letter A, 50,000 with the letter B, 50,000 with the letter C and 50,000 with the letter D. The subscription period for warrants marked with A begins no earlier than 1 June 2000, for warrants marked with B no earlier than on 1 June 2001, for warrants marked with C no earlier than on 1 June 2002 and for warrants marked with D no earlier than on 1 June 2003. For all warrants, the subscription period will end on 30 June 2004.

#### 28. Increases of the share capital between 1994 and 1998

	Subscription price <sup>1)</sup>	Subscription period	Increase of share capital, FIM	Right to dividend for the financial year	Number of new shares <sup>1)</sup>
Bonus issue 1996		1.5. - 30.6.96	9 350 580	1997	1 870 116
Private placement 1996					
Personnel	69,75	18. - 20.12.96	130 940	1997	26 188
Institutional investors	77,50	30.12.96	2 869 060	1997	573 812
Private placement 1997		Subscr. period			
Personnel	145,00	1.9.-12.9.97	76 550	1997	15 310
Institutional investors, general public	145,00	1.9.-12.9.97	3 723 450	1997	744 690

<sup>1)</sup> In accordance with the new nominal value (FIM 5/share)

**29. The Group's financial indicators**

	1994	1995	1996	1997	1998
Net sales, FIM million	698.8	818.3	1 144.3	1 287.2	1 555.5
Operating profit (-loss), FIM million	11.9	27.4	48.5	54.6	74.6
% of net sales	1.7	3.3	4.2	4.2	4.8
Profit before extraordinary items, FIM million	11.0	26.5	47.3	56.7	79.5
% of net sales	1.6	3.2	4.1	4.4	5.1
Profit before appropriations and taxes, FIM million	11.2	26.9	47.3	59.1	79.5
% of net sales	1.6	3.3	4.1	4.6	5.1
Balance sheet total, FIM million	308.5	321.9	454.2	561.3	701.6
Return on investment, %	10.9	19.6	25.9	20.6	21.5
Return on equity, %	5.8	18.6	22.1	15.5	16.1
Solvency ratio, %	30.9	35.0	42.5	61.0	55.4
Gross investments in fixed assets, FIM million	33.2	47.6	57.4	68.8	134.4
% of net sales	4.8	5.8	5.0	5.3	8.6
Average number of personnel	718	843	938	1 063	1 279

For the calculation of the 1998 financial indicators, the reserve value of own shares has been deducted from the shareholders' equity.

**30. Per-share ratios**

	1994	1995	1996	1997	1998
Profit/share, FIM	1.1	3.8	6.7	7.1	9.0
Dividend/share, FIM <sup>1)</sup>	0.3	0.4	0.9	2.6 <sup>2)</sup>	3.6
Dividend/profit, % (share issue adjusted) <sup>1)</sup>	29.4	9.8	13.9	36.6	40.0
Equity/share	18.9	22.4	34.3	53.6	58.5
Effective dividend yield, %				2.0	1.8
Price/earnings ratio (P/E)				18.0	22.6

**Development of share price and trading**

- lowest of the financial year, FIM				128	125
- highest of the financial year, FIM				205	265
- closing day rate, FIM				128	204
- average rate for the financial year, FIM				154	198
Market value, FIM million				812.4	1 294.8

No. of shares traded				497 142	2 992 427
- percentage of the share capital				7.8	47.7

**The share issue adjusted no. of shares in thousands**

- on average	4 987	4 987	4 989	5 797	6 343
- at the end of the financial year	4 987	4 987	5 587	6 347	6 272

For the calculation of 1998 ratios, the number of own shares has been deducted from the total number of shares and the reserve value from shareholders' equity, except in the case of profit/share and dividend/profit % ratios, in which the divider is the company's total number of shares: 6,346,988.

<sup>1)</sup> According to the proposal on dividend payment

<sup>2)</sup> 1997 figures are based on the no. of shares at the end of the financial year.

(profit before extraordinary items - taxes - minority interest)

<sup>3)</sup> Development of share price and trading during listing on the brokers' list as well as on the official list is shown.

**31. Shareholders by sector on 31 December 1998\***

	No. of shares owned	%
Companies, total	257 009	4.1
Financial and insurance institutions, total	1 699 057	27.1
Public corporations, total	3 127 386	49.9
Non-profit organisations, total	586 000	9.3
Private households, total	319 589	5.1
In administrative registration and foreign holding	228 245	3.6
Joint account and waiting list	54 702	0.9
Grand total	6 271 988	100.0

**32. Distribution of ownership by number of shares owned on 31 December 1998\***

Number of shares owned	No. of shareholders	Proportion of all shareholders, %	No. of shares	Proportion of all shares, %
1 – 100	835	45.7	59 529	0.9
101 – 1 000	797	43.6	285 529	4.6
1 001 – 10 000	137	7.5	440 839	7.0
10 001 – 100 000	48	2.6	1 317 860	21.0
100 001 – 1 000 000	9	0.5	3 093 209	49.3
1 000 001 –	1	0.1	1 020 320	16.3
Total			6 217 286	99.1
Joint account and waiting list			54 702	0.9
Grand total	1 827	100.0	6 271 988	100.0

\* The figures include 960 shares in joint accounts that were not distributed in the bonus issue in June 1996 (so-called remainder).





### 33. Major shareholders on 31 December 1998\*

Shareholders	Number of	%
The City of Helsinki	1 020 320	16.3
Leonia Bank plc	601 281	9.6
The City of Vantaa	511 661	8.2
The City of Espoo	482 086	7.7
The Association of Finnish Local Authorities	446 078	7.1
Varma-Sampo Mutual Pension Insurance Company	284 900	4.5
The Local Government Pensions Institution	277 363	4.4
Leonia Finance Ltd	201 837	3.2
Tapiola Mutual Pension Insurance Company	129 508	2.1
Tapiola Mutual Life Assurance Company	89 000	1.4
Others	2 227 954	35.5
<b>TOTAL</b>	<b>6 271 988</b>	<b>100.0</b>
Number of shareholders	1 827	
In administrative registration and foreign holding	228 245	3.64
Total number of shares owned by the Board of Directors, Supervisory Board and the President	7 322	0.12

\* The figures include 960 shares in joint accounts that were not distributed in the bonus issue in June 1996 (so-called remainder).

### Calculation of key ratios:

Return on equity (ROE), %	$\frac{\text{Profit before extraordinary items - taxes}^*}{\text{Shareholders' equity + voluntary provisions and depreciation difference}^* + \text{minority interest (average)}} \times 100$
Return on investment (ROI), %	$\frac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{Balance sheet total - non-interest bearing liabilities (average)}} \times 100$
Solvency ratio	$\frac{\text{Shareholders' equity + voluntary provisions and depr. difference}^* + \text{minority interest}}{\text{Balance sheet total - advances received}} \times 100$
Profit/share	$\frac{\text{Profit before extraordinary items - taxes}^* - \text{minority interest}}{\text{The average share issue adjusted number of shares}} \times 100$
Shareholders' equity/share	$\frac{\text{Shareholders' equity + voluntary provisions and depr. difference}^* - \text{minority interest}}{\text{The share issue adjusted number of shares at the end of the period}} \times 100$
Dividend/share (share issue adjusted)	Dividend per share for the financial year divided by the adjustment factors based on subsequent share issues
Dividend/profit, %	$\frac{\text{Dividend/share}}{\text{Earnings/share}} \times 100$
Price/earnings (P/E) ratio	$\frac{\text{Share issue adjusted average rate on the closing date}}{\text{Earnings/share}}$
Effective dividend yield, %	$\frac{\text{Dividend/share}}{\text{Average rate on the closing date}} \times 100$


\* Deferred tax liability has been taken into account in accordance with the tax rate valid at the time the financial statements were drawn up.



## Supervisory Board's statement

The Supervisory Board has reviewed the financial statements for 1998, and the auditors' report. The Supervisory Board is in favour of approving the income statement and balance sheet, and the consolidated income statement and balance sheet, and agrees with the Board of Directors on the disposal of non-restricted shareholders' equity.

Helsinki, 3 March, 1999



Timo Kietäväinen  
Chairman of the Supervisory Board

## Auditors' report

### To the shareholders of Novo Group plc

We have audited the accounts, the accounting record and the administration of Novo Group plc for the financial year from 1 January to 31 December 1998. The financial statements prepared by the Board of Directors and the President include a report on operations, an income statement and a balance sheet for both the Group and the parent company, and notes to the financial statements. Based on our audit, we give our opinion on the financial statements and administration.

We have conducted our audit in accordance with the Finnish Generally Accepted Auditing Standards. Those standards require that we examine the accounting record and the preparation principles, the contents and presentation of the financial statements to a sufficient extent to obtain reasonable assurance that the financial statements are free of material misstatement or deficiencies. The purpose of the audit of company administration is to ensure that the Board of Directors, Supervisory Board and President have complied with the Companies Act.

The financial statements, which show a profit of FIM 44,031,674.41 have been prepared in accordance with the Bookkeeping 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 Bookkeeping Act, of the company's operational results, as well as of its financial position. The financial statements can be approved, and the President and the members of the parent company's Board of Directors and Supervisory Board can be discharged from liability for the period audited by us. The proposal by the Board of Directors on the disposal of the non-restricted shareholders' equity is in compliance with the Companies Act.

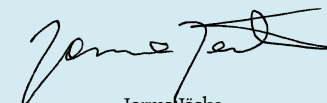
We have reviewed the interim reports published during the financial year. In our opinion, the interim reports have been prepared in accordance with the relevant rules and regulations.

Helsinki, 17 February, 1999

TILINTARKASTAJIEN OY  
ERNST & YOUNG  
Auditors



Mikael Holmström  
Authorised Public Accountant



Jorma Jäske  
Authorised Public Accountant

## Corporate governance

### Supervisory Board, Board of Directors and President

The Supervisory Board of Novo Group plc comprises no less than fifteen (15) and no more than twenty-five (25) members. The shareholders' meeting will confirm the number of members in the Supervisory Board, and choose the chairman for the Supervisory Board, and the first and second vice-chairmen as well as the other members. During the period under review, the Supervisory Board comprised 15 members, two of whom were employee representatives.

According to the articles of association, the Supervisory Board is responsible for:

- supervising that the company's affairs are taken care of properly and in accordance with the law, the articles of association and the decisions of the shareholders' meetings,
- giving a statement at the Annual General Meeting regarding the Board of Directors' report, financial statement and balance sheet, consolidated financial statement and balance sheet, and the auditors' report, as well as for approving the next year's operational plan
- studying the company's long-term operational and financial plan
- dealing with matters of principle relevant to the company's operations, as well as other matters presented to it by the Board of Directors.

The company's Board of Directors is made up of seven (7) members. Members are elected for one year at a time. The Annual General Meeting elects the members of the Board of Directors and decides on the remuneration payable to members of the Board of Directors and Supervisory Board as well as to the auditors for a year; that is, until the next Annual General Meeting.

The division of duties and responsibilities between the Annual General Meeting, the Board of Directors and the President have been specified in the articles of association. No special duties have been assigned to these bodies in addition to those prescribed by law.

The Board of Directors elects a Chairman at its organisation meet-

ing. No special duties and responsibilities have been assigned to the members and the Chairman of the Board. The Board may appoint sub-committees and working groups to deal with special issues. The President may participate in the work of these groups, but he is not a member unless specifically so agreed.

The Board of Directors will choose a President for the company. The President may also be elected member of the Board. The Board of Directors will decide on the remuneration and other benefits payable to the President. The essential terms and conditions of the President's employment contract have been defined in writing. Jorma Kielenniva, the current President and CEO, is not a member of the Board.

### Management ownership

According to the shareholders' register on 31 December 1998, the President and CEO of Novo Group plc owned 7,180 shares of Novo Group plc on 31 December 1998. These shares represent 0.1% of Novo Group plc's share capital and voting rights.

According to the shareholders' register on 31 December 1998, members of the Supervisory Board and Board of Directors owned a total of 142 shares of Novo Group plc on 31 December 1998. These shares represent 0.002% of Novo Group plc's share capital and voting rights.

### Audit

The company has two (2) regular auditors and two (2) deputy auditors. One of the regular auditors and one of the deputy auditors must be approved by the Central Chamber of Commerce (Authorised Public Accountant).

The auditor can be a public accountant company approved by the Central Chamber of Commerce.

The auditors' term of office is the same as the company's financial year, and will terminate at the end of the first Annual General Meeting following the elections.

During the period under review, the company's auditors were Tilintarkastajien Oy -Ernst & Young Auditors and Jorma Jäske, Authorised Public Accountant.

### Board of Directors

**Lauri A. Manninen**, M.Sc. Econ.  
Budget Manager, the City of Helsinki  
Chairman of the Board since 1990

**Ilkka Hallavo**, M.Sc. Econ.  
Vice Managing Director, Leonia Bank plc  
Member of the Board since 1993

**Jouko Juppala**, M.Sc. (Soc.Sc.)  
Director of Administration, the City of Vantaa  
Member of the Board since 1993

**Ilkka J. Kari**, Engineer  
Managing Director, Yhdysluoto Oy  
Member of the Board as of 1998

**Simo Lämsä**, Master of Laws  
Managing Director, Local Government Pension Institution  
Member of the Board since 1990 and Vice Chairman since 1993

**Christel von Martens**, M.Sc. Econ.  
Development Manager, the Association of Finnish Local Authorities  
Member of the Board since 1995

**Antti Salonen**, B.A.  
Municipal Manager, the Municipality of Kalvola  
Member of the Board since 1990



# Novo

## Novo Group grows faster than the markets

Novo is a group of several companies engaged in the same line of business. We offer our customers all the IT products and services they need. Our business strategy is to provide a full service package covering the consultation required with new technologies and the opportunities they offer, as well as hardware and network infrastructure and business enhancing system solutions. Our expertise in integration coupled with our operating and support services guarantees that our solutions work smoothly and free from problems. If required, we are prepared to take overall responsibility for our customers' information technology solutions and the related business processes.

Our service concept is built on truly understanding our customer's needs and on providing solutions that produce added value to the customer. If necessary, we can utilise the whole spectrum of services offered by our Group companies.

Our global market strategy has two major elements; on the one hand, we aim to strengthen our position in Finland's neighbouring regions, and on the other, we want to gain ground on global markets with our selected niche products. The Estonian Novo Bcs AS supplies software products to the Baltic market, and our UK subsidiary, Novo Ivc Ltd, markets point-of-sales solutions used in passenger carrier vehicles to customers around the world.

The services of Novosys Ltd, Novo Group plc and Novobit Ltd, and the entire Novoshop retail chain were awarded the SFS-EN ISO9001 Quality Certificate.

We operate a nation-wide service network in Finland. Our clientele includes private enterprises as well as public administration sector, local administration and health care organisations.

Novo Group runs its business operations through three business units: software business, operating and network services, and hardware sales. All Group companies are involved in software business, whereas two Group companies market operating and network services and hardware sales.

## Novo Management Group

– OUR OBJECTIVE IS, AGAIN, TO GROW FASTER THAN THE MARKET AND TO IMPROVE OUR PROFITS. PART OF THIS GROWTH WILL BE ACHIEVED THROUGH BUSINESS ACQUISITIONS. WE WILL ALSO INVEST HEAVILY IN NEW SERVICES AND BUSINESS ACTIVITIES ASSOCIATED WITH THE INTERNET.

– ELECTRONIC TRADING WILL BECOME INCREASINGLY POPULAR AND WILL CHANGE THE STRUCTURE OF HARDWARE SALES.

JARMO KUUSIVUORI

MANAGING DIRECTOR

NOVOSYS LTD

KARI KONTULA  
MANAGING DIRECTOR

NOVOBIT LTD

AINO JOKINEN  
SENIOR VICE PRESIDENT

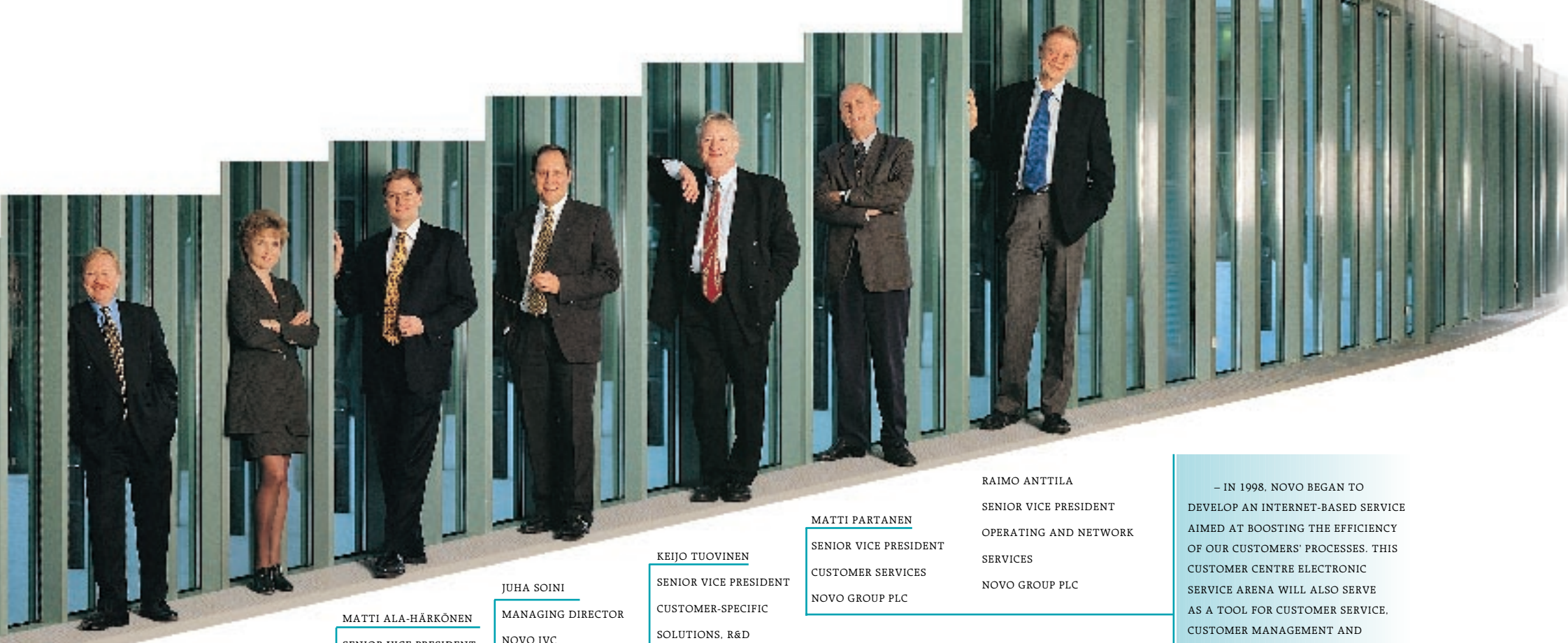
NOVO GROUP PLC

JORMA KIELENNIVA  
PRESIDENT AND CEO  
THE NOVO GROUP



– IN THE FUTURE, COMPANIES WILL FOCUS MORE SHARPLY ON THEIR OWN KEY BUSINESS-ES. IN ADDITION TO OUTSOURCING TRADITIONAL DATA MANAGEMENT FUNCTIONS, COMPANIES WILL OUTSOURCE OTHER ACTIVITIES THAT DO NOT REPRESENT THEIR CORE COMPETENCIES. FIVE COMPANIES OF ABB VAASA OUTSOURCED THEIR ENTIRE PAYROLL MANAGEMENT PROCESS, WHICH COVERS 5,000 PEOPLE, TO NOVO IN SUMMER 1998.





**OSMO WILSKA**  
 SENIOR VICE  
 PRESIDENT  
 SOFTWARE  
 PRODUCTS  
 NOVO GROUP PLC

**TARJA VIRKALA**  
 SENIOR VICE  
 PRESIDENT  
 COMMUNICATIONS  
 AND PERSONNEL  
 NOVO GROUP PLC

**MATTI ALA-HÄRKÖNEN**  
 SENIOR VICE PRESIDENT  
 BUSINESS DEVELOPMENT  
 NOVO GROUP PLC

**JUHA SOINI**  
 MANAGING DIRECTOR  
 NOVO IVC  
 SENIOR VICE PRESIDENT  
 INTERNATIONAL  
 ACTIVITIES  
 NOVO GROUP PLC

**KEIJO TUOVINEN**  
 SENIOR VICE PRESIDENT  
 CUSTOMER-SPECIFIC  
 SOLUTIONS, R&D  
 NOVO GROUP PLC

**MATTI PARTANEN**  
 SENIOR VICE PRESIDENT  
 CUSTOMER SERVICES  
 NOVO GROUP PLC

**RAIMO ANTILA**  
 SENIOR VICE PRESIDENT  
 OPERATING AND NETWORK  
 SERVICES  
 NOVO GROUP PLC

– AS DATA PROCESSING BECOMES MORE DECENTRALISED AND THE VOLUME OF DATA TO BE PROCESSED INCREASES, THE MARKET FOR DATA MANAGEMENT SOLUTIONS WILL GROW DRAMATICALLY. TO DESIGN THESE AND ELECTRONIC TRADING OR ELECTRONIC TRANSACTIONS SOLUTIONS IN SUCH A WAY AS TO SUPPORT THE CUSTOMER'S KEY BUSINESS REQUIRES IN-DEPTH UNDERSTANDING OF THE CUSTOMER'S BUSINESS AS WELL AS DEEP-PENETRATING CONSULTATION. NOVO OFFERS CONSULTANCY SERVICES THROUGH ITS BUSINESS UNITS AND THROUGH A SPECIALISED CONSULTANT FIRM, HM&V RESEARCH.

– CO-OPERATION WITH THE CHINESE ACADEMY OF SURVEYING AND MAPPING IS ONE DIMENSION OF NOVO'S INTERNATIONAL ACTIVITIES. THE SATELLITES ORBITING EARTH TRANSMIT UP-TO-DATE INFORMATION ON OUR ENVIRONMENT AND ON THE CHANGES TAKING PLACE IN IT. NOVO'S SOFTWARE IS USED TO PROCESS THE MATERIAL SENT BY THE SATELLITES INTO A FORMAT THAT IS EASY FOR DESIGNERS AND OTHER SPECIALISTS TO UTILISE. THE FINLAND BASED NOVOSAT OY SPECIALISES IN THE IMPORT AND SALE OF SATELLITE IMAGES AS WELL AS IMAGE PROCESSING AND OTHER EXPERT SERVICES.

– IN 1998, NOVO BEGAN TO DEVELOP AN INTERNET-BASED SERVICE AIMED AT BOOSTING THE EFFICIENCY OF OUR CUSTOMERS' PROCESSES. THIS CUSTOMER CENTRE ELECTRONIC SERVICE ARENA WILL ALSO SERVE AS A TOOL FOR CUSTOMER SERVICE, CUSTOMER MANAGEMENT AND COMMUNICATIONS.

– THE PACE AT WHICH INFORMATION TECHNOLOGY ADVANCES DOES NOT COMPARE WITH THE SPEED WITH WHICH ORGANISATIONS CHANGE THEIR PROCESSES. THE ROLE OF NOVO'S 25 STRONG R&D TEAM IS TO INCLUDE THE UNDERSTANDING OF CUSTOMER'S BUSINESS PROCESSES AS AN INHERENT PART OF DEVELOPMENT PROJECTS. THE UNIT'S OWN DEVELOPMENT PROJECTS IN 1998 FOCUSED ON WIRELESS COMMUNICATIONS, 3D MODELLING, AND THE STUDY OF SOFTWARE LANGUAGES, COMPONENT TECHNOLOGY AND DIGITAL SOLUTIONS. IT ALSO DEVELOPED NEW TESTING PRODUCTS AS TOOLS FOR DATA SYSTEM CONSTRUCTION AND PERFORMANCE MONITORING.





## Software business

Net sales generated from the software business picked up by 28% over the previous year and amounted to FIM 413.9 million (323.3 million). This business group represented 26.6% (25.1%) of the Group's total net sales.

Business units within the Software Business

Group market software products, customer specific solutions and expert services involved in their integration, introduction, maintenance and support. Almost two out of three people working for Novo are employed in service production.

The number of companies offering software and related services rose from six to eleven. Companies marketing software products are Novo Group plc, Novobit Ltd, Novo Meridian Oy, Novo App Ltd, Novo Bcs AS and Novo Ivc Ltd. Customer specific systems are provided by Novo Group plc. Novosys Ltd and Nouveltech Oy sell software licences, while Novostore Ltd develops and markets electronic trading software. HM&V Research is a specialised management IT consulting firm. Novosat Oy, which began operations on 4 January 1999, focuses on the import and sale of satellite images, and the expert and processing services required for the image processing software.

### Solutions to meet the customer's needs

Software business focused on financial and personnel administration systems.

The range of solutions we offer for personnel administration is designed to meet the needs of small, medium and large enterprises, local administration, the public sector and the health care sector. Novo is the leading supplier of personnel administration systems for hospitals, and among the major suppliers for the SME's and local administration. In this sector, we signed dozens of new delivery agreements during the year, including the Sonet corporate system, which was delivered to our 500th customer. In the public sector, we also signed several significant delivery agreements, the most important being the agreement signed with the Ministry of Justice.

To boost the development in personnel administration systems, we signed an agreement regarding the production of a crew optimisation system for the national airline company Finnair Oy. Our partner in this project is the Dutch Cetec Bv. The product and service selection for personnel administration was expanded, particularly to cater to the needs of big companies, by adding modules designed to suit the purposes of human resources planning and personnel management. The decision made at ABB's Vaasa plant to outsource its payroll calculation operations to Novo opened the door for a new business area that focuses on outsourcing personnel administration processes.

Our financial administration solutions meet the needs of small companies and the public sector's major accounting bureaus alike. We are the market leader in the local administration sector. In the SME sector, approximately 2000 companies around Finland use our financial administration solutions. During the year under review, we took giant steps towards our goal: to be the leading supplier of software products for the SME sector in Finland.

All of Novo Group's financial administration solutions were upgraded as required by the introduction of Euro. The first customer companies introduced the Euro upgraded versions at the beginning of 1999.

At the end of 1998, we signed an agreement regarding the retail of SAP R/3 control systems. These solutions will initially be marketed to the public sector.

Novo's systems for the social, cultural, educational and congregational services are used by hundreds of organisations in Finland. The Status congregational was delivered to the 270th parish customer. In the social services sector, we continued to develop solutions for electronic data transfer and electronic transactions. Electronic transactions require that we complete the standardisation project involved in electronic identification; a project in which we are partnered by the Finnish government. During the year, the number of libraries with an Internet interface increased to more than 150. The study and teaching support systems for Polytechnics were developed further in co-operation with the universities employing a similar system.





The patient administration system used at health care centres was expanded to feature a graphic doctor's workstation. Medici Data Oy, a company partly owned by Novo, specialises in the development of patient administration systems for hospitals. During the year, Novo, through its partly owned company, was actively involved in the development of new systems based on the continuing health care concept.

Customer-specific systems saw tremendous growth. This unit continued to develop customised systems for various clients, including the City of Helsinki, the Defence Forces, a consortium of universities, and companies engaged in car dealing, insurance and banking. The business unit focusing on customer-specific systems is divided into departments that specialise in serving the local administration, the public sector, or the business sector.

### **Expanding into new lines of business**

Novo Meridian Oy is engaged in the development and marketing of geographic information systems, real estate management systems and municipal engineering systems. Meridian Systems Oy became a sub-

siary of the Novo Group in the autumn of the year under review. The parent company's real estate and municipal basic registration systems business was transferred to Novo Meridian at the end of the year.

The business activities of Novostore Ltd, which is engaged in marketing Internet-based systems solutions, were expanded to cover electronic commerce and knowledge engineering solutions. At the end of the year, the business operations of CardPlus Oy, New Generation Software (NGS) Oy and Oy Artis Ltd, and the parent company's knowledge engineering and Internet solutions businesses were transferred into Novostore. During the year, the company produced the first business-specific electronic commerce system for a customer ([www.interteva.com](http://www.interteva.com)).

After business acquisitions carried out in the autumn, Novo Eesti AS (subsequently Novo Bcs AS), the Estonian subsidiary of the Novo Group, grew to be one of the biggest software houses in Estonia. Located in the UK, Novo Ivc Ltd signed agreements in the autumn regarding the delivery of systems for Lufthansa, Britannia Airways and LTU.

THE BRITISH NOVO IVC LTD IMPLEMENTS OUR NICHE STRATEGY IN ITS GLOBAL GROWTH EFFORTS. THE COMPANY MARKETS SALES SYSTEMS USED IN PASSENGER CARRIER VEHICLES TO A NUMBER OF CUSTOMERS, INCLUDING AIRLINES. NEW CUSTOMERS GAINED IN AUTUMN 1998 INCLUDED LUFTHANSA, BRITANNIA AIRWAYS AND LTU.

Novosys enlarged the range of standard software products it offers by signing agreements concerning the retail of system management products manufactured by Computer Associates Int. (CA) and IBM.

### **Outlook for the future**

Business-specific expertise will continue to be of increasing importance in the marketing of software solutions. Novo will focus on sharpening its business and consultancy expertise in its key priority products. The structure of software business will be further simplified. Outsourcing entire business processes will become increasingly popular.



## Operating and network services

Net sales from the operating network services business increased by 25.7% to FIM 241.6 million (192.1 million). This sector accounted for 15.5% (14.9%) of the Group's overall net sales.

The operating and network services business comprises the technical installation of system, the use, monitoring and management of systems, and expert services. Group companies offering these services include Novo Group plc, Novosys Ltd and Nouveltech Oy. About 20% of Novo's personnel are employed in this sector.

### Reliability a key criteria

The development towards more and more complex data processing environments and network-based computing continued during the year. The operating and network services business group offers its clientele design, project management and integration services for the construction of technological infrastructures as well as system operating, monitoring and management services; consultation, Internet, printing and mailing services, and services involved in outsourcing data systems.

Demand for traditional operating services and for printing and mailing services was stable, while demand for other services increased dramatically. The number of NT migrations performed for customers increased, as did the number of local support agreements. The Helsinki service centre launched an SAP R/3 operating service, and a new regional office was opened in Mikkeli. A new service - data services marketing, was introduced.

The objective of basic operating and network services is to ensure the operational reliability of data processing systems serving the customers' business activities in all circumstances. The range and dependability of the services, expert knowledge of several different environments, and a nation-wide service network provide Novo with a clear competitive advantage.

The National Road Administration's national local network standardisation project was completed during the year under review. Major service agreements were signed with a number of organisations and companies, including the City of Mikkeli, the South Savo health care district, the City of Tornio, the Rural Commune of Rovaniemi, the South Saimaa health care district, Tervakoski Oy, The Finnish Red Cross Blood Transfusion Service, Oy Veho Ab, VR-Data Oy, Abb Oy, Finland Post Ltd, Veikkaus, Enso Oyj forestry department and ISS Suomi Oy. Co-operation with Nokia was launched regarding the design and construction of IT infrastructures in Nokia's business premises abroad.

### Data services the newest line of business

During the year, Novo was authorised to market data services products created on the basis of demographic information obtained from the Population Register Centre. This new business, which was created through an agreement, will offer services to companies engaged in direct marketing. The Direct Marketing Services unit offers its customers the services of Mosaic Finland Oy for the retrieval and processing of data.

### Outlook for the future

We anticipate a sustained, strong growth in the demand for operating and network services, and believe that small and medium-sized enterprises will show more and more interest in monitoring and management services. Services will be more sharply profiled to make them easier to understand and buy, and to improve cost-efficiency. Network-based solutions will be the key priority when developing new services. We believe that organisations will be more inclined to outsource their entire data management operations, or parts of it. The number of projects carried out outside Finland will rise.



## Hardware sales



The hardware sales business improved its net sales by 16.6% to FIM 900.0 million (771.8 million). The sector represented 57.9% of consolidated net sales (60.0%).

Hardware sales covers the sale of workstations and servers as well as network components, communications products and other devices included in the customers' technological infrastructure. Group companies engaged in this line of business are Novosys Ltd and Nouveltech Oy. This sector employs approximately one out of seven Novo personnel.

The product and service portfolio of Novo's hardware sales business unit has been constructed so that it includes solutions for small, medium-sized and large organisations to best meet their needs. To ensure reliable deliveries, the company has its own logistics centre. The operations of the Novoshop retail chain focus on catering for small businesses and home offices.

### **Novosys Ltd is a part of the Global Serve network.**

A supplier not restricted to specific brands can manage the overall system. Expertise in integration is particularly important when selling hardware. The hardware sales business group offers its customers hardware solutions that are not restricted to certain manufacturers and that work perfectly in a variety of environments. Novo is Finland's biggest retailer of hardware not contracted to any particular manufacturers.

During the year, customer organisations focused more and more sharply on their core competency areas. Therefore the role of a partner supplier of hardware extends from the maintenance of technological

infrastructure to the integration of the systems environment as well as control and monitoring assignments. These aspects have been covered in conjunction with the review of the software business or the operating and network services.

Significant new agreements regarding hardware deliveries were signed over the year with Merita Bank plc, Finland Post, the Ministry of Justice, Instrumentarium Oyj/Datex-Ohmeda Group, the Defence Forces, the Ministry of Trade and Industry, and Outokumpu Polarit Oy.

Novosys Ltd and Fujitsu Computers Oy signed an agreement to amalgamate their production and logistics expertise in Finland. The objective of this agreement is to shorten the IT hardware delivery chain. In the Fast Track operating concept, the guaranteed delivery time from mill to customer is five working days.

### **Financial services the latest service product**

At the end of 1998, we developed a new Novorent financial service product for our customers. The purpose of providing this financial service is to give customers the option of leasing the hardware and standard software instead of buying it.

New products were also developed for performing a year 2000 evaluation in customer companies.

### **Outlook for the future**

The most predominant feature of the hardware markets in Finland is the fierce and constantly increasing price competition. In the future, maintaining a customer's IT systems platform will be more closely linked to securing the reliability of the entire systems environment. In 1999, demand in the hardware sales business group will be boosted by the need associated with the year 2000 to modernise hardware.

Electronic commerce will become more commonplace in the future, and will change the structure of hardware sales. Geographical boundaries between European countries will lose their significance along with the introduction of a single European currency. Novo's hardware sales unit will meet the challenge presented by electronic commerce by offering its customers services through an electronic interface.



## Towards a more unified Novo

Novo consists of several companies and a range of business operations. However, our strategy is to offer a full service package, and we have promised our customers that they will find all the IT products and services they need under one roof. At the end of 1998, we made a decision to start working towards building a more unified Novo. This means that we want to fade out any boundaries within the Group to improve customer-orientation and speed up business reforms. This ideology provides all Novo Group companies with an umbrella under which each company can develop its own business activities from its own, individual starting point.

This idea of a shared and more unified Novo embraces a development process which will steer decision-making at many levels, including sales management and the re-organisation of services and areas of responsibility. The first visible indication of our efforts to build a unified Novo was the standardisation of all business logos, which took place in early 1999. After the reform, all Novo companies will use the same logo.



EVERY YEAR IN AUGUST, WE CELEBRATE A SPECIAL NOVO DAY. IN 1998, WE GATHERED AT THE VIERUMÄKI SPORTS INSTITUTE FOR A COMPETITION BETWEEN TEAMS. THE EVENTS INCLUDED GOLF, CURLING AND AN ADVENTURE COURSE. THIS RELAXED FITNESS EVENT BEGAN WITH A WARM-UP IN WHICH EVERYONE PARTICIPATED.

### We make IT for you.

Our slogan, "We make IT for you," epitomises the Group's mission, its raison d'être. We are in the business to provide products and services designed to meet our customers' needs and to permit them to stop worrying about the functionality of information technology.

### Values

The values that set the course for Novo's operations are customer orientation, reliability and quickness to change.

Novo's business development is dictated by the customers' needs. Customer orientation is at the heart of each strategic choice, and customer satisfaction with our services is regularly monitored. When recruiting new personnel, we pay special attention to a person's service skills and his or her ability to converse with the customer. In 1998

we also began to monitor in-house customer satisfaction, that is, satisfaction between teams.

Technology advances at a hectic pace and provides new opportunities for developing our operations. Our R&D department is responsible for finding technological innovations and processing them into products and services in line with the customer-driven ideology.

The Novo ideology also encompasses the principles of life-long learning and continuous renewal. These principles apply to our business activities and personnel alike. Human resources development is based on the Group's vision, on needs defined by direction chosen for business development efforts. Novo encourages its personnel to seek training and education and provides opportunities for personal and professional growth.

### Team-building and human resources development

The team-building process was initiated in Novo in 1996. This process has been gradually expanded to entail the entire Group. Each team member has a personal objectives card, which serves as a foundation for team-leading and operations management. A new personal objectives card is prepared every year. The progress is reported and objectives readjusted quarterly. Team leading also involves personal career development discussions with each member of personnel; these are conducted at least once a year. During the discussions, the overall objectives of the Group and business units are reviewed and used as the basis for individual objective setting. Each employee's personal development needs are also reviewed during the discussions.

Human resources development is an integral part of our certified

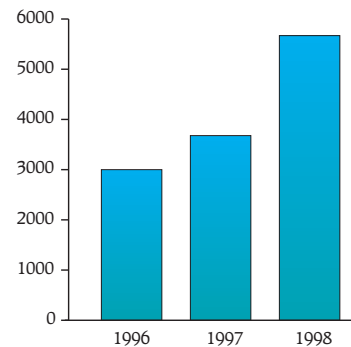


quality system. The Management Group includes human resources development into strategic planning.

In order to provide personnel with better opportunities to improve their professional skills, we diversified the selection of training activities available. One of the key priority areas was training of technology experts, and in addition, all business units continued to focus sharply on making activities more customer-driven, a strategic planning programme was arranged for the middle management, and training geared at improving teamwork continued at all levels of the organisation.

In addition to training activities, the human resource development measures employed at Novo include hands-on learning, job rotation, temporary posts, group/team work and independent studying. Applying for positions within the Group provides an opportunity for in-house job rotation and ensures that the professional skills and business knowledge of personnel match their duties. It also gives personnel an excellent chance to expand their areas of expertise.

### Number of days spent on training



IN 1998, THE TOTAL NUMBER OF DAYS SPENT ON TRAINING AT NOVO WAS 5,669 (3,678).

ABOUT 900 PEOPLE FROM SIX DIFFERENT NOVO COMPANIES HAVE LUNCH AT THE LASIHELMI RESTAURANT AT THE COMPANY HEADQUARTERS IN PITÄJÄN-MÄKI. REGARDLESS OF FLEXIBLE WORKING HOURS, THE CANTEN IS OFTEN PACKED AROUND NOON.





WORKING FOR AN IT COMPANY INVOLVES CONSTANT BRAINSTORMING AND TESTING YOUR OWN IDEAS.

### Personnel satisfaction

Personnel satisfaction is measured once a year by means of an organisational climate survey covering the Group's entire personnel. Measuring the organisational climate and personnel satisfaction is a part of the quality system. The survey is designed to chart whether or not people like their jobs and working environments, and to assess internal co-operation, recognition of corporate values and the possibilities to give and receive feedback. The latest survey was conducted in November. The survey showed that there were remarkable differences in the working climates between different Group companies and business units. Based on the results obtained, scheduled development programmes will be prepared, and their progress will be monitored on a regular basis.

### The Novo Energy project

Novo launched a project entitled Novo Energy which is aimed to improve and maintain the working capacity of personnel. The purpose of this project is to help personnel find ways to improve their life quality and to maintain a level of energy needed to sustain a healthy, balanced life. The activities are designed to improve the general well being and health of personnel, and to give them more influence on issues involving their work and working environment. The Novo Energy project focuses on the condition of individuals, working environments and work communities.

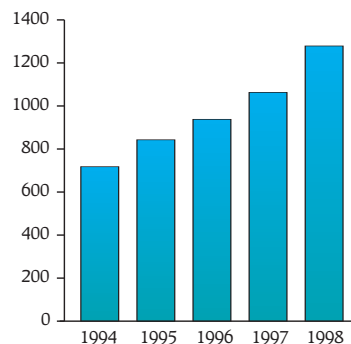
Measures at the individual level are aimed at developing professional skills, motivation and co-operation between members of personnel. The importance of a healthy lifestyle is also emphasised. In terms of working environments, efforts are geared at providing chances of success. This means that special attention is paid to working conditions, ergonomics and the general atmosphere at workplaces with the objective to minimise the negative factors affecting work. Measures at the work community level focus on improving the management culture, co-operation within the Group, incentive and training systems and the overall atmosphere of work communities.

Furthermore, other important objectives of the Novo Energy project include increasing job satisfaction, reducing costs incurred from high personnel turnover and in a more general sense, lifting the corporate image, supporting recruitment activities and boosting shareholder value. The underlying objective of the activities is to reduce the costs generated from personnel absence and early retirements.

### Recruitment

The IT business is still suffering from a labour shortage. We pursued our active recruitment policy and hired about 500 new personnel during the year. We were also engaged in co-operation with several educational institutions offering training in our field. The Group companies participated in all the major recruitment events held in Finland over the year.

### Average number of personnel



NEARLY HALF (41%) THE PERSONNEL WERE WOMEN IN 1998.

NOVO SUPPORTS THE RECREATIONAL ACTIVITIES FOR ITS PERSONNEL. THE PERSONNEL CLUB RAKETTI ARRANGES CULTURAL EVENTS AND THE RENTAL OF HOLIDAY CABINS IN SKI RESORTS. FOR INSTANCE, THE SWIMMING POOL AND GYM LOCATED IN THE MAIN OFFICE COMPLEX ARE ACTIVELY USED, TOO.



## Glossary of terms used in the annual report

### **Application**

Completing a data processing task using information technology, cf. application software: the software running the operations needed by a basic user.

### **Complete service package**

Such a range of hardware, software and IT services that enables the supplier to produce and deliver all the components required in a typical data system environment.

### **Corporate governance**

Supervision of the activities of the company management.

### **Customer-specific software**

Software customised to meet the customer's specific requirements.

### **Data processing**

Completing a task or a series of tasks involving data, such as combination, selection, reorganisation or calculation, in order to produce desired results.

### **Expert services**

Consultation based on expert IT skills and competence, by which the most suitable solution for customers' specific IT problems and requirements can be offered.

### **Extranet**

A cluster of data networks created using Internet technology, parts of which may be open to all users, while access to some parts can be restricted to selected users.

### **Installation**

Putting software or hardware into working order at the customer's place of business.

### **Internet**

Originally a system used by the research community and universities, but now open to all users; a global web comprised of numerous data networks and the links between them.

### **Introduction**

Taking a new system into regular use.

### **Mobile technology**

Technology applied to make IT services available in wireless data networks and their user terminals.

### **Network component**

A part of a data network, such as a communications server, a router, or cabling

### **Network services**

Business that includes the construction and introduction of various data networks, their management and control, and ensuring their operational reliability.

### **Networking**

An intensified and deepened co-operation between companies and other organisations, or between individuals and groups, in order to promote a common goal.

### **Niche products**

IT solutions designed to meet the needs of a specialised, narrow customer sector (hardware and software).

### **Operating services**

Services purchased from an external service provider aimed to maintain and support the IT services. The service provider owns the hardware used to produce the service.

### **Outsourcing**

A customer authorises a service provider to perform functions or handle processes that do not constitute the customer's key business.

### **Outsourcing services**

Services offered to customers involving a clearly profiled function or a process to be outsourced to a service provider.

### **Server**

A device that serves several workstations in a network, and that runs a certain task, such as printing or data storage.

### **Software business**

Business activities involved in the development, marketing, introduction and maintenance of software.

### **Software product**

Computer software that has been specially designed to perform a certain group of tasks and that is marketed chiefly as such to various users.

### **Support services**

Services and assistance provided for the end users of a data system.

### **Systems environment**

An entity comprised of hardware and software in which the former features constitute a marginal condition for the validity of new devices and software introduced into the system.

### **Testing**

A stage in the data system building that follows definition and implementation. It involves testing the compatibility of the components in the system with each other and with the environment, in situations that are as close to real usage as possible.

### **Testing service**

Software and the related expert services offered to help ensure the functionality of an IT solution before the actual introduction.

### **User interface**

The devices or functions with which the user is linked to the data system or a network service.

### **Work station**

The set of equipment used by an individual user.

### **www**

Worldwide web - a network that covers the whole world. For example, a www application is an application that includes a www interface to allow access to the web.



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