

Finland Post Group Ltd 1998

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Finland Post at a Glance

Finland Post Group is Finland's leading messaging and logistics company serving companies, organisations and households throughout Finland, and increasingly also abroad.

The Post's core business activities are messaging, media and logistics services. The Post's Messaging Services cover both letter mail and electronic messaging. Media Services includes distribution services for newspapers and magazines, direct mail deliveries and address management. The core activities in Logistics Services are service packages for parcel conveyance in Finland and adjacent market areas.

The Post has been operating in Finland for over 360 years. Finland Post Group was established in its present form when the PT Finland Group demerged in the summer of 1998. Finland Post Group is wholly owned by the Finnish State.

Organisation

The parent company of Finland Post Group is Finland Post Group Ltd. The parent company directly owns Finland Post Ltd and,

since the demerging of the PT Finland Group, also PT-Automotive Services Ltd. Finland Post Ltd had 21 subsidiaries and associated companies with business operations at the beginning of 1999.

The Post's operations are divided into four groups: Products, Major Accounts, Counter Services and Production.

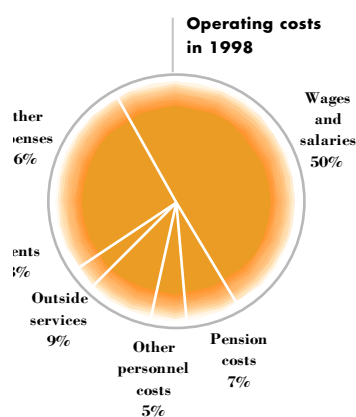
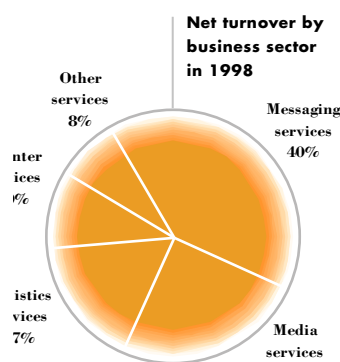
The Products group is responsible for Finland Post Group's core business activities and their development. Products' business areas are Messaging Services, Media Services and Logistics Services.

The sales channels for services are Major Accounts and Counter Services. Major Accounts is responsible for some 6,000 of the Post's largest corporate customers and client organisations, which generate about 80% of the net turnover for postal services. The Post's main customer sectors are postal services, banking and insurance, industry, service companies, wholesalers and retailers, organisations and media companies. The Counter Services group's network of service outlets is responsible for sales to small- and medium-sized enterprises (SMEs) and private customers. It is also an element in the production of postal services. Post offices receive customers' mail for conveyance and function as collection points for arriving mail.

The Production group is responsible for the sorting, conveyance and delivery of mail consignments.

Competitive situation

Finland is one of the few countries in which the delivery of addressed mail has been deregulated and is no longer a monopoly, although it is still subject to licensing. Finland Post is the only postal operator that holds a nationwide concession to deliver addressed



1998 result

The Post's net turnover rose to FIM 5,957 (5,667) million, with growth in all core business areas.

Profit before extraordinary items and taxes, FIM 353 (535) million, was reduced by higher costs.

Investments totalling FIM 665 (508) million made 1998 a peak year for investment. The main areas for investment were production facilities and IT infrastructure.

mail, and the licence obliges the Post to ensure that postal services are provided and available throughout Finland. The Ministry of Transport and Telecommunications has also granted a concession for mail delivery to another company, but only for a restricted geographical area. Finland Post is prepared for competition, especially the competition for addressed mail delivery in larger population centres. Electronic messaging is also intensifying the competition for delivery by steadily replacing the physical letter.

The Post's other business areas, which account for 60% of Finland Post Group's net turnover, have been exposed to competition for some years now. This competition is becoming stiffer, especially in logistics services.

Changing customer needs

In many of the Post's key customer sectors, the needs for messaging and goods transport are changing rapidly.

An important trend in wholesaling and retailing is the long-predicted breakthrough in e-commerce. This is also expected to revive established mail-order business. Virtual trading will attract new entrants to the 'remote trading' market. The adoption of the euro as a common European currency will also simplify remote purchasing and create new consumer groups, particularly international mail-order customers. Customers will become more demanding, and call for swift direct-to-the-door delivery of a higher volume of purchases.

The loyalty schemes run by retailers and service companies will further increase their use of messaging services. The traditional letter will retain its position in customer relations communications, although some messaging will be in electronic format.

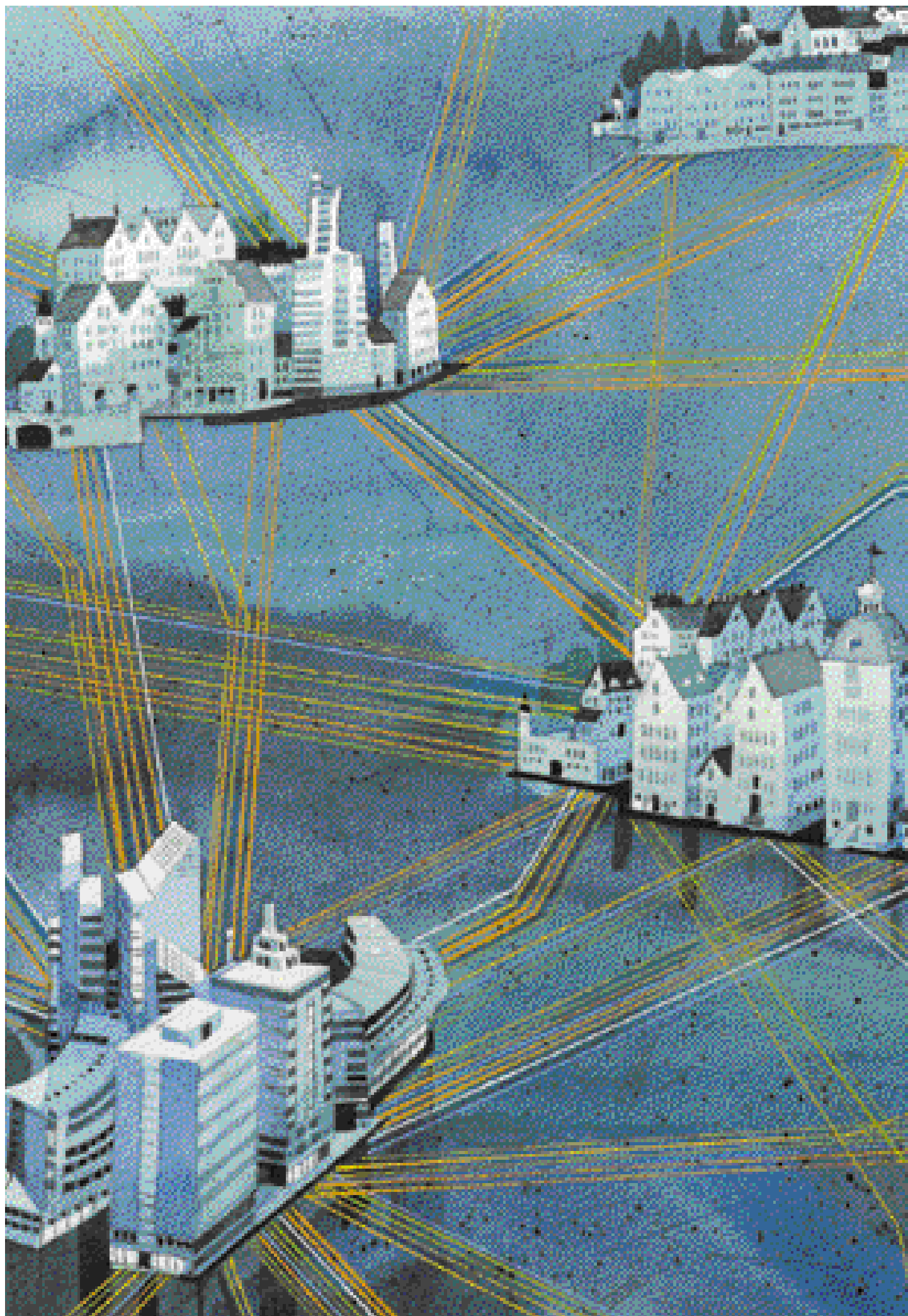
<i>Key figures</i>		1994	1995	1996	1997*	1998
Net turnover	MFIM	4,851	4,984	5,213	5,667	5,957
Operating profit	MFIM	356	420	491	508	331
Investments	MFIM	260	210	280	508	665
Personnel	31 Dec.	24,481	26,537	24,574	25,933	26,344
Postal items	million	1,924	2,386	2,374	2,553	2,597
Proportion of satisfied customers, %	Business customers	82	83	83	79	85
	Consumers	73	64	63	78	80

*The information for 1997 has been adjusted according to the Group structure as from 1 July 1998

The public administration's drive for more efficiency in the services it provides will increase its need to contact Finnish citizens. The conventional letter will retain its position in public sector communications, but some dealings with public authorities have already moved to the Internet. Many electronic services for companies and private individuals to transact their business with public authorities are already in operation. Public administration will also need more local logistics packages in order to upgrade social services.

For industry, the prospects for growth vary in different sectors. Internationalisation and changing customer needs will boost demand for fast international conveyance of goods. The outsourcing of logistics is on the increase, especially in industry. Companies are also outsourcing warehousing and postal functions.

Media companies in Finland are experiencing a period of strong growth. Publications and advertising in publications are thriving. Magazine and news-paper publishing and printing are becoming distinct specializations and the increasing concentration of ownership in printing will continue, which will boost demand for logistics services.



For Finland Post 1998 was a landmark year. We started operating as an independent state-owned company after the demerging of the PT Finland Group in the summer. We also celebrated our 360th anniversary of operation. Finland Post has developed from its distant origins as a Crown messenger into Finland's leading messaging and logistics company. Finland Post has changed more in this past decade than in all its preceding history.



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Throughout 1998 we have thoroughly reviewed Finland Post Group's long-term policy and the strategic choices it faces. To assure the continued profitability and steady development over the long-term of postal services covering the whole of Finland, we must above all focus on our core competencies.

Our core competencies are in distributing letters, newspapers, parcels and direct mail items, and in service solutions supporting their distribution. The Post fully intends to maintain its leading position in Finland as a provider of such services. Our unmatched strengths are a service network that reaches all Finns, a unique address database, cost-effective logistics machinery, and the internationally acknowledged high quality of our services.

The obligation imposed by our operating concession to provide a nationwide service is a challenge for the Post. In sparsely populated Finland, however, only the Post can offer its customers a distribution channel that physically

reaches all Finnish companies and homes. This infrastructure is essential to the Finnish business community.

In recent years we have bolstered our core competencies with significant investments. The production centre for goods handling in the city of Vantaa, due for completion in the autumn of 1999, is a FIM 230 million investment to ensure our capacity to meet the growing demand for logistics services, due in part to increased electronic trading. The IT system constructed for tracking and tracing goods flows and postal items will help us make good on our promise to provide even better service. The project for modernising our IT platform completed in 1998 was an investment in the competitiveness and service spectrum of our comprehensive network of outlets.

Feedback from customers shows that we have succeeded in our quality drive. Three studies

**President and CEO
Asko Saviaho**



were published in 1998 that shed light on Finns' opinions of our various services. The Post's service image showed marked improvement in the surveys of both the Ministry of Finance and the National Consumer Administration. The survey conducted by the Ministry of Transport and Communications was also positive in its assessment – postal operations were regarded as reliable and efficient, while the professional expertise of the Post's employees was rated as high. Finland Post was also voted logistics company of the year as a consequence of its fruitful cooperation with customers. Credit for this is also due to the IT solutions developed jointly with customers that have achieved substantial savings in the distribution and storage functions of both private companies and the public sector.

A continued commitment to investing in quality and to meeting our customers' needs is vital to our success. Competition will be even stiffer in the Post's core business areas, especially as more foreign competitors enter the attractive goods traffic arena. Competition has also been expected for several years in addressed letter mail in urban areas. The Post is the only operator in Finland with a nationwide concession for addressed letter mail, although another concession for delivery of letter mail to a limited area has also been granted.

Growth from the electronic market

Although conventional letter mail has held its market position well, it is being replaced by electronic messaging. The speed of this change is the only open question.

Finland Post is preparing for this change by active involvement in the development of electronic messaging and by providing logistics

solutions for electronic commerce. The Post aims to assist companies and consumers in making a smooth transition to becoming users of electronic services by offering easy-to-use service options at reasonable prices.

Finland Post's strengths are particularly suited to electronic communication. The Post will use its excellent database of physical addresses in creating the necessary electronic infrastructure for e-mail addressing. Finland Post is already established as an acknowledged and reliable partner to its customers and is therefore in an ideal position to act as a reliable third party to verify the identities of electronic traders.

The hybrid services combining physical and electronic messaging and the electronic data transmission services developed by the Post have already established a foothold in the market. The Post's range of messaging services has now been expanded so that a customer can send a message as conventional letter mail from start to finish, fully electronically, or as a combination of these two modes.

Alliance with adjacent regions

International logistics services form another significant area for growth. These services are becoming increasingly important to Finland Post because Finnish companies – the Post's key customers – are becoming ever more international. This means that to safeguard our position in the domestic market we must also serve our customers exceedingly well in their international business operations.

The Post aims to strengthen its position particularly in the market for postal traffic between Finland and Central Europe, the Baltic

Short-term prospects stable

states, the Nordic countries and Russia, where we envisage opportunities for profitable growth.

We will endeavour to expand internationally by networking and by forming alliances. We aim to form partnerships with other transport companies, in addition to the long-standing cooperation between national postal operators.

Cooperation between the Post and Leonia

Finland Post and Leonia Bank have a contract concerning use of the network of post offices until the end of the year 2000. During the first three years of the contract, which was signed in 1995, Leonia paid Finland Post for the service mainly in the form of a fixed fee. However, the fee for 1999 and 2000 was not finalized in the contract. Negotiations on the fee for these two years were ardently pursued during 1998 without, however, reaching a common understanding. There was considerable divergence in the viewpoints of the Post and Leonia. Leonia launched a major drive to cut all costs. The Post, on the other hand, had made preparations to continue with the extensive range of services and network of outlets jointly agreed at the start of the contract period. The decision was transferred to the Ministry of Finance to resolve the impasse, but no decision had been made as at February 1999.

If the extent of cooperation is substantially reduced it will have a pronounced impact on the Post's network of post offices. Future options would then include offering the network of outlets to other clients needing a service channel for their business, or outsourcing more postal services to independent postal entrepreneurs to be run in conjunction with other service businesses.

The Post's financial result for 1998 was satisfactory. Demand in the core business areas showed favourable growth although the result was lower than the previous year's owing to higher costs. The challenge in the short term is to ensure profitability by focusing more intensely on cost effectiveness in all the Group's activities.

Demand in the core business areas is expected to develop favourably in 1999. The Post's net turnover is linked in particular to consumer demand in the domestic market, and Finland's economic prospects continue to be good. Our skilled personnel combined with investment in product development and marketing product modernisations will ensure the Post's favourable development.

The business operations of Finland Post in its reorganised form after being demerged from the PT Finland Group continue to be stable. The profitable repair workshop and leasing company PT Automotive Services Ltd was transferred to the Post under the reorganisation, suitably supplementing the Group's resources. A new Board of Directors and Supervisory Board were also appointed in conjunction with the demerger. In other respects the restructuring of the Group did not have a large impact on the Post's business operations or on its financial result. Operating as an independent company is another step forward in a natural progression that started with the corporatisation of Finland Post in 1994.



Asko Saviaho
President and CEO



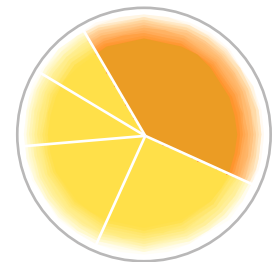
Messaging Services



Finland Post offers both companies and private individuals a wide range of global services and service packages for sending and receiving messages, letter mail, and posting and response services. The Post is developing physical and digital messaging packages – and hybrid services that combine these – in collaboration with our customers and partners.

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Proportion of Finland Post's net turnover 40%

The net turnover of the Post's Messaging Services group amounted to FIM 2,411 (2,217) million in 1998, up 9% on the previous year.

Over a wider market that includes fax and e-mail messaging, Finland Post accounts for about 45% of all communications.

Finland Post Group's strength in the market for messaging services is based on its unmatched skill in handling deliveries, its address management system and its thorough knowledge of customers' needs.

Market development

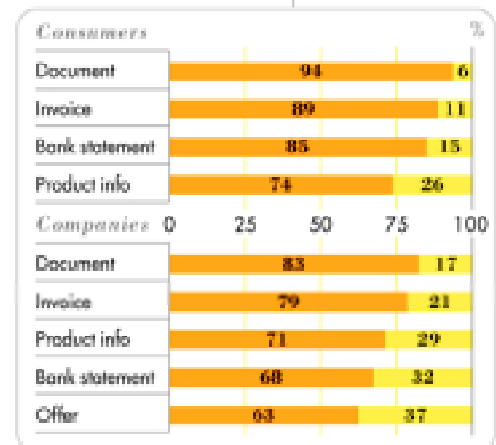
The trend in messaging is the gradual replacement of letter mail by electronic messaging. However, this change, which started during the last decade, has proceeded more slowly than forecast. Both the traditional letter and the postcard have retained their market position well. According to a customer survey the Post conducted in the autumn of 1998, the companies and private individuals that still preferred to receive documents, invoices and bank statements preprinted on paper formed a clear majority.

Nevertheless, the companies and individuals expected the importance of hardcopy messaging to diminish. The use of the letter will decline fastest in larger companies, and the same companies also plan to curtail their use of the fixed-line telephone and fax machine.

Strong growth is forecast for Electronic Data Interchange (EDI) and data transfer between organisations. Small enterprises are also adopting these methods and outsourcing the expertise needed for these services. The trend for companies to internationalise will further increase the need for data interchange on an international scale.

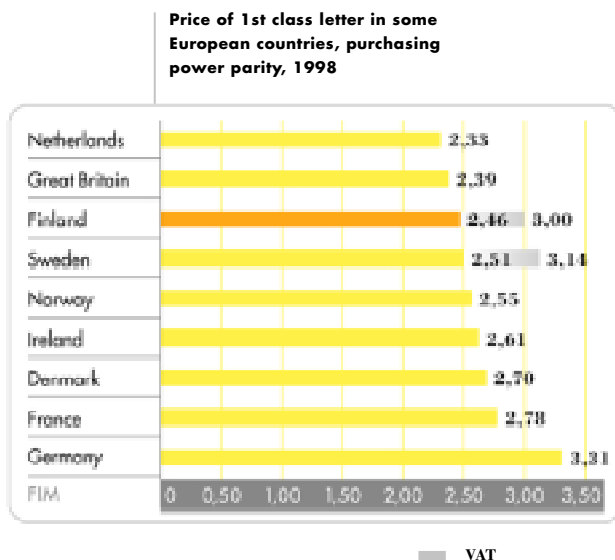
This technical development has changed the Post's role of delivering letters to that of an intermediary for all forms of messaging. Over the next few years, Finland Post Group will provide an even wider range of messaging, offering partly or wholly electronic messaging

Format desired for messages received



Legend:
■ Hardcopy (letter, etc)
■ Electronic (phone, fax, e-mail, etc)

Source: Messaging Needs Now and in the Future, Finland Post's Quality and Business Development Group 1998



services alongside its existing letter mail services. Nevertheless, the Post aims to extend the lifecycle of the conventional letter and postcard by focusing on the quality of delivery, and investing vigorously in developing the existing services.

Slight growth in letter mail continues

The largest part of Messaging Services’ net turnover is derived from letter mail. A total of some 878 million (858 million) letters were delivered during the review period, representing an increase of 2% compared to the previous year. The proportion of 1st Class Letters showed further growth, increasing from 54% to 55%. The underlying reason for this was the tendency for companies to switch to faster 1st Class Letters for sending their invoices.

The Post’s market share in traditional letter mail services remained at around 85%. As in the previous year, growth in letter mail took place particularly in the retail and service sectors. Customer loyalty marketing grew extremely fast.

Finland Post delivered some 85 million postcards during the review period. Most of these were Christmas greetings – a total of 52 million cards, much in line with the volumes for previous years. The number of St Valentine’s Day cards sent was approximately 5 million. The volume of Easter cards has picked up in recent years, and in 1998 a total of about 2 million were delivered.

During the review year the Post continued its revision of the price structure for letters by differentiating the price of mail items paid for by postage stamps from other methods of payment. The objective of this change was to improve cost accountability.

Brisk growth in ePOST Letters continues

Finland Post’s ePOST Letter consolidated its market position during the review period. Some 40 million ePOST Letters were sent, growth of 30%. Around one in ten companies in Finland uses the ePOST Letter, and a similar number plan to adopt it over the next few years.

The prime assets of the ePOST Letter are speed and cost-effective integration with the Post’s sorting centres. ePOST Letters are sent to the Post electronically. The Post is then responsible for printing, placing them in envelopes and delivering them to recipients in the same way as other letter mail. ePOST Letters can be sent individually or in large batches.

Associated companies

for printing and posting services

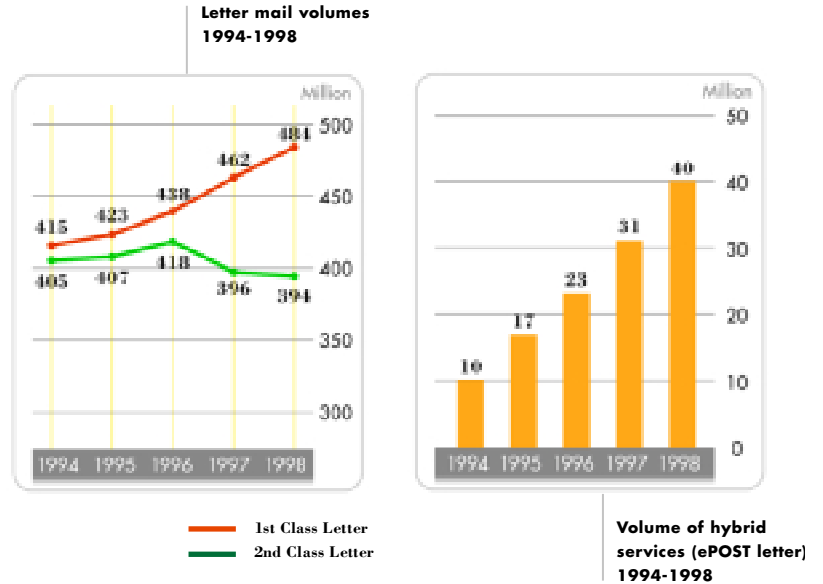
Finland Post and Tieto Corporation jointly established Nordic Printmail Oy in May 1998 to meet the growing demand and stiffer competition in printing and posting services. The Post owns 51% of the joint venture. The new company combines Finland Post's expertise in the communications sector and Tieto's information technology expertise to form an efficient production chain for posting and response services.

Nordic Printmail's net turnover for May-December was FIM 123 million. The company is the largest provider of printing services in the Nordic countries. Further growth is expected as companies increasingly outsource their printing and posting activities.

Finland Post has joint ventures for providing printing and posting services in the Baltic countries with the postal operators in Estonia and Latvia. AS Eesti Elektron Post in Tallinn, Estonia, and SIA Latvijas Elektroniskais Pasts in Riga, Latvia, are both market leaders in their respective countries.

Stronger position in electronic data transfer

The Post aims to boost its market share of electronic data transfer by being the first in Finland to introduce advanced packages developed from traditional EDI services. Apart from the conventional EDI interface, the service packages will incorporate extranets using Internet technology and also hybrid solutions that convert messages in fixed EDI format to



ePOST Letters.

EDI solutions enable a company to simplify and speed up its operations while reducing errors and lowering costs. Small companies will also be able to tailor EDI services for electronic data transfer to their needs and resources.

The Post is actively developing encryption services for electronic data transfer. A personal certificate system for electronic verification of identity was introduced for the Population Registration Centre of Finland. Finland Post will also be one of the shareholders in a new joint venture producing technical certificate services, together with Sonera Plc, Merita Plc, Leonia Plc, the OKOBANK Group and Tieto Corporation.

The Post is also capitalising on its good relations with other national postal operators to build an international data transfer network.

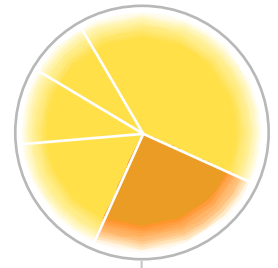


Finland Post's Media Services group offers publications services, direct marketing deliveries and address services. Distribution services for publications provide newspaper and magazine publishers with comprehensive service packages for national or regional delivery. Publications are delivered with the Post's standard daily deliveries, or on the early-morning and weekend rounds. Direct marketing delivery services provide companies and associations with service packages for handling customer relations and marketing communications. Address services allow customers access to Finland Post's address database and its related services.



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Proportion of Finland Post's net turnover 25

Market development

The net turnover of the Post's Media Services was FIM 1,496 (1,402) million in 1998, up 7% on the previous year.

The Post's market share of all early morning deliveries exceeds 40%, making it Finland's largest operator in this sector. The Post continues to handle around 90% of the daytime deliveries of newspapers. Finland Post's overall market share of newspaper deliveries is approximately 60%. The Post's market share for the delivery of periodicals remained at around 90%.

The Post delivered some 90% of all addressed direct mail items, and almost 50% of unaddressed direct mail items.

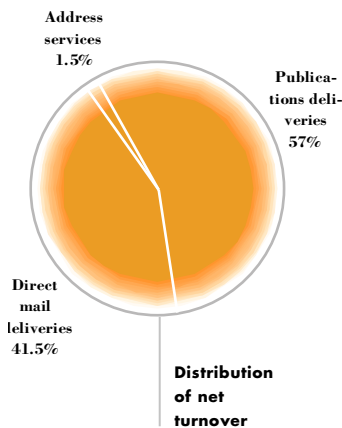
Finland Post Group's strength in the media market is based on its nationwide delivery network, the high quality of delivery and its established relationships with customers and partners.

The market for publications developed favourably in 1998. Reading newspapers increased in popularity and total newspaper circulation remained at the same level as previous years. Circulations of periodicals rose. Newspaper advertising showed strong growth, increasing the average weight of newspapers. Online publication of newspapers and magazines increased, but so far only to supplement printed publications.

Direct mail advertising continued to develop favourably in Finland, retaining its position as the second biggest channel for advertising after newspapers. Direct mail accounted for 22% of all advertising in 1998.

The communications sector in Finland is consolidating and forming networks. In future Finnish media corporations may also be attractive to international partners.

These changes mean the Post must seek new forms of cooperation with both customers and competitors. Finland Post aims to stay abreast



of developments in the media sector and play an active role in media organisations. The Post will respond to competition by focusing on product development, the quality of delivery, marketing and customer service – integrated also with the Internet.

Standard newspaper deliveries reorganised

The net turnover of the Post’s Publications Services was FIM 855 (792) million for the review period. This was 8% higher than previous year. The total number of newspapers delivered was 431 million, up 4%. Altogether 332 million periodicals were delivered, 3% more than the previous year.

Finland Post reorganised the standard delivery of newspapers at the beginning of 1998 in order to streamline both the range and the pricing of services. The reorganisation met with popular approval. PressX is the overnight service, where the newspaper is received by the addressee the day after posting. The PressM service provides for delivery of the newspaper or magazine on either the second or third day from posting, depending on the batch size. An Internet service, providing the customer with a tailored price offer calculated for the services chosen, supported this reorganisation.

Finland Post lost market share in the early-morning delivery of newspapers from the end of the year when it lost the contract for deliveries in an area covering 16 municipalities

in the province of Uusimaa.

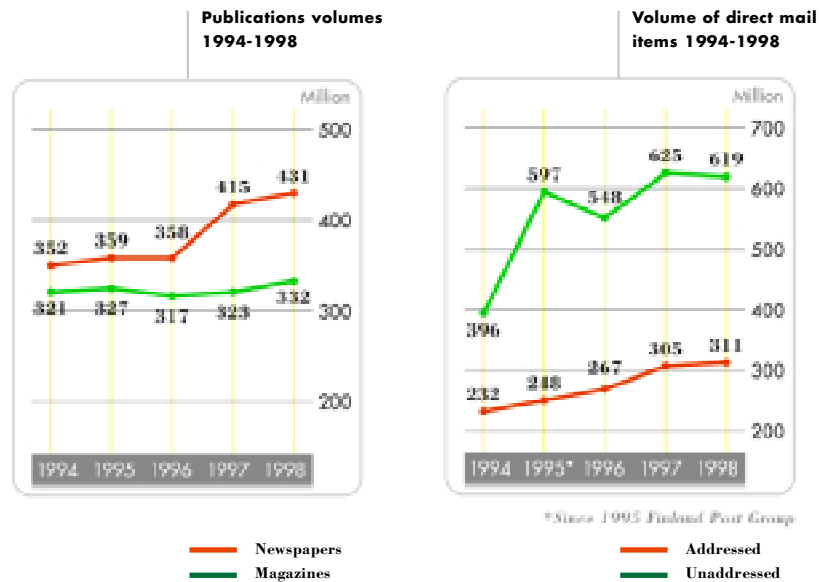
The Post’s subsidiary Kymen Varhaisjakelu Oy merged with Finland Post during the review period in a move to boost cost efficiency.

Growth in direct mail services levelled off

The net turnover of the Post’s direct mail deliveries was FIM 620 (592) million for the review period, an increase of 5%. The strong growth in the previous year generated by mail order business, retailers’ loyalty schemes and the higher amount of subscriptions for periodicals levelled off perceptibly. Nevertheless, campaigns by new periodicals boosted the demand for direct mail deliveries.

Customers are moving over to more targeted advertising by addressed direct mail, and the Post made determined efforts to enhance its targeting accuracy. More focused targeting lowered delivery volumes while boosting the efficiency of advertising at higher average prices per item.

Sales of consumer addresses in the Finnish Population Information System were opened to competition in the review period. Finland Post operates in this market through Suomen Osoitelähde Oy, which was established in September 1998. The company is owned by Kohtisuora Oy, the Post’s joint venture, Atkos Oy and Nnets Oy. It produces accurate profiles for targeting direct mail advertising from its customer databases.



Focus on developing address services

Hansapost Oy, which was established in 1997, extended its operations in Estonia to cover the Latvian market. The company is owned by Finland Post, Sonera Plc and Hansaprint Oy and offers comprehensive logistics services for direct mail.

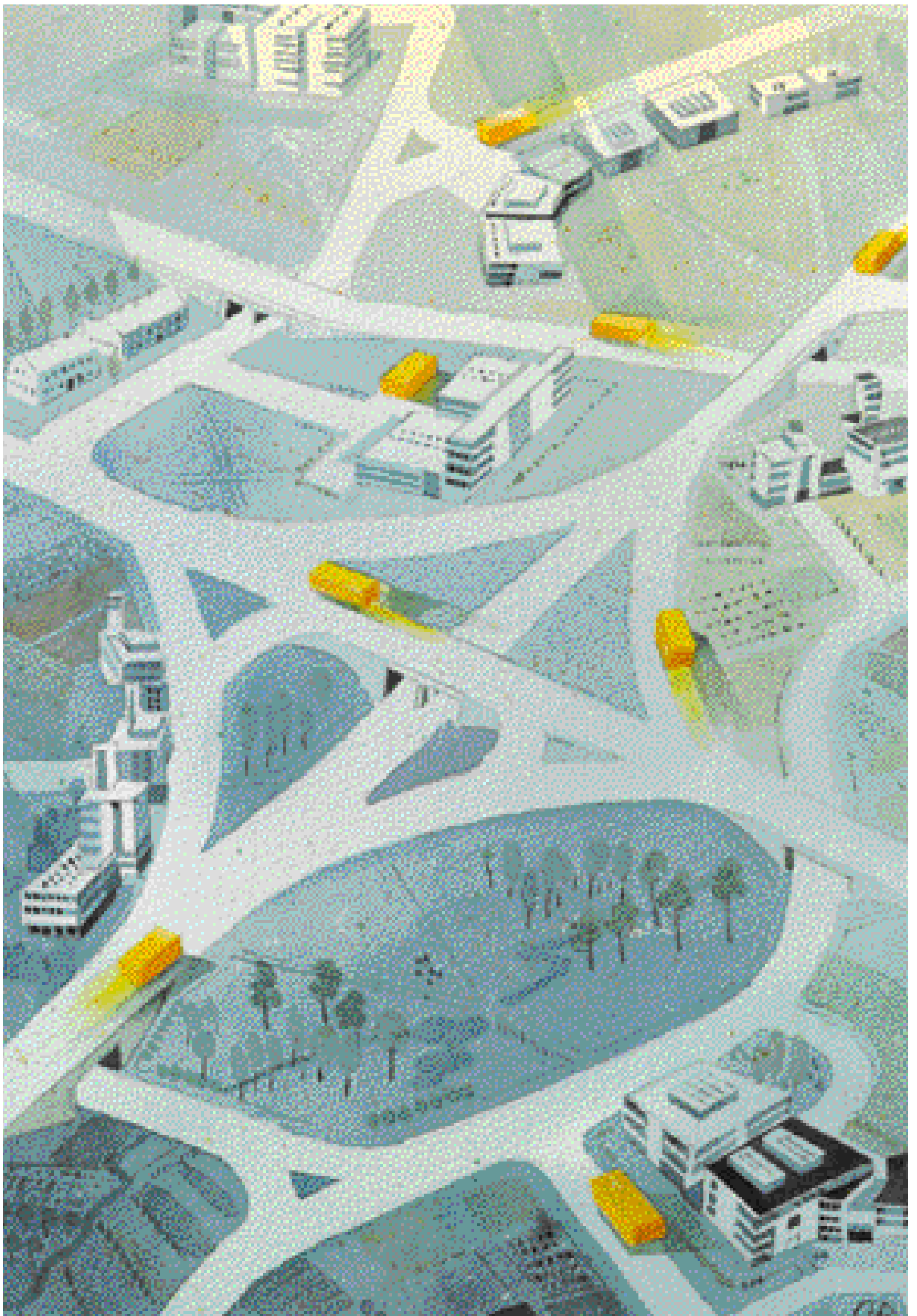
Digital advertising is still a small market sector but is growing rapidly. The amount of advertising on the Internet doubled in 1998 compared to the previous year. The Post is responding to this challenge by focusing on product development, and by combining electronic advertising with more traditional channels.

Finland Post became a member of the European Direct Marketing Association (FEDMA) during the review period. Cooperation with other national postal operators enabled the development of a product package that integrates international direct marketing services.

The Post updated 5.1 million changes of address and amendments to address information during the review period, 2% more than the previous year.

An address database incorporating the latest technology was built during the review period. The database will serve the Post's business operations better and also provide information directly utilised by the new sorting machines. The database will be introduced in 1999.

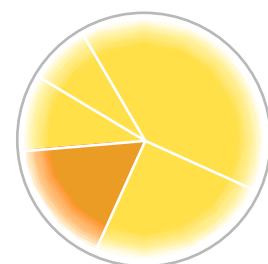
Finland Post and the Population Registration Centre launched a project during 1998 aimed at providing Finns with a joint service for change-of-address notifications. The improved quality of address data will enhance customer service and increase cost efficiency in both organisations.



Finland Post's Logistics Services group offers competitive service packages for parcel transport and related value-added services. Key added-value services include goods warehousing and electronic services. Logistics services are marketed under the name Post Transport (Keltainen Kuljetus).



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Proportion of Finland Post's net turnover 17%

The net turnover of the Post's Logistics Services group for 1998 was FIM 1,020 (987) million, up 3% on the previous year.

Finland Post's market share of all goods conveyance in Finland is some 10%. With 60% of the Finnish market for parcel transport, the Post Group is the market leader in this sector.

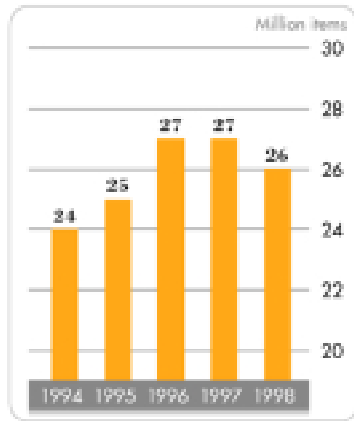
The Post's strength in the conveyance market is based on its comprehensive network for deliveries to consumers and on the cost-efficiency of its production machinery achieved through the large volumes handled.

Market development

Goods transport and logistics in Finland is becoming more international. The demand for express services is growing and, instead of the conveyance of individual parcels, customers are demanding one-stop service that includes conveyance and other services such as warehousing and packages relating to data interchange. The stiff competition that has

prevailed for many years is also intensifying. The market for local conveyance services in densely populated areas is attracting new entrants, especially as market entry does not require heavy investment. International transport companies are also keen to enter the Finnish market and are seeking partners in Finland.

The Post is responding to this competition by developing new solutions for producing its logistics services and by actively seeking cooperation with other national postal operators and couriers. The target is to increase cost efficiency, improve response capabilities, and to enhance the quality and competitiveness of services – especially in international goods conveyance. The Post aims to offer its customers logistics services not previously included in its product range – for instance, warehousing and freight transport.



**Volume of parcels
1994-1998**

Growth in local and international services

The volume of parcels conveyed by the Post during the review period was 26 million, down by 2% on the previous year. The major part of net turnover for Logistics Services continued to be derived from inland parcel transport, and by Post Parcels in particular. Demand is declining, partly due to the slower than expected growth in mail order business.

Areas of growth for logistics services were local conveyance services, express parcels, added-value logistics services and international traffic. Demand for express services rose by almost 15% in Finland and 12% in international traffic. Net turnover for local conveyance services, warehousing, and national and international conveyance services related to logistics packages rose significantly. Growth is also expected in logistics services for electronic trading.

Finland Post demerged its conveyance services in the Helsinki metropolitan area. The

Post’s subsidiary, Etelä-Suomen Kuljetuspalvelut Oy, will start operating early in 1999. It is expected to generate a net turnover of FIM 90 million from delivery contracts with companies, courier services and express deliveries. The demerger will enhance the Post’s flexibility in the Helsinki metropolitan area’s swift and competitive conveyance market. The Post’s competitive edge is the ability to integrate local solutions into a comprehensive logistics package.

The Post’s large development project – the logistig centre, due for completion in 1999, in Vantaa on Helsinki’s Ring Road III – will significantly improve the Post’s production.

In international goods traffic, the Post is focusing on the Nordic countries, the Baltic states, Central Europe and Russia. PNL Pan Nordic Logistics AB (earlier called Vasagatan 11 International AB), a joint venture by the Nordic Posts, will start operating in early 1999. The company will focus its operations on the Nordic countries and the Baltic area, developing goods conveyance services for companies in the region. The owners of the joint venture – ie. the Nordic national postal operators – will initially be responsible for producing the services. Finland Post’s stake in the company in 1998 was 25%.

Warehousing a major added-value service

Companies active on the domestic market and in the process of becoming international perceive efficient logistics as a means to improve customer service and enhance their competitiveness. Businesses want to speed up their deliveries. At the same time they are striving for cost efficiency by outsourcing their

logistics services and reducing the size of delivery batches. Advanced IT systems have enabled more detailed information to be collected about goods flows, cash flows and customers.

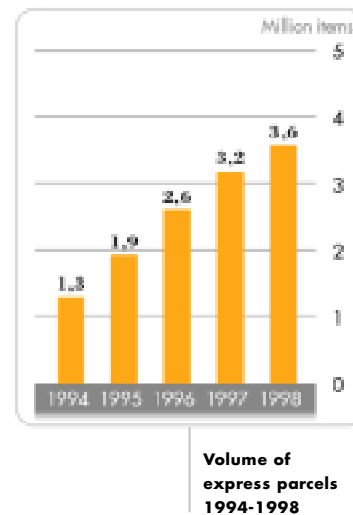
The Post aims to consolidate its position in the warehousing market by offering warehousing as a part of its logistics service packages. The service will be provided by LP-Logistics Services Ltd, a company that is 70% owned by Finland Post with Alko Oy and Tamro Corporation each holding a 15% stake in the company. The company has 50,000 square metres of warehousing premises.

Global Mail FP Ltd is wholly-owned by Finland Post and offers the Post's corporate clients customs and forwarding services as well as international freight transport. Global Mail owns Logistic Mail STP Ltd, which provides courier services to Russia. Its range of services includes customs clearance and freight transport. The Post's courier services to St Petersburg and Moscow consolidated their position in 1998 despite the uncertainty of the Russian economy.

Improved mail order service

Mail order business in Finland grew during the review period although the rate of growth slackened off. One probable factor was the longer opening hours introduced by retailers.

Mail order purchasing from Finland increased in the Baltic countries. Finland Post conveyed 1.5 (1.3) million mail order parcels to the Estonian market in 1998. Finnish companies are also attracted to the mail order market in Latvia and Lithuania. Two Finnish mail order companies started selling in Latvia and one in Lithuania during the review period.



International mail order firms are entering the Finnish market and staging through Finland to penetrate the Russian and Baltic markets.

Mail order business is an important sector for the Post. Mail order services for customers in Finland were improved by developing faster methods of delivery and arranging for home delivery at times convenient to consumers, such as in the evenings. Longer opening hours in the network of service outlets also improved customer service.

Electronic trading still accounts for only a small percentage of total trade but is growing rapidly. Over 250,000 Finns made purchases on the Internet during 1998. Electronic trading will boost future demand for delivery and warehousing services. Finland Post will focus on developing logistics services for electronic trading.

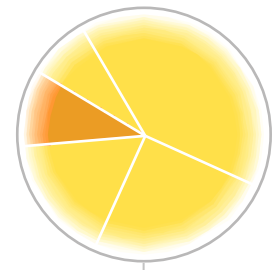


The Post's Counter Services group provides client companies and organisations with a network of post offices as a delivery and service channel. The main sectors are banking and insurance. Counter Services is also responsible for the sale of postal services for SMEs and households and for part of production.



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channel. The main sectors are banking and insurance. Counter Services is also responsible for the sale of postal services for SMEs and households and for part of production.



Proportion of Finland Post's net turnover 10%

The net turnover of the Post's Counter Services group for 1998 was FIM 569 (647) million. Net turnover fell by 12% due to the reduced income from banking services.

Finland Post's network of post offices is the most comprehensive service network in Finland. There were 1,601 post offices in Finland at the end of 1998, of which 571 are the Post's own while private service companies ran 1,030 post offices. The network provides a cost-efficient distribution channel making services easily available to both companies and private individuals.

Market development

The number of corporate networks in Finland providing nationwide service is declining. Available services are being concentrated in larger units and to some extent switching to new electronic distribution channels. Self-service is on the increase. Service providers are crossing

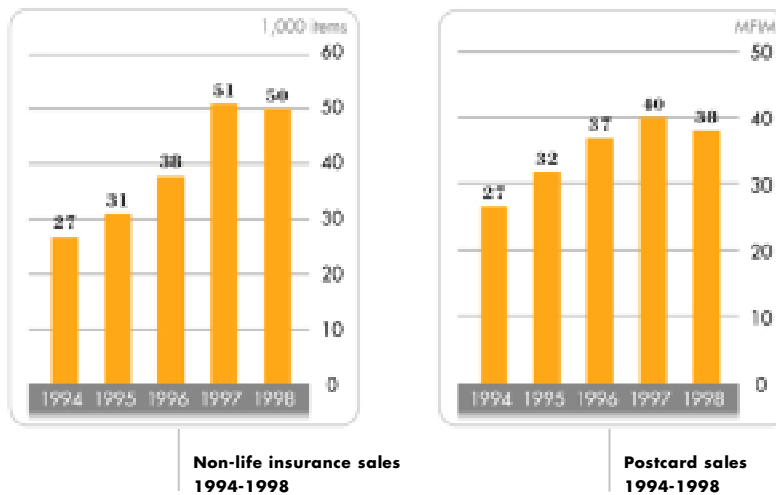
traditional boundaries to aggressively seek new customers and partners.

Finland Post is keeping pace with this change and seeking new partners by offering its extensive network of post offices as a channel for sales and services. Negotiations on this type of collaboration were initiated during the review period with several companies. Cooperation was started with CFI-Vakuutus during 1998.

Insurance third main product group

At the end of 1998, Leonia Bank's services were provided in 485 post offices. There was little change in customer relations despite the reduced network offering the bank's services. The volume of traditional banking transactions declined by 15%, but sales of loans were up 50% on the previous year.

Finland Post aims to establish insurance as a third business sector in the post office network alongside posting and banking services. At the



end of the year sales of the British company Financial Insurance Company Ltd's products was started in post offices under Finland Post's own brand name 'Onni'. The company operates in Finland under the name CFI-Vakuutus.

'Onni' insurance policies are sold in 550 post offices in cities and more densely populated areas, making the Post the most extensive sales network in Finland for private insurance policies. Five different insurance products are sold under the 'Onni' brand, four of which are entirely new in Finland.

Total sales of postcards declined by 5% due to the reduced sales network. A new sales concept for speeding up sales growth was jointly developed with Karto Oy and Paletti Oy, two card suppliers. The sales of packing accessories remained at much the same level as the previous year. Sales of office supplies were started

in post offices on an experimental basis.

The new computerised system was introduced in all the Post's own post offices during 1998. The system is designed to support sales of client companies' services and opens up new opportunities for the Post's business operations. Upgrading and harmonising of the external and internal profile of post offices was continued.

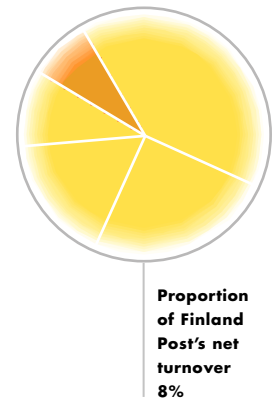
Business development focused on improving customer awareness and creating service concepts that meet customer needs. Extensive product upgrades and the new computer system call for a strong commitment to training personnel and enhancing expertise.

Other Business Operations

Philately, security transport services, bus services, and vehicle repair and leasing services account for some FIM 397 million of Finland Post Group's net turnover. Of this philately generated 11%, security transport services 35%, bus services 18% and vehicle repair services 36%. Security transport services are provided by Spac FP Oy while both Gold Line Ltd and Pohjolan Gold Line Ltd provide bus services. Vehicle repair services are provided by PT-Automotive Services Ltd.



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Philately

The postage stamp continues to be popular as a receipt that also adds a personal tone to a postal consignment. Finland Post produces postage stamps primarily for postal business but also promotes philately. Postage stamps are the most popular collectors' items in the world.

The net turnover of Philately for the review period was FIM 43 (34) million, up 28% on the previous year. The popularity of long-term subscription grew considerably. Finland Post's clientele of philatelic subscribers totalled some 51,000 (45,000) and about 9,500 of these lived abroad.

16 stamps were issued in 1998. When all the different motifs are counted, the number of separate stamps was 46. Some 7 postal stationery items, pre-stamped postcards and letters, were issued. A total of 211 million postage stamps were produced, including

booklets and miniature sheets. Of these, 40 million were reprints.

Two new series of postage stamps with provincial motifs were launched in 1998. The 'Plants & Flowers' series was joined by 'Birds' and 'Fish'. The new stamps were launched as adhesive rolls, which proved a popular move.

Additional methods of paying for postage stamps in electronic trading were introduced to cater for the online payment methods of all the major banking groups.

Customers bought more of the Post's 'fairytale' letters. Over 250,000 (160,000) 'Letters from Santa Claus' and 50,000 (10,000) 'Muumin Letters' were ordered during 1998. International sales of letters extended to Britain, Singapore and South Africa. The letter service was also advertised on the Internet complete with instructions on how to order.

Security Transport Services

The Post's Security Transport Services group provides services for handling money, the conveyance of cash and valuables, ATM maintenance and property security. The nationwide security transport network allows both service packages for money conveyance and specified security transport services to be offered throughout Finland.

Demand rose by 11% in the security sector in 1998. The net turnover of the Post's Security Transport Services group for the review period was FIM 141 (125) million, up 13% on the previous year.

The Post's security transport services are handled by Spac FP Oy (formerly Suomen Postin Arvokuljetus Oy), a company belonging to the Finland Post Group. Despite stiffer competition, Spac has consolidated its position in Finland as the largest provider of secure transport and the second largest provider of property security. The company is Finland's fifth largest in the security sector.

Bus Services

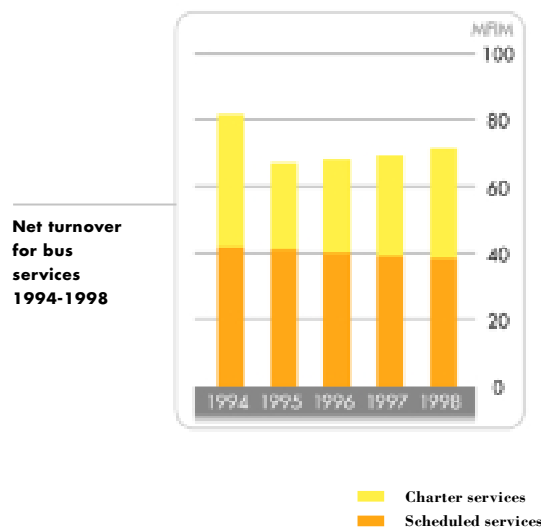
The net turnover of the Post's Bus Services for the review period was FIM 72 million, up 5% on the previous year.

Finland Post's subsidiary Gold Line Ltd operates the bus services, focusing on northern Finland. The company specialises in long-distance express bus services while also holding a strong position in demanding long-distance chartered bus services.

Pohjolan Gold Line Ltd, which is equally owned by Gold Line Ltd and Pohjolan Turistiauto Oy, was established to cater for charter traffic in the Helsinki metropolitan area. The company is one of the largest in its field.

The moderate growth in the bus services sector is expected to continue next year. Most growth will be seen in express bus services. A slight recovery in charter traffic is also expected after its long period of stagnation.

Gold Line specialises in chartered services for tourism. For scheduled traffic this means a higher degree of specialisation in public transport services in northern Finland. Attention will also be focused on long-distance routes covering the whole of Finland. The company aims to continue consolidating its nationwide network for charter traffic in collaboration with other operators.



PT-Automotive Services Ltd

PT-Automotive Services Ltd provides workshop and leasing services for vehicles. The company owns most of the Post's vehicles, leases them to Finland Post Group and takes care of their servicing, maintenance and repair. The company's other main customer is Sonera Plc, although it offers workshop repair services for different makes of vehicle to other external customers. The company was transferred to Finland Post Group when the PT Finland Group demerged in the summer of 1998.

PT-Automotive Services' strength is in its nationwide network of workshops. The company offers competitive and cost-effective service packages for vehicles. In many localities, the company's workshops adjoin the Post's sorting centres.

The demand for workshop services was buoyant in 1998. Leasing volumes also grew. PT-Automotive Services' net turnover for 1998 was FIM 321 (304), up 6% on the previous year. Services for the Finland Post Group accounted for 56% of net turnover, while services sold to Sonera and other external customers totalled 44% of net turnover.

The company's investments amounted to FIM 117 million, of which 98% went on vehicles. A new workshop was opened in Seinäjoki in January 1998, next to the Post's new

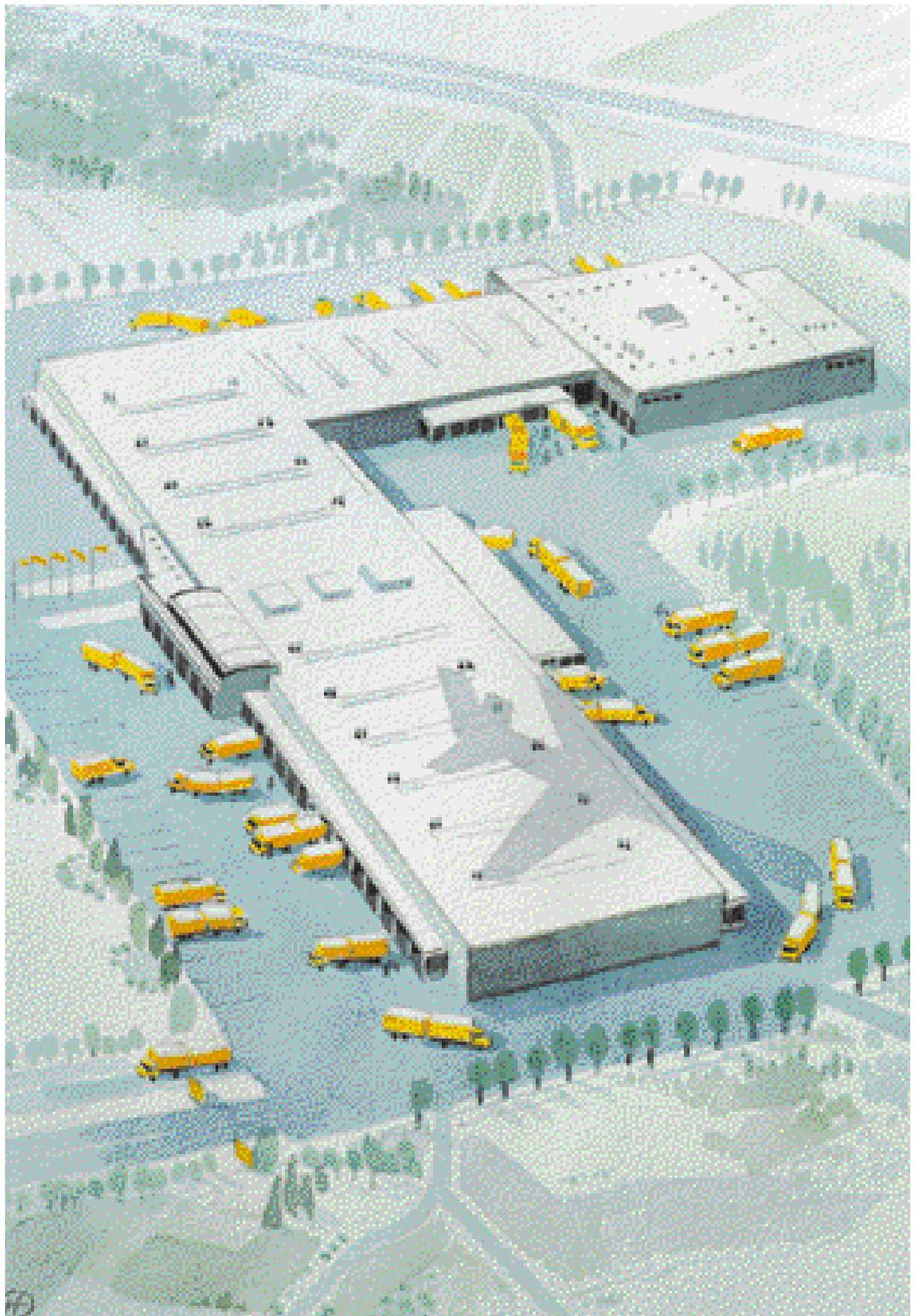
<i>Key figures</i>		1994	1995	1996	1997	1998
Net turnover*	MFIM	315	303	301	304	321
Operating profit	MFIM	41	43	44	26	31
Investments	MFIM	60	88	108	112	117
Personnel	31 Dec.	588	498	480	474	435

*Includes intra-group turnover

sorting centre.

Work productivity was enhanced in the company during the review period. An incentive scheme was introduced for workshop personnel and personnel training was spotlighted.

Demand for workshop services is expected to remain at a satisfactory level over the next few years, although growth in the sector is levelling off. The utilisation rate of the vehicle fleet should remain high, while operations will be made more efficient.



The Post's sorting, conveyance and to-customer service chain. The Post its cost-effectiveness, commitment to fulfilling promises, reliability and the quality of customer service in managing this service chain.



delivery provide a flexible customer-continuously monitors and enhances

The challenges facing the Post in producing its services are controlling the overall process, streamlining the constituent processes, fluctuations in the loading of mechanical equipment and managing subcontractors. The Post is continuously improving productivity through automation.

Network of sorting centres expanded

The automation of mail sorting and investments in new technology for mail handling reduce the number of times that postal consignments are handled, enabling faster conveyance of mail with fewer opportunities for sorting errors.

The Post introduced new sorting equipment that can read all the lines in the address of an addressed postal item. Optical reading devices sort letter mail into the appropriate delivery rounds based on the street address, which speeds up the work in post offices. The upgrading of equipment currently under way will enable mechanical sorting into delivery rounds in all sorting centres.

During the year under review 40% of letter mail was sorted mechanically, of which 10 per cent was sorted into postmen's rounds.

Mechanical handling of letter mail is concentrated in seven sorting centres located in Helsinki, Turku, Tampere, Kuopio, Oulu, Seinäjoki and Lappeenranta. The newest, in Lappeenranta, was commissioned in October 1998.

Parcel sorting centred in Vantaa

Terminal-to-terminal goods traffic is also based on the Post's sorting centres. A parcel sorting centre specialising in logistics services was built in Vantaa in 1998. Situated close to Ring Road 3 around Helsinki and Helsinki-Vantaa international airport, it is one of the Post's largest construction projects. The production facility will be commissioned in the autumn of 1999. The latest technology has been incorporated in its design. The equipment in the sorting centre will have a capacity of about 20,000 parcels an hour. Goods can be mecha-

nically sorted into a total of 800 different transport routes.

The logistics centre in Vantaa will handle all the goods traffic at present routed through the Helsinki sorting centre, representing approximately 65% of all goods shipments conveyed by the Post. The aim is for consignments from the Vantaa parcel sorting centre to be ready for delivery to customers after a single handling operation. The new building also offers scope for more efficient freight terminal services for both domestic and international traffic.

Heavy transport demerged

The Post is preparing to implement new methods for transporting goods between sorting centres. The Post's internal heavy truck operations for conveyances between sorting centres and post offices will be demerged. A company wholly owned by Finland Post will start operating at the beginning of 1999 in the first stage of this demerger. Its net turnover is expected to be some FIM 300 million. The underlying idea is to achieve cost-efficiency in heavy transport unrelated to core business, and the company aims to establish partnerships to boost profitability.

Round-the-clock control of goods flows

The Post is focusing in particular on the integrated control of production processes and the development of IT systems. The round-the-clock control centre for the conveyance of mail is in constant contact with both major customers that send consignments and with Post's transport partners. It compiles loading forecasts and reports irregularities to all links in the

service chain. The control centre monitors the different stages of the process in real-time, and ensures that even the most unexpected events can be responded to quickly. The control centre is an essential element in the Post's quality assurance system.

Introduction of the system for tracking and tracing mail items commenced in the spring of 1998. The system enables the conveyance of individual mail items provided with a barcode address label to be monitored. The system is to be adopted in phases so that in future most of the items conveyed in the Post's production processes can be registered in the tracking and tracing system. The system can generate data for large customers to support their in-house logistics planning.

Delivery network covers the whole of Finland

The Post's daytime deliveries cover every household and company in Finland. Delivery is made to a total of 2.5 million addresses. The total length of daytime delivery routes is 250,000 kilometres and delivery rounds total approximately 7,000. Roughly 50% of postmen's rounds are made by vehicle, 30% on foot and 20% by bicycle. Finland Post is also responsible for the early-morning and weekend deliveries of newspapers in 320 municipalities.

As a result of changes in operating procedures and the automation of sorting, 93% of customers receive their mail before midday on weekdays.

During 1998 Finland Post introduced new distribution shelves in post offices and developed a new method for alphabetical

sorting that facilitates and speeds up sorting work. In future, with an increasing portion of consignments from major customers received by the Post pre-sorted into alphabetical order, distribution will be faster and more efficient. The Post's address database and its address management system create the basis for high quality in mail delivery.

Post offices a comprehensive network of service outlets

The Post has some 1,600 post offices around Finland, of which over 1,000 are annexed to other private service businesses. At the end of 1998 Finland Post had 571 of its own post offices, of which 30 specialise in services for business customers.

The busiest 126 post offices were open until 8 pm, with the remainder closing at 6 pm. Post offices serving businesses were often also open until late in the evenings and at weekends.

The Post is upgrading its self-service facilities in parallel with personal service. Overall, post offices have 320 self-service machines enabling customers to price mail items for sending and purchase postage stamps themselves. Facilities for customers to pick up their own parcels are available in 125 post offices.

Replacement of letterboxes nearing completion

Finland Post will replace all its letterboxes by the end of 1999. Some 5,500 letterboxes are already in place, and on completion of the upgrading customers will have approximately 8,000 letterboxes available throughout the country. The letterboxes are prominently positioned in central locations to make posting letter

mail as convenient as possible.

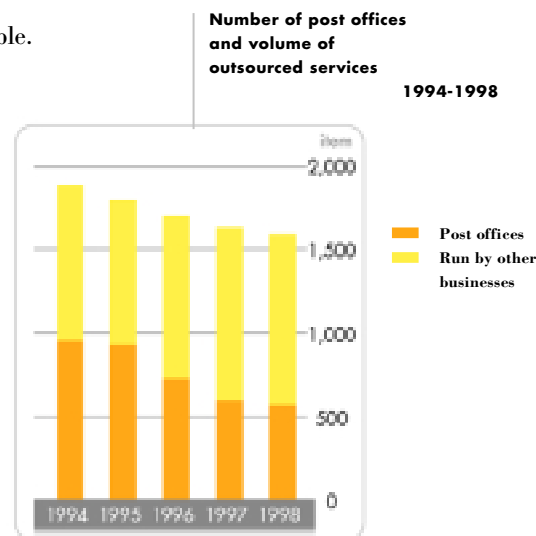
The Post has also deployed local mail letterboxes marked with pale yellow identifying stripes. Locally-addressed mail can be deposited in these letter-boxes later in the evening than previously, in addition to other letter mail. Locally-addressed letters arrive on

the following working day. Locally-addressed mail is also collected from the yellow-striped letterboxes on Sunday evening for delivery on Monday. These special letterboxes have initially been deployed in locations where the Post has mechanical sorting centres.

Postal services in remote districts have improved with the introduction of mail for collection signs, which enable customers to send letters from their own mailboxes. The postman collects outgoing mail from mailboxes on which customers display the mail for collection sign.

Over one million calls to the Call Centre

The Post's toll-free phone service (9800-7100 for Finnish-speaking customers and 9800-27100 for those speaking Swedish) received over one million calls, representing an increase of 15 %. Calls to about 300 of the largest post offices are directed to the Call Centre. The most frequent queries concerned sending goods or letter mail, delivery services and changes of address. The Call Centre can provide a direct answer to 90% of the queries. The Post is increasingly contacted via the Internet for advice.







The Post's aim is to be one of the best of the best postal operators in the

service businesses in Finland and one world. Finland Post is continuously

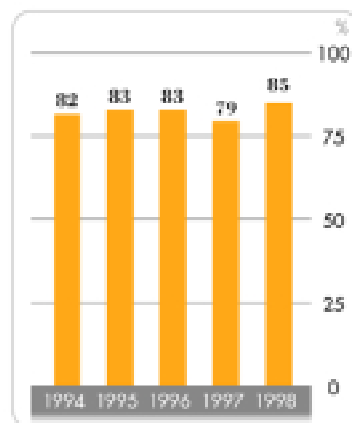
working to improve its competitiveness, the quality of its operations and its cost efficiency.

The main tools applied to enhance quality are the Finnish Quality Award criteria, benchmarking and models for setting for the targets and performance indicators of a balanced score-

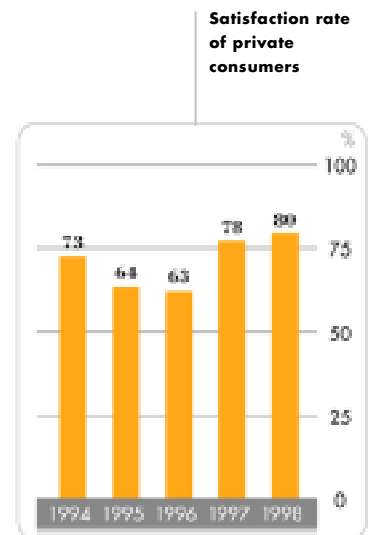
e a r d .

The Post researches customer satisfaction regularly and systematically. During the year under review, 80% of private customers and 85% of corporate customers rated Finland Post's operational quality as good or excellent. For corporate customers the level of satisfaction improved compared to the previous year, while for private consumers it remained unchanged.

Customers' experiences of transacting their business in post offices are also regularly monitored. The criteria are the level of interaction open to the customer, how smoothly service transactions are conducted, the professionalism of staff, cleanliness of the premises and waiting times. The results obtained from surveys over the last few years are now at a consistent and satisfactory level. Queuing time was one item that was successfully reduced during the year under review. An average of 89 (88)% of customers in post offices needed to queue for less than 5 minutes, and 9 (10)% needed to queue for between 5 and 10



Satisfaction rate of business customers 1994-1998



Satisfaction rate of private consumers

minutes. The target set is that 95% of customers need to queue for less than 5 minutes before starting to transact their business.

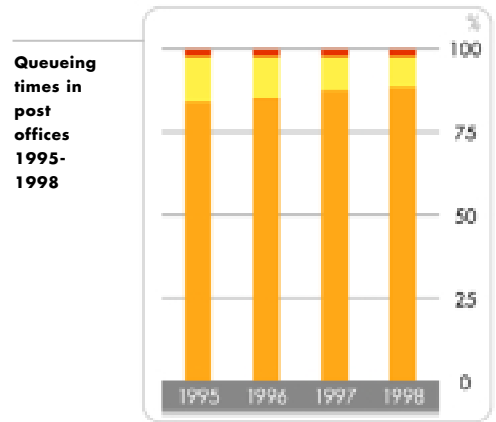
The friendliness of the Post's Call Centre was given top marks by 96% of companies and 92% of private consumers. Professionalism of service received maximum points from 82% of corporate customers and 85% of private

customers.

Service promises kept to a satisfactory degree

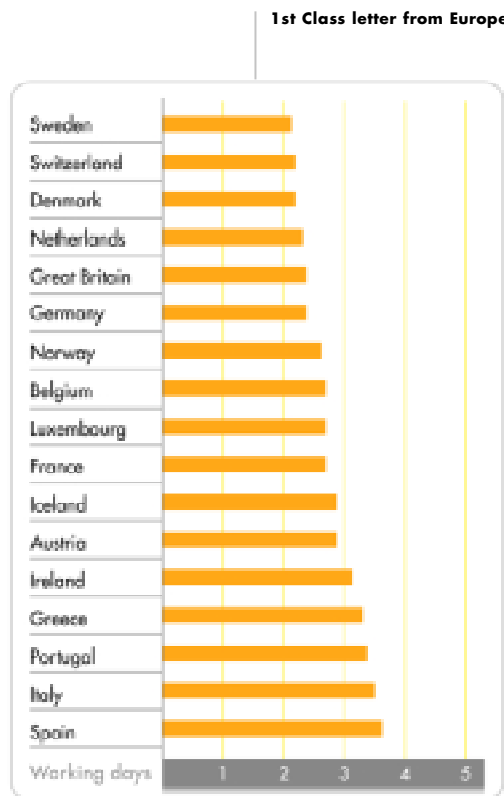
A speed-of-conveyance survey is one method used to assess the efficiency of Finland Post's processes. The standard of service for 1st Class Letters showed a marked improvement with 94 (92-93)% arriving within the target time of the next working day. For 2nd Class Letters, 94 (94)% arrived within the target time, before the third working day from posting. The standard of service for publications is measured twice a year. Success rates of 98% for the faster Press-X service, which has a target of delivery on the next working day, and 97% for the slower Press-M service, which has a delivery target of the third working day from posting, were achieved.

less than 5 min
5-10 min
over 10 min



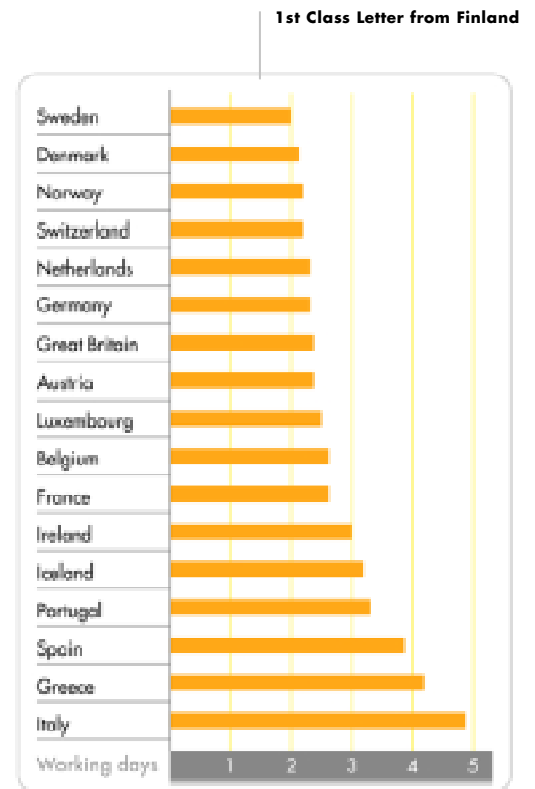
An average 97% of publications reached their destination within the target time during the previous year.

The standard of service for Post Parcels remained at the previous year's level. Parcels were delivered within their target time of two working days for 83 % of the consignments sent.



Source: IPC, UNEX

to Finland, average conveyance time in 1998



Source: IPC, UNEX

to Europe, average conveyance time in 1998

Changes in operating procedures and Finland Post's strong organisational



in the business environment make culture more important than ever.

The cornerstones of the Post's operations are our values – we will succeed with our customers, we will succeed together, we each accept responsibility. These values combine the tradition of the past and the dynamism of the future. They describe our common understanding of our corporate culture. The guiding principle is confidence in the individual's ability to improve and develop.

The aim in developing our organisational culture, human resources and work societies is to enhance the way we work while exploiting all our learning opportunities. Part of this involves creating the conditions for personnel to take responsibility for learning themselves and for developing their work. The prime concerns are customer needs and expectations. New operating models will boost customer satisfaction, productivity and the quality of our work, and enhance the wellbeing of personnel.

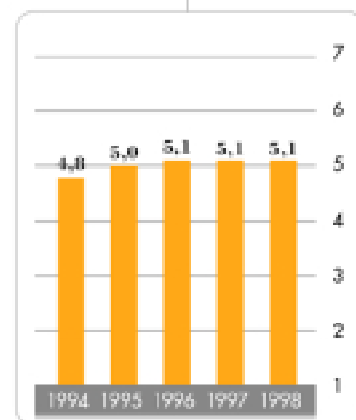
Guiding values for our business operations were crafted as common ground rules in all the Post's workplaces during the year under review. Linking these values to the Group's development, payroll and feedback systems has helped focus the Post's operations on achieving common targets.

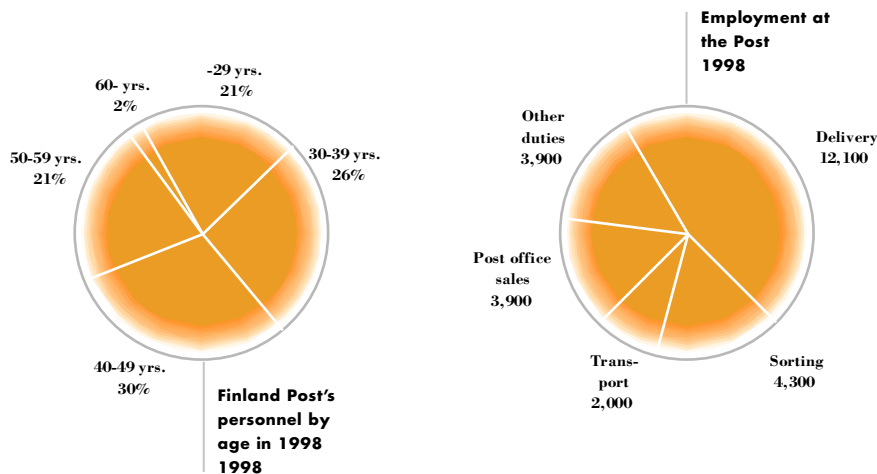
The Post's training programs for key personnel performing management and

supervisory duties was upgraded during 1998. Identifying and developing key personnel resources ensures there is sufficient expertise and adequate potential to meet future growth.

Activities were undertaken to improve the mental wellbeing of the Post's personnel and raise the level of physical fitness in order to keep them active and fit for their work. Preventive measures were a major focus for the Post's occupational health care services. Good results were obtained from the physical fitness programme conducted during the review and the ongoing Smokefree Post campaign, and these activities will be continued. Around 10,000 employees have already taken part in the Post's keep-fit campaign.

Personnel satisfaction index 1994-1998





The Post has systematically monitored personnel satisfaction each year by distributing questionnaires to each member of the personnel. Results are used to enhance the Post's management and its working communities. Post employees relate very positively to their employer and are committed. Compared to similar studies conducted in Finland, the Post's employees rate smooth cooperation, openness, and receiving support, guidance and favourable feedback slightly more highly than average. Finland Post's personnel assess their own work more critically than the average.

The Post was the third largest employer in Finland during the review period. Finland Post

Group employed 26,344 people at the end of 1998, of which 30% were part-time employees.

The most significant change in the number of personnel was the transfer of personnel resulting from the demerging of the PT Finland Group, in particular the over 400 people employed by PT-Automotive Services Ltd who were transferred to Finland Post Group. The number of Counter Services' personnel dropped by 160, while over 200 people were transferred from Products to the newly-founded subsidiary Nordic Printmail Oy. Gold Line Ltd and LP-Logistics Services Ltd, both subsidiaries of Finland Post Group, reduced their personnel by a total of some 60 people.

E n v i r o n m e n t a l E f f i c i e n c y



Finland Post's target is to be one of service and distribution companies

the most environmentally efficient by the year 2002. Finland Post

Group's environmental management programme aims to minimise the environmental impact of its vehicle fleet, make the use of energy in its buildings more efficient, improve waste management, manage its purchases in an ecologically efficient way, and meet customers' environmental requirements.

The main environmental impact is caused by the Post's delivery fleet of over 5,500 vehicles. Finland Post leases some 3,000 vehicles from PT-Automotive Services Ltd. The remainder are subcontractors' or postmen's vehicles.

The Post will reduce the fuel consumption of its vehicles by 8% in relation to volume of mail delivered by the year 2002. This reduction will be achieved through delivery planning, and by increasing the utilisation rate of existing vehicles, modernising the fleet and regular vehicle servicing. Vehicle emissions are monitored using a calculation method developed by the Technical Research Centre of Finland.

Drivers and distributors are trained to adopt environmentally friendly driving habits. Over 500 of the Post's drivers and distributors attended a one-day course on environmentally friendly driving habits during the review period.

Finland Post has over 60 electric vehicles in its fleet – more than any other Finnish company. The Post plays a leading role in Finland in promoting an international project for introducing

electric vehicles. The project is a part of an EU programme for developing and testing alternative forms of energy. The target is to make 10% of the Post's deliveries in urban areas using electric vehicles by the year 2002. Finland Post will introduce a low-emission, gas-powered truck for deliveries in the Helsinki metropolitan area during 1999.

The Post will reduce energy consumption for property management by 10% in relation to the Post's operational volume by the year 2002 and the quantity of refuse for dumping by 40%. The Post also monitors each year the standard of its major suppliers' environmental management programmes.

Finland Post endeavours to factor in the environmental impact of products throughout their entire lifecycle when making purchasing decisions. The Post promotes environmental efficiency beyond its own operations by offering customers logistics services for recycling products and packaging both in cities and regionally.

Board of Directors' *Report for 1998*



Changes in business climate

There were no changes in the business climate during 1998 that significantly affected Finland Post Group's domestic operations. The internationalisation of Finnish companies and their drive to reduce inventories have for several years now boosted international company-to-company parcel traffic meeting short delivery times. Large international courier operators have entered this business sector in Finland. Large corporate acquisitions also restructured Europe's logistics markets during 1998.

The strong growth in the Finnish economy continued and this boosted demand for services. The upswing in publishing continued and was reflected in increased volumes of publications and a higher average weight. The market for direct mail advertising also grew. The demand for conveyance services, especially express services, rose. Competition intensified in conveyance and banking. Stiffer competition and technology development in the banking sector has resulted in the continued decline of personal banking services.

Changes in Group structure

The Post became a separate company directly owned by the Finnish State when the PT Fin-

land Group demerged on 1 July 1998. Finland Post Group Ltd was made the parent company of Finland Post Group in conjunction with the demerger, with Finland Post Ltd and PT-Automotive Services Ltd as its subsidiaries. Most of PT Finland Ltd's real estate was also transferred to Finland Post Group Ltd's ownership. This change in the Group's structure did not have a direct impact on customer relations or business operations.

The consolidated financial statements have been prepared according to the Group structure as from 1 July 1998. The information for 1997 provided for comparison has also been adjusted to reflect this change. The financial statements of the parent company, Finland Post Group Ltd, are for the period from 1 July 1998 to 31 December 1998.

Finland Post Ltd and Tieto Corporation Plc transferred some of their operations to a joint venture, Nordic Printmail Oy, which offers printing and posting services. The new company, in which Finland Post Ltd has a 51% holding, started operating on 1 May 1998.

NordPack (earlier called Vasagatan 11 International AB), a joint venture established with the other Nordic postal operators, will start

business operations in early 1999 under the name Pan Nordic Logistics AB.

Finland Post Ltd's subsidiary Kymen Varhaisjakelu Oy was merged with Finland Post Ltd during 1998.

Finland Post Ltd established Etelä-Suomen Kuljetuspalvelut Oy for conveyance services in the Helsinki metropolitan area. The company will start operating early in 1999.

Finland Post Ltd also decided to demerge its terminal-to-terminal transport and regional conveyance. The restructured operations will start early in 1999. The conveyance company will initially be wholly owned by the Post. The underlying idea of the demerger is to achieve cost-efficiency in heavy transport unrelated to the Post's core business.

Net turnover and profit

The consolidated net turnover rose by 5% to FIM 5,957 (5,667) million. Net turnover was higher in all business areas except counter services.

Operating profit was FIM 331 (508) million, representing 6 (9)% of net turnover. Profitability declined owing to a rise of 9% in costs. Highest cost increases were seen in staff expenses and depreciation. Staff expenses increased to 61% of the Group's expenditure, partly due to the incomes policy adopted at the beginning of 1998 and a rise in pension costs.

Depreciation according to plan amounted to FIM 310 million, a rise of 19%. This was a result of higher investment. Total depreciation was entered as FIM 355 million, the maximum allowed under Finnish taxation laws.

Income taxes amounted to FIM 99 million.

The consolidated profit after taxes was FIM 250 million.

Business development

The net turnover of Messaging Services increased by 9% to FIM 2,411 (2,217) million. Messaging Services' net turnover is derived from letter mail and supplementary services. The volume of letter mail rose by 2%. The volume of 1st Class Letters rose by 5%, while 2nd Class Letters remained at much the same level. There was brisk growth in volumes of new messaging services for electronic data transfer, although this still had only a slight effect on net turnover. The moderate pricing policy for letter mail was continued. Prices for stamped letter mail were adjusted slightly in July.

The net turnover of Media Services rose by 7% to FIM 1,496 (1,401) million. The Media Services group includes publications, direct mail advertising and address services. The volume of publications grew by 3% and the average weight of publications rose 12%. Volumes of direct mail advertising remained at the previous year's level, showing an increase of 2% in bulk letter mail and a decline in the volume of other consignments. Prices for publications distributed with the Post's standard deliveries rose by an average 5%. Prices for bulk letters were increased by 2.5% at the beginning of July.

The net turnover of Logistics Services was FIM 1,020 (987) million, up 3% on the previous year. The growth was mainly generated by express parcels and warehousing services. The volume of express parcels rose by 15%, although the volume of all parcels delivered dropped by 2% compared to 1997. Service

tariffs were adjusted at the beginning of July resulting in an increase of 4% in prices for standard parcels and express parcels.

The net turnover of Counter Services declined by 12% to FIM 569 (647) million. Further curtailment in Leonia Plc's use of the Post's post office network reduced income. Sales of insurance products by post offices remained at much the same level. The Post is endeavouring to boost insurance sales and started cooperating with the British company CFI. Sales of the company's 'Onni' insurance products were started in post offices at the end of the year. The number of post offices totalled 1601, almost at the previous year's level, and 571 of these were the Post's own post offices.

The Group's other business operations include PT-Automotive Services Ltd's vehicle repair and leasing services, Spac FP Oy's security transport services, and the bus services operated by Gold Line Ltd and its associated company Pohjolan Gold Line Ltd. Demand for vehicle repair services remained buoyant and PT-Automotive Services Ltd's net turnover grew to FIM 321 (304) million, of which 44% was derived from outside the Group. The net turnover of Security Transport Services rose by 15% to FIM 141 million. Bus Services saw demand for chartered routes increase, but demand for regular bus services declined. Gold Line Ltd, which operates throughout Finland and also in its adjacent regions, had a net turnover of FIM 69 million. Pohjolan Gold Line Ltd, which started operating during the review period and caters for charter traffic in the south of Finland, had a net turnover of FIM 22 million.

Finland Post Group will, for the most part, adopt the euro on 1 January 2002, after which

tariffs and postage stamps will be denominated in euros.

Financing and financial position

The Group's financial position and liquidity remained strong. At the end of the year it held liquid reserves of FIM 462 million. Further financing was arranged by using a short-term credit facility and by issuing commercial papers. A short-term credit facility of FIM 200 million was available at the end of the year. The Group's equity ratio was 66%.

Investments

Finland Post Group's investments during the review period amounted to FIM 665 million. The relatively high level was due to investments in buildings and technology deployment in post handling and information systems.

The logistics centre under construction in Voutila, Vantaa, will be completed during 1999. The total investment in buildings and equipment for this project is some FIM 230 million, of which FIM 159 million was allocated to 1998.

The network of mechanical sorting centres for letter mail was also upgraded to meet the current needs of production. The sorting centre network was extended and equipped with new machines and IT systems in order to streamline production and ensure quality.

Finland Post Ltd's data architecture was powerfully enhanced, and modernisation of the computerised system for Finland Post's own post offices was completed. Overall, the Group invested some FIM 112 million in information technology, some of which went to ensure Year 2000 compliance.

FIM 115 million was used to acquire new vehicles.

Research and development

Research and development expenses amounted to some FIM 40 million. R&D focused mainly on electronic messaging and creating new service concepts.

Administration and auditors

On 27 February 1998 PT Finland Ltd's Annual General Meeting approved a plan to divide PT Finland Ltd into Finland Post Group Ltd and Telecom Finland Group Ltd on 30 June 1998. The administrative bodies of the new companies were decided at the same meeting.

The members elected to the Board of Directors of Finland Post Group Ltd were: Matti Elovaara (Chairman), Pekka Luukkainen (Deputy Chairman), Kari Haavisto, Juhani Heino, Niilo Laakso, Antti Palkinen, Soili Suonoja and Harry Söderholm.

The following served on Finland Post Ltd's Board of Directors until 27 February 1998: Pekka Vennamo (Chairman), Pekka Luukkainen (Deputy Chairman), Matti Elovaara, Kari Haavisto, Juhani Heino, Antti Palkinen, Asko Saviaho and Harry Söderholm.

The following served on Finland Post Ltd's Board of Directors as from 27 February 1998: Matti Elovaara (Chairman), Pekka Luukkainen (Deputy Chairman), Kari Haavisto, Juhani Heino, Niilo Laakso, Antti Palkinen, Soili Suonoja and Harry Söderholm.

The President and CEO of Finland Post Group Ltd and Finland Post Ltd was Asko Saviaho, and as from 1 March 1998 the Executive Vice President was Juha Kivinen.

The auditors of Finland Post Group Ltd were Jorma Heikkinen (CPA) and Tilintarkastajien Oy – Ernst & Young, Authorised Public Accountants.

Personnel

Finland Post group had 26,344 employees at the end of the review period, of which 7,830 were part-time employees. The Group's average number of personnel during the review period was 26,448 (26,115). The parent company did not have any employees as it purchased all necessary services from Finland Post Ltd. The largest groups of employees in Finland Post Group were postmen (12,100 people), drivers (2,000 people), salespersons (3,900 people) and sorters (4,300 people).

Prospects for 1999

The growth in Finland's economy is expected to slacken off during 1999. Demand for postal services has been to a large extent dependent on the level of domestic consumption, for which the prospects in 1999 are still good. Strong growth and diversification is forecast for electronic messaging, and this could rapidly boost the Post's volumes.

Finland Post Group's result is expected to improve on the previous year, but negotiations with Leonia Bank plc on the sale of banking services may have a strong negative impact on the result. The results of the sizeable investments in development start to be felt in the range of services offered in 1999 and the quality of those services, as well as in lower costs. Alliances formed to deepen the cooperation in international logistics will help to ensure favourable development.

Profit and loss account

1 January-31 December MFIM	Appendix	GROUP		PARENT COMPANY
		1998	1997	1.7.-31.12.1998
Net turnover	1	5,957	5,667	55
Other operating income	2	40	45	1
Raw materials and services		672	606	7
Raw materials and consumables		169	162	-
Purchases during the financial year		169	162	-
External services		503	444	7
Staff expenses	3	3,450	3,183	-
Wages and salaries		2,809	2,648	-
Social security expenses		641	535	-
Pension expenses		379	313	-
Other social security expenses		262	222	-
Depreciation and reduction in value		310	261	20
Depreciation according to plan		309	260	20
Goodwill on consolidation		1	1	-
Other operating charges	4	1,234	1,155	23
Operating profit		331	508	5
Financial income and expenses	5	23	26	14
Income from associated companies		1	-2	-
Income from other investments held as non-current assets		1	-	4
From Group companies		-	-	3
From others		1	-	1
Other interest and financial income		27	33	16
From Group companies		-	-	10
From others		27	33	6
Reduction in value of investments held as non-current assets		-	-4	-
Interest and other financial expenses		-6	-1	-7
To Group undertakings		-	-	-2
To others		-6	-1	-5
Profit before extraordinary items		353	535	19
Extraordinary items		-	-	-1
Extraordinary expenses		-	-	-1
Profit before appropriations and taxes		353	535	18
Appropriations		-	-	-5
Increase (-) or decrease (+) in depreciation reserve		-	-	-5
Direct taxes	6	-99	-151	-3
Minority interests		-5	-1	-
Profit for the financial year		250	382	10

Statement of cash flow

<i>1 January-31 December</i> MFIM	GROUP		PARENT COMPANY
	1998	1997	1.7.-31.12.1998
Operating activities			
Operating profit	331	508	5
Adjustments to operating profit	291	225	19
Change in net working capital	-28	75	-268
Interest received	30	33	21
Interest paid	-7	-1	-7
Share of the net income of the associated companies	1	-2	-
Other financial items	5	-	5
Taxes paid	-18	-216	-6
Net cash flow from operating activities	604	621	-231
Investing activities			
Associated companies acquired	-18	-23	-
Purchases of other shares	-17	-	-
Capital expenditures	-631	-484	-49
Proceeds from sale of other fixed assets	48	23	2
Net cash flow from investing activities	-617	-484	-47
Cash flow before financing activities	-13	137	-278
Financing activities			
Increase/decrease in long-term receivables	-2	-	1
Increase/decrease in short-term financing	200	-	517
Dividends paid	-314	-95	-
Group contributions received and given	-	-	-1
Other	2	-	2
Financing activities, total	-114	-95	519
Liquid assets, increase/decrease	-127	42	241
Liquid assets on 1 January (Parent company 1 July)	589	547	178
Liquid assets on 31 December	462	589	419

Balance sheet

<i>Assets, 31 December</i> MFIM	Appendix	GROUP		PARENT COMPANY
		1998	1997	1.7.-31.12.1998
Non-current assets		3,152	2,834	1,865
Intangible assets	7	50	57	2
Intangible rights		36	38	–
Goodwill		5	6	–
Goodwill on consolidation		2	3	–
Other capitalised long-term expenses		7	10	2
Tangible assets	8	2,771	2,455	1,221
Land and waters		416	412	380
Buildings and structures		1,286	1,271	819
Machinery and equipment		775	677	2
Other tangible assets		31	27	9
Advance payments and construction in progress		263	68	11
Investments	9	331	321	642
Holdings in Group companies		–	–	542
Holdings in associated companies		173	147	55
Other shares and similar rights of ownership		158	175	45
Current assets		1,264	1,363	898
Stocks		30	27	–
Raw materials and consumables		11	13	–
Finished goods		20	14	–
Debtors		771	747	479
Long-term		28	26	108
Amounts owed by Group companies	10	–	–	89
Amounts owed by associated companies	11	9	–	–
Loan receivables	12	19	25	19
Short-term		743	721	371
Trade debtors		519	446	2
Amounts owed by Group companies	13	–	–	332
Loan receivables	14	32	4	32
Other debtors		5	3	–
Prepayments and accrued income		188	269	6
Investments		419	578	419
Other investments		419	578	419
Cash in hand and at banks		42	11	–
Assets, total		4,415	4,197	2,763

<i>Liabilities, 31 December</i> MFIM	Appendix	GROUP		PARENT COMPANY
		1998	1997	1.7.-31.12.1998
Capital and reserves	15	2,860	2,925	2,141
Subscribed capital		600	600	600
Share premium account		-	1,166	-
Other reserves		1,186	20	1,186
Retained earnings		825	757	365
Profit for the financial year		250	382	10
Minority interests		29	6	-
Appropriations	16, 17	-	-	70
Depreciation reserve		-	-	70
Creditors		1,526	1,266	552
Long-term		2	-	2
Accruals and deferred income		2	-	2
Short-term		1,524	1,265	550
Loans from credit institutions		200	5	200
Advances received		8	8	-
Trade creditors		215	198	4
Amounts owed to Group companies	18	-	-	247
Amounts owed to associated companies	19	1	3	-
Other creditors		6	7	97
Accruals and deferred income		1,095	1,049	2
Liabilities, total		4,415	4,197	2,763

A c c o u n t i n g p r i n c i p l e s

The annual accounts of the Finland Post Group are prepared in accordance with Finnish accounting legislation and the Finnish Companies Act. The profit and loss account, the balance sheet and the notes to the accounts are prepared in conformance with the requirements of the Finnish Accounting Act that came into force on 31 December 1997. The information for the 1997 annual accounts provided for comparison has been amended accordingly.

Upon the demerging of PT Finland Ltd on 1 July 1998 Finland Post Group Ltd started operating as the new directly state-owned parent company of the Finnish Post Group. PT Automotive Services Ltd, which provides vehicle repair workshop and leasing services, became a subsidiary of Finland Post Group Ltd in conjunction with this demerger.

These annual accounts present the financial statements for Finland Post Group Ltd for the period 1 July 1998 to 31 December 1998, and also the consolidated financial statements for 1997 and 1998 as if the different companies within Finland Post Group had formed one consolidated group with effect from 1 January 1997.

Principles of consolidation

The consolidated accounts include:

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

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

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

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

Intragroup transactions, intragroup receivables and debts, and the Group's internal distribution of profit are eliminated. Unrealised margins on internal deliveries are not eliminated, but this has no significant effect on the Group's profit or earnings.

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

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

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

Associated companies other than those enga-

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

Net turnover

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

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

Production for own use

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

Foreign currency items and derivative instruments

Transactions in foreign currencies are recorded in Finnish markka at the rates of exchange prevailing on the transaction dates. Receivables and debts denominated in foreign currencies when the accounts were closed are translated into Finnish markka at the average exchange rate quoted by the Bank of Finland on the balance sheet date. Foreign exchange gains and losses related to normal business operations are treated as adjustments to sales and purchases. Foreign exchange gains and losses associated with financing and hedging of the total foreign exchange position are recorded as financial income and expenses. Derivative contracts made to hedge the company's exposure to foreign

exchange and interest rate risks are valued at the rates prevailing on the balance sheet date. The interest element relating to derivatives is accrued as income over the period to maturity, and unrealised foreign exchange gains and losses are entered as financial income and expense in the profit and loss account.

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

Fixed assets

Fixed assets are valued in the balance sheet at their original acquisition cost, less depreciation according to plan. Assets transferred to the Finland Post Group on incorporation on 1 January 1994 are stated as the non-cash value on that date. Fixed assets were transferred to Finland Post Group on the demerger of PT Finland following the principle of balance sheet continuity.

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

Buildings and structures	15–40 years
Machinery and equipment	3–13 years
Goodwill on consolidation	5 years

Land and water areas are not depreciated.

Permanent write-downs are recorded as accelerated depreciation.

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

Research and development

Research and development costs are written off as incurred.

Stocks

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

Pension arrangements

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

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

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

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

Direct taxes, deferred tax liability and tax receivables

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

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

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

Maintenance and repair

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

Extraordinary income and charges

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

Notes to the accounts

	Group 1998 MFIM	Group 1997 MFIM	Parent company 1998 MFIM
1 Net turnover by geographical market			
Finland	5,956	5,667	55
Other countries	–	–	–
Net turnover, total	5,957	5,667	55
Work performed for own purposes and capitalised			
Raw materials and consumables	4	5	–
External services	–	–	–
Wages and salaries	2	2	–
Pension costs	–	–	–
Other social security costs	–	–	–
Total	6	8	–
2 Other operating income			
Rental income	8	–	–
Proceeds from disposal of fixed assets	20	37	–
Other operating income	13	8	1
Other operating income, total	40	45	1
3 Staff expenses			
Wages and salaries	2,809	2,648	–
Pension costs	379	313	–
Other social security costs	262	222	–
Staff expenses, total	3 450	3 183	–
Management salaries and fees			
CEOs:			
Salaries and fees, total	5	4	–
Members of the Board of Directors:			
Salaries and fees, total	1	1	–
Members of the Supervisory Board:			
Salaries and fees, total	–	–	–
Management salaries and fees, total	6	4	–
Average number of personnel during the financial year			
Full-time	18,664	18,784	–
Part-time	7,784	7,331	–
Total	26,448	26,115	–
Average number of employees in associated companies during the financial year in proportion to the ownership was 59 people.			
Management pension commitments			
The retirement ages of the CEO's in the group companies are agreed at 60–65 years.			
The retirement age of the CEO of the parent company is agreed at 60 years.			
4 Other operating expenditure			
Rental expenditure	196	189	2
Expenditure from disposal of fixed assets	1	1	–
Other operating expenditure	1,037	964	20
Other operating expenditure, total	1,234	1,155	23

5	Financial income and expenses	Group	Group	Parent company		
		1998 MFIM	1997 MFIM	1998 MFIM		
	Share of profits of associated companies	1	-2	-		
	Interest income from long-term investments	-	-	-		
	From Group undertakings	-	-	3		
	From others	1	-	1		
	Interest income from long-term investments, total	1	-	4		
	Other interest and financial income					
	From Group undertakings	-	-	10		
	From others	27	33	6		
	Other interest and financial income, total	27	33	16		
	Interest and financial income, total	28	33	21		
	Interest and other financial expenses					
	To Group undertakings	-	-	2		
	To others	6	1	5		
	Interest and other financial expenses, total	6	1	7		
	Interest and financial expenses, total	23	30	14		
	The item 'Other interest and financial income' includes exchange rate gains of FIM (net).	5	-	5		
6	Direct taxes					
	Income taxes on actual business activities	86	129	3		
	Change in deferred tax liability	13	21	-		
	Direct taxes, total	99	151	3		
	Non-current assets					
	Finland Post Group					
7	Intangible assets					
		Intangible rights	Goodwill	Other long-term expenditure	Goodwill on consolidation	Total
	MFIM					
	Acquisition cost 1 Jan. 1998	55	7	20	9	90
	Acquisitions	8	-	-	-	8
	Disposals	-1	-	-	-	-1
	Acquisition cost 31 Dec. 1998	63	7	20	9	98
	Accumulated depreciation 1 Jan. 1998	16	-	10	6	32
	Accumulated depreciation on disposals and transfers	-1	-	-	-	-1
	Depreciation for the financial year	11	1	3	1	16
	Accumulated depreciation 31 Dec. 1998	26	2	14	7	48
	Book value 31 Dec. 1998	36	5	7	2	50

Finland Post Group							
8	Tangible assets	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Payments on account and tangible assets	Total
MFIM							
	Acquisition cost 1 Jan. 1998	412	1,539	1,201	35	68	3 256
	Acquisitions	4	72	320	10	216	622
	Disposals	-	-8	-112	-2	-21	-143
	Acquisition cost 31 Dec. 1998	416	1,604	1,409	43	263	3,735
	Accumulated depreciation 1 Jan. 1998	-	274	490	7	-	771
	Accumulated depreciation on disposal and transfers	-	-	-74	-	-	-74
	Depreciation for the financial year	-	44	218	5	-	267
	Accumulated depreciation 31 Dec. 1998	-	318	634	12	-	964
	Book value 31 Dec. 1998	416	1,286	775	31	263	2,771
	Balance sheet value of machinery and equipment on 31 Dec. 1998	-	-	698	-	-	698

Non-current assets

Finland Post Group Ltd		
7	Intangible assets	Total
MFIM		
	Acquisition cost 1 July 1998	3
	Acquisition cost 31 Dec. 1998	3
	Depreciation for the financial year	1
	Accumulated depreciation 1 July 1998	-
	Accumulated depreciation 31 Dec 1998	1
	Book value 31 Dec. 1998	2

Finland Post Group Ltd							
8	Tangible assets	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Payments on account and tangible assets	Total
MFIM							
	Acquisition cost 1 July 1998	376	1,030	6	11	2	1 425
	Acquisitions	4	16	-	-	9	29
	Disposals	-	-5	-1	-1	-	-7
	Acquisition cost 31 Dec. 1998	380	1,041	5	10	11	1,447
	Accumulated depreciation 1 July 1998	-	202	3	1	-	207
	Accumulated depreciation on disposal and transfers	-	-	-	-	-	-
	Depreciation for the financial year	-	19	1	-	-	20
	Accumulated depreciation 31 Dec. 1998	-	221	4	2	-	226
	Book value 31 Dec. 1998	380	819	2	9	11	1,221

Finland Post Group Ltd				
9	Investments	Shares in associated companies	Shares, other	Total
	MFIM			
	Acquisition cost 1 July 1998	192	136	329
	Acquisitions	18	17	34
	Disposals	-10	-9	-19
	Transferred between items	-22	22	-
	Acquisition cost 31 Dec. 1998	177	166	344
	Revaluations	4	9	13
	Accumulated depreciation 31 Dec. 1998	4	9	13
	Book value 31 Dec. 1998	173	158	331

Finland Post Group Ltd					
9	Investments	Shares in Group companies	Shares in associated companies	Shares, other	Total
	MFIM				
	Acquisition cost 1 July 1998	542	48	45	635
	Acquisitions	-	11	9	20
	Decreases	-	-	-	-
	Acquisition cost 31 Dec. 1998	542	59	53	655
	Writedowns	-	4	9	13
	Accumulated depreciation 31 Dec. 1998	-	4	9	13
	Revaluations	-	-	-	-
	Accumulated depreciation 31 Dec. 1998	-	-	-	-
	Book value 31 Dec. 1998	542	55	45	642

	Group 1998 MFIM	Group 1997 MFIM	Parent company 1998 MFIM
Long-term debtors			
10 Amounts owed by Group undertakings			
Loan receivables	-	-	89
Total	-	-	89
11 Amounts owed by associated companies			
Loan receivables	9	-	-
Total	9	-	-
12 Amounts owed by others			
Loan receivables	19	25	19
Total	19	25	19

	Group 1998 MFIM	Group 1997 MFIM	Parent company 1998 MFIM
Short-term debtors			
13 Amounts owed by Group undertakings			
Trade debtors	–	–	3
Loan receivables	–	–	327
Other debtors	–	–	2
Total	–	–	332
14 Amounts owed by others			
Loan receivables	32	4	32
Other debtors	5	3	–
Prepayment and accrued income	188	269	–
Total	224	275	32
15 Capital and reserves			
Subscribed capital 1 Jan.	600	600	600
Subscribed capital 31 Dec.	600	600	600
Share premium account 1 Jan.	1,166	1,166	1,166
Share premium account 31 Dec.	–	1,166	–
Other reserves 1 Jan.	20	20	–
Transferred from share premium account	1,166	–	1,166
Other reserves 31 Dec.	1,186	20	1,166
Retained earnings 1 Jan.	1,139	852	365
Dividend distribution	–314	–95	–
Retained earnings 31 Dec.	825	757	365
Profit for the financial year	250	382	10
Capital and reserves, total	2,860	2,925	2,141
Calculation of distributable equity 31 Dec.			
Other reserves	1,186	1,186	1,166
Retained earnings 31. Dec	825	757	–
Profit for the financial year	250	382	10
Accumulated depreciation in excess of plan entered as equity	–263	–230	–
Total	1,997	2,095	1,176

	Group 1998 MFIM	Group 1997 MFIM	Parent company 1998 MFIM
16 Accumulated appropriations			
Accumulated depreciation in excess of plan			
Intangible assets	9	8	–
Other long-term expenditure	1	1	–
Buildings and structures	136	116	70
Machinery and equipment	214	192	–
Other tangible assets	4	2	–
Accumulated depreciation in excess of plan, total	364	319	70
17 Provisions			
Provision for loss of rent on empty premises	2	1	–
Provisions, total	2	1	–
Deferred tax liability and tax receivables			
Deferred tax liability for accumulated depreciation in excess of plan	102	89	20
Deferred tax receivable for provisions	1	–	–
Short-term creditors			
18 Amounts owed to Group companies			
Trade creditors	–	–	18
Other creditors	–	–	228
Accruals and deferred income	–	–	1
Total	–	–	247
19 Amounts owed to associated companies			
Trade creditors	1	3	–
Accruals and deferred income	–	–	–
Total	1	3	–
20 Assets pledged, contingent liabilities and other liabilities			
Other pledges for the company			
Mortgages given	1	1	–
Securities pledged	61	55	–
Total	62	56	–
Pledges given for Group companies			
Promissory notes mortgaged	–	–	1
Securities pledged	–	–	9
Guarantees	–	–	4
Total	–	–	14
Leasing liabilities			
Amounts payable on leasing agreements			
Payable within one year	5	4	–
Payable in later years	3	3	–
Total	8	7	–

Group companies and associated companies 31 Dec. 1998

	Group holding	Holding of Parent Company
	%	%
Group companies		
Finland Post Ltd, Helsinki	100	100
PT Automotive Services Ltd, Helsinki	100	100
Global Mail FP Oy, Helsinki	100	–
Gold Line Oy, Rovaniemi	100	–
Etelä-Suomen Kuljetuspalvelut Oy, Helsinki	100	–
Jakelumarkkinat Oy, Helsinki	100	–
Logistic Mail STP Ltd, S:t Petersburg	100	–
LP-Logistiikkapalvelut Oy, Vantaa	70	–
Nordic Printmail Oy, Helsinki	51	–
Spac FP Oy, Helsinki	100	–
Tampereen Ykkösjakelut Oy, Tampere	55	–
KOY Kulmakeskus, Joutseno	100	–
KOY Kärsämäen Aleksi, Kärsämäki	51.5	–
KOY Laitilan Postikulma, Laitila	100	–
KOY Saarijärven Postitalo, Saarijärvi	100	–
KOY Sahronmaa, Parkano	64.3	8.5
KOY Säästösaaku, Toijala	58.5	–
KOY Kirjekyyhky, Vantaa*	100	100
KOY Korson Uudet Tuulet, Vantaa*	50.14	50.14
As. Oy Kruununlehto, Espoo*	100	100
As. Oy Kruununpuisto, Espoo*	100	100
As. Oy Rovaniemen Teleasunnot, Rovaniemi*	100	100
Associated companies		
AS Eesti Elektron Post, Tallinn	49.14	–
Elielin Pysäköinti Oy, Helsinki	27.8	–
Hansapost Oy, Helsinki	40	–
Helsingin Jakelu-Expert Oy, Helsinki	40	–
Kohtisuora Oy, Helsinki	50	–
Pan Nordic Logistics AB, Stockholm	25	–
Pohjolan Gold Line Oy, Vantaa	50	–
SIA Latvijas Elektroniskais Pasts, Riga	48.75	–
Turku-Palvelu Oy, Turku	20	–
Leonia Rahastoyhtiö Oy, Helsinki	33.33	–
Housing company, real estate and flat corporation shares, 65 companies		

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

* not consolidated

*P r o p o s a l b y t h e B o a r d
o f D i r e c t o r s*

PROPOSAL BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

The profit of Finland Post Group Ltd for the financial year is FIM 10,296,490.90. The distributable funds of the parent company amounted to FIM 1,540,952,000 and according to the consolidated balance sheet of Finland Post Group on 31 December 1998 to FIM 1,996,822,000.

The Board of Directors proposes to the annual general meeting that a dividend of FIM 1.05 per share is paid, ie. a total dividend of FIM 63 million.

Helsinki, 24 February 1999

Matti Elovaara

Pekka Luukkainen Kari Haavisto Juhani Heino

Niilo Laakso Antti Palkinen Soili Suonoja

**Harry Söderholm Asko Saviaho
President and CEO**

A u d i t o r s ' R e p o r t

To the Shareholders of Finland Post Group Ltd

We have audited the accounting records, the annual accounts and the corporate governance of Finland Post Group Ltd for the financial year of 1998. The annual accounts, which include the report of the Board of Directors and the consolidated and parent company income statements, balance sheets and notes to the annual accounts, have been prepared by the Board of Directors and the CEO. Based on our audit, we express an opinion on these annual accounts and on corporate governance.

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

In our opinion, the annual accounts have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of annual accounts. The annual accounts give a true and fair review, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The annual accounts with the consolidated annual accounts can be adopted and the members of the Supervisory Board and the Board of Directors and the CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Helsinki, 24 February 1999

Jorma Heikkinen

APA

Tilintarkastajien Oy - Ernst & Young

Authorized Public Accountants

Jorma Jäske, APA

S t a t e m e n t
b y t h e S u p e r v i s o r y B o a r d

Meeting today, Finland Post Group Ltd's Supervisory Board has considered Finland Post Group Ltd's annual accounts and the Auditor's Report for 1998.

The Supervisory Board has decided to propose to the Annual General Meeting that the profit and loss account and balance sheet for 1998 be adopted, and that the profit be handled in accordance with the Board of Directors' proposal.

Helsinki, 26 February 1999

Antero Kekkonen

Chairman of the Supervisory Board

Key ratios

KEY RATIOS OF FINLAND POST GROUP	1998	1997
OPERATIONS		
Net turnover (MFIM)	5,957	5,667
Change, %	5.1	–
Personnel 31 December	26,344	25,933
Change, %	1.6	–
PROFITABILITY		
Operating profit (MFIM)	331	508
% of net sales	5.6	9.0
Return on investments (ROI), %	11.6	17.7
FINANCE AND FINANCIAL POSITION		
Quick ratio	0.8	1.1
Internal financing ratio of investments, %	85.3	133.1
Equity ratio, %	65.6	70.0
Debt-equity ratio, %	25.5	22.2

CALCULATION OF FINANCIAL RATIOS

Return on Investment (ROI), %	100 x	$\frac{\text{profit before extraordinary items, provisions and taxes} + \text{interest expense} + \text{other financial expense}}{\text{balance sheet total} - \text{non-interest bearing liabilities} - \text{obligatory provisions (average for year)}}$
Quick ratio		$\frac{\text{current and financing assets} - \text{current assets}}{\text{short-term liabilities} - \text{advances received}}$
Internal financing ratio of investments, %	100 x	$\frac{\text{profit before provisions and taxes} - \text{taxes} + \text{depreciation} + \text{depreciation on investment}}{\text{fixed asset investments (net)} + \text{change in working capital}}$
Equity Ratio, %	100 x	$\frac{\text{capital and reserves} + \text{minority interests} + \text{valuation items}}{\text{balance sheet total} - \text{advances received}}$
Debt-equity ratio, %	100 x	$\frac{\text{liabilities} - \text{advances received}}{\text{net turnover}}$

Finland Post's Administration

Supervisory Board

Chairman Antero Kekkonen, <i>Member of Parliament*</i>	Deputy Chairman Kari Kantalainen, <i>Member of Parliament*</i>
Valto Koski,* <i>Member of Parliament</i>	Eino Keinänen, <i>Chairman of the Board of Directors, Leonia Plc</i>
Erja Lahikainen,* <i>Managing Director</i>	Jorma Seppänen, <i>Chairman Association of Finnish Local Authorities</i>
Säde Tahvanainen,* <i>Member of Parliament</i>	Timo Hannula, <i>Provincial Counsellor, Original Council of Lapland</i>
Anita Ismark,* <i>Municipal Manager, Korsnäs Municipality</i>	Taisto Riski, <i>CEO, Starckjohann Plc</i>
Merja Hiltunen-Lagzouli,* <i>CEO, Vihreä Lanka Oy</i>	Matti Kavetvuo, <i>CEO, Valio Ltd</i>
Päivi Räsänen,* <i>Member of Parliament</i>	Bengt Jansson, <i>CEO, Pohjanmaa Chamber of Commerce</i>
Eero Lämsä,* <i>Member of Parliament</i>	
Tero Mölsä,* <i>Member of Parliament</i>	
Merja Uusitalo,* <i>Farmer</i>	
Jari Koskinen,* <i>Member of Parliament</i>	
Outi Siimes,* <i>Member of Parliament</i>	
Sirkkaliisa Virtanen,* <i>Special Assistant, Ministry of Social Affairs and Health</i>	

Board of Directors



Chairman
Matti Elovaara,
President, Tamro Plc



Deputy Chairman
Pekka Luukkainen,
LL.M.



Kari Haavisto,
CFO, Metsäliitto Concern



Niilo Laakso,
Chief Director, Ministry of Transport and Telecommunications



Soili Suonoja,
CEO, Amica Ravintolat Oy



Harry Söderholm,
M.Sc. (Econ)

Employees' representatives



Juhani Heino,
Chairman, Finnish Postal Workers' Union



Antti Palkinen,
Chairman, Union of Post-Office Employees

Auditors

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

Authorized Public Accountant
Tilintarkastajien Oy
– Ernst & Young
Jorma Jäske,

* The above members represent the political parties elected

Management Group



Asko Saviaho,
President and CEO



Juha Kivinen,
Executive Vice President



Risto Paananen,
Finance



Esa Raippalinna,
Counter Services



Seppo Salomaa,
Production



Juha Salovaara,
Products



Vuokko Skyttä,
Major Accounts



Riitta Vuorenmaa,
Corporate Communications

Organization



Postage stamps issued in 1998



Finnish national anthem
Asser Jaaro



Birds:
blackbird
Pekka Piippo



Fishes: pike perch
Minna Luoma



Nursing
in Finland
Heikki Nuutinen



EUROPA: National festivals
Mika Launis



Cycling
Pekka Hesanto



Finnish Red Cross:
domestic animals
Pirkko Juvonen-Valtonen



Coltsfoot
Pirkko Juvonen-Valtonen



Nordic stamps: navigation
Juha Flinkman



Plants & Flowers:
harebell
Paavo Huovinen



Christmas
Hannu Taina



Finnish design
Kari Piippo



Puppies
Asser Jaaro



Moomins
Tove Jansson /
Pirkko Vahtero

Owls
Erik Bruun



Friendship: greetings
Marleena Ansio

Design, Viherjuuren Ilme Oy

Timo Kuoppala

Illustration, Hannu Taina

Photos, Tapio Mustasaari