

# 1999

TAMPERE TELEPHONE PLC  
ANNUAL REPORT



## **IMPORTANT DATES IN 2000**

*Annual meeting of shareholders in Tampere, Finland  
May 16 (for more information see <http://www.tpo.fi>).*

### **Interim reports**

January 1 – March 31	May 10
January 1 – June 30	August 16
January 1 – September 30	November 15

## **TOWARDS CONVERGENCE**

*“The current decade will be vitally important for content development. A telecom operator needs Internet content in order to win and retain interface users. A content producer needs to attract customers via its network connections.*

*The information industry will inevitably form more networks, join together, seek mergers and partnerships. TPO’s strength as a regional telecom operator lies in its strong existing customer access and its efficient management of customer relationships.”*

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## TPO IN BRIEF

### **BUSINESS IDEA**

TPO produces and markets quality telecommunications solutions and services that promote interaction and cooperation between people, improve business prospects for enterprise and increase security in the surrounding society.

TPO's relations with customers and stakeholders target profitability and durability to ensure competitiveness and rising value.

### **COMPANY HISTORY**

1882 – 1920	Limited company
1920 – 1997	Co-operative company
November 18, 1997	Public limited company
March 17, 1998	Helsinki Exchanges, main list

### **VALUES**

Customer-orientation  
Forward vision  
Profitability  
Personnel motivation  
Responsible awareness

## TPO – LOCAL AND GLOBAL

Tampere Telephone Plc is Finland's second largest private telephone company and the leading telecommunications operator in the Tampere region. TPO provides both a traditional telephone network and a cable tv network.

Nationwide, TPO forms a business cluster with Helsinki Telephone Corporation (Elisa Communications) and KSP Group, which are its partners in e.g. product development projects.

TPO is a technologically competitive, developing telecommunications company with a key position in Finland's national network infrastructure. The company is also a strong player in multimedia and in exploiting the business opportunities presented by the evolution of the Internet. The company's strong balance sheet, its size and its central location provide significant potential for expansion. TPO's operations are in a sector that is growing rapidly and where profitability is expected to remain good.

## TAMPERE REGION

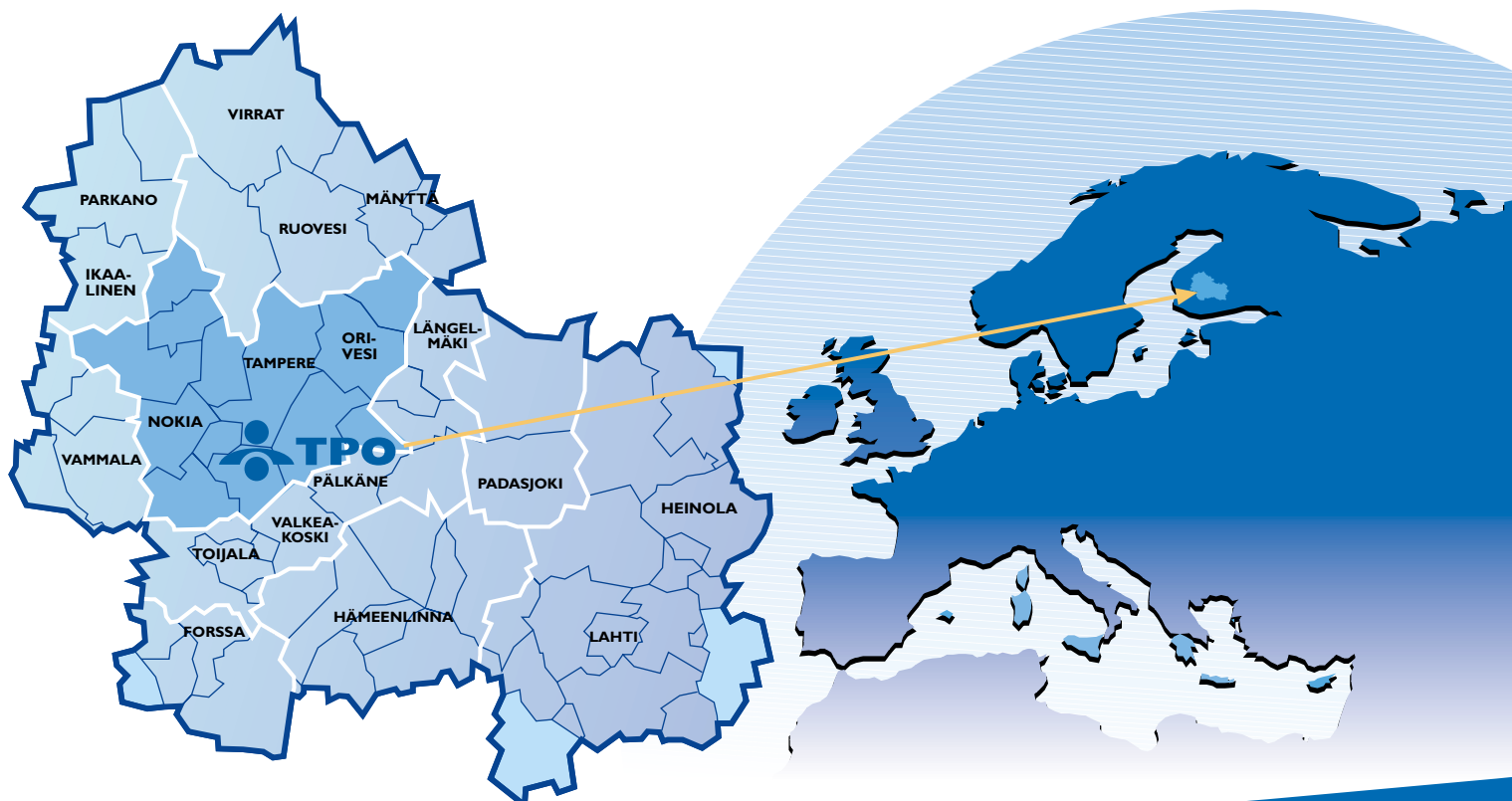
Tampere is the home city of Tampere Telephone.

Tampere is the second largest regional centre in Finland and the largest inland city in Scandinavia. Tampere with its immediate surroundings has a dynamic population of about 440 000. The city itself has a population of 200 000.

Tampere was founded in 1779 on the bank of the Tammerkoski rapids and it evolved into the most highly industrialized locality in Finland, during the 19th century. Tampere continues having modern and competitive industry,

but there is also a rapidly growing number of high technology organizations.

Information technology in the Tampere region has involved unprejudiced co-operation between universities, research centres and enterprises, and TPO has played a notable role in it. The co-operation and synergy between these actors turn science and knowhow into new business. Thus, the Tampere region offers competitive opportunities for investments.



## KEY FIGURES

EUR	1999	1998	1997	1996	1995
Turnover (EUR 1000)	99 698	92 653	81 498	70 505	63 190
Operating profit (EUR 1000)	22 372	17 734	11 459	6 125	3 052
Return on investment (ROI) %	14.8%	13.2%	9.2%	5.4%	3.7%
Investments (EUR 1000)	39 592	35 639	22 128	23 943	19 593
Balance sheet final figure (EUR 1000)	227 997	190 537	182 607	178 216	169 831
Equity ratio %	71.2%	70.1%	66.7%	68.5%	69.1%
Earnings per share (EUR)	0.43	0.33	0.22	0.11	0.06
Dividend per share (EUR)	0.20*)	0.12	0.04		

\*) Board's proposal

FIM	1999	1998	1997	1996	1995
Turnover (FIM 1000)	592 776	550 890	484 565	419 202	375 712
Operating profit (FIM 1000)	133 017	105 439	68 130	36 415	18 144
Return on investment (ROI) %	14.8%	13.2%	9.2%	5.4%	3.7%
Investments (FIM 1000)	235 401	211 900	131 567	142 360	116 497
Balance sheet final figure (FIM 1000)	1 355 607	1 132 883	1 085 729	1 059 624	1 009 771
Equity ratio %	71.2%	70.1%	66.7%	68.5%	69.1%
Earnings per share (FIM)	2,57	1,97	1,31	0,66	0,37
Dividend per share (FIM)	1,20*)	0,70	0,25		

\*) Board's proposal

	1999	1998	1997	1996	1995
Average personnel	833	813	789	785	785
Fixed telephone connections	172 821	173 442	171 901	169 219	168 159
Cable TV connections	69 123	66 733	64 708	62 597	60 442

## FIELD OF OPERATION

Tampere Telephone's business operations cover the most important telecommunications products and services directed at companies, corporations and residential customers. They include telephone and data communications, cable TV, Internet, multimedia, and a number of other telecommunications services, and incorporate nationwide networks, local area networks, as well as intranet and extranet networks.

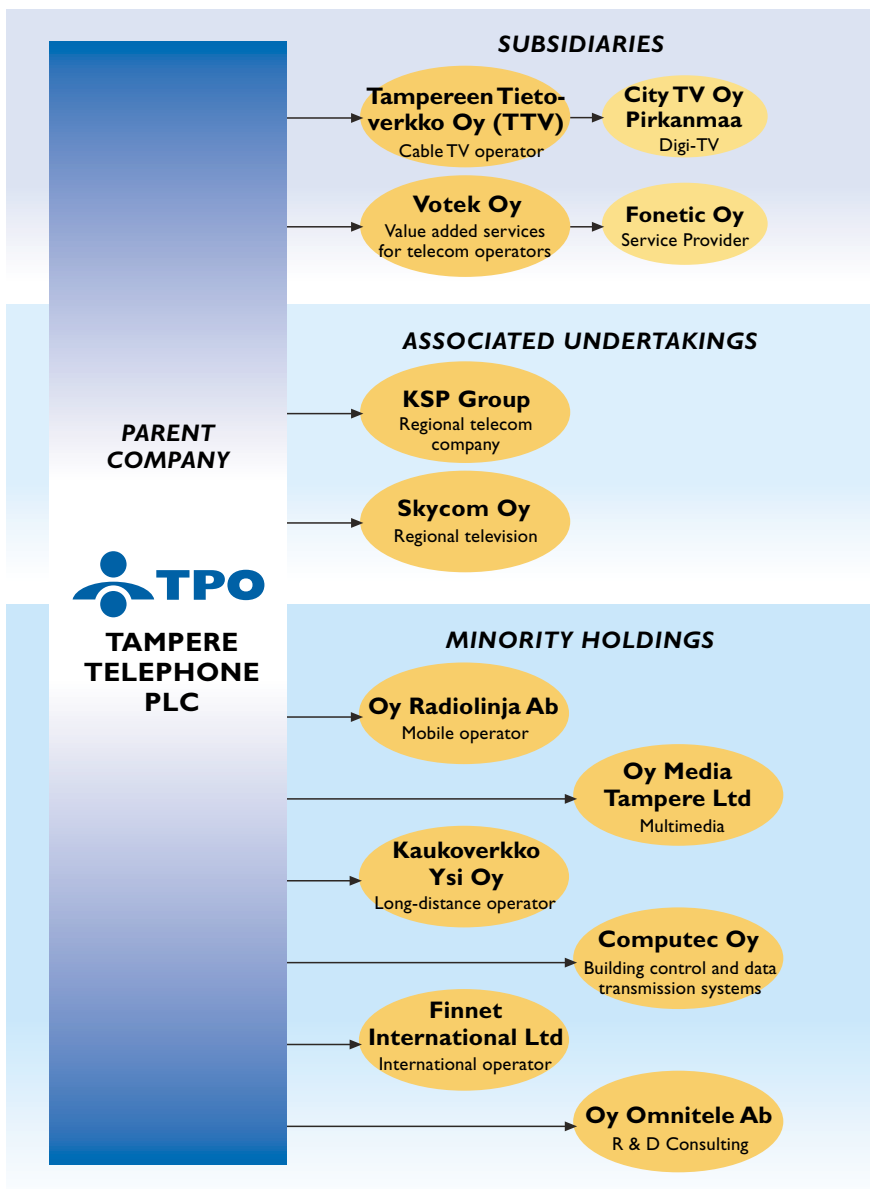
As a major player among the 46 local telephone companies in Finland TPO makes an essential part of the national and international network infrastructure. TPO runs Kaukoverkko Ysi's main operating centre (national long-distance calls) and operates the exchanges of Oy Radiolinja Ab (mobile telephony) and Finnet International Ltd (international calls). It also manages one of Finland's five Finnet Centres, i.e. customer network operating centres.

## BUSINESS UNITS

**Sales and Marketing** cover nearly every form of telecommunications that a private household or a company should need. For private customers these include basic telephone services with supplementary options, Internet services, ISDN and ADSL connections for broader data transmission needs. For companies TPO offers telecommunications packages consisting of call services, data transmission, security services, Internet services and a wide range of other services.

**Telecommunication services** and **cable network services** build, operate and maintain TPO's telecommunication networks. These units also have an important role in the construction, operation and management of the nationwide networks of Kaukoverkko Ysi Oy and Finnet International Ltd and the mobile phone network of Oy Radiolinja Ab.

## GROUP STRUCTURE



Through co-operation with its partners, TPO seeks synergy even in new business areas, improved competitive positions in the market and increased value for the companies.

## **FUTURE OUTLOOK**

As a network operator TPO's development projects relate to increasing the efficiency and speed of the telephone network, expanding it and harnessing it for Internet use. In TPO's operating area, network switching technology has been completely digital since 1997. Internet traffic already accounts for 30 percent of current traffic on the telephone network and is increasing.

As well as traditional personal and systems connections, TPO's telephone network offers ISDN, which is already fairly familiar, and Internet and telework services based on ADSL. To a large extent ADSL is a completely new technology but it utilizes the fixed connections of the traditional telephone network and offers customers broadband access that is many tens of times faster than earlier alternatives.

### **The Internet**

TPO is participating on a broad front in exploiting the business opportunities created by the Internet. It is developing Internet-based services in its capacity both as a network operator (network development, expansion, broadband connections) and as a service operator (network and Internet connections, interface, content supply with partners). TPO's aim is to offer its customers quality connections and related services. The home and business Internet connections developed by TPO have achieved market leadership in the Tampere region, with a market share of about 30 %.

### **A multi-network future**

In the future TPO services will be accessible from a computer, via a television, or from a fixed or mobile telephone. The user will be able to obtain fixed connections services, wireless connection and the Internet and its applications, all from the same supplier. This will be done by using multiple networks such as the telephone network, the broadband network and the third-generation mobile communications network, all built by TPO or its partners.

## **VOTEK OY DEVELOPS V**

Votek Oy at the Pori Telecommunication Competence Center is a pioneer and market leader in Finland, specializing in automated Internet and telephone services, i.e. Unified Messaging services for tele operators, customer service organizations and media companies. Tampere Telephone became the company's major shareholder in December 1999.

The consolidated turnover of Votek and its fully-owned subsidiary Fonetic Oy, which markets electronic marketplace services, will reach FIM 14 million this year, half of this from exports. Votek, which has rapidly expanded its staff, employed about 30 designers at the beginning of 2000, but is expected to raise the figure to nearly 50 during the year.

### **TPO ensures growth**

Votek started to cooperate with Tampere Telephone about ten years ago. Home answering and message services and automatic wake-up and reminder services are examples of products developed by Votek which have, through TPO and other Finnet companies, become important additional services for every phone user and corporate customer.

"TPO is the best possible partner for us because it has emphasized value-added network services and is a pioneer in this area. TPO has sector-specific knowhow and an important interface with customers. On the other hand, at Votek we have our own service development and

### **Combined services taking over the sector**

Votek Oy's first product, an automatic classified ads reception system for newspapers, came onto the market in the early 1990s. Since then, systems for electronic newspapers and electronic commerce have been delivered to all the large newspapers in Finland and some in Estonia, and pilot systems have also been sold to Sweden and the UK.

Votek started to cooperate with TPO and other Finnet companies in the development of value-added services in the early 1990s. This area includes home answering and various message services, automatic wake-up and reminder services, and the new MultiCall reachability service, in which the subscriber needs only one telephone number. When this number is called, the Votek system redirects the call to ring simultaneously at one or several fixed network or mobile network numbers. If none of the numbers



## VALUE-ADDED NETWORK SERVICES



production environment for the new-generation services. Our strength lies in developing sector-specific services," says **Niku Oravainen**, the founder of Votek Oy. He points out that Votek has now reached a phase of development at which sufficient growth is impossible with the old ownership base relative to the company's market potential. TPO will now ensure the necessary growth potential on both the domestic and foreign markets.

### **Towards Europe**

The European market for automatic phone services is expected to rise to EUR 10 billion by 2002. According to Niku Oravainen, European tele operators are seeking new partners suitable for outsourcing their services. Votek's strength lies in its strong sector-specific knowhow, which will be useful in Europe. Its strategy is networking, and the company has already signed a partnership agreement on European marketing with Hewlett Packard.



answers, the call can be redirected to an answering service that receives the message and forwards a short message to a mobile phone. The service thus replaces phone call transfers and a number of separate answering services.

Votek's subsidiary Fonetic Oy produces e-commerce services. Fonetic has also developed a phone answering service for health centres and medical centres which is already used by some 20 health centres in Finland. New services are also being developed for the health care sector.

The sector will next witness the arrival of combined services which enable users to utilize the services of the telephone network and the Internet together. The service will function from several interfaces – a terminal, mobile phone or fixed connection – but the user will need only one service contract.

## Local news and new services

# TAMPEREEN TIETOVERKKO TO BEGIN DIGIT

Tampereen Tietoverkko Oy (TTV) is preparing to begin digital TV transmissions via cable TV in 2000. The following year will witness a start to transmissions by CityTV Pirkanmaa, which was granted a licence for local digital TV transmissions by the Government in 1999. TTV owns 40 per cent of the company.

"In the first phase, digital TV will offer consumers more local programming. However, digitality also enables the development of totally new interactive services that exploit the full potential of the Internet and TV. Such services include a range of ordering, trading and information services," says **Matti Tulin**, Managing Director of Tampereen Tietoverkko Oy.

According to Tulin, digital TV now calls for solid investment and construction for the future. TTV and both of its

large owners – the parent company TPO and Alma Media – form a strong cluster with both the necessary technology and the professional skills for producing new kinds of service.

### Production of programmes widening

Digital TV will considerably increase TTV's productive operations. The outlook for local programme production looks good, as TTV is already engaged in fairly large-scale TV operations. It produces news for MTV3, and programmes ranging from sports to TV plays for different channels. TTV's company Take One is a professional producer of TV commercials, company videos, computer graphics and other audio-visual materials. At its premises

## THE GROWING TELECOMMUNICATIONS SE

"Telecom companies – like technology companies in general – are attracting a lot of interest among investors at the moment. Telecom operators are regarded as growth companies, implying that this interest will continue," says **Visa Manninen**, an analyst at the Helsinki office of the investment bank D. Carnegie Ab.

Since the deregulation of the market, there have been rapid changes in the telecommunications sector. We are now at a phase where operators are seeking new growth areas, technologies and products through corporate acquisitions.

"Seeking advantages through economies of scale brings operators together. Mergers are designed to save costs and free resources for product development, and size is thus a clear advantage. They sustain investor interest, of course, but there are other reasons as well."

"Investors value technological development and follow closely how operators are doing in growing development areas such as data and Internet services."

According to Manninen, the importance of data transmission and various Internet services will increase in both fixed line and mobile telephony. New services can be provided efficiently in telephone networks because phones have the important advantage of working in both directions.

"It will also be interesting to see who will end up owning the Internet marketplaces, the shopping centres of the future. An operator providing such a portal can charge the companies represented there for the service," Manninen points out.

### Global and specialist companies side by side

According to Manninen, global operators will also gradually start appearing on the market through mergers, side by side with small specialized companies whose strengths include close connections with customers and thus good opportunities to market new services.

"Regular invoicing is important for marketing purposes," Manninen points out.

"Tampere Telephone has focused strongly on developing its Internet services. It also runs a cable TV network, which enables expansion of other electronic services. Networking with various service providers brings a competitive advantage. The company's strengths also include close customer relationships with the companies and households



*Telecom companies are interesting investment targets which attract both large funds and small investors, says Visa Manninen of D. Carnegie Ab in Finland. Carnegie is an investment bank independent of all other banks and financial groupings and has offices in Helsinki, Stockholm, Copenhagen, Oslo, Luxembourg, London and New York.*

## AL TV TRANSMISSIONS

on Hallituskatu, in the centre of Tampere, TTV has both a professional production team and well-equipped production facilities with TV studios.

### **70,000 households will soon have cable**

TPO has been involved in the development of cable TV operations since the founding of Tampereen Tietoverkko in 1973. Construction of the network began in 1983, and TPO became the majority shareholder in TTV at the end of the decade.

The last few years have been a time of rapid growth. The number of cable TV connections in households will exceed 70,000 in early 2000, and TTV's network is now the second largest independent cable network in Finland.

TTV has been testing use of the cable network for Internet services in Tampere. Decisions will be made in the spring of 2000 on how large-scale the provision of Internet services via cable TV will be. In any case, Internet services are expanding rapidly. According to Matti Tulin, TPO and TTV will also be able to produce other attractive services for consumers in the future.

*Managing Director  
Matti Tulin.*



## CTOR ATTRACTS INVESTORS

in its operating area."

According to Manninen, it is important for investors to know the companies they invest in. In this respect, being local is an advantage.

### **Telecommunication technology pioneers attract interest**

"It'll be interesting to see what kind of cooperation clusters form in Finland. The roles of Helsinki Telephone Corporation, Tampere Telephone Plc and local telephone companies are changing constantly. Mobile phone networks are currently going through a phase of restructuring," says Manninen and points to the fact that, in intra-Group phone companies, the owners want to measure the value of their holdings in new market situations. Changes in ownership structure will raise the number of mergers in the future, too.

There are several large telecommunications companies among the 20 most valuable companies in Europe. Among others sources these attract money from investment funds, which are indeed interested in technology shares in general.

According to Manninen, there is a rule in the investment market: large investors invest in large companies, small ones in smaller companies. One key factor is liquidity, in order to be able to buy and sell shares quickly. There are fewer investors if the volume of trading is not large enough.

"The pioneering Finnish tele-technology companies seem to be attracting growing investor interest, and Finnish

companies are apparently more attractive than small companies elsewhere."

According to Manninen, small investors in Finland have discovered technology shares, a fact witnessed by the popularity of new share issues. Even the trend in interest rates is increasingly channelling private individuals' money into the share market.

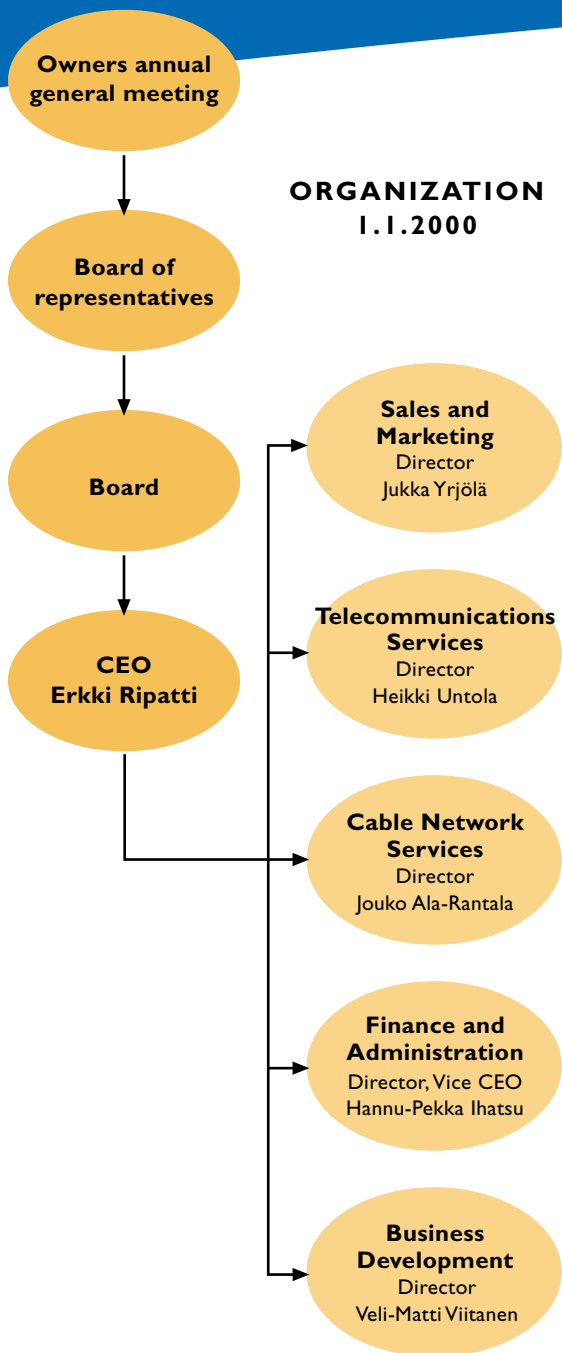
According to Manninen, technology company risks derive mainly from the possibility that growth and profitability will not in fact be found in all the new areas. "Overall, the risk profile of technology companies is higher, and they are more sensitive to interest rate fluctuations, because rate hikes hit hardest those companies with the highest expected future profits," he explains.

### **Internet an important source of information**

"Nowadays, the Internet is the most important information channel for investors. It provides both general information on the market, and all the announcements and other relevant material from listed companies. The web pages of Helsinki Exchanges and listed companies get information to investors quickly and easily."

Analyst Visa Manninen advises investors to familiarize themselves with the material published by the Ministry of Transport and Communications, which is also available via the Internet. International research organizations also produce interesting reports, some of which are available over the Internet for free.

# TAMPERE TELEPHONE PLC



Heikki Untola



Erkki Ripatti



Hannu-Pekka Ihatsu

Jukka Yrjölä





Jouko Ala-Rantala

Veli-Matti Viitanen



**Mikkola Kaija**

Assistant

Information for investors

<http://www.tpo.fi>

## MAIN SHAREHOLDERS

### 20 MAJOR SHAREHOLDERS ON DECEMBER 31, 1999

	%
Helsinki Telephone plc	33.22
Merita Bank plc (nominee)	2.26
Pohjola Group Insurance Corp.	1.06
City of Tampere	1.01
Life Assurance Company Henki-Sampo	0.66
Merita Plc Pension Foundation	0.50
Fennia Mutual Pension Insurance Company	0.41
TPO Pension Foundation	0.41
Insurance Corp. Aurum	0.37
Industrial Insurance Ltd	0.37
Church's Central Fund	0.28
Suomi Mutual Life Assurance Company	0.27
Pension Insurance Company Ilmarinen	0.26
Investment Fund Aktia Capital	0.26
Skandinaviska Enskilda Banken	0.25
Veljesten Viestintä Ltd	0.24
Veikko Laine Ltd	0.23
Evangelical-Lutheran parish of Tampere	0.20
Helsinki Central Depository (nominee)	0.19
Finland's actors' association's pension trust	0.19

Shares registered under a nominee account and foreign ownership, total	2.90 %
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Number of owners	59.963
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General economic growth continued in Finland in 1999. Private consumption remained stable, thanks to rising real incomes. Finnish companies expect to witness even better economic trends in 2000. Export are picking up and home market demand is increasing. An important basis for these encouraging prospects is the moderate wage settlements made, which will maintain competitiveness and corporate profitability.

The rapid expansion of telecommunications and tele-technology has continued worldwide. There have been mergers between huge enterprises, but also some break-ups. Amid increasing convergence, partners for the new millennium are being sought among various operators. So far, during the first phase of the information society, the main focus has been on information technology. During the next decade, the emphasis will be on content development. Terminals and systems will naturally continue to develop, but service packages will take shape on an individual basis, to meet user needs. A technology orientation will give way to a market orientation.

New EU Directives on telecom operations will probably be drawn up in 2000–2002, meaning that new legislation will take effect in 2003. The changes taking place in the EU's policy on telecommunications will affect the operations of telecom companies long before that, however.

The Finnish authorities, too, have started to study matters such as the pricing of leased lines, the subscriber connections and national and international roaming. The Office of Free Competition, for instance, is particularly active in monitoring the operations of telecom companies with substantial market prominence.

One mark of convergence was the establishment in Finland at the beginning of 2000 of the Finnish Federation for Communications and Teleinformatics, which all the listed telecom operators joined. The division of labour in the representation of interests between Finnet and the new association is still under discussion.

Labour market matters form no part of its operations as yet.

In terms of their business operations, the Finnet Companies are dividing into two or more clusters. This development is most obvious in the mobile business, where the 3G/2G grouping has now been granted a nationwide operating permit for GSM operations that competes with Oy Radiolinja Ab.

#### **Results via cooperation**

Cooperation between Helsinki Telephone Corporation (HTC) and its strategic partners will doubtless yield good results within the year. In ownership terms, the HTC/TPO/KSP group became more tightly knit during the year when Tampere Telephone increased its holding in Keski-Suomen Puhelin Oyj to 32.9 per cent, and Helsinki Telephone Corporation its holding in TPO to 33.22 per cent.

On the other hand, in spring TPO sold

its holding in Oy Datatie Ab and some of its Oy Radiolinja Ab shares, since which its holding in the latter has been 4.4 per cent of the A shares.

At the end of the year TPO bought a majority holding (65.3%) in the Pori technology company Votek Oy, which thus became a TPO subsidiary. Votek Oy produces the added value services needed by teleoperators. Votek's fully owned subsidiary Fonetec Oy is a service company and service tester. Votek now plans to expand beyond its home market and to go international with suitable partners.

Thanks to careful preparations, TPO suffered no Y2K problems.

For TPO, the service level and business targets set for 1999 were achieved despite new official regulations and ever tighter competition. Consolidated

## **MANAGING DIRECTOR'S STATEMENT**



operating profit was 22.4 per cent of turnover and earnings per share FIM 2.57 (+30.5%). Nearly FIM 110 million of the investments made went into shares in telecommunications and technology companies. The market value of shares included in TPO's investments or value of unlisted shares as based on the last known trades totals over FIM 500 million more than their book value.

TPO's operating principle is to produce and market high-quality telecommunications solutions and services. As a network and service operator, it handles its customer relations profitably and on a long-term basis in order to safeguard its competitiveness and ensures that the company's market value rises. Despite good profit performance in accordance with its targets, the price of the TPO share did not rise during the year to the same degree as other companies in the same field. The company has never aimed

to generate short-term 'quick profits' for investors, but rather to gradually increase share value through solid performance. New IT and technology shares seem to have bewitched investors, despite the distinctly weak profit record of the companies concerned. Because of the future gains so confidently expected, market values and P/E figures for these companies are incomprehensibly high. I believe that the undervalued TPO share price will eventually reach its proper level relative to profits and the company's future potential.

In the autumn, the Financial Supervision authority initiated police enquiries because of information received by TPO on April 30 concerning a public purchase bid for over 50 per cent of the TPO shares. Despite our efforts, we were unable to find anything out about the FBS Investment Group which put in the offer. At the end of May, however, we were informed that the Group was withdrawing its bid for financial reasons.

TPO has its own Internet service for households and companies which can be accessed by modem, ISDN or the fast new fixed ADSL link. On the other hand, we are also an Oy Radiolinja Ab shareholder and strategic partner which can exploit the synergy benefits of both a fixed and a mobile network. New business expansion opportunities will be devised with our new subsidiary, Votek Oy, among others.

Through our subsidiary Tampereen Tietoverkko Oy, we have our sights set both on the digital TV future and on fast broadband Internet services via cable TV networks. This will supplement the Internet service offered via the normal telephone system. Finland plans to introduce digital TV transmissions this year. To access digital TV content, consumers need a new user interface with TV, multimedia and Internet features. A national research project is currently engaged in developing a simple, efficient interface, interactive services and the technical service platform needed for them.

### **Content for information highways**

The current decade will be vitally important for content development. A telecom operator needs Internet content in order to win and retain interface users. A content producer needs to attract customers via its network connections. The customer wants service packages that include different types of connection (fixed/mobile/digital TV), combined with a wide range of content. The information industry will inevitably form more networks, seek mergers and partnerships, find additional resources and new business through corporate acquisitions, join together to form portals, etc. etc. TPO's strength as a regional telecom operator lies in its strong existing customer access and its efficient management of customer relationships.

In the Tampere region, the strategy is to develop an innovative milieu specifically for information and communications technology. Close cooperation between research centres, universities and colleges, and commercial companies will guarantee that innovations are converted into solid business.

Tampere also has strong local content know-how; witness, for instance, the cooperation within the Oy Media Tampere Ltd multimedia company. TPO is working with various operators to acquire both national and regional content for information highways. During spring 2000, for instance, a regional Internet portal is to be launched.

There is still rather little eBusiness in Finland, though relative to population we are a world leader in terms of Internet use. Services have actually been overshadowed by technology here. However, many suspicions and misconceptions have been successfully banished recently, and there is growing interest in such new services. eBusiness comprises both the sale of goods and services over the Internet and information transfer between companies and organizations. Mastery of customer information and client relationships is then an increasingly crucial competitive element. The strategic power of eBusiness lies in its customer database. The legal framework of eBusiness has already been laid down in draft EU Directives.

eBusiness will be a component in TPO's established operations and Internet services, generating added value for our customers and a rise in share value for our shareholders. We have several Internet product packages that give us a good starting point for trading on the net: household and corporate Internet, Info-Circle, Lippupiste, and others. TPO's electronic marketplaces will be opening from spring this year for both homes and companies.

I should like to express my warm thanks to our shareholders, customers and partners for our collaboration in 1999. I trust that our confidential relationships will continue and take on many interesting challenges in the new millennium of information and experiences.

Thanks and appreciation for last year's good results are also due to the whole TPO team. I believe they still have plenty of innovative energy left for the years to come.

**Erkki Ripatti**

## REPORT BY THE BOARD OF DIRECT

### Developments in the operating environment

The information technology sector has been going through rapid change both internationally and nationally. Fast development is expected to continue, and this has greatly boosted the market value of companies in the sector. Free competition and response to future challenges has created new international and national corporations, and will go on doing so.

The restructuring of the telephone sector continued all year. In line with a joint agreement, Tampere Telephone Plc sold 180 of its Radiolinja Oy series A shares to Helsinki Telephone Corporation, increasing the latter's holding in Radiolinja to about 67 per cent. The company also sold 45 of its Oy Datatie Ab shares to Helsinki Telephone Corporation, whose holding in Datatie thus rose to over 60 per cent. Tampere Telephone Plc increased its holding in Keski-Suomen Puhelin Oyj to 32.9 per cent.

In March, the Ministry of Transport and Communications granted new licences for third-generation mobile phone networks. Tampere Telephone Plc's application for a regional UMTS licence was unsuccessful. In mobile communication networks, TPO will continue to cooperate with Radiolinja.

In June, the Ministry of Transport and Communications granted new licences for digital TV. A regional licence was granted to City-TV Oy in Pirkanmaa, a company in which a subsidiary of Tampere Telephone Plc, Tampereen Tietoverkko, has a 40 per cent holding.

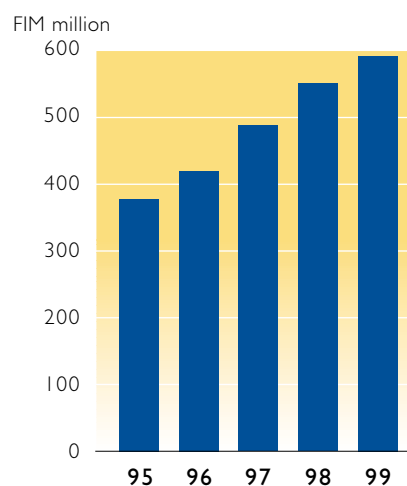
New regulations on the interconnection of telecommunications networks took effect on May 1, 1999. A Ministry of Transport and Communications decision changed the pricing structure for traffic between networks.

Growth in the telecommunications market continued strong. Internet traffic, especially, is expanding faster than traffic on average. The growth in mobile phone connections slowed down on the previous year. Penetration was about 65 per cent at the end of the year. The market shares of Tampere Telephone Plc have remained about the same.

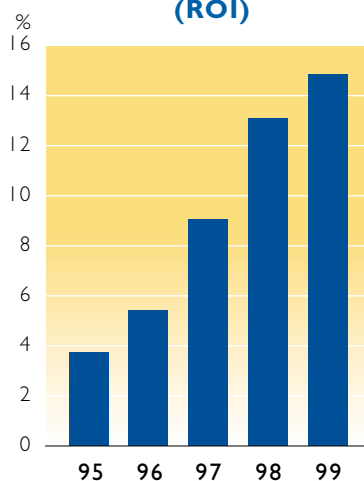
### Group structure and changes in ownership

Tampere Telephone Plc increased its holding in Keski-Suomen Puhelin Oyj by purchasing 361,500 shares in the company on March 18, 1999, thus gaining a holding of 32.9 per cent and 27.5 per

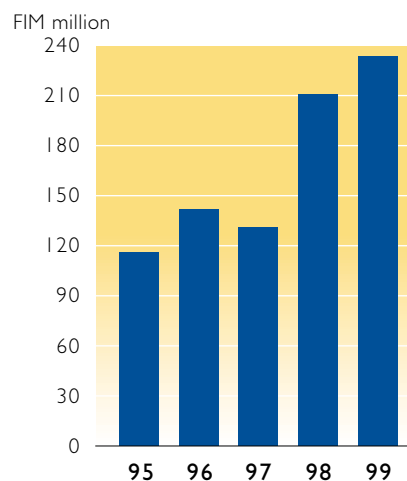
#### Turnover



#### Return on Investment (ROI)



#### Investments



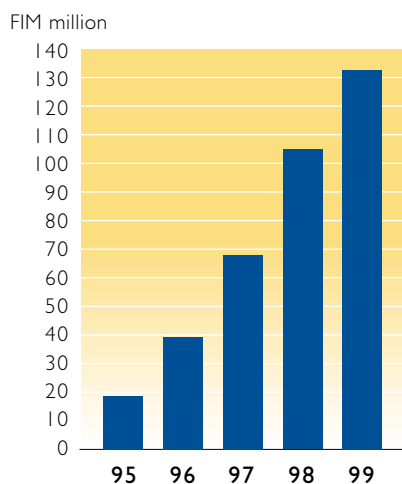


cent of the voting rights. Tampere Telephone Plc also subscribed 19.5 per cent of the shares in the recently founded Oy Tampere Media Ltd. In December 1999, Tampere Telephone Plc purchased 65.3 per cent of the technology company Votek Oy shares. Tampere Telephone

Group consists of the parent company Tampere Telephone Plc, the subsidiaries Tampereen Tietoverkko Oy, with a 64 per cent holding, and Votek Oy, with 65.3 per cent, and the associated undertakings Keski-Suomen Puhelin Oy, with a 32.9 per cent holding, and Skycom Oy (TV-Tampere), with 20 per cent.

67 per cent, and such traffic accounted for about a third of telephone time. The number of telephone connections was 172,821 (173,442) and the number of cable TV connections 69,123 (66,733) at the end of the year.

### Profit after depreciation



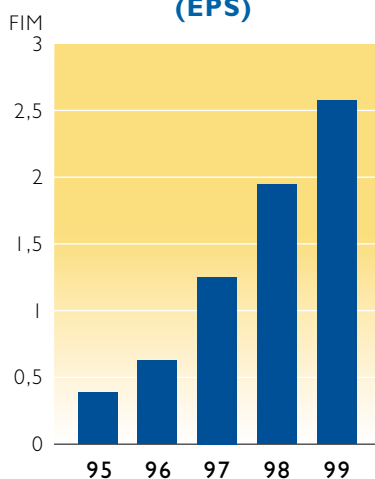
### Net sales

Consolidated net sales totalled FIM 592.8 million (FIM 550.9 million in 1998), an increase of 7.6 per cent. Net sales by the parent company, Tampere Telephone Plc, totalled FIM 570.9 million and other operating income FIM 0.9 million. The growth in network rentals (21.4%), annual fees (14.2%) and other sales income (16.5%) was greater than the average growth in net sales as a whole. Traffic income remained at the previous year's level. Internet business growth was

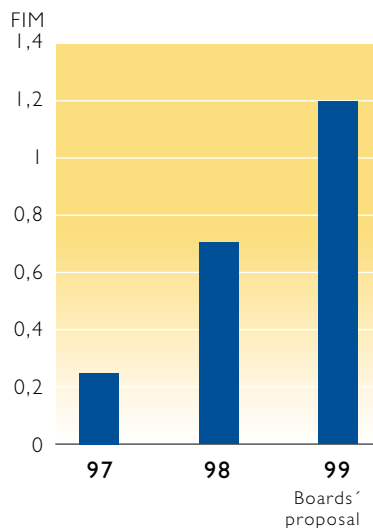
### Return

Consolidated operating profit amounted to FIM 133.0 million (FIM 105.4 million), up 26.2 per cent. Consolidated profit before extraordinary items and taxes was FIM 143.9 million (FIM 111.0 million). A sales profit of FIM 68.5 million from the sale of Oy Radiolinja Ab and Oy Datatie Ab shares was entered under extraordinary income. Profit for the financial period was FIM 152.1 million (FIM 68.2 million).

### Earnings per Share (EPS)



### Dividend per Share



### Investments and financing

Consolidated investment in fixed assets totalled FIM 235.4 million, compared with FIM 211.9 million the year before. Parent company investments totalled FIM 225.1 million (FIM 220.2 million). Investment in the transmission network amounted to FIM 67.1 million, in machinery and equipment to FIM 37.5 million and in real estate to FIM 6.0 million. Other investment totalled FIM 114.5 million. All investments were financed out of income. The Group's financial status and liquidity remained good, and the equity ratio was 71.2 per cent (70.1%) on December 31, 1999.

## REPORT BY THE BOARD OF DIRECTORS...

### Shares and ownership

A total of 12,232,129 Tampere Telephone shares changed hands on Helsinki Exchanges, representing 30.6 per cent of the average number. The total value of transactions was FIM 554.7 million. The lowest price paid was FIM 36.03 per share and the highest FIM 57.08, and the closing price was FIM 44.89. The average price was FIM 45.37. The number of shares was 40,222,490 on December 31, 1999.

According to the book-entry register, the number of owners was 59,963 at year-end. The largest shareholder is Helsinki Telephone Plc, with a 33.2 per cent holding. Tampereen Tietoverkko owns 4,250 Tampere Puhelin Plc shares.

### Administration

The statutory annual meeting of shareholders was held on May 18, 1999. At the annual meeting of shareholders, the following 25 people were elected as members of the Board of Representatives as of January 1, 2000: Aaltonen Outi, Antila Timo, Graeffe Gunnar, Hautala Reijo, Ilomäki Aimo, Isokangas Erkki, Jarva Tapani, Juntunen Raimo, Kantalainen Kari, Karinen Anne, Lahtinen Timo, Lehtonen Arja, Lilja Markku, Manninen Matti, Nordman Kurt, Paalanen Antero, Pernu Teuvo, Petäkoski-Hult Tuula, Rahikkala Markku, Salisma Seppo, Salminen Seppo, Solja Erkki, Vainioranta Jouko, Valto Hannu and Vuorensola Markku. SVH Pricewaterhouse Coopers Oy was elected as the company auditor, with Hannu Pellinen and Henrik Sormunen, Authorized Public Accountants, as responsible auditors. Jyri Leivo, Approved Accountant, was elected as deputy auditor. Paavo Luokkala acted

as Chairman of the Board in 1999. Other members of the Board of Directors were Timo Sasi (Vice Chairman), Riitta Jakara, Esko Jouppi, Matti Länsiö, Matti Mattheiszen and Pirjo Rauhala. On November 23, 1999 the Board of Representatives re-elected Timo Sasi, who was in turn to resign, as a member of the Board and replaced Esko Jouppi, who was also in turn to resign, with Reijo Hautala.

The Board of Representatives convened twice during 1999. The Board convened 12 times.

### Implementation of the Y2K project

Tampere Telephone Plc's Y2K project was carried out as planned without any problems. Transfer technology, customer equipment and systems, and information management systems functioned smoothly.

### Development

Tampere Telephone Plc's development projects as a network operator were related to increasing the efficiency and speed of the telephone network, expanding the network and harnessing the network for Internet use. As an example, Tampere Telephone Plc at the beginning of October launched an Internet connection based on ADSL technology.

Tampere Telephone Plc utilizes the business opportunities offered by the Internet as both a network operator and a service operator. In producing Internet content, Tampere Telephone Plc cooperates with several producers.

One of the most promising trends related to the Internet content comprises network games, where the company has gained a large amount of users. The service has just been launched, and will be developed further on a national basis.

One of the aims of development work is to make Tampere Telephone plc services available in the future via computer, TV, fixed connection telephone or mobile phone. The user will then get the services of a fixed connection, wireless connections and the Internet and applications all from the same service provider. This can be done by utilizing several networks, such as the telephone network, the broadband network and the third-generation mobile phone network. Tampere Telephone is also involved in four development programmes coordinated by Oy Omnitele Ab.

The parent company invested FIM 13.7 million in research and development.

### Personnel

The average personnel figure during the financial period was 833 (813). Permanent full-time employees numbered 729 on December 31, 1999.

### Future prospects

Growth in the telecommunications market is expected to continue buoyant in 2000. Expansion is fastest in the Internet, mobile phone and value added services business sectors. Further rapid growth in Internet business presupposes an increase in e-commerce. Tampere Telephone Plc is engaged in developing and launching such operations. National and international development and the

marketing of added value services are handled in cooperation with the subsidiary Votek Oy. A regional Internet portal is being developed jointly with other Oy Media Tampere Ltd shareholders. The role of Tampere Telephone Plc is to act as a telecommunications and ISP operator.

Net sales are expected to grow some 6 per cent without any corporate acquisitions, and operating profit to remain on the 1999 level.

#### **Proposal of the Board**

The distributable shareholders' equity of the parent company is FIM 251.9 million. The distributable shareholders' equity of the Group is FIM 254.8 million. The Board proposes to the meeting of shareholders that a dividend of FIM 1.20 per share be distributed.

As of March 1, 2000, Tampere Telephone Plc will comply with the 'Guidelines for Insiders' issued by Helsinki Exchanges.



## CONSOLIDATED INCOME STATEMENT

	1999 FIM 1000	1998 FIM 1000	1999 EUR 1000	1998 EUR 1000
<b>Turnover</b>	592 776	550 890	99 698	92 653
Equity earnings in associated companies	7 477	– 977	1 258	– 164
Other operating income	1 361	1 773	229	298
Materials and services	136 913	137 414	23 027	23 111
Personnel expenses	166 272	149 600	27 956	25 161
Depreciation	121 848	117 373	20 493	19 741
Other operating expenses	43 564	41 860	7 327	7 040
<b>Operating profit</b>	133 017	105 439	22 372	17 734
Financial income and expenses	10 895	5 565	1 832	936
<b>Profit before extraordinary items</b>	143 912	111 004	24 204	18 670
Extraordinary items	68 523	– 12 539	11 525	– 2 109
<b>Profit before taxes</b>	212 435	98 465	35 729	16 561
Income taxes	– 59 209	– 29 583	– 9 958	– 4 976
Minority interests	– 1 152	– 685	– 194	– 115
<b>Profit for the year</b>	152 074	68 197	25 577	11 470

## CONSOLIDATED BALANCE SHEET

	December 31, 1999 FIM 1000	December 31, 1998 FIM 1000	December 31, 1999 EUR 1000	December 31, 1998 EUR 1000
<b>ASSETS</b>				
<b>Fixed assets</b>				
Intangible assets	15 949	12 786	2 682	2 150
Goodwill on consolidation	19 953	112	3 356	19
Tangible assets	713 186	718 182	119 949	120 790
Shares and holdings				
Shares in associated companies	134 930	80 978	22 694	13 620
Other holdings	65 664	24 071	11 044	4 048
<b>Fixed assets total</b>	949 682	836 129	159 725	140 627
<b>Current assets</b>				
Inventories	24 485	25 049	4 118	4 213
Short-term receivables	143 239	129 310	24 091	21 748
Marketable securities	33 031	53 979	5 555	9 079
Cash and cash equivalents	205 170	88 416	34 507	14 871
<b>Current assets total</b>	405 925	296 754	68 272	49 910
	1 355 607	1 132 883	227 997	190 537
<b>LIABILITIES</b>				
<b>Shareholders' equity</b>				
Share capital	402 225	392 625	67 649	66 035
Share premium fund	43 627	6 187	7 338	1 041
Reserve fund	84 970	84 970	14 291	14 291
Profit from preceding years	272 081	232 037	45 761	39 026
Profit for the year	152 074	68 197	25 577	11 470
	954 977	784 016	160 616	131 862
<b>Subordinated loan</b>	1 000		168	
<b>Minority interest</b>	8 600	7 147	1 446	1 202
<b>Liabilities</b>				
Deferred tax liability	69 185	71 787	11 636	12 074
Long-term liabilities	150 964	148 800	25 390	25 026
Short-term liabilities	170 881	121 133	28 740	20 373
	391 030	341 720	65 767	57 473
	1 355 607	1 132 883	227 997	190 537

# CONSOLIDATED FUNDS STATEMENT

	1999 FIM 1000	1998 FIM 1000	1999 EUR 1000	1998 EUR 1000
<b>Sources of funds</b>				
Income financing				
Net operating income	133 017	105 439	22 372	17 734
Depreciation	121 848	117 373	20 493	19 741
Financing income and expenses	10 895	5 565	1 832	936
Extraordinary income and expenses	68 523	- 12 539	11 525	- 2 109
Income taxes	- 59 209	- 29 583	- 9 958	- 4 976
	<u>275 074</u>	<u>186 255</u>	<u>46 264</u>	<u>31 326</u>
Capital financing				
Change in shareholders' equity	47 040	7 819	7 912	1 315
Change in minority interests	301		51	
Change in subordinated loan	1 000		168	
Change in long-term liabilities	2 509		422	
	<u>50 850</u>	<u>7 819</u>	<u>8 552</u>	<u>1 315</u>
<b>Total</b>	<b>325 924</b>	<b>194 074</b>	<b>54 816</b>	<b>32 641</b>
<b>Usage of fund</b>				
Payment of dividends	28 153	9 774	4 735	1 644
Investments in fixed assets	235 401	211 900	39 592	35 639
Decrease in long-term liabilities		14 385		2 419
	<u>263 554</u>	<u>236 059</u>	<u>44 327</u>	<u>39 702</u>
<b>Change in networking capital</b>				
Increase + / Decrease -	<u>62 370</u>	<u>- 41 985</u>	<u>10 490</u>	<u>- 7 061</u>
Specification of change in networking capital				
Inventories and liquid assets	109 171	- 47 366	18 361	- 7 966
Short-term liabilities	- 49 403	7 949	- 8 309	1 337
Deferred tax liabilities	2 602	- 2 568	438	- 432
	<u>62 370</u>	<u>- 41 985</u>	<u>10 490</u>	<u>- 7 061</u>



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