Annual Report 1999 ***HPY Holding Corporation***

Shareholder information

Annual General Meeting

The 2000 Annual General Meeting of HPY Holding Corporation will be held at the Marina Congress Center, Katajanokanlaituri 6, Helsinki at 3pm on 10 April 2000.

Shareholders should notify of their intention to attend the Annual General Meeting by 4pm on 5 April 2000, either in writing to HPY Holding Corporation, Connection Services, PO Box 148, 00131 Helsinki, by telephoning +358 800 0 6242 or by faxing +358 9 606 5572.

Shareholders registered by 5 April 2000 in the company's share register kept by the Finnish Central Securities Depository (APK) are eligible to attend the Annual General Meeting.

Dividend

The Board of Directors is to recommend to the Annual General Meeting that a dividend of FIM 1.20 per A Share be paid for 1999.

The dividend approved by the Annual General Meeting will be paid to shareholders on the company's share register kept by the Finnish Central Securities Depository at the record date. The Board of Directors is to recommend to the Annual General Meeting that the record date for the payment of dividend is 13 April 2000 and that dividends are paid out from 20 April 2000.

Changes of name and address

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

Financial information

HPY Holding Corporation will publish its annual report in March and three interim reports. The interim report for the first quarter will be published on 3 May 2000, for the second quarter on 9 August 2000 and for the third quarter on 8 November 2000. HPY Holding Corporation's financial statements relating to the merger will be published on 29 August 2000. The annual and interim reports are published in Finnish, Swedish, English and German.

Copies of these reports are available from HPY Holding Corporation, Corporate Communications, tel. +358 9 606 7371.

The annual report, interim reports, information about the Annual General Meeting and other investor information are also posted on Helsinki Telephone Corporation's web site under the heading HPY Holding Corporation at www.elisa.fi.

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Helsinki Telephone Corporation

Principal subsidiary undertakings

- *Oy Radiolinja Ab*
  - *Radiolinja Eesti AS*
  - *Tresmec Puhelimet Oy*
  - *Globalstar Northern Europe Oy*
- *Mäkitorppa Yhtiöt Oy*
  - *Mäkitorppa Oy*
  - *Setele Oy*
  - *Mobinter Oy*
  - *Mäkitorppa GmbH*
- *Comptel Plc*
- *Oy Datatie Ab*
- *Oy Heltel Ab*
- *FINNETCom Oy*
- *Helsinki TeleCom Deutschland GmbH*
- *INTERURBANA Holdings GmbH*
  - *Citykom Münster GmbH*
  - *Hannovers Telefon Partner GmbH*
  - *Nordkom Bremerhaven Telekommunikations GmbH*
  - *JelloCom GmbH & Co. KG*

Principal associated undertakings

- *Tampere Telephone Plc*
- *Finnet International Ltd*
- *Lounais-Suomen Puhelin Oy*
- *Finnet Nine Ltd*
- *Suomen Keltaiset Sivut Oy*
- *Arcus Software Oy*
- *Oy Omnitele Ab*
- *Oy Finnet Media Ab*
- *Finnish International Telecommunications GmbH*

Group interests in subsidiaries and associates are given on page 26.

HPY Holding Group comprises the parent company HPY Holding Corporation and its subsidiary undertaking Helsinki Telephone Corporation, including its subgroups. At 31 December 1999, HPY Holding had a 68.4 per cent interest in Helsinki Telephone Corporation and thus exercises a controlling interest in Helsinki Telephone's governing bodies.

HPY Holding's ordinary business is in its subsidiary, Helsinki Telephone Corporation Group. In addition to this, HPY Holding owns the property leased as head office to its subsidiary Helsinki Telephone Corporation in the centre of Helsinki. More detailed information about the company's business is given in Helsinki Telephone Corporation's annual report.

In its various corporate legal forms, Helsinki Telephone Corporation has influenced telecommunications development in Finland for the past 118 years. Throughout this period, even when the telecommunications monopoly was at its strongest, the company has been characterised by its entrepreneurial attitude to the task given. Not satisfied with upholding the established system, the company has striven almost impatiently in its quest to move forward.

Endeavours in earlier years were usually aimed at improving technology. However, when data transmission became possible in the 1970s, the world of telecommunications began to take on new dimensions. Vast infrastructures – transmission networks and telephone exchanges – were digitalised in the 1980s. Since then it has been natural to focus our efforts on utilising our new-found technological freedom in wireless GSM systems.

At this stage our visions were already gaining shape. We knew it was necessary to consign telecommunications monopolies to the history books and to introduce open competition on all fronts. The wheels of politics grind slowly and it was over six years before deregulation became reality. As one of the persons involved, I can testify that the road to victory was not an easy one. Nevertheless, in 1994 a milestone was achieved, and Helsinki Telephone ceased being just a local telephone company. Timing could not have been better, since telecommunications services were already increasingly becoming national and even international.

In the second half of the 1990s it was Helsinki Telephone's turn to undergo radical restructuring. This was based on two principal objectives. Firstly, the change had to take place so that Helsinki Telephone Association members retained their ownership of the group – this was in fact considered an axiom. Secondly, measures were needed to raise the company's market capitalisation, because the recession of the early 1990s had left the value of membership certificates far too low. There was also a third important objective: to create as competitive a group of companies as possible to capitalise on the enormous growth potential in the telecommunications industry.

It was against this background that the company embarked on a complex transformation process, which will culminate in the merger of two listed companies on 1 July 2000. Elisa Communications Group, which will be formed from the merger of HPY Holding Corporation and Helsinki Telephone Corporation, is a straightforward answer to the ownership and business equation that faced us in the mid-1990s.

The objectives we set ourselves have been fully achieved. The group's market capitalisation is FIM 35 billion at today's closing prices, compared to just under FIM 2 billion in early 1997. Around 250,000 former Helsinki Telephone Association members have retained their interest in the company. In this respect the result is far better than we dared even imagine when we embarked on the restructuring process.

What about competitiveness? Judging by our performance last year, this, too, is on track. I also think that we have achieved the right balance between shareholder value and customer interests. This is something that is clearly reflected in the group values specified by Matti Mattheiszen, Helsinki Telephone Corporation's President and CEO. These values are known as AVEK from the Finnish words for customer-orientation, responsibility, leadership and profitability.

My own long contribution as a director, first 17 years as technology director followed by 10 years as chief executive officer and finally the past three years as full-time chairman of the Board of Directors, ends with the emergence of Elisa. I shall retire at the end of August, without nostalgia, but with great peace of mind at the result achieved.

Over the years, I have especially learnt to respect the prominent persons serving in our governing bodies. They have demonstrated their singleness of purpose in transforming the group to respond to the needs of the information society, even though the path they chose signifies the end of their own responsibilities. I would like to thank them sincerely for their support through the years.

I would also like to thank the members of our Board of Directors, close colleagues and all group employees for many years of seamless cooperation. Our work has enabled our company to remain at the leading edge in the telecommunications industry. Finally, I would like to thank our loyal customers, whose best interests have guided our efforts.

A job well done

Kurt Nordman
Director General

Report by the Board of Directors

As at 31 December 1999, HPY Holding Group comprised the parent company HPY Holding Corporation and its subsidiary undertaking Helsinki Telephone Corporation, inlcuding its subgroups.

At the end of the financial year, HPY Holding had 68.4 per cent interest in Helsinki Telephone Corporation and thus exercised a controlling interest in Helsinki Telephone's governing bodies. In addition to this, HPY Holding owns the property leased as head office to its subsidiary Helsinki Telephone Corporation in the centre of Helsinki.

At the end of 1999, HPY Holding had 270,368 shareholders registered in the book-entry securities system. When HPY Holding shares were first quoted on the Helsinki Exchanges on 1 July 1999, the company had 283,326 owners, around 99 per cent of which were private individuals. HPY Holding had the largest number of registered shareholders of those companies in the book-entry securities system.

Transformation of Telephone Cooperative HPY into HPY Holding Corporation

Meeting on 27 April 1999, Telephone Cooperative HPY's Board of Representatives approved, after the first consideration, the proposal made by the Board of Governors to transform Telephone Cooperative HPY into a public limited company, to be known as HPY Holding Corporation. At the same meeting, in accordance with the proposal of the Board of Governors, the Board of Representatives decided to pay interest of FIM 230 per cooperative participation share to its registered members at 27 April 1999. Interest totalling some FIM 129 million was paid to members on 11 May 1999. Furthermore, the Board of Representatives decided to establish HPY Research Foundation (HPY:n Tutkimussäätiö – HTF:s Forskningsstiftelsen) and donate FIM 10 million of ordinary capital.

Meeting on 11 May 1999, the Board of Representatives approved unanimously, after the second consideration to transform the Telephone Cooperative HPY into a public limited company. The meeting also approved the Articles of Association of the new company. It also elected current members of the cooperative's Body of Representatives as the members of HPY Holding's initial Supervisory Board. The cooperative's auditors were appointed auditors of HPY Holding.

At its organisational meeting on 11 May 1999, the Supervisory Board elected the members of the cooperative's current Board of Governors as members of the HPY Holding's Board of Directors. The new Board of Directors includes Carl Johan Adolfsson, City Counsellor (Hon); Erkki Helaniemi, Master of Laws; Harri Holkeri, Counsellor of State (Hon); Raimo Ilaskivi, Doctor of Social Sciences; Ingvar S. Melin, Licentiate in Economics and Business Administration; Sole Molander, Licentiate in Political Science; Reino Paasilinna, Doctor of Social Sciences; Kari Piimies, Architect, and Pekka Sauri, Doctor of Philosophy. The Board of Directors elected Harri Holkeri as Chairman and Reino Paasilinna as Deputy Chairman.

The Board of Directors of HPY Holding elected Kurt Nordman Counsellor of Mining (Hon) as managing director. He simultaneously acts as Director General of HPY Holding Corporation Group and as the full-time chairman of Helsinki Telephone Corporation's Board of Directors. The Board of Directors of HPY Holding appointed the following members to the Board of HPY Research Foundation: Martti Tiuri, Doctor of Engineering; Reino Paasilinna, Doctor of Social Sciences and Kurt Nordman, Managing Director. In addition to this, the senate of Helsinki University of Technology appointed Professor Tomi Laamanen, Professor Pirkko Oittinen, Professor Osmo A. Wiio, and Professor Jorma Virtamo to the Board of HPY Research Foundation.

HPY Holding was registered in the Finnish Trade Register on 17 June 1999. HPY Holding applied to have its A Shares listed and trading of the shares began on the Main List of the Helsinki Exchanges on 1 July 1999.

Telephone Cooperative HPY membership certificates ceased being traded on the Pre List of the Helsinki Exchanges on 4 May 1999. Members of the cooperative who were registered by 11 May 1999 received 150 HPY Holding A Shares in exchange for every paid-up participation share held.

Helsinki Telephone Corporation will be merged with and into HPY Holding on 1 July 2000. Shareholders will receive merger consideration of 2.16204 HPY Holding A Shares in exchange for every Helsinki Telephone Corporation A Share held.

Share capital and shares

The company's minimum share capital is EUR 25,000,000 and maximum is EUR 100,000,000.

The company's registered share capital is EUR 42,157,725.

There are 84,315,450 HPY Holding shares, all of which are A Shares.

The company may also have a maximum of 10,000 B Shares. B Shares convey the right to receive a dividend corresponding to one tenth (1/10) of the dividends payable on A Shares. Each share conveys one vote at general meetings of shareholders.

HPY Research Foundation is entitled to convert A Shares held by it into B Shares, provided it does so by 31 December 2003 at the latest. After this date no A Shares may be converted into B Shares. All A Shares that have been converted into B Shares must be converted back into A Shares before the said date. In the event HPY Research Foundation converts its A Shares into B Shares, HPY Holding would have two classes of shares. Decisions in matters provided for in Article 17 of HPY Holding's Articles of Association, require the agreement of owners of both classes of share.

Changes in group structure

In January 1999, Oy Älytalo Ab, a wholly-owned subsidiary of Telephone Cooperative HPY was transferred to Helsinki Telephone Corporation.

In February 1999, Helsinki Telephone Corporation offered a private placing to Oulun Puhelin Oy and OKOBank to fund acquisition of Oy Radiolinja Ab A Shares from these two companies. Subsequent to the offering, HPY Holding's ownership and votes in Helsinki Telephone Corporation fell to 68.4 per cent.

On 17 June 1999, the Board of Directors of HPY Holding signed a merger plan, under which Helsinki Telephone Corporation would merge with and into HPY Holding. The merger plan was approved in the respective extraordinary general meetings of Helsinki Telephone and HPY Holding on 27 September 1999. It is intended that the merger will become effective on 1 July 2000.

As part of the merger plan, the extraordinary general meeting appointed a Board of Directors to the merged company. The Board's term of office will commence on 1 July 2000 and its members are Matti Aura, Riitta Backas, Arto Ihto, Matti Ilmari, Rauno Kousa, Keijo Suila, Linus Torvalds, Paavo Uronen and Ossi Virolainen. The meeting also decided to instruct the Board of Directors of the merged company to appoint Mr Matti Mattheiszen, President and CEO of Helsinki Telephone Corporation as managing director of the merged company, with effect from 1 July 2000. Under the adopted Articles of Association, the company has no Supervisory Board after 1 July 2000.

Turnover and performance

HPY Holding Group's business and major changes in business growth took place in its subsidiary Helsinki Telephone Corporation and its subgroups. A more detailed account of the group's business is given in Helsinki Telephone Corporation's annual report.

Group turnover was FIM 6,349 million (FIM 4,642m), up 37 per cent on the previous year.

The parent company HPY Holding's business consisted of rent from the property leased by Helsinki Telephone Corporation. The parent company's turnover was FIM 13 million (FIM 13m).

Group operating profit was FIM 1,311 million (FIM 489m), equivalent to 21 per cent (11%) of turnover. The accounts show a consolidated profit of FIM 509 million (FIM 474m) for the year and a parent company profit of FIM 45 million (FIM 618m). Group earnings per share were FIM 6.62 and shareholders' equity per share was FIM 32.55.

Investments

Group investments in fixed assets and shares amounted to FIM 3,015 million (FIM 2,354m), of which acquisitions of companies and shares accounted for FIM 1,697 million.

Property investments by the parent company investments amounted to FIM 11 million (FIM 4m).

Research and Development

In 1999, the group's subsidiary undertaking Helsinki Telephone Corporation invested FIM 91 million (FIM 68m) in research and development in its own Research Centre, technology, industrial and product units within its business units and in independent group companies. The Corporate Management Group coordinates R&D at the corporate level.

The company's Research Centre also acted as the Finnet companies' research competence centre. The group was also involved in projects in various National Technology Agency (TEKES) programmes in cooperation with companies in different industries. Helsinki Telephone Corporation also contributed to research and teaching cooperation with Finnish universities.

Areas of focus at the research centre in 1999 included wireless communications technology, optical data transmission, broadband IP network technology, web-based applications, application integration and digital television.

The Research Centre was also actively involved in several European research programmes including the IST programme within the EU's fifth framework programme and EURESCOM projects.

Projects of particular interest during the year under review included R&D of information security solutions utilising the Public Key Infrastructure (PKI) and a co-project with Hewlett-Packard and Comptel utilising HP's new e-speak technology for controllable and secure distribution of multimedia materials in information networks.

Comptel's R&D focus areas were the new software generation of basic MDS products, GPRS and IP network usage data collection and management software and new innovations such as MDS Credit Guard and MDS/AMD-DB.

Helsinki Telephone Corporation coordinated the Piimäki (Silicon Hill) research project to create an innovative environment to develop new leading edge telecommunications services in the Pitäjänmäki district of Helsinki. The project also involved companies working in Pitäjänmäki such as Nokia, ICL and Amiedu. The Piimäki project is part of the National Development Agency's Creating a Global Village technology programme.

A Helsinki Telephone researcher also took part in Internet development work at the World Wide Web consortium at the Massachusetts Institute of Technology.

In 1999, Helsinki Telephone Corporation filed 39 patent applications, up 30 per cent on the figure a year earlier and the fourth highest number in Finland behind Nokia, Valmet and the Technical Research Centre of Finland (VTT).

Financial position

Group equity ratio was 53 per cent (60% at the start of the year). The consolidated interest-bearing liabilities as at 31 December 1999 amounted to FIM 2,199 million, with long-term interest-bearing liabilities totalling FIM 1,627 million and the short-term interest-bearing liabilities FIM 572 million. The parent company had no interest-bearing debt.

Group liquid assets as at 31 December 1999 stood at FIM 1,477 million (FIM 1,209m at the beginning of the year). The parent company's liquid assets were FIM 415 million.

Evaluation of consolidated goodwill takes into account the fact that the group reserve in HPY Holding's financial statements is attributable to Helsinki Telephone Corporation share issues. In HPY Holding's consolidated balance sheet group reserves are netted against the consolidated goodwill. From the beginning of 1999, the group reserve has been booked as income, corresponding to the depreciation or value adjustment of the consolidated goodwill in question.

Governing bodies

An extraordinary general meeting of Telephone Cooperative HPY's Board of Representatives was held on 19 January 1999, the annual general meeting on 27 April 1999 and another extraordinary general meeting on 11 May 1999. The main business in these meetings was the transformation of the cooperative to a public limited company.

The organisational meeting of HPY Holding's Supervisory Board was held on 11 May 1999. The Supervisory Board also met on 17 August and 25 November 1999.

An extraordinary general meeting was held on 27 September 1999. The meeting approved the plan to merge Helsinki Telephone Corporation with and into HPY Holding in accordance with Board of Directors' merger plan.

Telephone Cooperative HPY's Board of Governors convened nine times and HPY Holding's Board of Directors eight times.

The company's auditors in 1999 were SVH Pricewaterhouse Coopers Oy, Authorised Public Accountants, with Henrik Sormunen (APA) as the principal auditor, and Leo Laitinmäki (APA) and Lasse Lehti (AA).

The 1999 supervisory audit was conducted by SVH Pricewaterhouse Coopers Oy, Authorised Public Accountants.

Employees and organisation

The group had 5,684 (4,953) employees at the end of 1999 and employed an average of 5,489 (4,589) during the financial year. The parent company had no employees in 1999.

The parent company leased business and administration services from Helsinki Telephone Corporation.

Legal proceedings

Since 1996, the Finnish Competition Authority (FCA) has been investigating complaints made by certain of Helsinki Telephone's competitors that the company has been abusing its dominant market position. The allegations are that Helsinki Telephone has abused its position in pricing local loop and fixed connections and has linked the lease of these to the purchase of other telecom services.

The FCA has referred the matter to the Competition Council, proposing that a penalty payment of FIM 30 million be imposed on Helsinki Telephone under the Restrictive Practices Act. Helsinki Telephone has worked with the authorities to actively seek suitable pricing regulations for the rapidly advancing telecommunications industry. The company finds the FCA's attitude both surprising and inconsistent in its reasoning.

In January 2000, a group of holders of Radiolinja L Shares requested the police to investigate the way Radiolinja markets its L Shares. Radiolinja claims that it has not acted wrongly and has denied the allegations. Neither does a statement issued by the Finnish Financial Supervision Authority on 31 December 1999, support the allegations made.

Meeting in March 2000, the Board of Directors of Radiolinja decided to commence arbitration proceedings in certain circumstances relating to the business operations agreement between telecom operators and Radiolinja. According to Radiolinja, the dramatic changes taking place in the telecommunications market in recent years have prevented the idea behind the agreement from materialising and that the terms and conditions of the agreement must be revised. This is necessary because telecom operators have announced that they will provision their own gsm services during the current year. These arbitration proceedings will not affect the operations of Radiolinja's network.

Preparations for Y2K issues and introduction of the euro

The Group's Y2K exercise progressed as scheduled and within the cost estimates. With respect to core information systems and basic network solutions, Y2K compliance was achieved by the end of the third quarter in 1999.

Customers' variable timetables in ordering modifications meant that work on updating customer hardware and systems continued virtually up to the change of millennium. We had extra staff and on-call task forces on duty to deal with any problems arising in customer hardware during the critical changeover period.

The transition into the year 2000 went smoothly with no telecom or IT-related issues in our networks or customer systems. At the beginning of the year 2000, the related business units assumed responsibility for Y2K follow-up.

The total cost of our Y2K exercise, including preparations and staff costs over the new year period was FIM 19 million and was within the figure budgeted.

Helsinki Telephone Corporation will switch to using the euro in most of its activities on 1 January 2001. Nevertheless the company has provided shareholder information in euros since 1 January 1999 and offers a limited euro billing service to business customers.

Events taking place after 31 December 1999

Share transactions taking place in early 2000 led to Helsinki Telephone Corporation Group increasing its stake in Radiolinja's A Shares to 71.9 per cent.

Helsinki Telephone's interest in its subsidiary Datatie rose to 100 per cent in February.

In January 2000, Helsinki Telephone Corporation subscribed all the shares allotted to it in a private placing by Joensuun Puhelin Oy. This gave Helsinki Telephone a 16.7 per cent holding in Joensuun Puhelin, which reported an annual turnover of FIM 100 million and employs some 120 people. There were around 26,000 subscribers in Joensuun Puhelin's network.

Helsinki Telephone's Board of Directors decided to adopt Elisa Communications as the group's new marketing name. This decision anticipates the merger of Helsinki Telephone on 1 July 2000 and the proposal by HPY Holding's Board of Directors to adopt Elisa Communications as the new business name of the company formed from the merger.

In January 2000, Radiolinja announced that it had concluded a cooperation agreement with Yahoo! Inc. of the United States. Yahoo will begin to provide content to Radiolinja's customers through WAP pages.

The Board of Directors of subsidiary Datatie approved a plan to transfer all Helsinki Telephone's data business to Datatie with effect from 1 March 2000. This is being done in a bid to further strengthen the group's position in the data market.

Helsinki Telephone's ISP Kolumbus announced that it is to be the first Finnish internet operator to offer its customers an opportunity to access their e-mail via a WAP terminal. WapMail can be used to read, write and destroy e-mail messages.

In February 2000, Globalstar Northern Europe, owned jointly by Radiolinja and Italian-based Elsacom, announced that they would be setting up a satellite mobile telephony service in Scandinavia and the Baltics. The service will be rolled out for private customers in April. Radiolinja acts as the retailer for Globalstar's services in Finland.

At the end of February, Radiolinja and LifeChart.com, which provides healthcare reporting and measuring services, signed a cooperation agreement to develop wireless health and well-being services. LifeChart.com services are especially designed to meet the self-care needs of diabetes, asthma and hypertension patients.

HPY Holding Corporation A Shares

Trading of HPY Holding's A Shares began on the Helsinki Exchanges on 1 July 1999 when the share closed at EUR 20.59 (FIM 122.42). The share closed at EUR 37.25 (FIM 221.48) on 31 December 1999. The highest and lowest quoted prices during the period were EUR 37.25 (FIM 221.48) and EUR 16.85 (FIM 100.19) respectively. The middle price was EUR 22.92 (FIM 136.28).

The company had a market capitalisation of EUR 3,141 million (FIM 18,674m) at the balance sheet date.

A total of 19.5 million HPY Holding A Shares, equivalent to 23 per cent, were traded between 1 July and 31 December at a total price of EUR 446 million (FIM 2,652m).

Future prospects

A significant arrangement will be put in place when Helsinki Telephone Corporation merges with and into HPY Holding Corporation on 1 July 2000. In this light, the Board of Directors will recommend to the spring Annual General Meeting that the company continue its business under the name Elisa Communications Corporation.

The group has encouraging growth potential and will seek new business from mobile valued added services, internet-based customer solutions and broadband network services. Management expects approximately 20 per cent growth during the year 2000. This rate is much higher than in the industry as a whole. Corporate acquisitions will also strengthen the progress we are making.

Group profitability is expected to improve for many reasons. The communications industry is on a growth track, we are providing an increasingly diverse portfolio of services and have implemented more effective cost control.

Although call volume in the fixed network is expected to continue falling, this will be offset by the increase in the number of call minutes resulting from the increased diverse use of the internet. Whilst we expect the group's corporate customers to further build on their network-based services such as e-commerce, the impact on gross earnings from communications may remain insignificant.

Mobile subscriptions are likely to grow at a much slower rate than we have been accustomed to in previous years, but average revenue per user (ARPU) will increase somewhat. We expect rapid growth in the total number of fixed network subscriptions owing to huge demand for ISDN connections and the successful rollout of ADSL subscriptions. Higher monthly charges for telephone lines may generate more income in the second half of the year 2000.

In respect of subsidiaries, Comptel Plc will continue to build on its cooperation with partners, thus further consolidating its position in the international market. Comptel's new products have excellent growth potential, especially once GPRS use of mobile networks becomes increasingly widespread. Radiolinja is gearing up for fast GPRS data transmission services, which are scheduled to enter commercial service within the next year.

The market situation of mobile distribution has changed dramatically and we will continue work on acclimatising the operations of companies and shops to this new business environment. The Mäkitorppa chain is poised for further expansion in Germany.

During the current year, the group is expected to clarify its relations with former Finnet companies through measures aimed at corporate arrangements and at actual business operations.

Germany and the Baltics will remain the focus areas of the group's international operations. Whilst the group has no current plans to enter into actual alliances, the dynamism shaping the communications industry means that we are constantly monitoring and examining opportunities for international partnerships.

Consolidated income statement FIM 1 000

	Notes	1 Jan – 31 Dec 1999	1 Jan – 31 Dec 1998
Turnover	1	6 348 898	4 642 203
Increase (+) decrease (-) in stocks of finished goods and work in progress		515	-1 321
Other operating income	1	907 790	23 669
Materials and services	2	-2 635 009	-1 886 354
Staff costs	3	-1 164 939	-963 380
Depreciation and value adjustments	4	-1 118 146	-628 694
Other operating charges		-1 047 724	-756 541
Share of associated undertakings' profits		19 605	59 682
		-5 946 213	-4 175 287
Operating profit		1 310 990	489 264
Financial income and charges	5	-61 111	-18 978
Profit before exceptional items		1 249 879	470 286
Exceptional items	6	-50 215	271 921
Profit after exceptional items		1 199 664	742 207
Taxes	8	-408 878	-108 565
Minority interests		-281 823	-159 641
Profit for the financial year		508 963	474 001

Consolidated balance sheet FIM 1000

	Notes	31 Dec 1999	31 Dec 1998
Assets			
Fixed assets	9		
Intangible assets		324 367	291 005
Consolidation goodwill		1 138 911	
Tangible assets		3 463 896	3 192 771
Shares in associated undertakings		539 204	326 937
Other financial assets		120 895	21 441
		5 587 273	3 832 154
Current assets			
Stocks	10	180 692	142 951
Debtors	11, 12	1 156 858	1 078 125
Short-term investments		1 226 593	1 120 879
Cash in hand and at banks		250 313	87 636
		2 814 456	2 429 591
		8 401 729	6 261 745
Shareholders' equity and liabilities			
Shareholders' equity	13		
Subscribed capital		250 658	
Cooperative capital			1 292 851
Share premium account		1 042 192	
Contingency fund		20 108	
Retained earnings		922 575	608 885
Profit for the financial year		508 963	474 001
		2 744 496	2 375 737
Minority interests		1 635 038	1 365 631
Provisions for liabilities and charges	14	5 569	16 630
Creditors			
Deferred tax liability	15	189 564	214 717
Long-term creditors	16	1 699 081	952 371
Short-term creditors	17	2 127 981	1 336 659
		4 016 626	2 503 747
		8 401 729	6 261 745

Consolidated cash flow statement FIM 1 000

	Notes	1 Jan – 31 Dec 1999	1 Jan – 31 Dec 1998
Operations			
Net cash inflow from operating activities			
Operating profit		1 310 990	489 264
Reconciliation of operating profit to cash flows		330 902	584 846
Financial income and charges		-61 111	-18 978
Exceptional items		-50 215	
Taxes		-201 292	-59 376
		1 329 274	995 756
Change in working capital increase (-) / decrease (+)		103 917	34 439
Net cash inflow from operations		1 433 191	1 030 195
Investments			
Purchases of shares		-1 696 702	-1 110 138
Other financial assets		-99 453	
Fixed asset investments		-1 318 609	-1 315 426
Disposal of fixed assets and shares		1 012 991	1 022 295
Taxes paid on disposal of shares			-236 281
		-2 101 773	-1 639 550
Financing surplus / deficit		-668 582	-609 355
Financing			
Long-term debtors, increase (-) / decrease (+)		-16 477	1 176
Long-term creditors increase (+) / decrease (-)		674 199	202 777
Short-term creditors increase (+) / decrease (-)		336 574	121 903
Interest paid on cooperative capital		-129 285	
Dividends paid		-50 341	-9 099
Share issue		133 004	826 460
Increase in participation and subscription fees		-701	7 058
HPY Research Foundation original capital		-10 000	
		936 973	1 150 275
Change in liquid assets, increase (+) / decrease (-)		268 391	540 920
Liquid assets at 1 Jan		1 208 515	667 595
Liquid assets at 31 Dec		1 476 906	1 208 515

Parent company income statement FIM 1 000

	Notes	1 Jan – 31 Dec 1999	1 Jan – 31 Dec 1998
Turnover	1	12 810	12 676
Other operating income			45
Staff costs	3	-901	-2 005
Depreciation and value adjustments	4	-3 715	-3 556
Other operating charges		-88 169	-29 371
		-92 785	-34 932
Operating loss		-79 975	-22 211
Financial income and charges	5	140 253	38 342
Profit before exceptional items		60 278	16 131
Exceptional items	6		607 581
Profit after exceptional items		60 278	623 712
Appropriations	7	-996	-1 844
Taxes	8	-13 790	-4 001
Profit for the financial year		45 492	617 867

Parent company balance sheet FIM 1 000

	Notes	31 Dec 1999	31 Dec 1998
Assets			
Fixed assets	9		
Tangible assets		68 668	61 244
Financial assets		1 146 455	1 146 470
		1 215 123	1 207 714
Current assets			
Debtors	12	307 510	91 390
Short-term investments		414 589	711 646
Cash in hand and at banks		50	58
		722 149	803 094
		1 937 272	2 010 808
Shareholders' equity and liabilities			
Shareholders' equity	13		
Subscribed capital		250 658	
Cooperative capital			1 292 851
Share premium account		1 042 192	
Contingency fund		20 108	
Retained earnings		534 246	75 772
Profit for the financial year		45 492	617 867
		1 892 696	1 986 490
Accumulated appropriations	7	15 960	14 963
Creditors			
Short-term creditors	17	28 616	9 355
		1 937 272	2 010 808

Parent company cash flow statement *FIM 1 000*

	Notes	1 Jan – 31 Dec 1999	1 Jan – 31 Dec 1998
Operations			
Net cash inflow from operating activities			
Operating loss		-79 975	-22 211
Reconciliation of operating profit to cash flows		3 715	3 556
Financial income and charges		140 253	38 342
Taxes		-13 790	-4 001
		50 203	15 686
Change in working capital increase (-) / decrease (+)		-17 510	-6 214
Net cash inflow from operations		32 693	9 472
Investments			
Purchases of shares			-15
Fixed asset investments		-11 139	-4 358
Disposal of shares and fixed assets		15	1 007 069
Taxes paid on disposal of shares			-236 281
		-11 124	766 415
Financing surplus / deficit		21 569	775 887
Financing			
Increase (-) / decrease (+) in short-term debtors		-179 348	-64 372
Interest paid on cooperative capital		-129 285	
HPY Research Foundation original capital		-10 000	
Increase in participation fees			166
		-318 633	-64 206
Change in liquid assets, increase (+) / decrease (-)		-297 064	711 681
Liquid assets at 1 Jan		711 703	23
Liquid assets at 31 Dec		414 639	711 703

Notes to the financial statements

HPY Holding Corporation, whose registered office is in Helsinki, is the parent company of HPY Holding Corporation Group. HPY Holding Corporation and Helsinki Telephone Corporation's consolidated financial statements for the year ending 31 December 1999 are available for inspection at Korkeavuorenkatu 35–37, 00130 Helsinki.

Accounting principles

1. Scope of the consolidated financial statements

The consolidated financial statements comprise the accounts of the parent company HPY Holding Corporation and those subsidiaries in which the parent company holds directly or indirectly more than 50 per cent of the votes conferred by shares. Those companies in which the parent company has a minimum of 20 per cent and a maximum of 50 per cent of the votes or in which it exercises significant influence are accounted for as associated undertakings. Those companies in which a group undertaking is jointly responsible for the management of a company with another company outside the group are consolidated as joint ventures. As a rule, subsidiaries are consolidated from the month acquisition of shares took place. Associates are generally consolidated from the moment they become an associate. Those subsidiaries remaining dormant during the financial year or having an insignificant impact on the consolidated financial results and equity are not consolidated.

2. Consolidation principles

Intragroup transactions, internal profits on stocks and fixed assets, internal receivables and the internal distribution of profit have been eliminated. The margin included in fixed assets has been essentially eliminated.

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

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

Income statement and balance sheet items and notes to the financial statements in respect of joint ventures are consolidated on a pro rata basis to group ownership.

3. Comparability with the previous year

The legal form of Telephone Cooperative HPY changed into a public limited company during the year under review. This should be taken into account when comparing shareholders' equity.

The definition of turnover was revised during the year in respect of interconnection charges. This now means that only customer-priced telecom charges passed on intact to other telecom operators are deducted from invoiced sales. On the other hand certain pur-

chases of operator-priced telecom service components are treated in external services as interconnection charges and not subtracted from invoiced sales. This change was implemented in 1999 as a result of the interconnection arrangements under the new Telecommunications Market Act that entered into force in 1999. The change in booking interconnections increases the group and parent company turnover and external services by FIM 160 million. The corresponding figure for 1998 turnover and external services would have been FIM 150 million.

The change has no impact on income.

The way of matching fees relating to the telephone directory advertisements and telephone lines has been changed so that operating charges include all fees paid in respect of lines and directory advertisements paid during the financial year. In earlier years, some of the fees paid for lines and advertisements sold during the financial year were not booked as a charge until the following year. Charges for the previous year arising from the change in matching appear under exceptional items. The post-tax share of exceptional charges is FIM 50 million.

Shorter depreciation periods and value adjustments resulted in extra depreciation and value adjustments of FIM 391 million being booked. More details of changes in planned depreciation and value adjustments are given in point 7.

Other consolidated operating income includes a gain of FIM 869 million on the disposal of Comptel shares.

Gains from the disposal of Helsinki Telephone Corporation E Shares were included in exceptional income in the parent company in 1998. An additional depreciation on consolidation goodwill in respect of shares in associated undertakings was booked as an exceptional charge in the 1998 consolidated financial statements.

Any comparison with the previous year should also take into account changes in the group structure, including the change of Radiolinja from an associate to a subsidiary with effect from 1 April 1998 and the change of Datatie from an associate to a subsidiary with effect from 1 January 1999.

4. Turnover and other operating income

Interconnection fees paid by customers and passed on intact to other telephone companies are shown as an item deducted from invoiced sales (KILA 995/1325).

Other operating income includes gains from the disposal of shares and fixed assets, contributions received and rental income from properties. Gains from the disposal of Comptel shares have been booked under other operating income.

As a rule, sales by group companies are booked as income at the time the services are provided or equipment is invoiced. Long-term projects of the parent company and Comptel Plc are an exception to this is, and are invoiced and booked on the basis of degree of completion.

5. Valuation of stocks

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

6. Foreign currency items

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

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

Derivative contracts can be used to hedge against currency and interest rate risks.

Open derivative contracts intended to hedge against currency risks are valued at the market value, with the exception of forward contracts relating to cash flow, which are booked on the basis of their effect on earnings as the cash flow is realised. Exchange rate gains and losses are booked as sales or purchase adjustment items or financing exchange gains or losses depending on what is hedged. The interest difference, if significant, is allocated during the validity of the contract and the allocated part is booked as interest received or interest paid.

Interest rate derivatives are valued at market value. Cash flows of derivatives used to manage interest rate risks are allocated during the validity of the contract and are used to adjust the interest on the item to be hedged.

The nominal values and market value of open derivatives appear as liabilities in the notes to the financial statements, irrespective of whether they have been booked in the income statement.

7. Fixed assets and consolidation goodwill

The book value of intangible and tangible assets shown in the balance sheet is the acquisition cost less accumulated planned depreciation. Fixed assets manufactured and built by the company are valued at variable cost. No revaluations are included in the book values of fixed assets.

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

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

In expectation of the significantly weaker financial performance of mobile phone retailers, a charge of FIM 82 million on the value adjustment of consolidation goodwill and goodwill was booked during the financial year. A charge of FIM 6 million was booked on the value adjustment of consolidation goodwill in respect of other companies.

Owing to the faster pace of technological advances being made in the communications industry, the expected economic lives of fixed assets were reviewed at the balance sheet date. The depreciation times for telephone exchanges and the GSM network was changed from 10 to 8 years, development investments in exchange software (upgrades) from 10 to 5 years and SIM cards from 5 to 3 years. The change in planned depreciation was effected by changing the accumulated depreciation accordingly. Furthermore, the acquisition cost remaining on obsolete fixed assets has been booked as a charge. The share of the change in planned depreciation and value adjustment of fixed assets of consolidated depreciation during the financial year is FIM 303 million.

Planned depreciation times in the group are given below:

Consolidation goodwill	*5–15 years*
Goodwill	*5 years*
Formation costs	*5 years*
Computer programs	*3–5 years*
Other long-term expenditure	*5–10 years*
Buildings	*25–40 years*
Telephone exchanges and GSM network	*8 years*
Cable network	*10 years*
Teleterminals (leased to customers)	*4 years*
Other machinery and equipment	*3–5 years*

The value of HPY Holding Corporation Group's share of Helsinki Telephone Corporation Group's shareholders' equity has risen as a result of share offerings. This change is shown as group reserve. The share issues were used primarily to fund the acquisition of subsidiary and associated undertakings, which have increase consolidation goodwill. In this connection the consolidation goodwill and group reserved at the balance sheet date have been netted in the consolidated balance sheet. Group reserve has been capitalised from 1 January 1999. This decreases the depreciation made on consolidation goodwill.

8. Pension costs

HPY Holding Corporation and Helsinki Telephone Corporation's pension commitments are funded by Helsinki Telephone's Pension Fund. Additionally, Helsinki Telephone Corporation also has its own direct pension liabilities, primarily for early, fixed-term pensions. The pension commitments of other group companies are covered by pension insurance. Group companies have no unbooked charges for unfunded pension liabilities or any unfunded pension liabilities.

9. Direct taxes

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

Deferred tax liabilities and assets in the consolidated balance sheet are itemised in the notes to the balance sheet. In line with the prudence concept, realised losses are not booked as tax receivables nor are they shown in the notes to the financial statements.

Notes to the income statements and balance sheets FIM 1 000

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
1. Invoiced sales and turnover				
Invoiced sales (excl. VAT and discounts)	6 833 280	5 227 674	12 810	12 676
. Less interconnection charges				
to other telephone companies [1)]	-484 382	-585 471		
Turnover	6 348 898	4 642 203	12 810	12 676
[1)] Interconnection charges booked differently in 1999.				
By geographical area				
Finland	5 953 198	4 242 343	12 810	12 676
International	395 700	399 860		
Total	6 348 898	4 642 203	12 810	12 676

Group turnover principally pertains to one business sector (telecommunications). Other operating income includes mostly gains on the disposal of shares.

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
2. Materials and services				
Materials				
Purchases during the financial year	897 625	704 571		
Change in stocks	-25 982	-26 846		
	871 643	677 725		
Radiolinja's access rights,				
maintenance and connection fees	1 400 957	903 504		
Other external services	362 409	305 125		
Total	2 635 009	1 886 354		

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
3. Staff costs				
Wages and salaries	*1 024 023*	*843 350*	*850*	*654*
Pension costs	*145 778*	*132 012*	*-7*	*1 316*
Other social security costs	*114 076*	*92 759*	*58*	*35*
	1 283 877	*1 068 121*	*901*	*2 005*
Staff costs capitalised under fixed assets				
Wages and salaries	*-90 811*	*-80 776*		
Pension costs	*-16 359*	*-14 092*		
Other social security costs	*-11 768*	*-9 873*		
	-118 938	*-104 741*		
Staff costs in the income statement	*1 164 939*	*963 380*	*901*	*2 005*
Management salaries and emoluments				
Managing directors and deputies	*7 626*	*5 929*		
Members and deputy members of Boards of Directors	*3 012*	*2 297*	*329*	*380*
Members and deputy members of Supervisory Boards	*696*	*157*	*501*	
Average staff numbers in the group and parent company during the year				
White-collar	*4 699*	*3 768*		
Blue-collar	*790*	*821*		
Total	*5 489*	*4 589*		

There was an average of 10 white-collar staff employed by joint ventures during 1999.

Pension commitments in respect of managing directors and members of Boards of Directors

The retirement age for managing directors of group companies is set at 58–65 years.

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
4. Depreciation and value adjustments				
Depreciation on tangible and tangible assets	*1 008 770*	*592 067*	*3 715*	*3 556*
Value adjustment of consolidation goodwill	*10 018*			
Depreciation on consolidation goodwill	*194 951*	*36 862*		
Decrease in group reserve	*-95 593*	*-235*		
Total	*1 118 146*	*628 694*	*3 715*	*3 556*

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

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
5. Financial income and charges				
Dividends received				
From group undertakings			88 239	14 444
From associated undertakings	592			
From others	563	324	34 315	
	1 155	324	122 554	14 444
Interest received and similar income,				
From group companies			1 826	1 114
From associated undertakings		313		
From others	38 583	53 289	15 876	22 784
	38 583	53 602	17 702	23 898
Interest received and similar income, total	39 738	53 926	140 256	38 342
Interest paid and similar charges				
To group undertakings		13		
To others	100 849	72 891	3	
Interest paid and similar charges, total	100 849	72 904	3	
Financial income and charges, total	-61 111	-18 978	140 253	38 342
6. Exceptional items				
Exceptional income				
Gains from the disposal of shares		702 654		843 862
Exceptional charges				
Additional depreciation on				
Consolidation goodwill of				
In respect of shares in associated undertakings		-194 452		
Changes in accounting principles	-69 743			
Income tax on exceptional items	19 528	-236 281		-236 281
Total	-50 215	271 921		607 581
7. Appropriations				
Difference between planned depreciation				
and depreciation made in taxation			996	1 844
Accumulated appropriations				
in the parent company comprise				
the accumulated depreciation difference.				
8. Taxes				
Income tax for the financial year	429 471	63 966	13 792	4 001
Income tax for previous years	6 420	-8 634	-2	
Change in deferred tax liabilities / assets	-27 013	53 233		
Total	408 878	108 565	13 790	4 001

9. Fixed assets [1]

Group — **Intangible assets**

	Formation expenses	Intangible rights	Goodwill	Advance payments	Other long-term expenditure	Total	Consolidation goodwill	Group reserve
Acquisition cost at 1 Jan 99	151 585	22 420	1 031	3 460	318 035	496 531	525 419	623 207
Acquisition of group companies		22			24 352	24 374	44 599	
Translation difference	1	-20			9	-10		
Increase	5 492	4 456	15 323	235	129 328	154 834	1 336 206	52 600
Disposal		-890			-666	-1 556		
Decrease	-613			-3 460	-27 712	-31 785	-5 723	
Transfers between items		-14 633			21 500	6 867		
Acquisition cost at 31 Dec 99	156 465	11 355	16 354	235	464 846	649 255	1 900 501	675 807
Accumulated depreciation and value adjustments at 1 Jan 99	60 767	4 012	802		139 995	205 576	-50 430	-6 270
Translation difference					1	1		
Accumulated depreciation on decreases and transfers	-300	-2 717			-9 948	-12 965		
Depreciation during the financial year	30 892	2 070	2 328		86 968	122 258	-116 817	-95 593
Value adjustments			10 018			10 018	-78 135	
Accumulated depreciation at 31 Dec 99	91 359	3 365	13 148		217 016	324 888	-245 382	-101 863
Book value at 31 Dec 99	65 106	7 990	3 206	235	247 830	324 367	1 655 119	573 944 [2]

	Consolidation goodwill	Group reserve
[2] Group reserve in the balance sheet netted		
– against consolidation goodwill	-516 208	516 208
– against consolidation goodwill of associated undertakings		57 736
	1 138 911	573 944

Tangible assets

	Land and water	Buildings	Machinery and equipment	Other tangible assets	Advance payments and tangible assets in course of construction	Total
Acquisition cost at 1 Jan 99	44 203	936 633	4 124 356	81 901	53 378	5 240 471
Acquisition of group companies			22 258			22 258
Translation difference			69	11		80
Increase	64 301	23 315	952 179	22 851	101 895	1 164 541
Disposal	-7 079	-22 120	-12 708	-73	-14 316	-56 296
Decrease		-19 375	-872 599		-3 492	-895 466
Transfers between items			19 504		-26 371	-6 867
Acquisition cost at 31 Dec 99	101 425	918 453	4 233 059	104 690	111 094	5 468 721
Accumulated depreciation and value adjustments at 1 Jan 99		427 982	1 591 688	27 980		2 047 650
Translation difference			-54			-54
Accumulated depreciation on decreases and transfers		-31 020	-898 263			-929 283
Depreciation for the financial year		37 845	814 364	34 303		886 512
Accumulated depreciation at 31 Dec 99		434 807	1 507 735	62 283		2 004 825
Book value at 31 Dec 99	101 425	483 646	2 725 324	42 407	111 094	3 463 896
Balance sheet value of machinery and equipment (fixed telecommunications network) at 31 Dec 99			2 178 180			

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

9. Fixed assets

Parent company

	Tangible assets				
	Land and water	Buildings	Tangible assets and machinery and equipment	Advance payments and tangible assets in course of construction	Total
Acquisition cost at 1 Jan 99	1 119	81 202	2 772	766	85 859
Increase		10 477		1 428	11 905
Decrease				-766	-766
Acquisition cost at 31 Dec 99	1 119	91 679	2 772	1 428	96 998
Accumulated depreciation at 1 Jan 99		22 653	1 962		24 615
Depreciation for the financial year		3 437	278		3 715
Accumulated depreciation at 31 Dec 99		26 090	2 240		28 330
Book value at 31 Dec 99	1 119	65 589	532	1 428	68 668

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

Group

	Shares in associated undertakings	Shares Others	Debtors from associated undertakings	Total
Acquisition cost at 1 Jan 99 1.1.99 [1)]	468 885	21 441		490 326
Change	271 444	65 505	3 117	340 066
Disposal		-48 482		-48 482
Transfers between items	-143 389	79 314		-64 075
Acquisition cost at 31 Dec 99	596 940	117 778	3 117	717 835
Book value at 31 Dec 99	596 940	117 778	3 117	717 835

The consolidation goodwill included in book value has been netted against group reserve in the balance sheet.	-57 736
Shares in associated undertakings, balance sheet value at 31 Dec 99	539 204

[1)] The book value at 1 January 1999 has been used as the acquisition cost of shares in associated undertakings.

9. Fixed assets / Financial assets

Parent company

	Shares in group undertakings
Acquisition cost at 1 Jan 99	1 146 470
Disposal / decrease	-15
Acquisition cost at 31 Dec 99	1 146 455
Book value at 31 Dec 99	1 146 455

The new acquisition cost of shares in listed group companies was FIM 21.5 billion higher than the book value at the balance sheet date.

9. Group and parent company holdings at 31 December 1999

	Registered Office	Group interest %	Parent company interest %
Group undertakings			
Helsinki Telephone Corporation	Helsinki	68%	68%
Interests in the following group and associated undertakings are based on those held by Helsinki Telephone Corporation:			
Oy Arvotel Ab	Helsinki	100%	0%
Comptel Plc [1)]	Helsinki	61%	0%
Oy Datatie Ab	Helsinki	60%	0%
Oy Dianatel Ab	Helsinki	100%	0%
Oy Extel Ab	Helsinki	100%	0%
Oy Extel-Achterkamer Ab	Helsinki	100%	0%
Oy Extel-Bestudeerd Ab	Helsinki	100%	0%
Oy Extel-Bevaren Ab	Helsinki	100%	0%
Oy Extel-Grenzenloos Ab	Helsinki	100%	0%
Oy Extel-Grinniken Ab	Helsinki	100%	0%
Oy Extel-Grissen Ab	Helsinki	100%	0%
Oy Extel-Noodlottig Ab	Helsinki	100%	0%
Oy Extel-Onbeheerd Ab	Helsinki	100%	0%
Oy Extel-Opslokken Ab	Helsinki	100%	0%
Oy Extel-Opstopper Ab	Helsinki	100%	0%
Oy Extel-Parvenu Ab	Helsinki	100%	0%
Oy Extel-Pets Ab	Helsinki	100%	0%
Oy Extel-Rotsvast Ab	Helsinki	100%	0%
Oy Extel-Snaak Ab	Helsinki	100%	0%
Oy Extel-Strohalm Ab	Helsinki	100%	0%
Oy Telcofounding Ab	Helsinki	100%	0%
FINNETCom Oy	Helsinki	51%	0%
FMS Dravit Asset Management GmbH	Düsseldorf	100%	0%
Helsinki TeleCom Deutschland GmbH	Düsseldorf	100%	0%
Oy Heltel Ab	Helsinki	63%	0%
INTERURBANA Holdings GmbH	Düsseldorf	100%	0%
Megabaud Oy	Helsinki	100%	0%
Mäkitorppa Yhtiöt Oy	Helsinki	100%	0%
Mobinter Oy	Helsinki	100%	0%
Mäkitorppa Oy	Helsinki	100%	0%
Mäkitorppa GmbH	Düsseldorf	100%	0%
Setele Oy	Seinäjoki	100%	0%
Oy Radiolinja Ab, A Shares	Helsinki	70%	0%
Radiolinja Eesti AS	Tallinn	79%	0%
SIA Radiolinja Latvija	Riga	70%	0%
Tresmec Puhelimet Oy	Helsinki	70%	0%
Globalstar Northern Europe Oy	Helsinki	35%	0%
Uudenmaan Matkapuhelin Oy	Vantaa	70%	0%
Oy Radiolinja Ab, L Shares	Helsinki	51%	0%
Rahoituslinkki Oy	Helsinki	100%	0%
Kiinteistö Oy Kutomotie 16	Helsinki	100%	0%
Kiinteistö Oy Ratavartijankatu 3	Helsinki	64%	0%
Kiinteistö Oy Rinnetorppa	Kuusamo	100%	0%
Oy Älytalo Ab	Helsinki	100%	0%
Other companies (dormant)			
Associated undertakings			
Arcus Software Oy	Helsinki	37%	0%
Citykom Münster GmbH	Münster	25%	0%
Fincommerce Oy	Jyväskylä	25%	0%
Finnet International Ltd	Helsinki	41%	0%
Finnet Logistiikka Oy	Helsinki	32%	0%
Oy Finnet Media Ab	Helsinki	35%	0%
Oy Finnet Ventures	Helsinki	42%	0%
Finnish International Telecommunications GmbH	Düsseldorf	50%	0%
Hannovers Telefon Partner GmbH	Düsseldorf	50%	0%
JelloCom GmbH & Co. KG	Jena	20%	0%
Finnet Nine Ltd	Helsinki	35%	0%
Lounais-Suomen Puhelin Oy	Paimio	21%	0%
Oy Omnitele Ab	Helsinki	29%	0%
Suomen Keltaiset Sivut Oy	Helsinki	30%	0%
Tampere Telephone Plc	Tampere	33%	0%
Vantaan Yhteisverkko Oy	Vantaa	24%	0%

The undepreciated goodwill in the book value of associated undertakings as at 31 December 99 was FIM 375.4 million.
Associated undertakings have been acocunted for by the equity method except for Finnish International Telecommunications GmbH and Hannovers Telefon Partner GmbH, which have been accounted for as joint ventures.

[1)] Comptel Plc's valid authorisation for a share issue and the company's option scheme together may reduce Helsinki Telephone's right of ownership to 50.6 per cent.

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
10. Stocks				
Raw materials and consumables	82 147	54 033		
Work in progress	9 868	9 353		
Finished products / goods	70 036	60 779		
Advance payments	18 641	18 786		
Total	180 692	142 951		
11. Long-term debtors				
Amounts owed by associated undertakings				
Loan receivables	7 600			
Amounts owed by others				
Loan receivables		702		
Other debtors	6 162	3 217		
Prepayments and accrued income	7 656	1 022		
Long-term debtors, total	21 418	4 941		
12. Short-term debtors				
Amounts owed by group undertakings				
Loan receivables			252 165	72 816
Prepayments and accrued income			743	18
			252 908	72 834
Amounts owed by associated undertakings				
Trade debtors	36 892	102 134		
Prepayments and accrued income				
	36 892	102 134		
Amounts owed by others				
Trade debtors	933 152	786 478		
Loan receivables	17	5 626		
Other debtors	106 940	33 911	47 742	3 982
Prepayments and accrued income	58 439	145 035	6 860	14 574
	1 098 548	971 050	54 602	18 556
Short-term debtors, total	1 135 440	1 073 184	307 510	91 390

The most significant prepayments and accrued income consist of accrued subscription fees and accrued interest received and leasing payments. Long-term prepayments and accrued income includes an unbooked issue loss of FIM 6,487,000 as a bond loan charge.

13. Shareholders' equity [1)]

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Participation share at 1 Jan	1 292 851	56 876	1 292 851	56 876
Increase in participation share		166		166
Transfer from subscription fees		1 235 809		1 235 809
Transfer to shareholders' equity and share premium account	-1 292 851		-1 292 851	
Cooperative capital / Participation share at 31 Dec	0	1 292 851	0	1 292 851
Subscribed capital at 1 Jan				
Increase	250 658		250 658	
Subscribed capital at 31 Dec	250 658		250 658	
Share premium account at 1 Jan				
Increase	1 042 192		1 042 192	
Share premium account at 31 Dec	1 042 192		1 042 192	
Contingency fund at 1 Jan				
Increase	20 108		20 108	
Contingency fund at 31 Dec	20 108		20 108	
Subscription fees at 1 Jan		1 253 476		1 244 530
Increase / Reconciliation		6 892		
Transfer to cooperative capital		-1 235 809		-1 235 809
Transfer to retained earnings		-24 559		-8 721
Subscription fees at 31 Dec		0		0
Other provisions at 1 Jan		21 611		
Transfer to retained earnings		-21 611		
Other reserves at 31 Dec		0		
Retained earnings at 1 Jan	1 082 886	562 554	693 639	46 396
Transfer from other reserves		21 611		20 655
Transfer from subscription fees		24 559		8 721
Increase / decrease in subscription fees	-701			
Donation to HPY Research Foundation	-10 000		-10 000	
Transfer to contingency fund	-20 108		-20 108	
Interest on cooperative capital	-129 285		-129 285	
Translation and similar differences	-217	161		
Retained earnings at 31 Dec	922 575	608 885	534 246	75 772
Profit for the financial period	508 963	474 001	45 492	617 867
Shareholders' equity, total	2 744 496	2 375 737	1 892 696	1 986 490

[1)] Telephone Cooperative HPY became a public limited company during the year under review.
The Cooperative began trading as HPY Holding Corporation on 17 June 1999.

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Statement of distributable equity at 31 Dec				
Retained earnings	922 575		534 246	
Profit for the financial year	508 963		45 492	
– Capitalised formation expenses	-65 106			
– Share of accumulated depreciation difference and untaxed reserves booked in shareholders' equity	-310 444			
Distributable equity, total	1 055 988		579 738	
14. Provisions for liabilities and charges				
Provision for the year 2000	3 300	14 550		
Other provisions for liabilities and charges	2 269	2 080		
Total	5 569	16 630		
15. Deferred tax liabilities and assets				
Deferred tax assets arising from				
Mergers	4 270	10 484		
Matching differences	1 695	5 164		
Total	5 965	15 648		
Deferred tax liabilities arising from				
Appropriations	195 530	230 365	4 628	4 190
Total	195 530	230 365	4 628	4 190
Deferred tax liabilities (total)	189 565	214 717	4 628	4 190
16. Long-term creditors				
Amounts owed to associated undertakings				
Other creditors	3 116			
Accruals and deferred income	195			
	3 311			
Amounts owed to others				
Bonds	425 120			
Convertibles	305 178			
Loans from financial institutions	386 355	342 279		
Pension loans	509 903	610 092		
Advances received (QTE leasing)	69 116			
Accruals and deferred income	98			
	1 695 770			
Long-term creditors, total	1 699 081	952 371		

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998

Convertible bond loan

1.4% of the company's shares and votes can be obtained by virtue of the convertible bond loan.

Subscription period: *12–23 April 1999*

Conversion ratio: *245 shares for each FIM 99,960.00 portion of debt*

Conversion period: *23 April 2001 to 23 April 2003*

Interest rate: *1.5%*

Amortisation: *23 April 2001 in part or in full*

Bond loan

A 335-million euro bond loan programme of which 71.5 million euros has been issued.
The annual nominal interest rate is 4.75%. The loan is repayable in full on 18 June 2007.

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Loans falling due after more than five years				
Bonds	425 120			
Pension loans	454 949	554 949		
Total	880 069	554 949		
17. Short-term creditors				
Amounts owed to group undertakings				
Other creditors		200	11 646	3 647
		200	11 646	3 647
Amounts owed to associated undertakings				
Trade creditors	47 650	67 771		
Accruals and deferred income	2 832	11		
	50 482	67 782		
Amounts owed to others				
Loans from financial institutions	432 811	41 857		
Pension loans	50 190	60 767		
Advances received	30 694	13 094		
Trade creditors	703 226	534 043		
Other creditors	166 085	190 555	2 770	5 402
Accruals and deferred income	600 553	345 193	14 200	306
	1 983 559	1 185 509	16 970	5 708
Amounts owed to Financial Services Office [1)]				
Loans (gross)	99 507	88 880		
Receivables	-5 567	-5 712		
Loans (net)	93 940	83 168		
Short-term creditors, total	2 127 981	1 336 659	28 616	9 355

[1)] Financial Services Offices loans have been granted to parent company employees. The loans are small, under FIM 100,000. Beneficiaries include shareholders who are company employees.
The most significant accruals and deferred income comprised accrued holiday pay and performance bonuses, including social security contributions, accrued subscription fees, interest paid and leasing payments.

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Interest-bearing liabilities				
Long-term	1 626 556	952 371		
Short-term	572 380	235 806		
Interest-bearing liabilities, total	2 198 936	1 188 177		

18. Surety, contingent and other liabilities

	Group 1999	Group 1998	Parent Company 1999	Parent Company 1998
Mortgages				
For own loans				
Pension loans	393 618	443 268		
Mortgages given	367 000	367 000		
Loans from financial institutions	57 000	58 300		
Mortgages given	30 100	30 100		
Mortgages given as surety for pension fund contribution guarantee	13 000	13 000		
For group undertakings' loans				
Mortgages given			120 000	120 000
For others' loans				
Mortgages given	500	550		
Mortgages given as surety, total	410 600	410 650	120 000	120 000
Shares pledged		63		
Guarantees given				
For group undertakings' loans			404	2 148
For associated undertakings' loans	51 582		26 472	
For management loans	83	99		
For others' loans	3 974	4 627		
Guarantees, total	55 639	4 726	26 876	2 148
Total	466 239	415 439	146 876	122 148
Leasing commitments	662 915	667 912		
Repo commitments	27 119	14 939		
Leaseback (QTE) commitments	1 201 000			
Other commitments	99 519	1 047		
Payments on leasing agreements				
Payable during the year 2000	111 791	86 773		
Payable later	551 124	581 139		

QTE facility

Helsinki Telephone Corporation has entered into a financing arrangement (QTE leasing) in respect of certain parts of the telecommunications network. The parent company has leased telecom network hardware to a consortium of USA capital investors who, at the same time have leased back the hardware to the company. The parent company retains title to the hardware concerned. The overall leasing assets and liabilities arising from the arrangement were paid at the time the facility was arranged. The company received net financial compensation of FIM 79 million, FIM 2 million of which was capitalised in 1999. The financial consideration is to be booked in full as income within ten years.

This facility is not expected to generate other cash flows to the company. The company's liability for leaseback is limited to the situation where the financial institution responsible for passing the leasing payments on is unable to meet its commitment.

GSM network leasing agreements

Oy Radiolinja Ab has implemented some network investments through long-term delivery agreements based on a business agreement. Under the business agreement, in certain situations Radiolinja has a pre-emption right and obligation to buy the property mentioned in the agreement at the market price or Radiolinja is obliged to buy the property mentioned in the agreements at the residual value.

The first agreement period is for ten years and parties may, if they so wish, prolong the agreement.

The agreements oblige Radiolinja to make regular payments. Payments under these agreements are weighted towards the final years of the agreement period. The acquisition cost of these delivery agreements from outside the group amounted to about FIM 1,300 million at the 1999 balance sheet date (FIM 1,200 million at the 1998 balance sheet date).

Calculated in accordance with the interest rates specified in the agreements, future compensation in respect of business agreements outside the group are as follows (FIM million):

2000	2001	2002	2003	2004	2005
208.2	258.0	295.3	319.4	301.7	266.6
2006	**2007**	**2008**	**2009**	**2010**	
203.3	138.5	74.8	15.9	0.1	

Data network leasing agreements

Access costs in respect of Oy Datatie Ab's backbone network connections are essentially based on (5) five-year agreements. The estimated leasing liability outside the group was FIM 300 million at the 1999 balance sheet date.

Other financial commitments

Radiolinja's subsidiary Globalstar Northern Europe Oy has undertaken to acquire the earth station equipment to be able to enable Globalstar provisioning in its own operating area.

	Group 1999	Group 1998	Parent company 1999	Parent company 1998
Derivative instruments				
Nominal value				
Exchange rate futures	35 423	25 420		
Interest rate and currency swaps	50 000	50 000		
Market value				
Exchange rate futures	-1 899	-263		
Interest rate and currency swaps	-14	-900		

Group financial indicators

Five year financial group summary

	1999	1998	1997	1996	1995
Income statement					
Turnover, FIM million	6 349	4 642	2 555	2 223	1 966
Turnover, percentage change	36.8%	81.7%	14.9%	13.1%	3.6%
Operating profit, FIM million	1 311	489	229	138	70
Operating profit as % of turnover	20.6%	10.5%	8.9%	6.2%	3.6%
Result before exceptional items and taxes, FIM million	1 250	470	193	112	37
Result before exceptional items and taxes as % of turnover	19.7%	10.1%	7.6%	5.0%	1.9%
Result before taxes, FIM million	1 200	978	193	61	37
Result before taxes as % of turnover	18.9%	21.1%	7.6%	2.7%	1.9%
Return on equity (ROE), %	20.7%	12.0%	6.9%	5.7%	1.6%
Return on investment (ROI), %	23.4%	13.2%	8.6%	6.2%	3.7%
R&D costs, FIM million	91	68	55	47	31
R&D costs as % of turnover	1.4%	1.5%	2.2%	2.1%	1.6%
Balance sheet					
Gearing ratio, %	18.8%	- 0.2%	8.6%	28.6%	28.3%
Liquidity (current ratio)	1.4	1.8	2.0	1.6	1.7
Equity ratio, %	52.8%	59.9%	57.4%	54.4%	54.2%
Non-interest-bearing debts	1 817.7	1 315.5	710.9	644.1	624.1
Balance sheet total, FIM million	8 402	6 262	3 974	3 337	3 257
Investments					
Gross investments, FIM million	3 015	2 426	747	591	594
Gross investments as % of turnover	47.5%	52.3%	29.2%	26.6%	30.2%
Employees					
Employees, average during the financial year	5 489	4 589	3 818	3 746	3 739
Turnover/employee, FIM 1000	1 157	1 012	669	593	526

[1)] Telephone Cooperative HPY became a public limited company in 1999.
Business began as HPY Holding Corporation on 17 June 1999.

Formulae for summary financial indicators

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

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

Gearing ratio, % = $\dfrac{\text{Interest-bearing liabilities + advances received – cash in hand and at bank – current asset investments}}{\text{Shareholders' equity + minority interests}} \times 100$

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

Equity ratio, % = $\dfrac{\text{Shareholders' equity + minority interests}}{\text{Balance sheet total – advances received}} \times 100$

Back orders are not shown because this information is immaterial owing to the nature of the company's business.

Per share data

	1999
Subscribed capital, FIM	250 658 450
Total number of shares [2]	84 315 450
Average number of shares	84 315 450
Market capitalisation at 31 Dec, FIM million [1]	18 674
Earnings per share (EPS), FIM	6.62
Dividend per share, FIM [*]	1.20
Dividend per earnings, %	18.1%
Shareholders' equity per share, FIM	32.55
P/E ratio	33
Effective dividend yield, %	0.5%
Performance of A Shares on the Helsinki Exchanges [2]	
Middle price, FIM	136.25
Price at 30 Dec, FIM	221.48
Lowest price, FIM	100.19
Highest price, FIM	221.48
Trading of A Shares	
Total number of shares traded, 1000 [3]	19 479
Percentage traded of total E Shares, % [4]	23%

Telephone Cooperative HPY became a public limited company during the year under review. The Cooperative began trading as HPY Holding Corporation on 17 June 1999.

[*] Board of Directors' recommendation

[1] Calculated on the closing price at 30 December 1999.
[2] The shares were first quoted on the Helsinki Exchanges on 1 July 1999.
[3] Total 1999 trading figures are for the period 1 July to 30 December 1999.
[4] Calculated in relation to the number of A Shares at the balance sheet date.

Formulae for summary financial indicators

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

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

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

$$\text{Dividend per earnings} = \frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}} \times 100$$

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

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

Shares and shareholders

Share capital and shares

The company's registered and fully paid share capital at the balance sheet date was EUR 42,157,725. Under the Articles of Association, the minimum and maximum share capital is EUR 25,000,000 and EUR 100,000,000 respectively.

Under the Articles of Association, HPY Holding Corporation shares may be divided into A and B Shares.

At the balance sheet date there were 84,315,450 HPY Holding Corporation shares, all of which were A Shares. Each share has a nominal value of EUR 0.50.

The Board of Directors of HPY Holding Corporation has no authorisation to purchase the company's own shares.

Share performance

Telephone Cooperative HPY membership certificates closed at EUR 2,506.00 (FIM 14,900.00) on 4 May 1999. The highest and lowest prices quoted during the year were EUR 3,650.00 (FIM 21,701.91) and EUR 2,300 (FIM 13,675.18) respectively. The middle price was EUR 2,976.48 (FIM 17,697.35). The implicit share prices (1 membership certificate = 150 A Shares) for the period 1 January to 4 May 1999 are as follows: closing price EUR 16.71 (FIM 99.33), the highest and lowest prices EUR 24.33 (FIM 144.68) and EUR 15.33 (FIM 91.17) respectively, and the middle price EUR 19.84 (FIM 117.98).

HPY Holding A Shares closed at EUR 37.25 (FIM 221.48) on 30 December 1999. The highest and lowest prices quoted during the year were EUR 37.25 (FIM 221.48) and EUR 16.85 (FIM 100.19) respectively. The middle price was EUR 22.92 (FIM 136.28).

The company had a market capitalisation of EUR 3,140.75 million at the balance sheet date.

Quotation and trading

Telephone Cooperative HPY membership certificates were listed on the Pre-list of the Helsinki Exchanges under the code HPY1V. A total of 50,585 membership certificates, equivalent to 9 per cent, were traded between 4 January and 4 May 1999 at a total value of EUR 150,565,004.

HPY Holding Corporation shares have been listed on the Main List of the Helsinki Exchanges since 1 July 1999 under the code HPHAV. A total of 19, 479,700 HPY Holding Corporation shares, equivalent to 23 per cent, were traded between 1 July and 30 December 1999, at a total price of EUR 446 million (FIM 2,652 million).

Management interests

Members of the company's Supervisory Board, Board of Directors and the company's managing director held a total of 19,201 A Shares, equivalent to 0.023 per cent, at 31 December 1999. The shares confer a total of 19,201 votes, corresponding to 0.023 per cent of the total votes.

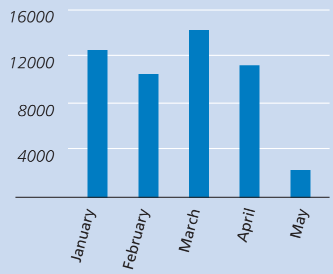
Shareholdings by owner group as at 31 December 1999

	Shares	% of total
1a. Public companies	551 200	0.65%
1b. Private companies	10 862 825	12.88%
2. Finance and insurance companies	13 723 824	16.28%
3. Public sector entities	9 274 824	11.00%
4. Non-profit making entities	2 449 635	2.91%
5. Private households	43 904 820	52.07%
6. Foreign	141 072	0.17%
7. Joint accounts and waiting list	3 407 250	4.04%
Total	84 315 450	100.00%

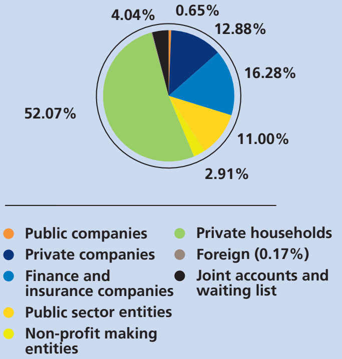
Analysis of shareholdings as at 31 December 1999

Size of shareholding	Number of shareholders	% of total	Number of shares	% of total	Number of votes	% of total
1 – 100	2 613	0.97%	188 087	0.22%	188 087	0.22%
101 – 500	262 392	97.05%	43 586 606	51.69%	43 586 606	51.69%
501 – 1,000	2883	1.07%	2 032 447	2.41%	2 032 447	2.41%
1,001 – 5,000	1929	0.71%	3 875 681	4.60%	3 875 681	4.60%
5,001 – 10,000	254	0.09%	1 815 011	2.15%	1 815 011	2.15%
10,001 – 50,000	217	0.08%	4 643 197	5.51%	4 643 197	5.51%
50,001 – 100,000	33	0.01%	2 351 437	2.79%	2 351 437	2.79%
Over 100,000	47	0.02%	22 415 734	26.59%	22 415 734	26.59%
On waiting list			750	0.00%	750	0.00%
Joint accounts			3 406 500	4.04%	3 406 500	4.04%
Total	270 368	100.00%	84 315 450	100.00%	84 315 450	100.00%

Trading of Telephone Cooperative HPY membership certificates in 1999



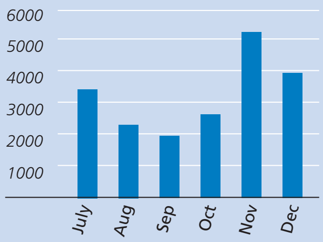
Shareholdings by owner group as at 31 December 1999



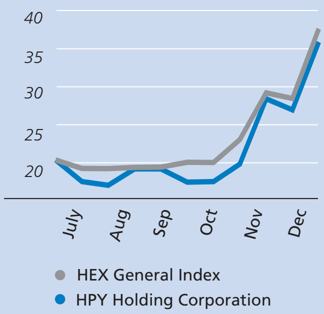
Largest shareholders as at 31 December 1999

		A Shares	% of total	% of votes
1	***Pohjola Group***	2 406 650	2.85%	2.85%
	Ilmarinen Mutual Pension Insurance Company	1 710 700		
	Pohjola Life Assurance Company Ltd	275 950		
	Suomi Mutual Life Assurance Company Ltd	220 000		
	Pohjola Non-Life Insurance Company Ltd	200 000		
2	***Sampo Group***	1 689 900	2.00%	2.00%
	Sampo Life Insurance Company Ltd	1 466 400		
	Industrial Insurance Company Ltd	181 050		
	Sampo Insurance Company Plc	37 800		
	Otso Loss Of Profits Insurance Company Ltd	4 650		
3	***Fennia Group***	992 354	1.18%	1.18%
	Mutual Insurance Company Pension Fennia	460 854		
	Enterprise Fennia Mutual Insurance Company	374 650		
	Fennia Life Insurance Company Ltd	156 850		
4	***City of Helsinki***	982 800	1.17%	1.17%
5	***State Treasury***	978 750	1.16%	1.16%
6	***Kesko Pension Fund***	813 770	0.97%	0.97%
7	***Varma-Sampo***	810 300	0.96%	0.96%
8	***Helsinki Telephone Pension Fund***	771 300	0.91%	0.91%
9	***Local Government Pensions Institution***	705 600	0.84%	0.84%
10	***Tapiola Group***	705 450	0.84%	0.84%
	Tapiola General Mutual Insurance Company	336 000		
	Tapiola Mutual Pension Insurance Company	209 100		
	Tapiola Mutual Life Assurance Company	160 350		
11	***Merita Bank Plc***	594 300	0.70%	0.70%
12	***Oulun Puhelin Oy***	477 600	0.57%	0.57%
13	***Veikko Laine Oy***	464 600	0.55%	0.55%
14	***Sijoitusrahasto Leonia Osake***	376 750	0.45%	0.45%
15	***City of Espoo***	370 200	0.44%	0.44%
16	***Alfred Berg Finland Oy Ab***	367 595	0.44%	0.44%
17	***Svenska Handelsbanken Ab, Finnish branch***	253 326	0.30%	0.30%
18	***City of Vantaa***	225 750	0.27%	0.27%
19	***Alfred Berg Finland Sijoitusrahasto***	201 800	0.24%	0.24%
20	***Leonia Teknologiaosake Sijoitusrahasto***	190 200	0.23%	0.23%
Other than above		69 936 455	82.95%	82.95%
	Nominee registered	5 799 424	6.88%	6.88%
	Other shareholders	64 137 031	76.07%	76.07%
Total		84 315 450	100.00%	100.00%

Monthly trading of HPY Holding Corporation A Shares in 1999, 1000 shares



Monthly performance of HPY Holding Corporation A Shares in 1999, EUR



Summary financial information in euros 1999

	1999 FIM million	1998 FIM million	1999 EUR million	1998 EUR million
Consolidated income statement 1 Jan – 31 Dec				
Turnover	6 349	4 642	1 068	781
Other operating income	908	22	153	4
Operating charges	-5 973	-4 235	-1 005	-713
Share of associated undertakings' results	27	60	4	10
Operating profit	1 311	489	220	82
Financial income and charges	-61	-19	-10	-3
Profit before exceptional items	1 250	470	210	79
Exceptional income		466		78
Exceptional charges	-50	-194	-8	-32
Result after exceptional items	1 200	742	202	125
Taxes	-409	-109	-69	-18
Minority interests	-282	-159	-47	-27
Profit for the financial year	509	474	86	80
Consolidated balance sheet 31 Dec				
Fixed assets				
Intangible assets	324	291	54	49
Consolidation goodwill	1 139		192	
Tangible assets	3 464	3 193	583	537
Shares in associated undertakings	539	327	91	55
Other financial assets	121	21	20	4
	5 587	3 832	940	645
Current assets				
Stocks	181	143	30	24
Debtors	1 157	1 078	195	181
Short-term investments	1 227	1 121	206	188
Cash in hand and at banks	250	88	42	15
	2 815	2 430	473	408
Assets, total	8 402	6 262	1 413	1 053
Shareholders' equity				
Shareholders' equity	251		42	
Cooperative capital		1 293		218
Share premium account	1 042		175	
Contingency fund	20		3	
Retained earnings	923	609	155	102
Profit for the financial year	509	474	86	80
	2 745	2 376	461	400
Minority interests	1 635	1 366	275	230
Provisions for liabilities and charges	5	16	1	2
Creditors				
Deferred tax liability	190	215	32	36
Long-term creditors	1 699	952	286	160
Short-term creditors	2 128	1 337	358	225
	4 017	2 504	676	421
Shareholders' equity and liabilities, total	8 402	6 262	1 413	1 053
Earnings per share, (FIM, EUR)	6.62		1.11	
Shareholders' equity per share, (FIM, EUR)	32.55		5.47	
Return on investment (ROI), %	23.4%	13.2%	23.4%	13.2%
Gross investments, (FIM / EUR million)	3 015	2 426	507	408
Gross investments as % of turnover	47.5%	52.3%	47.5%	52.3%
Employees, average	5 489	4 589	5 489	4 589
Liabilities				
Mortgages				
For group and group undertakings	410	410	69	69
For others	1	1	0	0
Guarantees				
For associated undertakings	52		9	
For others	4	5	1	1
Leasing commitments	663	668	111	113
Repo agreements	27	15	5	2
Leasing / leaseback agreement commitment (QTE facility)	1 201		202	
Other commitments	100	1	17	0
Liabilities, total	2 458	1 100	414	185
Derivative instruments				
Nominal value				
Exchange rate futures	35	25	6	4
Interest and currency swaps	50	50	8	8
Market value				
Exchange rate futures	-2	0	0	0
Interest and currency swaps	0	-1	0	0

Proposal for distribution of the parent company profit

The consolidated shareholders' equity according to the consolidated balance sheet at 31 December 1999 stands at FIM 2,744,496,000, of which FIM 1,055,988,000 is distributable.

The parent company's shareholders' equity according to the balance sheet at 31 December 1999 stands at FIM 1,892,696,349.24, of which FIM 579,737,569.31 is distributable.

The Board of Directors proposes to the Annual General Meeting that HPY Holding Corporation declare a dividend for 1999 of FIM 1.20 on each A Share, in other words a total of FIM 101,178,540.

Helsinki, 8 March 2000

Harri Holkeri
Chairman of the Board

Reino Paasilinna
Deputy Chairman

Carl Johan Adolfsson

Erkki Helaniemi

Raimo Ilaskivi

Ingvar S. Melin

Sole Molander

Kari Piimies

Pekka Sauri

Kurt Nordman
Managing Director

Auditors' report

To the shareholders of HPY Holding Corporation

We have audited the accounts, financial statements and corporate governance of HPY Holding Corporation for the period 1 January to 31 December 1999. The financial statements prepared by the Board of Directors and the managing director include the report of the Board of Directors, the consolidated and parent company income statements, balance sheets and notes to the financial statements. Based on our audit, we express an opinion on these financial statements and on corporate governance.

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

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

Helsinki, 13 March 2000

SVH Pricewaterhouse Coopers Oy
Authorised Public Accountants

Leo Laitinmäki	Lasse Lehti	Henrik Sormunen
Authorised	*Authorised*	*Authorised*
Public Accountant	*Accountant*	*Public Accountant*

Statement by the Supervisory Board

The financial statements and consolidated financial statements of HPY Holding Corporation for the period 1 January to 31 December 1999, the auditors' report and the proposal by the Board of Directors for the distribution of profit have been presented to the Supervisory Board. The Supervisory Board hereby states that it has no comments to make on the material presented.

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

The Supervisory Board also states that the terms of office of Supervisory Board members are not due to expire by rotation in the year 2000.

Helsinki, 14 March 2000

Supervisory Board

Kimmo Kiljunen
Deputy chairman of the Supervisory Board

Corporate governance

General Meetings of Shareholders

Ultimate decision-making power in HPY Holding Corporation is vested in the General Meeting of Shareholders which, among other things, receives and considers the company's report and accounts and consolidated report and accounts. The Meeting also decides on the measures warranted by the profit or loss shown in the balance sheet or consolidated balance sheet and declares any dividend to be paid. The Meeting also decides on the discharge of responsibility of members of the Supervisory Board, the Board of Directors and the managing director, as well as deciding the remuneration and grounds for travel costs of members of the Supervisory Board and the company's auditors. Furthermore, the Meeting decides the number of Supervisory Board members and appoints members to the Supervisory Board and the company's auditors.

Notwithstanding the number of shares owned, no shareholder may cast at a shareholders' meeting more than one fifth of all votes represented at that meeting.

Supervisory Board

The Annual General Meeting appoints between eight and sixty members to the Supervisory Board each year. The first Supervisory Board was appointed in spring 1999. All the members appointed were elected members of the Board of Representatives of Telephone Cooperative HPY. Members of the Supervisory Board serve for a term of two years. The Supervisory Board elects a chairman and deputy chairman from among its members.

The general responsibility of the Supervisory Board is to supervise the corporate governance of the company by the Board of Directors and the managing director. In addition, the Supervisory Board provides the Annual General Meeting with a statement warranted by the final accounts and the auditors' report, as well as other issues with respect to which the Supervisory Board must give a statement in accordance with the Companies Act. The Supervisory Board decides on instructions with respect to major corporate actions or policies. The Supervisory Board decides on the number, remuneration and other benefits of members of the Board of Directors and appoints members of the Board of Directors.

Board of Directors

The company has a Board of Directors comprising between five and nine members. The Board of Directors is responsible for the corporate governance and proper arrangement of the company's activities in compliance with the law, Articles of Association and instructions issued by the Supervisory Board. One half of the members of the Board of Directors retires by rotation each year. The Board of Directors elects a chairman from among its members.

Managing Director

HPY Holding has a managing director who is responsible for managing the company's day-to-day administration under the supervision of the Board of Directors and in accordance with its instructions.

Supervisory Board 1999

(Board of Representatives of Telephone Cooperative HPY until 11 May 1999)
The Supervisory Board's term of office ends on 30 June 2000

Chairperson
Siitonen Eva-Riitta *Mayor of Helsinki*

Deputy chairman
Kiljunen Kimmo *Member of the Finnish Parliament*

Members
Amper Reetta *Architect*
Arkiomaa Jyrki *Methods Researcher*
Armfelt Marita *Entrepreneur*
Arvola Ilkka *MBA*
Bogomoloff Harry *Managing Director*
Bryggare Arto *Member of Helsinki City Board*
Degerman Henrik *Genealogist at the House of Nobility*
Dromberg Kaarina *Member of the Finnish Parliament*
Eriksson Eila *Post-office Clerk*
Erkama Ritva *Personnel Manager*
Gestrin Eddina *Housewife*
Holkeri Katju *Senior Adviser*
Homén Carl-Olaf *Master of Laws*
Honkala Timo *Deputy Mayor*
Häikiö Martti *Doctor of Social Sciences*
Häyrinen Raimo *Journalist*
Iivari Ulpu *Member of the European Parliament*
Juusela Tuulikki *Managing Director*
Järvi Markku *Information Director*
Karhi Pirkko *Master of Social Sciences (from 11 May 1999)*
Kokkonen Paula *Member of the Finnish Parliament*
Koskinen Leena *Secretary*
Könkkölä Maija *Architect*
Lax Henrik *Member of the Finnish Parliament*
Leikola Hannu *Bachelor of Science in Sosiology*
Lipponen Päivi *History Teacher*
Marjanen Liisa *Secretary (until 11 May 1999)*
Markkula Markku *Member of the Finnish Parliament*
Markkula-Kivisilta Hanna *Member of the Finnish Parliament*
Meriläinen Risto *Managing Director*
Moilanen Eeva-Liisa *Master of Laws*
Mykkänen Jouni *Managing Director*
Palmgren Maj-Britt *Master of Philosophy*
Pietikäinen Margareta *Member of the Finnish Parliament*
Pohjola Markku *Master of Laws*
Rahkamo Kari *Lord Mayor*
Rantsi Mirjam *Bank Officer*
Rihtniemi Suvi *Master of Science (Eng.)*
Sainio Martti *Master of Science (Eng.)*
Seppänen Esko *Member of the European Parliament*
Soininvaara Anna-Maria *Bachelor of Philosophy*
Soininvaara Osmo *Member of the Finnish Parliament*
Strömberg Anja *Librarian*
Suominen Riitta *Advertising Executive*
Tallberg Peter *MBA*
Thors Astrid *Member of the European Parliament*
Tiilikainen Raimo *Commodore*
Tiuri Martti *Member of the Finnish Parliament*
Toivonen Panu *Forestry Officer*
Tuominen Ilkka *Organisation Secretary*
Tuomioja Erkki *Government Minister (until 11 May 1999)*
Uhlenius Jani *Musician*
Vanhanen Matti *Member of the Finnish Parliament*
Varpasuo Päivi *Master of Social Sciences*
Westerholm Raino *Forestry Officer*
Yliharju Gunnar *Chief Shop Steward*
Zilliacus Jutta *Journalist*
Zyskowicz Ben *Member of the Finnish Parliament*
Åhman Göran *Managing Director*

HPY Holding's Supervisory Board and Board of Directors at their meeting on 14 March 2000.

Board of Directors

(Board of Governors of Telephone Cooperative HPY until 11 May 1999). The Board of Directors' term of office ends on 30 June 2000

Chairman ***Holkeri Harri*** *Master of Political Science, Counsellor of State (Hon)*
Deputy chairman ***Paasilinna Reino*** *Doctor of Social Sciences, MEP*

Adolfsson Carl Johan *Master of Science (Econ.)*
Helaniemi Erkki *Partner*
Ilaskivi Raimo *Lord Mayor*
Melin Ingvar S. *Licentiate in Economics and Business Administration*
Molander Sole *Licentiate in Political Science*
Piimies Kari *Architect*
Sauri Pekka *Doctor of Philosophy*

Members of HPY Holding's Board of Directors from the left. Front row: Reino Paasilinna, Harri Holkeri, Raimo Ilaskivi. Back row: Sole Molander, Kari Piimies, Ingvar S. Melin, Carl Johan Adolfsson and Erkki Helaniemi. Pekka Sauri is missing from the photo.

The extraordinary meeting of HPY Holding Corporation on 27 September 1999 approved the new Articles of Association when approving the plan to merge Helsinki Telephone Corporation with and into HPY Holding Corporation on or about 1 July 2000.

In accordance with the new Articles of Association;

General Meeting of Shareholders

Ultimate decision-making power in HPY Holding Corporation is vested in the General Meeting of Shareholders which, among other things, receives and considers the company's report and accounts and consolidated report and accounts. The Meeting also decides on the measures warranted by the profit or loss shown in the balance sheet or consolidated balance sheet and declares any dividend to be paid. The Meeting also decides on the discharge of responsibility of members of the Board of Directors and the managing director, as well as deciding the remuneration and grounds for travel costs of Board members and the company's auditors. Furthermore, the Meeting decides the number of members of the Board of Directors and appoints Board members the company's auditors.

Notwithstanding the number of shares owned, no shareholder may cast at a shareholders' meeting more than one fifth of all votes represented at that meeting.

Board of Directors

The company has a Board of Directors comprising between five and nine members. The Board of Directors is responsible for the corporate governance and proper arrangement of the company's activities in compliance with the law and Articles of Association

The Board of Directors elects a chairman and deputy chairman from among its members

The Board of Directors appoints the company's managing director and deputy. The Board of Directors may, from among its members, appoint a Remuneration Committee, responsible for deciding the salaries and emoluments of the managing director, his/her substitute, deputy managing director, the managing directors of subsidiaries and other senior group management decided by the Board of Directors.

Members of the Board of Directors serve for a term of three years, with approximately one third of the members retiring by rotation each year. Lots shall be drawn to decide who is to retire first, thereafter retirement will be by rotation.

Managing director

The company's managing director is responsible for managing the company's day-to-day administration under the supervision of the Board of Directors and in accordance with its instructions.

Board of Directors from 1 July 2000

In connection with adoption of the merger plan, the extraordinary general meeting appointed the following members to HPY Holding Corporation's Board of Directors, effective 1 July 2000:

Matti Aura *(1943), CEO of Onvest Oy*
Riitta Backas *(1946), Financial Manager, Pharma Industry of Finland*
Arto Ihto *(1947), President and CEO, Osuusliike Elanto*
Matti Ilmari *(1942), President and CEO, ABB Oy*
Rauno Kousa *(1941), Parliamentary special adviser*
Keijo Suila *(1945), President and CEO of Finnair Oyj*
Linus Torvalds *(1969), Software engineer, Transmeta Corporation*
Paavo Uronen *(1938), Rector, Helsinki University of Technology*
Ossi Virolainen *(1944), Deputy Chairman, Deputy Chief Executive, Outokumpu Oyj*

Managing Director (until 30 June 2000)
Kurt Nordman *(1938), Director General*

Managing Director from 1 July 2000

The merger plan contains a proposal that the Board of Directors be instructed to appoint ***Matti Mattheiszen*** *as the company's managing director from the merger date.*

HPY Holding Corporation
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