Annual Report 1997

HELSINKI TELEPHONE CORPORATION

Information to shareholders

Annual General Meeting

The 1998 Annual General Meeting of Helsinki Telephone Corporation will be held at 1.00pm on 2 April 1998 in Room E 2 at the Helsinki Fair Centre, Rautatieläisenkatu 3, Helsinki.

Shareholders should give notification of their intention to attend the Annual General Meeting by 4.00pm on 30 March, either in writing to Helsinki Telephone Corporation, Anna Savikko, PO Box 148, 00131 Helsinki, by telephoning 0800 9 6444 or by faxing (09) 659 595.

Shareholders registered by 27 March 1998 in the company's share register kept by the Finnish Central Securities Depository (APK) are entitled to attend the Annual General Meeting.

Dividend

The Board of Directors will recommend to the Annual General Meeting that a dividend of FIM 1.30 per E Share be declared for 1997. The dividend approved by the Annual General Meeting will be declared to shareholders on the company's share register kept by the Finnish Central Securities Depository at the record date. The Board of Directors will recommend to the Annual General Meeting that the dividend record date be 7 April 1998 and that dividends be paid out from 14 April 1998.

Changes of name and address

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

Financial information

Helsinki Telephone Corporation will publish its annual report in March and interim reports on 2 June 1998 and 7 October 1998. The annual report is published in Finnish, Swedish, English and German, the interim reports in Finnish, Swedish and English. Copies of these reports are available from Helsinki Telephone Corporation Communications, tel. (09) 6061.

Contents

Overview of the group

Helsinki Telephone Corporation is the largest privately-owned provider of telecommunications services in Finland. The company began operations at the beginning of 1994, when the principal operations of Helsinki Telephone Association, founded in 1882, were incorporated.

At the beginning of 1997, the company's entire share capital was owned by Helsinki Telephone Association. In a bid to expand the ownership base, a share offering, PlusAnti, targeted at association members and employees took place in autumn 1997. The company gained 108,000 new owners as a result.

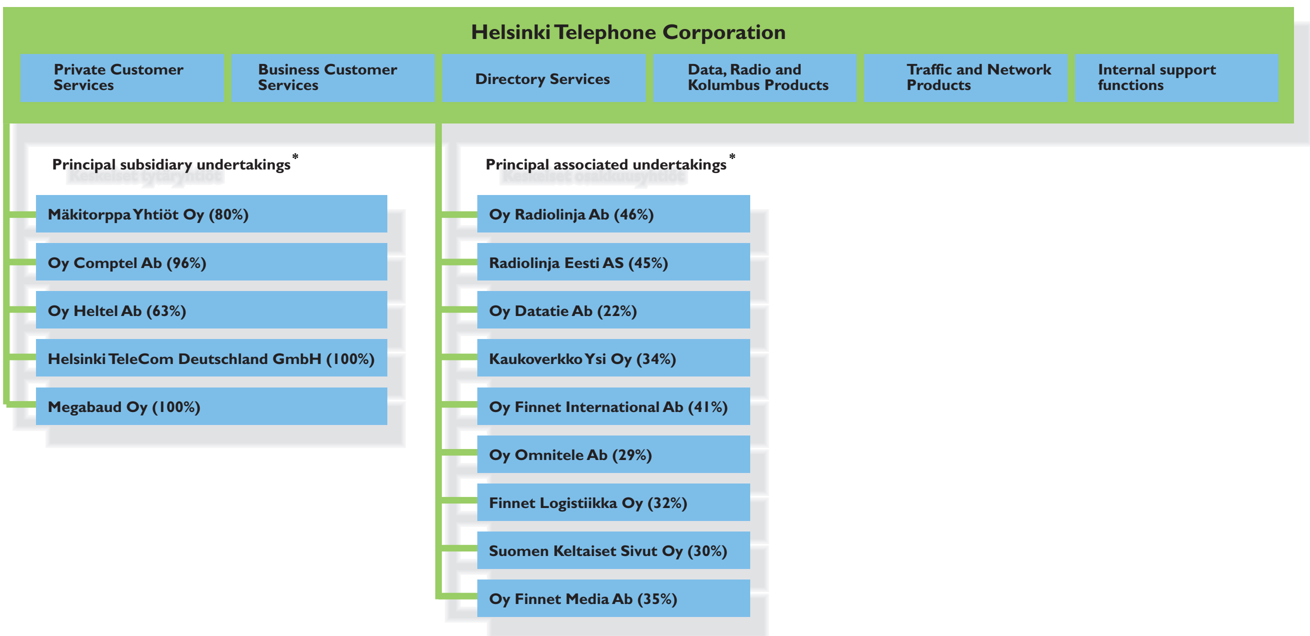
Helsinki Telephone Corporation has been listed on the Helsinki Stock Exchange since November 1997. Holding around 85 per cent of the company's shares, Helsinki Telephone Association is still the company's largest owner.

Helsinki Telephone Corporation provides local, national and international telecommunication services. Services provided by the group and its associated undertakings include local, long-distance, international and mobile calls, data transmission and tailored planning and implementation of business telecommunication solutions.

Group structure

Helsinki Telephone Corporation comprises five business divisions: Private Customer Services, Business Customer Services, Directory Services (directory and number enquiries), Data, Radio and Kolumbus Products and Traffic and Network Products. The latter also includes R&D and international operations.

The group comprises Helsinki Telephone Corporation and its subsidiary undertakings, the most important of which are Mäkitorppa Yhtiöt Oy, Oy Heltel Ab, Oy Comptel Ab, Helsinki TeleCom Deutschland GmbH and the latest acquisition, Megabaud Oy. In addition to subsidiaries, the company also has substantial minority interests in companies handling national and international telecommunications. Privately-owned telecommunication companies belonging to the Finnet Group, other companies and private persons in Finland also have interests in these associated undertakings.



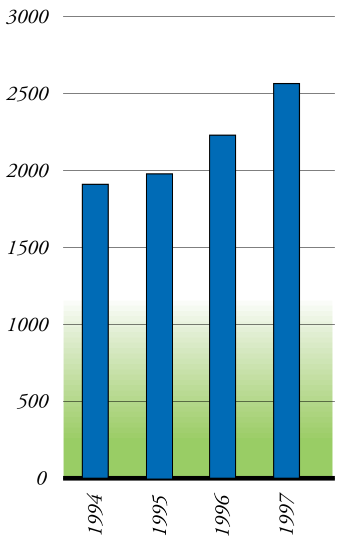
*) Helsinki Telephone Corporation's holding in the company in question appears in parentheses.

Financial highlights

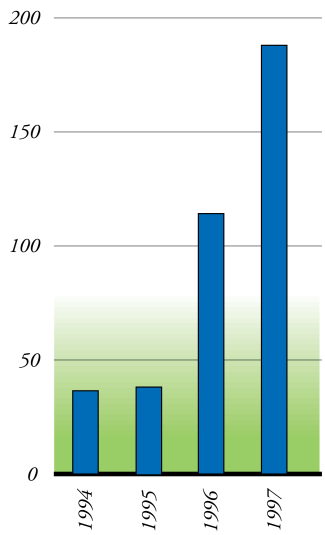
	1997	1996	Change
Turnover, FIM million	2,565.6	2,230.0	+15%
Operating margin, FIM million	701.8	584.6	+20%
Operating profit, FIM million	224.4	140.5	+60%
Profit before extraordinary items, FIM million	188.0	114.2	+65%
R&D expenses, FIM million	55.2	46.8	+18%
Gross investments, FIM million	737.2	686.1[1]	+7%
Equity ratio, %	59.6	53.4	
Employees, average	3,814	3,736	+2%

[1)] of which FIM 100.2 million by leasing

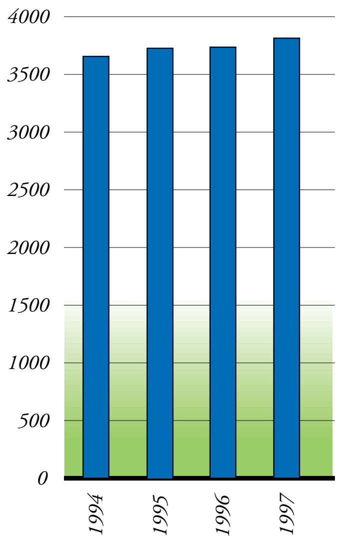
Group turnover, FIM million



Group profit before extraordinary items, FIM million



Group employees



Highlights in 1997

- In early 1997 the company concluded a telecommunications agreement with the Metsäliitto Group and Myllykoski Oy, its most extensive agreement to date.

- The company's operative organisation was restructured, with business activities being split into five divisions from 1 May. Matti Mattheiszen was appointed the company's new Chief Executive Officer.

- Under the new Telecommunications Markets Act entering into force on 1 June 1997, network activities must be accounted for separately and the company must also lease lines to other network operators on the same grounds.

- Helsinki Telephone Corporation was the first company to launch a wireless city phone based on GSM 1800 technology, CityPhone.

- September saw the 50,000th customer sign up for our Home Answerphone facility.

- Helsinki Telephone Corporation increased its share capital through PlusAnti, a share offering targeted at members of Helsinki Telephone Association and the company's employees between 12 September and 23 October 1997.

- A new pricing structure for local calls was introduced in November 1997: instead of a pulse price, calls are now charged on a time basis, accurate to the nearest second.

- Helsinki Telephone Corporation was listed on the Helsinki Stock Exchange. Quotation of Series E Shares began on 25 November 1997.

- The company supplied one of the world's most powerful (155 Mbit/s) data networks (FUNET) to universities.

- The number of telephone subscriber lines rose for the first time in many years.

Vision and mission

Helsinki Telephone Corporation's activities are based on the vision of Finland as an information society, where telecommunications are an integral part of virtually all goods and services. Without a highly advanced and competitive infrastructure there can be no information society.

The information society will mean profound changes in many aspects of life. Various teaching methods and tools based on digital technology have the potential to revolutionise training and education. Networking will give rise to powerful information searches and teleworking. Commerce will partly shift to the network as new entertainment services become more widespread and increasingly sophisticated. The opportunities are unlimited.

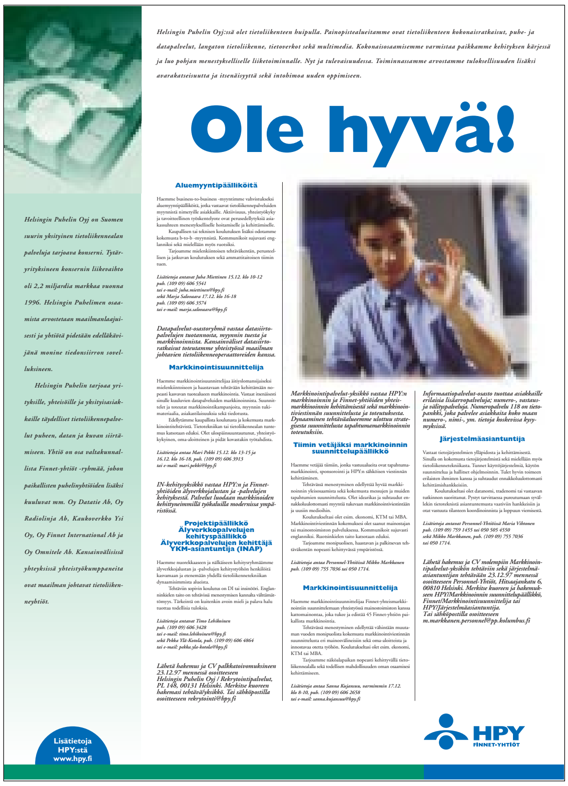
Helsinki Telephone Corporation is committed to promoting the success of its customers and well-being in an information society, by creating opportunities for them to transmit information and experiences electronically, irrespective of time, place and means.

Corporate values

Helsinki Telephone Corporation's core value is responsibility. This translates into responsibility for our employees and the environment, and above all responsibility for the customer: in other words the quality of the services we give our customers. A significant part of this quality involves making new telecommunication facilities rapidly available to our customers. Helsinki Telephone Corporation is committed to remaining at the leading edge of development.

For a company to be genuinely customer-oriented, it needs to have a deep insight into its customers' business and to be able to foresee what the customer needs today and tomorrow.

Profitability is essential to continue our business, and we must be able to offer shareholders an attractive return on their investments in the form of dividends and increased value.



The HPY Way Project

We are constantly developing our activities to ensure success in the face of tougher competition. To hasten development within Helsinki Telephone Corporation, we set up the HPY Way Project. The first phase of the project charted how we work in practice. Summer 1997 saw us progress to the second stage, that of identifying the focus areas which we particularly need to address. These take into account the criteria of the international quality award.

Corporate governance

Supervisory Board

Helsinki Telephone Corporation has a Supervisory Board to which the Annual General Meeting appoints between six and fifteen members each year. Although there are no employee representatives on either the Supervisory Board or the Board of Directors, statutory employee representation under the Worker Representation Act is effected by the inclusion of employee representatives in cooperation bodies at an operational level.

The principal responsibilities of the Supervisory Board are to decide the number of and to appoint Board of Directors members and the chairman of the Board, to elect the company's CEO and to appoint his or her deputy, to decide any substantial reductions or expansions of the company's operations, or any significant changes in the company's organisation, and to be responsible for supervising the corporate governance carried out by the CEO and Board of Directors.

The terms of office of present members of the Supervisory Board expire at the 1998 Annual General Meeting.

Harri Holkeri (1937), Master of Social Sciences, chairman, member since 1993.

Reino Paasilinna (1939), Doctor of Social Sciences, MEP, deputy chairman, member since 1993.

Carl Johan Adolfsson (1933), Master of Economics and Business Administration, member since 1993.

Erkki Helaniemi (1962), Master of Laws, partner, Alexander Corporate Finance Oy, member since 1996.

Raimo Ilaskivi (1928), Doctor of Social Sciences, MEP, member since 1993.

Tuulikki Juusela (1940), Master of Social Sciences, Managing Director/Tuulikki Juusela Oy/WomCo Ltd., member since 1996.

Ingvar S. Melin (1932), Licentiate in Economics and Business Administration, member since 1993.

Kari Piimies (1946), architect, City of Helsinki, member since 1993.

Pekka Saarnio (1945), MP, member since 1993.

Board of Directors

The company has a Board of Directors comprising between four and ten members as determined by the Supervisory Board. Members of the Board of Directors serve for a term of three years, with one third of the members retiring by rotation each year. The current Board of Directors comprises nine members, including the company's CEO and two COOs. The Board has a full-time chairman.

Kurt Nordman (1938), Managing Director, Helsinki Telephone Association, chairman, member since 1993, term of office expires in the year 2000.

Ossi Virolainen (1944), Deputy Chief Executive, Outokumpu Oyj, deputy chairman, member since 1997, term of office expires 1999.

Jukka Alho (1952), COO, Helsinki Telephone Corporation, member since 1993, term of office expires 1998.

Riitta Backas (1946), Vice President Administration and Personnel, Thomesto Trading Yhtiöt Oy, member since 1997, term of office expires 1998.

Matti Ilmari (1942), President and CEO, Country Manager, ABB Oy Group, member since 1997, term of office expires in the year 2000.

Jarmo Kalm (1945), COO, Helsinki Telephone Corporation, member since 1993, term of office expires 1998.

Rauno Kousa (1941), Chairman of the Board of Directors, Kantava Oy -yhtiöt, member since 1997, term of office expires 1999.

Matti Mattheiszen (1942), CEO, Helsinki Telephone Corporation, member since 1993, term of office expires 1999.

Paavo Uronen (1938), Rector, Helsinki University of Technology, member since

Helsinki Telephone Corporation's Board of Directors: (from the left) Jukka Alho, Rauno Kousa, Paavo Uronen, Ossi Virolainen, Kurt Nordman, Riitta Backas, Matti Mattheiszen and Jarmo Kalm. Matti Ilmari is missing from the photo.

1997, term of office expires in the year 2000.

The Board of Directors has confirmed the division of roles between the full-time chairman and the CEO. This means that the chairman of the Board will monitor result reporting and the preparation and implementation of strategic plans and, together with the CEO, be responsible for maintaining contact with major interest groups and for owner and investor relations.

Auditors

The company's auditors are SVH Coopers & Lybrand Oy, Authorised Public Accountants, with Henrik Sormunen (APA) as the main auditor, as well as Leo Laitinmäki (APA) and Lasse Lehti (AA).

Chief Executive Officer and Chief Operating Officers

Matti Mattheiszen (1942), MSc (Tech), was appointed CEO from 1 May 1997. He has served the company and Helsinki Telephone Association since 1971. He served as head of Sales and Marketing of the companies mentioned since 1984, and as COO and acting CEO between 1988 and 1997.

Jukka Alho (1952), MSc (Tech), COO and acting CEO from 1 May 1997. He has served the company and Helsinki Telephone Association since 1981, and is head of the Traffic and Network Products division. He also chairs the Board of Directors of Oy Comptel Ab, Oy Finnet International Ab and Oy Omnitele Ab.

Jarmo Kalm (1945), engineer, COO and acting CEO from 1 May 1997. Mr Kalm has served the company and Helsinki Telephone Association since 1972, and is head of the Data, Radio and Kolumbus Products division. He is managing director of Oy Datatie Ab and chairs the Board of Directors of Oy Radiolinja Ab and Mäkitorppa Yhtiöt Oy.

Divisional directors

Private Customer Services

Raili Pohtola (1948), BAdmin, has served the company since 1978, initially in positions relating to administration and sales. She was appointed Director, Private Customer Services with effect from 1 May 1997.

Business Customer Services

Matti Carpén (1960), MSc (Tech), has served the company for two terms beginning in 1987, initially in positions relating to sales and marketing. He was appointed Director, Business Customer Services with effect from 1 May 1997.

Directory Services

Jarmo Leiniö (1951), MSc (Tech), has served the company since 1980, initially in positions relating to technology and logistics. He was appointed Director, Directory Services with effect from 1 May 1997.

Data, Radio and Kolumbus Products

Director of the division is COO Jarmo Kalm, member of the company's Board of Directors.

Traffic and Network Products

Director of the division is COO Jukka Alho, member of the company's Board of Directors.

Internal support functions

Finance and Administration

Ann-Maj Majuri-Ahonen (1946), Master of Economics and Business Administration, joined the company in 1994 as Director, Finance and Administration.

Personnel

Johan Weckström (1941), MSc (Tech), has served the company since 1964 in positions relating to technology and personnel administration, and as Director, Personnel since 1987.

Risto Rinta-Mänty (1948), LicMed, has served the company since 1989 as the senior physician and as Director, Human Resources since 1.12.1997.

Communications and External Relations

Kalevi Suortti (1949) has served the company as Director, Communications Services and External Relations since 1992.

Corporate Planning

Jukka Ruuska (1961), Master of Laws, joined the company as Director, Corporate Planning in 1997.

Information Society Development

Tauno Heikkilä (1937), staff officer, joined the company as Director, Information Society Development in 1997.

The company's Strategic Management Group and Management Board also support the CEO in running the business. The Strategic Management Group consists of COO Alho and COO Kalm, and directors Carpén, Leiniö, Majuri-Ahonen, Pohtola, Rinta-Mänty, Ruuska and Suortti. These persons together with directors Heikkilä and Weckström and employee representatives make up the Management Board.

Personnel representatives on the internal Management Board

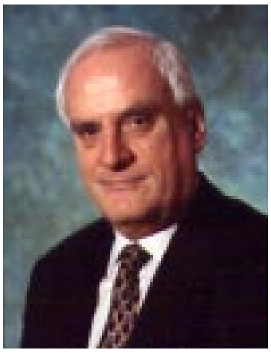
Teuvo Käyhty (1948), sales manager, has served the company since 1975.

Helena Lehtonen (1942), office employee, has served the company since 1966.

Kari Mäkikara (1941), research technician, has served the company since 1959.

Seppo Saari (1952), network installer, has served the company since 1971.

Chairman's statement



Subsequent to the share offering, Helsinki Telephone Corporation became a publicly listed company in autumn 1997. This was yet another link in a series of rapid changes that have gathered momentum since the principal operations of Helsinki Telephone Association were incorporated on 1 January 1994.

Offering the shares to Helsinki Telephone Association members proved to be an extremely successful measure, with members acquiring virtually all the shares offered. Subsequent share performance has further confirmed the status of the shares issued as a "people's share". The rise in price of the shares has also been reflected in the market value of Helsinki Telephone Association's membership certificates, which has doubled within a year.

The share offering and listing presented us with enormous challenges, and our thanks are due to all those who helped us to successfully complete this project. At the same time, the project also had a much broader impact on the way our business is run and on our corporate culture as a whole. We now have a much clearer and stronger commitment to producing good results, irrespective of whether we are talking about operating profit proper, the quality of customer service or generating added value in telecommunications. This is also evident in the form of a keener strategic way of thinking at corporate governance and senior management levels.

This is not the end of the changes. Spring 1998 will see Helsinki Telephone Association decide if, when and how members should be given an opportunity to exchange their membership certificates for shares in Helsinki Telephone Corporation. The impacts of this on the group's ownership base will very much depend on the direction of progress in this respect.

Kurt Nordman
Chairman of the Board of Directors

Chief Executive Officer's Review

Helsinki Telephone Corporation reasserted its aim to play a leading role in building the Finnish information society. To achieve this aim, we have developed communications solutions to promote the success and prosperity of our customers in the information society, irrespective of restrictions imposed by time, place and means.

For the group, 1997 was a year marked by major changes, with a restructuring of the parent company's ownership and organisation. The telecommunications market grew and changed in content. Final deregulation of the market took place and Finnish and international alliances began to take shape. This will mean increasingly fiercer competition for market shares and customers.

It was particularly gratifying to note that despite this turbulent background, group business improved encouragingly. Turnover rose by 15 per cent to exceed FIM 2.5 billion. We clearly exceeded our growth and profitability targets in all core business sectors. The year under review saw a continuation of the strong performance triggered off when Helsinki Telephone Association assigned its principal business operations to Helsinki Telephone Company Ltd. in 1994. A profit of FIM 224 million was reported, an increase of 60 per cent on the corresponding figure for the previous year.

We can note with satisfaction that growing earnings and turnover will provide us with the resources for the major investments still needed to ensure our success. Our estimated investments of FIM 700 million a year have proved to be realistic.

On the other hand, it has also become apparent that focusing our investments on digital technology, business network solutions and mobile networks has had a decisive impact on the success of our business. The importance of investment and R&D is also clearly evident in investment analysts' reports on the company's value, an important factor for shareholders. In this sense, the interactive multimedia Helsinki Arena 2000 Project and the broad consortium around it have attracted most publicity. This project has aroused exceptionally wide interest both in Finland and internationally.

PlusAnti had an internal and external impact

More than anything else, 1997 will go down in the company's history annals as one in which the decisive step towards a new ownership base and corporate culture was taken. The publicity generated by PlusAnti in association with Helsinki Telephone Corporation's listing was the most prominent and extensive publicity surrounding any listing in Finland in recent years.

This was only to be expected, after all it did involve almost half a million households.

All in all, the listing process was extremely successful, both as a technical and financial operation and in sharpening our corporate image. Although the public offering was withdrawn immediately after the first day, the shares were eight times oversubscribed. Our corporate image of a successful telecommunications company with a good market position and bright future prospects was further enhanced. In addition to the external impact, PlusAnti had an extremely major impact on development of the company's internal culture.

Listing brought the company more than 100,000 new owners. Practically speaking these owners are almost exclusively Helsinki Telephone Association members. Additionally over 1,500 Helsinki Telephone Corporation people bought shares in the employee offering.

Talks on Finnet cooperation continue

Talks on developing the Finnet Group's national operations continued throughout the year. The letter of intent signed in May served as a basis for the result negotiated in December. Finnet Group companies will take a stand on this result in early 1998. In the event of agreement being reached, the new company, which would include the major companies Radiolinja, Datatie, Kaukoverkko Ysi and Finnet International, will begin operations in the second half of 1998.

One of the difficulties in the negotiations has been how to align the different goals of the various-sized private telephone companies. Key issues such as business cooperation and the existence of the provincial companies' strong network have not been called into question.

A year marked by mobile operations, business networks and the Internet

If we wanted to characterise business in 1997, we could say it was definitely a year marked by mobile operations, business networks and the Internet.

At the national level, billing for mobile phonecalls clearly exceeded billing for calls in the fixed local network. Finland now ranks among the world's leaders in mobile penetration. Helsinki Telephone Corporation has a strong hold on the profitable mobile business through Radiolinja, which improved its turnover to over FIM 1.1 billion.

Billing for business networks rose by 26 per cent. This growth reflects the importance of telecommunications in enhancing a company's business, changing its structure and as a major competitive factor. What we are witnessing is technological evolution. Revolution will inevitably follow in the wake of telecommunications development.

Internet and the solutions supporting Internet protocols also underwent a breakthrough from the company's point of view. More and more companies' information network solutions are intranet-based and the traffic generated by private users in the local network already exceeds both international and domestic long-distance traffic in terms of minutes. Internet and the new generation of users will be in the forefront of electronic commerce.

Information society and competition swell the market

Our employees have responded well to the changes taking place in our business environment. The many positive events occurring in 1997 and the company's business success have lent strong support to the change in our business culture.

Our ideal position, core targets and values have been dealt with at all organisational levels and employee groups. Our management system is based on addressing personal development needs. We have reviewed and assessed our organisation and course of action in respect of human resources, enhancing the operating conditions of our business units. The individual has become a key success factor within the dynamic environment in which our company operates.

The company has excellent future potential as telecommunications secure an increasingly important role in overall social function. Fierce competition in the telecommunications market is continuing to drive development and growth.

Our outstanding success in 1997 is first and foremost due to the tremendous confidence placed in us by our customers, who have entrusted us with a core part of their business and service functions – telecommunications.

I also find extremely significant the unreserved vote of confidence given by our customers and our own employees in the share offering. Our new owners believe we are a company able to deliver added value in the form of dividends and added shareholder value.

The overwhelming efforts of our employees, the working community and my colleagues in demanding projects and their commitment to the company have shown that we are well placed to respond to our shareholders' expectations.

Matti Mattheiszen
Managing Director and
Chief Executive Officer

Traffic and Network Products

Jukka Alho
COO

The Traffic and Network Products division is responsible for Helsinki Telephone Corporation's telephone business and for providing various network services to, for example, Radiolinja. Additionally, divisional management is also responsible for the company's R&D and for developing international operations.

Helsinki Telephone Corporation successfully retained its strong market position in its own operating area. Although the company is undisputed market leader in fixed network local calls, it must be pointed out that the real competition is in mobile networks. In our own operating area we held on to our market share of around 60 per cent in domestic long-distance calls, and increased our share of international calls to 31 per cent.

The pricing structure of local calls was changed with the introduction of per second charging at the beginning of November 1997. This move was part of a more extensive project aimed at more detailed itemised billing.

After many years of sluggish growth, 1997 saw a rapid growth in the number of telephone subscriber lines. Particular growth was witnessed in ISDN subscriptions, which numbered 20,000 at the end of 1997. Earlier, ISDN subscriptions were predominantly used by companies, but as much as around half of the new subscriptions towards the end of last year were made by private customers. Increasing use of the Internet also fuelled the demand for ISDN by private persons. Towards the end of the year, Internet traffic began to account for a major share of telephone traffic.

Used by more than ten per cent of private subscribers, our Home Answerphone facility remained our most popular value added service for private customers. There was also dynamic growth in demand for our Caller Display facility.

Call volumes were up by over five per cent in 1997 and net earnings from calls by slightly less. There was particular growth in the number of calls from the fixed network to mobile phones and in international calls. The volume of domestic long-distance calls remained virtually unchanged, and local calls proper showed a slight decline in volume.

Separate network operations

Separation of network operations and leasing the network to other network operators on the same grounds began as a result of the Telecommunications Market Act, which came into force on 1 June 1997. Over 3,800 connections from Helsinki Telephone Corporation's network have now been leased to other telecommunication operators.

Complying with the Telecommunications Market Act, 2,390 line access enquiries were made during a six-month period. In over 90 per cent of cases the connection wished for could be delivered. A total of some 700 new leased connections were delivered to other operators between June and December. Other telecommunication operators need to lease lines mostly to implement their business services. In the consumer sector, the competition for new customers is primarily in mobile networks.

An upswing in the construction of commercial and residential premises in the greater Helsinki area is reflected in the strong growth in optical fibre cabling. Nevertheless, we are keeping the level of network investments under control by making efficient use of existing network capacity. Growth in the greater Helsinki area is also reflected in the dynamic increase in construction of the cable television network.

CityPhone network

In 1997 we progressed with building Helsinki Telephone Corporation's wireless DCS or GSM 1800 city telephone network, increasing the number of base stations and extending the coverage area from the centre of Helsinki towards Ring Road III. During the year under review, Helsinki Telephone Corporation acquired its own DCS centre, which will pave the way for new wireless local telephone services for business and private customers alike.

Known as CityPhone, this wireless city network facility has been warmly welcomed by businesses, and was already in use in over one hundred firms during the autumn. A subscription service aimed at consumers was launched in late autumn. The facility will be marketed over a wider area during the spring as the coverage area is extended to include Ring Road III and the adjacent built-up areas.

CityPhone has been entirely merchandised for new user groups. In companies, the facility functions as a wireless extension to a company's telephone system. For private customers, CityPhone is ideal alongside the conventional home phone. Major investment in the network will continue throughout 1998.

Research Centre

In 1997 Helsinki Telephone Corporation's Research Centre focused on EU and Eurescom projects on the international front and on Technology Development Centre Finland (TEKES) projects at home. The year under review saw the conclusion of TEKES' three-year national multimedia project, KAMU, in which Helsinki Telephone Corporation was successfully involved.


Helsinki Telephone Corporation was the first company to launch a wireless city phone based on GSM 1800 technology. Companies warmly welcomed the phone, now in use in more than one hundred firms including Finnsteve, which provides loading and unloading services at the Port of Helsinki.

The results of KAMU are being put to good use in the Helsinki Arena 2000 virtual city project.

Participation by the Research Centre and its researchers in Eurescom projects has grown considerably in 1997. The Centre is also involved in several EU research projects, including the Infocities project.

The Research Centre has also been involved in several R&D projects in customer service units, and the Centre's international and national research projects have been used to promote sales in various divisions.

International operations

In Central Europe, the company provided consulting services through its subsidiary Helsinki TeleCom Deutschland for customers operating in fifteen large or medium-large cities. These customers are planning to introduce telecommunication operations. The main focal point remained Germany, where the company could draw on the support of Helsinki TeleCom Deutschland GmbH.

Deregulation, also in respect of voice services, of the German telecommunication market on 1 January 1998 resulted in a new type of demand for telephone switching centre commissioning and operating services towards the end of 1997. Helsinki Telephone Corporation concluded an agreement with Mobilcom AG's long-distance operator CityLINE for these kinds of expert services. This led to the start up of national call operations and KielNET GmbH's local call operations on New Year's Eve.

The latest technology

Helsinki Telephone Corporation's telephone network products are increasingly based on flexible IN platforms. Practically all network solutions based on 010 numbering and Diana 050 GSM calls in larger companies are implemented using IN systems maintained by Helsinki Telephone Corporation. The company and its associated undertaking Radiolinja rank among the world's most advanced providers of so-called fixed/mobile integrated solutions.

In early 1997, Helsinki Telephone Corporation was one of world's first telecommunication operators to announce plans to implement a powerful multimedia network for home users. During the year under review, the company made preparations to provide fast ADSL/HDSL connections in several switching centre areas. Likewise, the company also made preparations to provide Internet calls, even though there is still no commercial demand for them.

Data, Radio and Kolumbus Products

Jarmo Kalm
COO

As the name suggests the Data, Radio and Kolumbus Products division comprises three parts. Data Services, together with the associated undertaking Datatie, is mainly responsible for business data systems, LAN and business network solutions. Kolumbus Products is an Internet Services Provider (ISP). In addition to Helsinki Telephone Corporation, the associated undertakings Radiolinja and Radiolinja Eesti and subsidiary Mäkitorppa (see pages 19 and 22) are engaged in radio services or so-called mobile activities.

The division operates in dynamically growing sectors against a backdrop of fierce competition. 1997 was an encouraging year, with demand higher than expected, and the division successfully increased its market share.

Radio Services

A record number of mobile phone subscriptions was sold in Finland in 1997. According to the Finnish Ministry of Transport and Communications, there were 2.16 million mobile phones in Finland at year end. At 42 per cent, mobile density created a world record. Last year was the first time billing for mobile calls exceeded that for fixed network calls.

The year under review saw Radiolinja break the half million mobile subscription barrier, with the number of GSM subscriptions in the Radiolinja network more than doubling. The network was also built at record speed, with priority given to increasing capacity and only slight consolidation of the coverage area. Radiolinja Eesti strengthened its position in Estonia.

Although the industry grew strongly as a whole, growth in the Mäkitorppa Group was clearly much greater than average. The year under review can be termed a record one to date. Group performance also improved considerably compared to the previous year and clearly exceeded targets. Over 50 per cent of the Mäkitorppa Group's turnover was generated outside Finland.

Data Services

Data Services is basically responsible for internal data systems solutions, LAN solutions, local, national and international business network solutions for companies. The group is also responsible for data transmission from terminals, cable TV connections and emergency phones. Activities focused strongly on business network solutions.

The competitiveness of business customers' LanLink facilities on the market had a major impact on merchandising and increasing capacity within this group. Businesses and government bodies used these facilities to integrate data transmission from their offices located in various parts of the country or even around the world into a single communications network, thus improving their operations.

Solutions at a national level are implemented in cooperation with associated undertaking Datatie. Finnet International and Global One are our main partners on an international level.

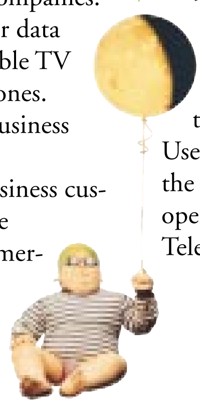
The total data transmission market in 1997 was worth between FIM 1.5bn and FIM 2.0bn, depending on definition. Helsinki Telephone Corporation had a 25-35 per cent and the Finnet companies a 35-45 per cent share of this market. These figures also include data network services. Roughly half the sales were generated by LanLink services. Together with Datatie, Helsinki Telephone Corporation is the market leader in Finland.

Data Services' prime target group was large and medium-sized firms. The most important sector was finance, and the year under review saw an expansion of Merita Bank's, the OKO Bank Group's and the Savings Banks' data network solutions. A powerful data network (FUNET) was delivered to universities. The media sector also developed encouragingly.

Applications became increasingly important in Data Services' sales. For customers, key applications were the Internet and electronic commerce, logistics, intranet, extranet, telecommuting, team working, functional networking supported by communications and mobility.

Kolumbus Services

1997 was a landmark year for Internet services, with Helsinki Telephone Corporation's Internet traffic more than doubling in terms of minutes. The Internet is one of our strategic focus areas. Use of Internet services, those provided by the company and other communications operators, led to an increase in Helsinki Telephone Corporation's basic telephone



network and in data and mobile networks. Internet traffic already accounts for over ten per cent of total traffic in the company's telephone network.

Internet subscription products were the clear focal point in the growth of Kolumbus Services. Last year, the Internet market was marked by fierce competition in price and market share. Kolumbus successfully managed to significantly increase its market share in the business sector. Priority was given to server and information systems and international connections in a bid to guarantee quality. Application development focused on electronic trading systems.

Alongside the Kolumbus range of products, Helsinki Telephone Corporation acquired Megabaud Oy in the autumn to further consolidate its position as one of the major providers of Internet services.

The Internet market is extremely segmented. Although it is easy to enter the industry, staying there is expensive. Kolumbus is one of the three major providers of Internet services in Finland. Compared to the previous year, Kolumbus more or less tripled its turnover, which grew much faster than the industry as a whole.

Helsinki Arena 2000

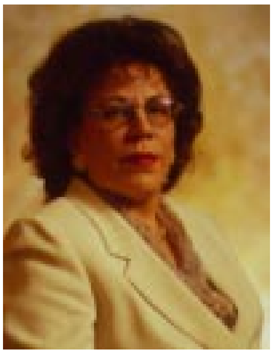
The Helsinki Arena 2000 project progressed according to schedule, and received considerable attention both in Finland and internationally. The project aims to create a comprehensive service package which households in the greater Helsinki area can use to access to all the services they require through data networks, simply and inexpensively. In addition to Helsinki Telephone Corporation and the City of Helsinki, those taking part in the Arena project include Helsinki Chamber of Commerce, Helsinki School of Economics and Business Administration, Helsingin Sanomat, Helsinki Televisio, the University of Helsinki, IBM, ICL Data, Merita Bank, Nokia Telecommunications, Novo Group, the Pop & Jazz Conservatory, Sibelius Academy, the Swedish School of Economics and Business Administration, the University of Art and Design Helsinki UIAH, Helsinki University of Technology and TT Tieto.

The future

As early as the next decade all companies, and to an increasing extent private households, will have a rapid data link to various information network services and several mobile connections in addition to the conventional fixed network phone. Growing numbers of subscriptions and the continuing diversity of services provided will enable these business sectors to remain on a strong growth track.

1997 was marked by a breakthrough in Internet services, with Helsinki Telephone Corporation's Internet traffic more than doubling. Kolumbus successfully increased its market share in the business sector during the year. Growth was clearly focused on Internet connection products.

Private Customer Services



Raili Pohtola
Divisional director

The Private Customer Services division is responsible for selling and marketing Helsinki Telephone Corporation's products and services, customer services to residential customers and related installation and maintenance functions. The division also includes a separate business sector, public telephone services.

During the year under review, Helsinki Telephone Corporation successfully retained its exceptionally strong market position in the private customer subscriber line and local call markets and in long-distance calls. Although we have faced open competition for over a year, we have not lost our market share. In recent years we have even been able to increase local call volumes, primarily as a result of our PLUS services.

A marketing campaign targeted at customer groups who call frequently abroad helped take our market share of international calls to over 30 per cent. September 1997 was the first time Helsinki Telephone Corporation overtook its main competitor in the number of minutes called from private subscriber lines.

Sales of GSM telephones and subscriptions grew faster than expected. The real breakthrough in home ISDN sales took place in September. Caller Display and Home Answerphone were the most popular PLUS service products, with the 50,000th customer signing up for the latter in September. New products launched during the year included the CityPhone, a wireless city phone solution based on GSM 1800 technology, and the first such phone in Finland aimed at consumers.

Growth in the use of mobile traffic has led to a fall in earnings from calls made from public telephones. Revenue from telephone cards is showing slight growth. There were around 3,600 public phones in the company's operating area at the end of 1997. September saw the launch of the first Finnet telephone card, which can be used in 24 different areas operated by Finnet companies.

Continued improvement in customer satisfaction

Customer satisfaction improved in respect of phone stores, telephone customer service, installation and public telephone services during 1997. We further improved our customer feedback system during the year under review.

There are seven phone stores serving private customers in major centres of commerce. Customer service is also available toll-free over the telephone on 0800 9 5001. A virtual shop was opened on Helsinki Telephone Corporation's web pages in September 1997.

Work on improving our information systems in a bid for more flexible customer service and sales continued. The main focus was on graphic interfaces and further development of intranet.

The divisional sales and marketing department took part in a new billing project to introduce per-second charging on local calls and 109 long-distance calls. For customers, the project translates into more detailed itemised bills. The project also involved a shift to real-time call itemisation, thus improving customer service and enabling us to provide customers with faster information about calls made.

On the operations front, the most significant event in 1997 was Helsinki Telephone Corporation's share offering. Customer service relating to the offering was dealt with by the division's distribution channels: a toll-free service number and telephone stores. The project was successfully completed.

Home ISDN installations kept a considerable number of employees busy in our field unit, which gave priority to ISDN training for installation staff. 1997 saw the start of an extensive apprentice training scheme aimed at a diploma in computer installation.

Outlook for 1998

The Private Customer Services division's strategy in 1998 is customer awareness. This means achieving a competitive edge through outstanding customer insight and by applying this insight to process planning and our range of services to ensure our customers really are receiving the kind of service they require.

In this respect employee motivation is critical. To this end we are continuing our ongoing commitment to providing our people with training opportunities. Additionally, we are also seeking to ensure our employees retain their motivation by introducing new and revised bonus systems to support key targets and by improving job and career rotation.

On the product front, we are focusing on wireless services and information network products. Besides this, we are also providing supplementary services for fixed network subscriber connections. CityPhone, GSM 050, Home ISDN, Kolumbus and PLUS services are our core products for 1998.

Helsinki Telephone Corporation and PC-SuperStore Oy signed a store cooperation agreement. Located in PS-SuperStore's Konala outlet, the shop in shop store serving private customers focuses on communications and wireless products.

Business Customer Services

Matti Carpén
Divisional director

The Business Customer Services division is responsible for sales, marketing and technical customer service to corporate customers. The division is also responsible for telephone systems and videoconferencing products. Our customer base consists of companies and entities. The division serves large enterprises nationally and offers a range of products and services provided by Helsinki Telephone Corporation, other Finnet companies (including Radiolinja, Datatie, Kaukoverkko Ysi and Finnet International) and those of leading equipment manufacturers.

Increased customer awareness is one of Business Customer Services' key commitments. Our strategy is to provide business customers with business-specific system solutions including networks, terminals and operation concepts. Helsinki Telephone Corporation builds tailored telecommunication packages in accordance with customer needs, thus enabling customers to enhance their own business operations.

Divisional concept ensures customer awareness

This concept is applied to industry, trade, service industries, banks, insurance companies, public administration, municipalities, education, culture, media and health care. In building the Finnish information society, social welfare, health care, universities and schools are the main sectors using information networks to reshape their services. New units were established for these sectors in 1997.

The company's market position is very strong in banking, municipalities, media and insurance companies. Sales focused on implementing extensive customised solutions where wirelessness, IN, rapid data transmission, ISDN and the Internet often provided the technological impetus.

In the industrial sector, the biggest deal was an extensive telecommunications agreement signed with the Metsäliitto Group. In the finance sector, we expanded the data network solutions for Merita Bank, the Savings Banks and the OKOBank Group. Likewise in the insurance sector, we expanded the networks for Pohjola, Enterprise-Fennia and A-Vakuutus, and set up a data network project for Lähivakuutus.

Other major projects included delivery of one of the world's most powerful (155 Mbit/s) data networks (FUNET) to universities, number solutions for universities and innovative network solutions for the cities of Helsinki, Vantaa and Espoo. The Media and Health Care units were engrossed in development projects to support customer business through telecommunications.

Strong growth in SME customers' telecommunication needs

The telecommunication needs of SME customers are growing faster than average growth in the industry. SME customers are a heterogeneous group of professionals with offices throughout the country. Helsinki Telephone Corporation has traditionally had a strong market position in the SME sector.

In the face of intense competition, the division is focusing its SME activities on a more customer-driven comprehensive range of products and on sales of solutions. Improving the sales and customer service process was a key project to this end. Changes were also made in Call Center, field sales and store operations.

In late 1997, Helsinki Telephone Corporation opened an outlet in PC-SuperStore's computer store in Konala, Helsinki. This gives SME customers an op-

In early 1997, Helsinki Telephone Corporation concluded a telecommunications agreement with the Metsäliitto Group and Myllykoski Oy - its biggest agreement to date. The agreement covers all data and voice services within the entire Metsäliitto Group, both in Finland and abroad. This photo was taken at the paper machine control room at the Kirkniemi paper mill.

portunity to deal with their entire communication needs, both information technology and telecommunication matters, in one place. Our shop in Forum in the centre of Helsinki continues to serve SME customers.

On the SME customer front, major changes occurring in 1997 included an explosive growth in the demand for Internet services and the widespread use of ISDN. Growth in traffic services focused on mobile communications. Company size is no longer a decisive factor governing demand for products and services. Customers use networking to find means of cooperating with other companies, and thus opportunities to operate in a new way.

Further progress with service quality

Finnet Centers consolidated their nationwide network, commissioning a new information system to significantly improve operations. Finnet Centers are responsible for installation, service and maintenance functions. The new information system enables us to constantly monitor and report the standard of service of extensive customer solutions. There was a marked improvement in the quality of business customer service, with fewer serious faults in the function of telecommunication applications.

Installations in connection with telephone systems in the SME sector grew by more than 10 per cent in terms of volume. Although volume in the units remained unchanged, delivery content was more diversified as a result of IN-based Diana services. In 1997, sales of PABXs and serial telephones reached a record 35,000 subscriber connections. The strongest growing product sector was ISDN interface systems.

On the videoconferencing front, Helsinki Telephone Corporation was importer and retail sales agent for the leading PictureTel product range. Sales rose sharply, and at the turn of the year the company had almost one thousand videoconferencing customers in Finland and abroad.

Sound conditions for growth

The telecommunication market is expected to show overall annual growth of between 12 and 15 per cent between now and the end of the millennium. The confidence shown by business customers means the division has every opportunity to continue to perform well. Especially in SMEs, growth is fast as business networking, for example, increases the need for data transmission.

In respect of large companies, Helsinki Telephone Corporation's expectations vary depending on the overall situation in the sector and on the level of their telecommunication systems. To date, the public sector has been slower to improve its telecommunication systems than the private sector. In future, in many sectors, for instance in social welfare, health care and education, it will be possible to use information networks to greatly change and improve services, making them more rational and of higher quality.

The rapid spread of the Internet, and various intranet and extranet systems in particular, will inevitably increase the need for telecommunications and generate new business opportunities for Helsinki Telephone Corporation.

Directory Services

Jarmo Leiniö
Divisional director

The Directory Services division came into existence at the beginning of 1997 through the merger of two business units, Information Services and Directories, which mostly use the same database. The division is responsible for the group's directory enquiry services.

Helsinki Telephone Corporation's 118 directory enquiries centre was kept busy. The centre answered 15 million calls in 1997, an increase of 11 per cent on the previous year's figure.

Information Services

The core product is the 118 number service, which is based on the Finnet companies' and Telecom Finland's joint database. Both the Finnet companies and Telecom Finland offer the service to their own customers.

Helsinki Telephone Corporation's share of 118 enquiries rose to almost 15 million calls during the year under review. This represents a growth of 11 per cent compared to the previous year. Growth was mainly due to increased use of mobile phones and is expected to continue in 1998.

As demand increased, our main target was to provide a good standard of service. We successfully achieved these goals during the autumn.

Switching and answering services are typical Call Center activities which complement Helsinki Telephone Corporation's service to business customers. Switching service customers include large companies and public offices. Answering services primarily serve SME customers. Both units reported an increase in turnover and operating volume during the year.

Directories

Despite pressure by various electronic directories, the traditional printed telephone directory for the greater Helsinki area still holds its ground. Sales work and editing for the directory published in spring 1997 was mostly done in the autumn the year before.

Although growth of the directory pages proper stabilised, sales of advertising space in the yellow pages rose by eight per cent compared to 1996. The print run remained large, with 675,000 directories being published. Most of the directories were delivered free of charge to holders of subscriber lines in accordance with the terms and conditions of subscription.

Helsinki Telephone Corporation also published OmaOsa local directories for five areas. A Numero-CD directory covering the company's traditional operating area was published in autumn 1997.

New EU directive comes into effect in 1998

A new EU directive coming into force in 1998 will affect directory operations and information services. The directive defines the company's right and obligation to sell identification data given by customers for inclusion in directories. The new regulations are included in the Protection of Privacy in Telecommunications and Telecommunications Information Security Act currently being drawn up. The necessary amendments to the Telecommunications Markets Act will be made once the law comes into force.

Associated undertakings

Oy Finnet Media Ab was set up by the Finnet companies to develop and coordinate directory activities. Helsinki Telephone Corporation has a 35 per cent holding in the company. On the electronic front, Finnet Media made a major breakthrough by publishing NumeroNetti, a national Internet-based directory information facility, which entered commercial service in early 1998. The company's turnover in 1997 was FIM 33.0 million, compared to FIM 27.0 million a year earlier.

Suomen Numeropalvelu Oy dominated the national directory database, which includes every telephone number in Finland, including mobile numbers, and which serves as a basis for all directory enquiry services. During the year under review, the company was taken over by Finnet Media and Telecom Finland on a 60-40 per cent basis. Suomen Numeropalvelu Oy was earlier a subsidiary of Suomen Keltaiset Sivut.

Suomen Keltaiset Sivut Oy (Yellow Pages) is owned jointly by Helsinki Telephone Corporation (30%), other Finnet companies and Telecom Finland. The company focuses on the sale of directory advertisements on a nationwide basis. Sales rose encouragingly, and were 10 per cent higher than in 1996. The company is also strongly committed to electronic publishing, which it expects to become increasingly important in the foreseeable future.

Subsidiaries

Mäkitorppa Yhtiöt Oy

Mäkitorppa Yhtiöt Oy sells mobile communication products, related services and accessories. The company is one of the leading mobile communication services companies in Finland and neighbouring areas. Mäkitorppa consists of three business sectors: retail shops, wholesale activities and international sales through its subsidiary undertaking Mobinter.

The group comprises Mäkitorppa Yhtiöt Oy and its seven subsidiaries. Besides Finland, the company also sells mobile communications in Estonia, Latvia, Lithuania and the St Petersburg area. January 1998 saw the company establish a new subsidiary in Kiev, Ukraine.

Group turnover in 1997 was FIM 296.2 million (FIM 214.2 million in 1996). Turnover was up by 38.3 per cent (19%). Although the market witnessed very strong growth, growth throughout the group was even higher. This served to further consolidate the company's position. The year under review can be termed a record one, and by far the best to date in the company's history.

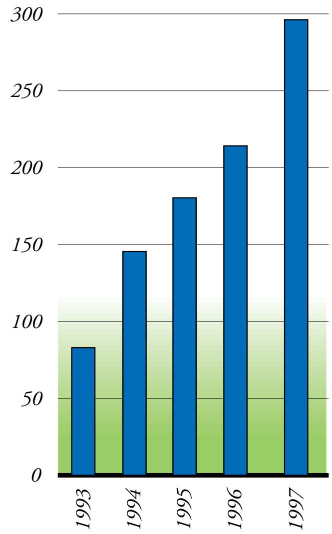
International sales accounted for a major share of turnover, and grew by 52 per cent. Strongest growth was in sales of mobile phones in Lithuania and Estonia.

Group operating profit in 1997 was FIM 13.3 million (FIM 2.9 million), up 354 per cent compared to the previous year. Group profit before extraordinary items amounted to FIM 12.5 million (FIM 1.9 million). At year end, the group employed 131 persons, 21 of whom work abroad. In addition to these, 15 persons were employed in Mäkitorppa franchise outlets. Helsinki Telephone Corporation has an 80 per cent holding in the company.

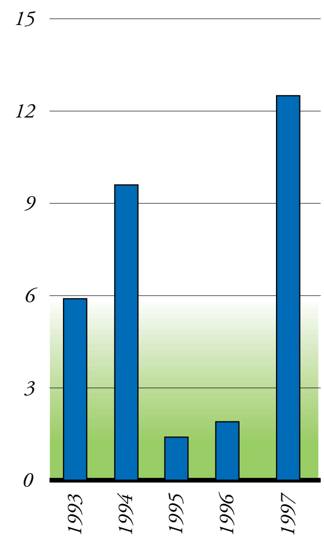
During the last couple of years Mäkitorppa shops have grown into a well-known national specialist chain, ranging from Kuusamo in the north to Helsinki in the south. In March 1998, the chain consisted of 26 shops, ten of which were opened in 1997. Shops doubled (102%) their sales in 1997 compared to the previous year. Sales of Radiolinja's GSM 050 mobile phone subscriptions were up by more than 133 per cent on the figure for the previous year. During the year, the company sold 163,000 mobile phones, double the number sold a year earlier.

Within the space of a few years, Mäkitorppa has grown into a nationwide chain of shops, stretching from Kuusamo in the north to Helsinki in the south. Growth has been dynamic, with 10 of the 26 shops in the chain being opened in 1997.

Mäkitorppa Group turnover, FIM million



Mäkitorppa Group profit before extraordinary items, FIM million



Oy Comptel Ab

Oy Comptel Ab provides customised systems services and solutions based on existing software for telecommunication companies. The company was founded in 1986, when Helsinki Telephone Association externalised its data processing unit. Comptel continues to provide a significant share of Helsinki Telephone Corporation's systems services.

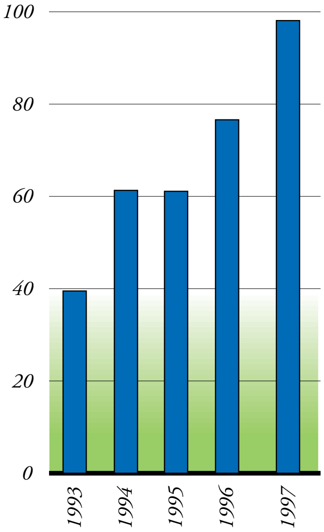
Dynamic advances in telecom technology and deregulation of the industry continue to have a positive impact on the company's business. In 1997 the company's turnover rose to FIM 98.1 million (FIM 76.6 million), representing an increase of 28 per cent (25%) on the previous year. Growth was much higher than in the market as a whole, and this further consolidated Comptel's market position. Exports rose by 78 per cent and accounted for FIM 30.5 million (FIM 17.1 million) of turnover.

Comptel's operating profit rose to FIM 14.8 million (FIM 10.2 million) in 1997, up 45 per cent compared to the previous year. The profit before extraordinary items amounted to FIM 15.9 million (FIM 10.3 million). At year end, the group employed 204 persons. Helsinki Telephone Corporation has a 96 per cent holding in Comptel.

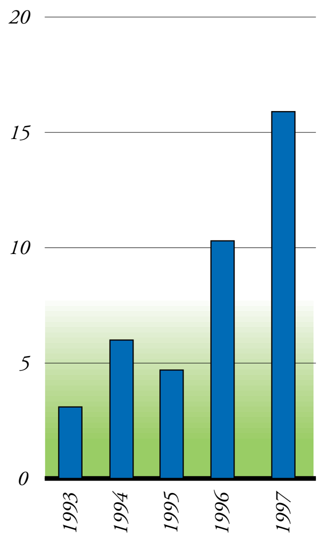
At home, Comptel's largest systems projects were upgraded billing systems, which the company delivered to Helsinki Telephone Corporation and Päijät-Hämeen Telephone Association. Other major projects included development projects relating to mobile phone, IN and national services.

Comptel's core product is MDS (Mediation Device Solutions), a subscriber and billing information management system used in telephone exchanges. The company's long-term to commitment to the MDS product has paid off. MDS is Comptel's most successful export item, used by over 50 operators in Europe, the Far East, North America and Australia. The most distant customers are Pacific Bell Mobile Systems in San Francisco and Vodafone in Sydney.

Comptel's turnover, FIM million



Comptel's profit before extraordinary items, FIM million



Comptel's core product, MDS (Mediation Device Solutions) - a subscriber and billing information management system used in telephone exchanges, is used by 50 telecom operators throughout the world. Binariang, which operates in Kuala Lumpur, the capital of Malaysia, uses Comptel's system to manage calls in Twin Peaks, the tallest building in the world.

Oy Heltel Ab

Oy Heltel Ab focuses on finding, merchandising and marketing Finnet companies' telecommunications and data processing products and related services. The company's turnover in 1997 rose to FIM 169.6 million (FIM 126.6 million), representing an increase of 34 per cent on the previous year. Heltel's operating profit rose to FIM 9.9 million (FIM 4.3 million), up 131 per cent compared to the previous year. The profit before extraordinary items amounted to FIM 9.3 million (FIM 4.4 million). At year end, the company employed 27 persons on a full-time basis. Helsinki Telephone Corporation has a 63 per cent holding in Heltel.

Heltel's operations are centred on the network and workstation sectors and on product areas in close synergy with them. The company works in close association with several leading multinational telecommunications developers and manufacturers. In addition to products proper, the company also prioritised the development of service, maintenance, training and other added value services.

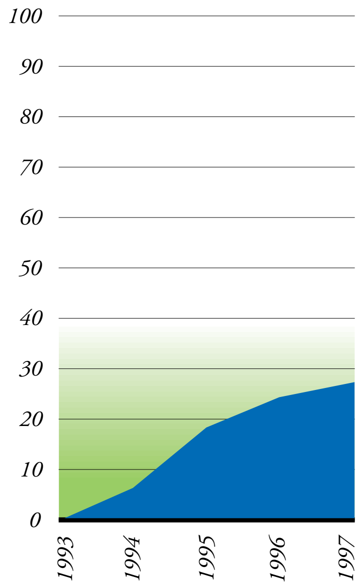
Helsinki TeleCom Deutschland GmbH

The company provides consulting services in Germany, primarily to individual local telecom operators. 1997 was the company's second year of activities and one in which the company significantly raised its profile in its chosen customer segments. The company's turnover was FIM 5.2 million (FIM 5.4 million), and the profit before appropriations and taxes was -FIM 0.5 million (-FIM 0.6 million). At year end, the company employed 14 persons.

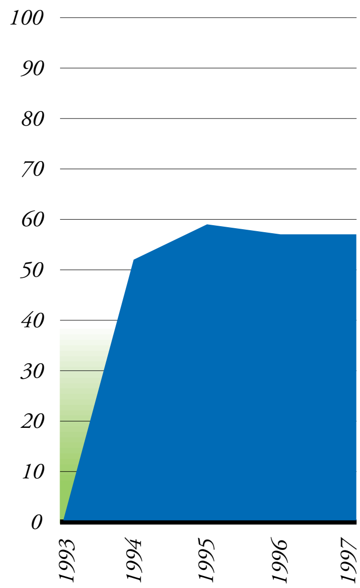
Megabaud Oy

Megabaud is an Internet operator founded in 1994. Helsinki Telephone Corporation bought the company out in November 1997 to further consolidate the market position of Kolumbus as a major provider of Internet services. During the year under review, the company's turnover rose to FIM 3.9 million (FIM 1.7 million), representing an increase of 125 per cent on the previous year. The company posted an operating loss of FIM 20,000, compared to a profit of FIM 0.2 million in 1996. At year end, the company employed 11 persons.

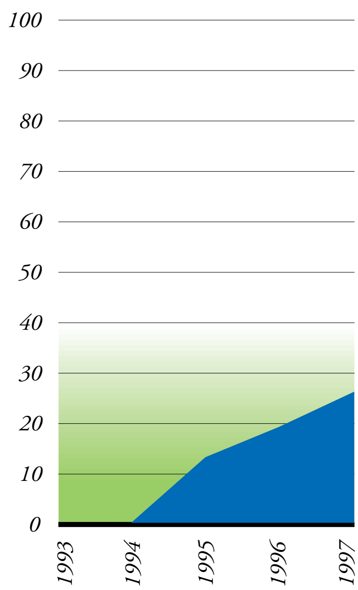
Finnet Group's market share in international calls, %



Finnet Group's market share in long-distance calls, %



Finnet Group's market share in mobile calls, %



Associated undertakings

Oy Radiolinja Oy

Radiolinja was founded in 1988, and was Finland's first GSM operator. Today the Radiolinja Group comprises the parent company Oy Radiolinja Ab and its subsidiaries Radiolinja Eesti AS, SIA Radiolinja Latvija and Globalstar Finland Oy. Mäkitorppa Yhtiöt is Radiolinja's associated undertaking.

Group turnover for 1997 was FIM 1,151.2 million (FIM 605.7 million), representing an increase of 90 per cent on the previous year. Radiolinja's performance was much better than planned. Group profit before extraordinary items amounted to FIM 100 million (FIM 29.1 million), an increase of 243 per cent on the previous year. The Radiolinja Group employed 411 persons. Helsinki Telephone Corporation has a 46 per cent holding in Radiolinja.

The number of GSM subscriptions in Radiolinja's network doubled in 1997. At year-end, there were 562,000 GSM network users. The GSM network was built at a record pace, with the principal focus on consolidating the coverage area and increasing capacity, with particular focus on eastern Finland and Lapland. Radiolinja's network transmitted twice as much voice traffic compared to the previous year.

Radiolinja Eesti AS

Radiolinja Eesti AS began commercial operations in early 1995. Last year was the company's third financial year. The company's turnover in 1997 rose to FIM 37.6 million (FIM 11 million), representing an increase of 241 per cent on the previous year. At year-end, the company employed 59 persons. Radiolinja Eesti is one of Helsinki Telphone Corporation's associated companies and Oy Radiolinja Ab's subsidiary. Helsinki Telephone Corporation has a direct 44.9 per cent interest in the company.

Rapid progress was made with building the GSM network in Estonia, and more than 92 per cent of Estonians lived within the coverage area at the end of 1997.

Oy Datatie Ab

Oy Datatie Ab is a data transmission producer and operator responsible for the Finnet companies' national trunk network and for product development, design and production of services sold under the Datatie and Kolumbus EDI brands. The company's turnover in 1997 rose to FIM 284.9 million (FIM 242.0 million), representing an increase of 17.7 per cent on the previous year. Datatie's operating profit amounted to FIM 21.4 million (FIM 12.8 million). At year end, the company employed 53 persons. Helsinki Telephone Corporation has a 22 per cent holding in Datatie.

Sales of Datatie services grew more than the market as a whole, and the company successfully increased its market share. LanLink network solutions were particularly significant services. During the year under review, the company began to use high-capacity trunk networks to further improve the reliability and function of its services.

Kaukoverkko Ysi Oy

Founded in 1993, Kaukoverkko Ysi Oy is responsible for planning, building, operation and maintenance of the Finnet Group's national long-distance network. Group turnover in 1997 rose to FIM 196.6 million (FIM 140.6 million), representing an increase of 39.8 per cent on the previous year. Group profit before extraordinary items amounted to FIM 57.8 million (FIM 39.5 million). The group employed an average of 51 persons. Helsinki Telephone Corporation has a 34 per cent holding in Kaukoverkko Ysi.

Long-distance traffic handled by Kaukoverkko Ysi rose from 1.6 billion minutes to 1.9 billion minutes, up 17.8 per cent on the figure for the previous year. Kaukoverkko Ysi's 109 product accounted for 59 per cent of traffic carried, and the company successfully retained its leading market position in long-distance traffic. At year end Kaukoverkko Ysi had a market share of 54.8 per cent (54.2%) in terms of minutes.

Oy Finnet International Ab

Finnet International was founded in 1994, and 1997 was the company's fourth year of operations. The company provides international telecommunications services to business and private customers alike. Finnet International's turnover in 1997 rose to FIM 307.1 million (FIM 234.4 million), representing an increase of 31 per cent on the previous year. The company's profit before extraordinary items amounted to FIM 57.3 million (FIM 31.8 million). At year end, the company employed 31 persons. Helsinki Telephone Corporation has a 41 per cent holding in Finnet International.

Through its subsidiary Linenet Oy, Finnet International also has business activities in Estonia. Acquisition of a majority stake in local data transmission company Unineti Andmeside AS in July allows the company to tap the potential in the rapidly growing Estonian data transmission market. A new submarine cable completed in October considerably eases growing telephone and Internet connections to Sweden.

Oy Omnitele Ab

Oy Omnitele Ab specialises in consultancy with respect to fixed and mobile communication networks and data networks for domestic and international markets. During the year under review, the company's turnover rose to FIM 46 million (FIM 42.3 million), representing an increase of 9 per cent. Exports were up 24 per cent on the figure for the previous year and accounted for FIM 12.5 million of turnover. Omnitele's profit before extraordinary items was FIM 5.0 million (FIM 3.3 million). The company employs 50 persons. Helsinki Telephone Corporation has a 29 per cent holding in Omnitele.

Accounts

Report of the Board of Directors

Business environment

The group's business environment was affected by the Telecommunications Markets Act of 1 June 1997 which makes it easier for new telecom services providers to enter the market and also places new obligations on Helsinki Telephone Corporation, which is deemed as having a so-called dominant market position. The leasing of lines began on a contract basis with different operators.

In May, most of the companies in the Finnet Group approved a letter of intent to form a group of the national joint ventures. This group would include the following companies: Oy Radiolinja Ab, Oy Datatie Ab, Kaukoverkko Ysi Oy, Oy Finnet International Ab and Finnet Logistiikka Oy. Under the letter of intent, the group would be owned by Finnet companies as well as by other Finnish companies and private individuals. In December, the letter of intent led to a negotiated result on the formation of the group. The result has been passed on for consideration by the governing bodies of the telephone companies concerned in spring 1998.

Helsinki Telephone Corporation becomes a listed company

At the beginning of the financial year, Helsinki Telephone Corporation's entire share capital was owned by Helsinki Telephone Association.

The company's shares were registered in the book-entry securities system on 16 January 1997. At the same time, the number of shares was increased from 2,016 to 40,320,000, after which the new nominal value of each share was FIM 5.

An Extraordinary General Meeting held on 28 June 1997 resolved to amend the company's Articles of Association. The company became a public limited company, with two series of shares: Series K Shares, which confer five voting rights, and Series E Shares, which confer one voting right. Series K Shares are not entitled to a dividend. A Series K Share may be converted into a Series E Share at the request of its owner. These changes came into effect on 1 September 1997.

An Extraordinary General Meeting held on 18 August 1997 resolved to increase the company's share capital of FIM 201.6 million by a maximum of FIM 35 million by, deviating from the pre-emption rights of the existing shareholder, offering a private placement, PlusAnti, to members of Helsinki Telephone Association and to group employees between 12 September and 23 October 1997. Subscription reservations were also received from the public. PlusAnti offered seven million Series E Shares having a nominal value of FIM 5 for subscription. On 18 August 1997, the company published an interim report for the first six months of the year in association with the share offering.

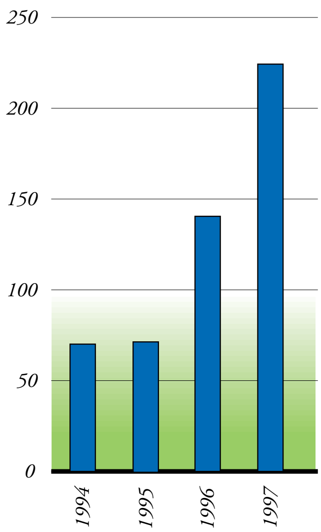
Leading on from the share offering, on 18 August 1998 the company's Board of Directors decided to seek a listing for Helsinki Telephone Corporation Series E Shares on the Helsinki Stock Exchange. Trading of the shares on the main market of the Helsinki Stock Exchange began on 25 November 1997.

An Extraordinary General Meeting held on 28 August 1997 set the issue price of the Series E Shares offered to members in the PlusAnti offering at FIM 55 per share. The price of shares subscribed by Public Reservation and Member's Additional Subscription Reservation was set at FIM 85 per share. The General Meeting set the price of shares subscribed in the Employee Offering at FIM 77 per share. Helsinki Telephone Corporation offered members an opportunity to waive their subscription right by selling it for FIM 30 per share through the company to members who had made additional subscription reservations.

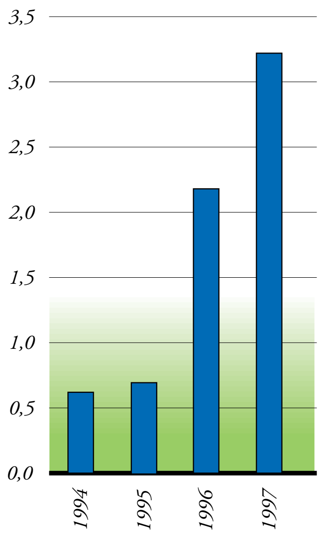
On 15 September 1997, because of over allotment the company's Board of Directors decided to stop accepting subscription reservations from the public. Public subscription reservations were made for around 26 million shares.

PlusAnti gave Helsinki Telephone Corporation some 108,000 new owners. Around 1,550 persons bought shares in the

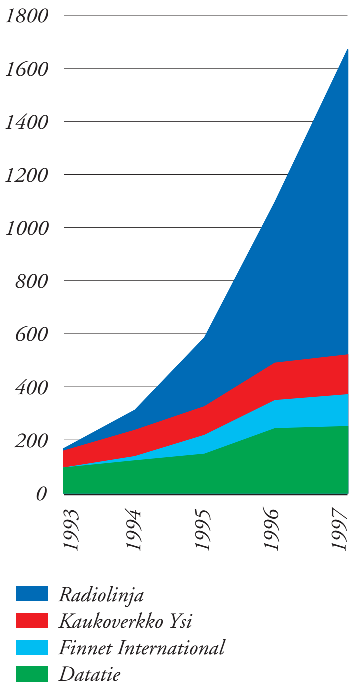
Group operating profit, FIM million



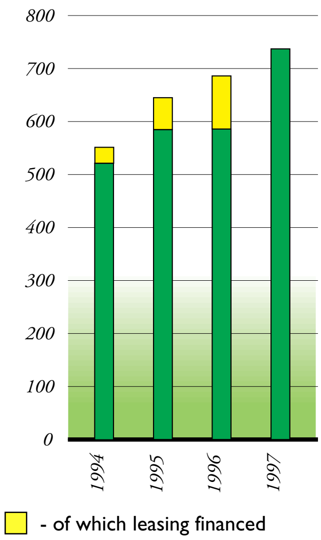
Earnings per share, FIM



Total turnover of associated undertakings engaged in operator activities, FIM million



Group gross investments, FIM million



Employee Offering. The private placements offered to both Association members and employees were oversubscribed.

Subsequent to the offering, Helsinki Telephone Corporation's share capital is FIM 236,596,300.

The company has 32,320,000 Series K Shares, all of which are owned by Helsinki Telephone Association, and 14,999,260 Series E Shares, of which the Association owns 8,000,000.

Prior to the offering, Helsinki Telephone Association had 100 per cent of the shares and 100 per cent of the votes in Helsinki Telephone Corporation. The figures subsequent to the offering are 85.2 per cent and 96.0 per cent respectively.

The lead manager in the offering was Postipankki Ltd. Co-managers were Enskilda Securities, Skandinaviska Enskilda Banken AB (Publ) and SBC Warburg Dillon Read.

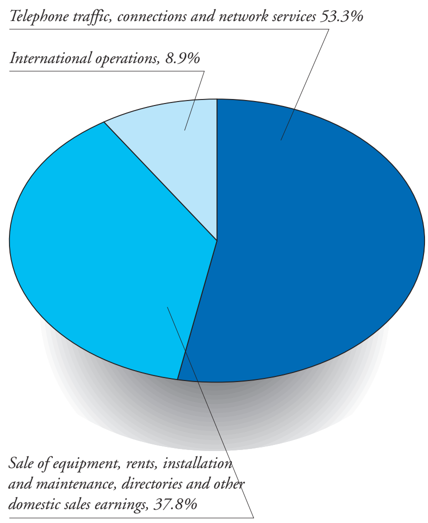
Turnover

Telephone traffic continued growing, especially in mobile and international calls. The growth in mobile phones also led to increased traffic between mobile and fixed networks. Domestic long-distance traffic carried by the fixed network declined slightly. Helsinki Telephone Corporation's PlusAnti fuelled demand for shareholder subscriptions. The share offering increased demand for shareholder subscriptions partly because option certificates were exchanged for shareholder subscriptions.

June saw a decision made to review the pricing system for local calls. Full digitisation of telephone exchanges enables us to price and itemise calls much more precisely than earlier. Pulse-based charging for local calls was replaced by per-second charging on 1 November 1997. The cost of calls is now based on a starting price and per-second charge. The new pricing system has taken into account changes in consumers' telephone habits and increasing use of the Internet.

Group turnover in 1997 was FIM 2,566 million, an increase of FIM 336 million compared to the previous year.

Analysis of group turnover, 1997



Analysis of turnover, FIM million

	1997	1996	Change
Parent company, Helsinki Telephone Corporation	2,152	1,943	+11 %
Subsidiaries	578	429	+35 %
Intragroup sales	-164	-142	+15 %
Group, total	2,566	2,230	+15 %

In the parent company, FIM 1,400 million or around two thirds of turnover, was generated by telephone traffic, subscription and network services, FIM 227 million (FIM 140 million in 1996) came from international operations. Exports were made mainly through subsidiary companies, with Mäkitorppa Yhtiöt Group and Oy Comptel Ab generating the greatest rises in export earnings.

Overall billing for telephone traffic rose 8 per cent over the year, with a marked increase in mobile and international calls in particular. Connection fees paid to other telephone companies (including associated undertakings) rose at virtually the same rate, making the net growth in earnings from telephone traffic around 2 per cent. The vigorous growth in demand continued in business customers' network services, which generated a turnover of almost FIM 500 million (+26%). The greatest growth was in data products.

The total turnover of our subsidiary undertakings was FIM 578 million, up FIM 149 million on the previous year. Turnover grew at a faster rate in the subsidiaries than in the parent company.

The total turnover of our associated undertakings rose to FIM 2,629 million, up FIM 873 million (+50%) on the previous year. Helsinki Telephone Corporation's largest associated undertaking, Oy Radiolinja Ab's turnover continued rising sharply throughout the year. Radiolinja Group's turnover grew by 90 per cent to FIM 1,151 million (FIM 606 million).

Performance

In 1997, group turnover grew by 60 per cent to FIM 224 million (FIM 140 million). FIM 59 million of this growth was generated by the activities of the parent company and subsidiaries and FIM 25 million came from the profits of associated undertakings. Higher staff costs are owing to a FIM 20 million contribution to increase the operating capital of the parent company's pension fund. Group performance was weakened by a FIM 16.5 million write down on the Kiinteistö Oy Kutomotie 16 property. Credit losses were booked at FIM 7 million (FIM 23 million). Other financial expenses include the cost of the share offering, FIM 13 million. Group return on capital invested (ROI) rose to 8.6 per cent (6.4%).

Group profit before extraordinary items and taxes was FIM 188 million (FIM 114 million). Direct taxes include taxes of FIM 11.5 million from previous years. This arose because the tax office ruled that a contribution to cover the pension fund deficit could not be booked in full as a tax deductible expense in 1996 taxation.

The Group's share of associated undertakings' profits was FIM 56 million (FIM 31 million).

Group earnings per share stood at FIM 3.22 (FIM 2.18) and shareholders' equity per share at FIM 47.22 (FIM 41.31).

Investments

Gross investments by the Group amounted to FIM 737 million (FIM 686 million in 1996, which includes FIM 100 million of investments funded by leasing). Investments by the parent company account for FIM 720 million of this figure. FIM 413 million was invested in building wireless networks, expansion of the basic network and other infrastructure projects, FIM 38 million in real estate, FIM 94 million in lease equipment, FIM 156 million in machinery, equipment and other projects, and FIM 36 million in shares of associated and other undertakings.

R&D

Helsinki Telephone Corporation Research Centre's largest investments in 1997 were in international EU and Eurescom projects, and in national TEKES projects. Some of the most significant TEKES projects were those forming part of the national multimedia programme KAMU, the results of which are being used in implementing the Helsinki Arena 2000 multimedia network project. The EU research project Infocities, in which the company took part with the city of Helsinki, also serves the same purpose. Sales units in the parent company have also capitalised on the Research Centres' international and national projects in the media, education and municipal sectors.

The Research Centre is becoming much more involved in Eurescom projects. The Centre has a representative on the Strategic Studies Management group. This group has been formed by six international operators and is responsible for Eurescom's strategic research.

In 1997, the company spent FIM 55.2 million (FIM 46.8 million) on R&D.

Financial position

The group's financial position remained good throughout the year. The share offering towards the end of the year increased shareholders' equity by FIM 443.5 million.

Long-term interest bearing liabilities totalled FIM 750 million (FIM 749 million), of which pension loans accounted for FIM 721 million. The consolidated balance sheet total was FIM 3,915 million (FIM 3,289 million).

Group equity ratio stood at 59.6 per cent (53.4% at 1 January 1997).

Employees

At the end of the financial year, the group employed 3,872 people (3,655), and an average of 3,814 (3,736) throughout the year.

The parent company employed an average of 3,475 (3,457) people during the financial year. By the end of December 1997, there were 3,489 employees, 134 more than at the end of 1996. During the year under review 266 job vacancies were created, 103 of which were filled internally. Production reasons led to a loss of 29 jobs.

The HPY Way, a project designed to enhance quality and customer satisfaction, progressed to the stage where self-assessment was carried out in accordance with Finnish Quality Award criteria. The project hatched several new development projects. Discussions are aimed at increasing openness and readiness for change by studying the company's values and targets and the role of each individual in helping us to achieve these targets.

One of our current focal points is to maintain the working capacity of the employees. The model applied does not seek to promote working capacity as an individual feature, but by improving above all the quality of work and the working community. A thorough study was carried out on the function of personnel administration units, and a development programme based on the findings was launched towards the end of the year. The programme aims at forming our human resources and personnel management into a competitive advantage supporting the company's business targets. This would also ensure our success in recruiting competent people.

Group structure and reorganisation

The Group comprises Helsinki Telephone Corporation and its subsidiaries, of which the most important are Mäkitorppa Yhtiöt Oy, Oy Heltel Ab and Oy Comptel Ab. On 18 November 1997, Helsinki Telephone Corporation acquired the entire share capital of Megabaud Oy, an Internet operator. In addition to subsidiaries, the Company also has substantial minority interests in companies handling national and international telecommunications. These associated undertakings are also owned by private telephone companies in the Finnet Group, other Finnish companies and by private individuals.

The management arrangements of Helsinki Telephone Company Ltd and the Helsinki Telephone Association were streamlined by a change taking effect on 1 May 1997. Chief Executive Officer of the Company, Kurt Nordman, took up a full-time post as Chairman of the Board of Directors. Mr. Nordman continues to act as Managing Director of the Helsinki Telephone Association, and in this capacity also serves as Chairman of the Helsinki Telephone Association Group. The company's Chief Operating Officer Matti Mattheiszen was appointed Helsinki Telephone Corporation's new CEO.

Until 21 April 1997, the Board of Directors comprised the company's executive management, with Kurt Nordman as chairman, and Matti Mattheiszen, Jukka Alho, Jarmo Kalm and Ann-Maj Majuri-Ahonen as members.

Meeting on 21 April 1997, the Supervisory Board of Helsinki Telephone Corporation appointed a new Board of Directors to the company. The Board of Directors comprises nine members, most of whom come from industry and commerce and the science community, in other words from outside the Group. Kurt Nordman was elected chairman of the Board of Directors. Other members elected were Riitta Backas, Matti Ilmari, Rauno Kousa, Paavo Uronen, Ossi Virolainen (deputy chairman), Matti Mattheiszen, Jukka Alho and Jarmo Kalm.

The parent company also restructured its business organisation with effect from 1 May 1997, with the formation of five divisions responsible for marketing and sales to private customers, marketing and sales to business customers, data, radio and Kolumbus services, directory services and traffic and network products. The latter also includes R&D and the company's international operations.

Governing bodies

The Annual General Meeting was held on 6 April 1997.

Five Extraordinary General Meetings were held during the year under review to resolve amendments to the sections concerning the Board of Directors and signing for the company in the Articles of Association, turning the company form into a public limited company, dividing the company's shares in Series K and Series E Shares, increasing the share capital through a rights issue and the related terms and conditions of the share offering.

The 1997 audit was performed by Lasse Lehto and Leo Laitinmäki of SVH Coopers & Lybrand Oy, Authorised Public Accountants, with Anneli Lindroos APA and Matti Pirnes APA serving as deputy auditors.

The Supervisory Board met six times and the Board of Directors met 26 times in 1997.

Events taking place after 31 December 1997

On 9 January 1998, Helsinki Telephone Association resolved to cease selling new membership certificates with effect from 12 January 1998. This was in compliance with an earlier resolution made in 1995 by Helsinki Telephone Association's body of representatives to limit the number of membership certificates to 575,000. Subscribers with lease subscriptions or holders of investment subscriptions were allowed an opportunity to convert these to membership certificates until the 15 February 1998. There were 1,615 such conversions made, after which the total number of membership certificates is around 555,000. In addition, the company is retaining around 6,500 membership certificates to enable all holders of option certificates to convert these to membership certificates. No time limit has been imposed on conversion. The decision meant that Helsinki Telephone Corporation no longer sells new membership certificates.

Helsinki Telephone Corporation group has acquired shares in Tampere Telephone Company in connection with share and ownership arrangements. As at 25 February 1998, the group held around 3.1 million Tampere Telephone Company shares.

Outlook for 1998

The group operates in one of the world's most dynamic industries. Marketing is being driven by rapid advances in the telecommunication industry as a whole and especially by the explosive growth in mobile communications. Deregulation of the European telecommunication market is creating new opportunities for us. Investment is set to remain at last year's level. Major investments will be focused on GSM and DCS systems and multimedia projects. Given this outlook, Group operations are expected to continue to grow briskly and profitability further improve.

Consolidated income statement

FIM million		1 Jan. - 31 Dec.1997	1 Jan. - 31 Dec.1996
Invoiced sales		**3,114.2**	2,703.0
Connection fees to other telephone companies		**-548.6**	-473.0
Turnover	(1)	**2,565.6**	2,230.0
Increase (+) or decrease (-) in inventories of finished goods		**1.9**	2.1
Share of associated undertakings' profits		**56.1**	31.4
Other operating income		**11.4**	10.3
Expenses:	(2)		
Materials and supplies			
Purchases during the financial year		**499.3**	427.2
Increase (-)or decrease (+) in stocks		**5.0**	-13.6
External services		**376.7**	301.3
Staff costs	(3)	**758.5**	695.2
Rents		**87.4**	80.5
Other expenses		**206.3**	198.6
		-1,933.2	-1,689.2
Profit from operations before depreciation		**701.8**	584.6
Depreciation:	(4)		
On fixed assets and other long term expenditure		**-475.5**	-442.3
On consolidation goodwill		**-1.9**	-1.8
Operating profit		**224.4**	140.5
Financial income and expenses:	(5)		
Dividends received		**0.1**	
Interest income from non-current investments		**1.1**	2.0
Other interest received		**24.4**	24.0
Other financial income		**1.9**	0.4
Interest paid		**-47.5**	-50.2
Other financial expenses		**-16.4**	-2.5
		-36.4	-26.3
Profit before extraordinary items and taxes		**188.0**	114.2
Extraordinary income and expenses:	(6)		
Extraordinary expenses			-51.2
Profit before appropriations and taxes		**188.0**	63.0
Taxes:			
For the financial year		**-9.0**	-7.7
For previous financial years		**-11.5**	0.3
Change in deferred tax liability		**-31.2**	-4.0
Profit for the financial year before minority interests		**136.3**	51.6
Minority share of profit for the financial year		**-3.8**	-0.6
Consolidated profit for the financial year		**132.5**	51.0

Consolidated balance sheet

FIM million		31 Dec. 1997	31 Dec. 1996
ASSETS			
Fixed assets and other non-current assets	(7), (8)		
Intangible assets			
Intangible rights		**4.5**	3.6
Consolidated goodwill		**4.6**	3.8
Other long term expenditure		**87.7**	76.9
		96.8	84.3
Tangible assets			
Land and water		**41.9**	41.6
Buildings		**465.7**	494.8
Telecommunications equipment and other machines and equipment		**1,664.2**	1,434.1
Prepayments and work in progress		**30.2**	23.8
		2,202.0	1,994.3
Securities and other non-current investments	(9)		
Shares in associated undertakings		**251.8**	184.3
Other shares and holdings		**29.1**	19.8
		280.9	204.1
Current assets			
Stocks			
Raw materials and consumables		**45.8**	52.3
Work in progress		**10.7**	8.7
Finished goods		**30.3**	28.8
Prepayments		**18.3**	17.3
		105.1	107.1
Receivables	(10), (11)		
Trade receivables		**467.5**	446.6
Loan receivables		**16.0**	26.3
Prepaid expenses and accrued income		**75.8**	60.9
Other receivables		**3.4**	9.4
		562.7	543.2
Other current investments		**627.7**	334.3
Cash at bank and in hand		**39.9**	21.8
		3,915.1	3,289.1

FIM million		31 Dec. 1997	31 Dec. 1996
LIABILITIES AND EQUITY			
Shareholders' equity	(12)		
Restricted equity			
Share capital		**236.6**	201.6
Reserve fund		**1,108.1**	1,108.1
Premium reserve		**408.5**	
		1,753.2	1,309.7
Non-restricted equity			
Subscription fees		**9.0**	3.7
Retained earnings		**388.5**	346.5
Profit for financial period		**132.3**	51.0
		529.8	401.2
Minority interests		**48.5**	45.1
Reserves			
Obligatory reserves	(13)	**3.1**	1.5
Liabilities			
Non-current	(14)		
Bonds		**2.2**	6.5
Loans from financial institutions		**26.5**	20.6
Pension loans		**720.9**	721.4
Deferred tax liability		**157.6**	126.4
		907.2	874.9
Current			
Trade payables		**263.4**	230.3
Accrued expenses and deferred income		**215.4**	197.3
Other current liabilities	(15)	**194.5**	229.1
		673.3	656.7
		3,915.1	3,289.1

Consolidated statement of source and application of funds

FIM million	1 Jan. - 31 Dec. 1997	1 Jan. - 31 Dec. 1996
Operations		
Cash flow financing		
Profit from operations before depreciation	**701.8**	584.6
Financial income and expenses	**-36.4**	-26.3
Extraordinary items		-51.2
Taxes	**-20.5**	-7.4
Associated undertakings	**-44.6**	-26.1
Cash flow financing, total	**600.3**	473.6
Change in working capital		
Stocks, increase (-)/ decrease (+)	**2.0**	-16.0
Current receivables, increase (-)/ decrease (+)	**-30.7**	74.0
Non-interest bearing current liabilities, increase (+)/decrease	**30.3**	29.5
	1.6	87,5
Total funds from operations	**601.9**	561.1
Investments		
Investments in fixed assets		
Land and buildings	**37.6**	46.3
Exchanges and fixed networks	**412.8**	365.5
Telecommunications terminals	**94.2**	66.2
Other machines and equipment	**123.0**	59.9
Shares and other non-current expenditure	**69.6**	48.0
	737.2	585.9
Proceeds from disposal of fixed assets	**-7.3**	-9.8
	729.9	576.1
Financial surplus/deficit	**-128.0**	-15.0
Financing		
Increase (-)/ decrease (+) in non-current trade receivables	**11.1**	11.9
Increase (+)/decrease (-) in non-current liabilities	**1.0**	40.1
Increase (+)/decrease (-) in interest-bearing current liabilities	**-12.0**	-27.1
Dividends paid	**-8.0**	
Share issue	**443.5**	
Increase in subscription fees	**5.2**	0.6
Adjustment items	**-1.4**	0.3
	439.4	25.8
Change in liquid assets according to this statement, increase (+)/decrease (-)	**311.4**	10.8
Change in liquid assets according to the balance sheet, increase (+)/decrease (-)	**311.4**	10.8

Parent company income statement

FIM million		1 Jan. - 31 Dec. 1997	1 Jan. - 31 Dec. 1996
Invoiced sales		**2,700.3**	2,415.7
Connection fees to other telephone companies		**-548.6**	-473.0
Turnover	(1)	**2,151.7**	1,942.7
Increase (+) or decrease (-) in inventories of finished goods		**1.9**	2.1
Other operating income		**10.8**	9.2
Expenses:	(2)		
Materials and supplies			
Purchases during the financial year		**212.7**	213.0
Increase (-) or decrease (+) in stocks		**6.6**	-1.1
External services		**394.2**	314.0
Staff costs	(3)	**694.5**	647.7
Rents		**87.2**	78.5
Other expenses		**172.8**	171.0
		-1,568.0	-1,423.1
Profit from operations before depreciation		**596.4**	530.9
Depreciation on fixed assets and other long term expenditure	(4)	**-444.6**	-430.0
Operating profit		**151.8**	100.9
Financial income and expenses:	(5)		
Dividends received		**18.4**	9.6
Interest received		**25.7**	25.4
Interest paid		**-45.8**	-47.6
Other financial expenses		**-14.7**	-1.8
		-16.4	-14.4
Profit before extraordinary items, appropriations and taxes		**135.4**	86.5
Extraordinary income and expenses:			
Extraordinary income	(6)	**3.0**	3.0
Extraordinary expenses			-51.1
		3.0	-48.1
Profit before appropriations and taxesa		**138.4**	38.4
Increase (-), decrease (+) in depreciation difference	(4)	**-115.0**	-17.2
Taxes:			
For the financial year		**-3.5**	-5.4
For previous financial years		**-11.5**	0.2
Profit for the financial year		**8.4**	16.0

Parent company balance sheet

FIM million		31 Dec. 1997	31 Dec. 1996
ASSETS			
Fixed assets and other non-current assets	(7), (8)		
Intangible assets			
Other long term expenditure		**85.1**	73.4
Tangible assets			
Land and water		**20.2**	20.1
Buildings		**364.2**	371.5
Telecommunications equipment and other machines and equipment		**1,633.8**	1,409.6
Prepayments and work in progress		**30.2**	23.7
		2,048.4	1,824.9
Securities and other non-current investments	(9)		
Shares and holdings		**298.2**	262.3
Current assets			
Stocks			
Raw materials and consumables		**46.2**	52.9
Work in progress		**10.7**	8.7
Prepayments		**18.3**	17.3
		75.2	78.9
Receivables	(10), (11)		
Trade receivables		**428.7**	422.3
Loan receivables		**50.2**	48.0
Prepaid expenses and accrued income		**56.3**	50.4
Other receivables		**0.9**	4.0
		536.1	524.7
Other current investments		**627.7**	334.1
Cash at bank and in hand		**16.8**	10.7
		3,687.5	3,109.0

FIM million		31 Dec. 1997	31 Dec. 1996
LIABILITIES AND EQUITY			
Shareholders' equity	(12)		
Restricted equity			
Share capital		**236.6**	201.6
Reserve fund		**1 108.1**	1 108.1
Premium reserve		**408.5**	
		1,753.2	1,309.7
Non-restricted equity			
Subscription fees		**9.0**	3.7
Retained earnings		**33.8**	25.9
Profit for financial year		**8.4**	16.0
		51.2	45.6
Appropriations and reserves			
Accumulated depreciation difference	(7)	**552.5**	437.4
Obligatory reserves	(13)	**0.7**	0.9
Liabilities			
Non-current			
Pension loans	(14)	**719.1**	719.1
Other non-current liabilities			5,9
		719.1	725.0
Current			
Trade payables		**232.0**	204.4
Accrued expenses and deferred income		**176.9**	174.0
Other current liabilities	(15)	**201.9**	212.0
		610.8	590.4
		3,687.5	3,109.0

Parent company statement of source and application of funds

FIM million	1 Jan. - 31 Dec. 1997	1 Jan. - 31 Dec. 1996
Operations		
Cash flow financing		
Profit from operations before depreciation	**596.4**	530.9
Financial income and expenses	**-16.4**	-14.4
Extraordinary items	**3.0**	-48.2
Taxes	**-15.0**	-5.2
	568.0	463.1
Change in working capital		
Stocks, increase (-)/ decrease (+)	**3.7**	-3.5
Current receivables, increase (-)/ decrease (+)	**-9.3**	88.9
Non-interest bearing current liabilities, increase (+)/decrease (-)	**0.1**	8.4
	-5.5	93.8
Total funds from operations	**562.5**	556.9
Investments		
Fixed asset investments		
Land and buildings	**37.4**	22.5
Exchanges and fixed networks	**412.8**	365.5
Telecommunications terminals	**94.2**	66.2
Other machines and equipment	**110.3**	52.9
Shares and other non-current expenditure	**65.0**	39.2
	719.7	546.3
Proceeds from disposal of fixed assets	**-4.0**	-3.1
	715.7	543.2
Financial surplus/deficit	**-153.2**	13.7
Financing		
Increase (-)/ decrease (+) in non-current receivables	**-2.2**	-31.5
Increase (+)/decrease (-) in non-current liabilities	**-5.9**	48.0
Increase (+)/decrease (-) in interest bearing current liabilities	**20.1**	-9.8
Dividends paid	**-8.0**	
Share issue	**443.6**	
Increase in subscription fees	**5.2**	0.6
	452.8	7.3
Change in liquid assets according to this statement, increase (+)/decrease (-)	**299.6**	21.0
Change in liquid assets according to the balance sheet, increase (+)/decrease (-)	**299.6**	21.0

Notes to the financial statements

Accounting principles

1. Scope of the consolidated financial statements

The consolidated financial statements comprise the accounts of the parent company Helsinki Telephone 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, and in which its holding exceeds 20 per cent are accounted for as associated undertakings. Those subsidiaries remaining dormant during the financial year or having an insignificant impact on the consolidated financial results and non-restricted equity are not consolidated.

2. Consolidation principles

Intragroup transactions, internal profits on current and fixed assets, internal receivables and the internal distribution of profit have been 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 ownerships. The proportion of the purchase cost of subsidiary shares exceeding shareholders' equity has been booked as consolidation goodwill and expensed or booked as group reserve entered as income over a period of five years. Net consolidation goodwill and group reserve is shown in the balance sheet.

Associated undertakings are consolidated using the equity method. The share of associated undertakings' profit for the accounting period is shown as a separate item in the income statement under profit form operations before depreciation.

3. Comparability with the previous year

The accounting practice in the 1997 financial statements has been changed so that credit losses and commission are not deducted from turnover but are treated as an expense. In point 7 of the notes to the financial statements, acquisition costs include only those fixed assets the costs of which have yet to be booked in full as planned depreciation. The figures for previous years have been adjusted accordingly to take into account these changes.

4. Turnover and other income from operations

Connection fees paid to other telephone companies are deducted from invoiced sales. Other income from operations includes gains from the disposal of fixed assets and rental income from properties.

As a rule, sales by group companies are booked as income at the time services are provided or equipment is invoiced. Long-term projects of the parent company and Oy Comptel Ab are an exception to this, and are invoiced and booked on the basis of stage of completion. These have minimum impact, however, on the consolidated results.

5. Valuation of current assets

Current assets are valued at the 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 markka at the middle average rate quoted by the Bank of Finland, and the balance sheets at the rate quoted on the closing date. The resulting translation difference is booked under non-restricted 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 rate quoted by the Bank of Finland on the balance sheet date.

7. Fixed assets and other non-current expenditure

The book value of fixed assets and other non-current expenditure entered in the balance sheet is the acquisition cost less accumulated planned depreciation. Fixed assets manufactured and built by the company are valued at direct cost. No revaluations are included in the book values of fixed assets. Other non-current expenditure mainly includes the acquisition cost of computer software, and the refurbishment of condos and rented premises.

The difference between planned depreciation and booked depreciation in the parent company's financial statements is shown as a separate item under appropriations in the income statement. The accumulated depreciation difference in the consolidated financial statements is divided between non-restricted shareholders' equity and deferred tax liability. Planned depreciation is calculated on a straight-line basis over expected economic lives. Planned depreciation for fixed assets transferred from Helsinki Telephone Association on 1 January 1994 were continued. An exception to this is the non-current expenditure, the depreciation periods of which have been harmonised with the maximum depreciation allowed under the Business Taxation Act.

The expected economic lives for additions made after 1 January 1994 are given below:

Consolidation goodwill	5 years
Other non-current expenditure	5 – 10 years
Buildings	25 – 40 years
Exchange and fixed network equipment	10 years
Teleterminals	4 years
Other machinery and equipment	4 – 5 years

The exchange and fixed network equipment was assigned from Helsinki Telephone Association as a capital contribution and will be written off over an eight-year period. In other respects the depreciation times for fixed assets transferred for Helsinki Telephone Association are as above.

8. Pension costs

Helsinki Telephone Corporation's pension commitments are funded by Helsinki Telephone Association's pension fund. Additionally, the company also has its own direct pension liabilities, primarily for early, fixed-term pensions. The pension commitments of subsidiary companies are covered by pension insurance. The company has no unbooked expenses for unfunded pension liabilities nor does the parent company have any unfunded pension liabilities.

9. Direct taxes and deferred tax liability

Taxes for the financial year are matched and booked in the income statement. The change in deferred tax liability appears in the consolidated financial statements. The deferred tax liability is calculated at the tax rate current when the financial statements are prepared.

10. Leasing expenses and rents

Rent booked in the income statement comprises payment under financial leasing contracts for telecommunications network equipment, operating and maintenance lease costs and rent for premises, etc. Leasing contracts were not used to finance fixed assets in 1997.

Notes to the income statements and balance sheets

FIM million	Group 1997	Group 1996	Parent Co. 1997	Parent Co. 1996
1. Turnover				
Total invoiced sales	**3,114.2**	2,703.0	**2,700.3**	2,415.7
Connection fees to other telephone companies	**-548.6**	-473.0	**-548.6**	-473.0
Turnover	**2,565.6**	2,230.0	**2,151.7**	1,942.7
By market area				
Finland	**2,338.8**	2,089.5	**2,123.1**	1,929.7
Exports	**226.8**	140.5	**28.6**	13.0
Total	**2,565.6**	2,230.0	**2,151.7**	1,942.7
2. Capitalised expenditure for fixed assets manufactured by the company				
Raw materials and supplies	**411.3**	296.9	**411.3**	296.9
External services	**84.1**	80.8	**107.9**	108.0
Staff costs	**96.9**	99.4	**80.4**	81.6
Other expenditure	**6.9**	7.4	**2.7**	2.9
Total	**599.2**	484.5	**602.3**	489.4
3. Staff costs				
Wages and salaries	**676.6**	629.6	**612.6**	578.6
Pension expenses	**105.4**	94.9	**95.1**	86.2
Statutory social security contributions	**73.4**	70.1	**67.2**	64.5
	855.4	794.6	**774.9**	729.3
Capitalised under fixed assets	**-96.9**	-99.4	**-80.4**	-81.6
Staff costs in the income statement	**758.5**	695.2	**694.5**	647.7
Fringe benefits	**10.0**	9.8	**7.5**	7.2
Salaries and emoluments to members of the Board of Directors and the Supervisory Board,	**6.2**	6.0	**3.2**	2.8
of which partial remuneration to members of the Board of Directors and to the managing director	**0.7**	0.3	**0.3**	0.2
Management pension commitments: The retirement age for managing directors of group companies is set at 60-65. The services of the parent company's managing director were purchased from Helsinki Telephone Association 1 Jan – 30 April 1997.				
4. Planned depreciation				
Depreciation on consolidation goodwill	**2.5**	2.5		
Adjustment between appropriations and income	**-0.7**	-0.7		
Intangible rights	**0.6**	0.4		
Other non-current expenditure	**40.2**	33.0	**37.7**	32.1
Buildings	**47.3**	29.1	**25.4**	24.6
Telecommunications equipment and other machines and equipment	**387.5**	379.8	**381.5**	373.3
Total	**477.4**	444.1	**444.6**	430.0
Increase (-)/decrease (+) in depreciation difference				
Buildings			**5.0**	4.4
Telecommunications apparatus, machines and equipment			**-120.0**	-21.6
Total			**-115.0**	-17.2

FIM million	Group 1997	Group 1996	Parent Co. 1997	Parent Co. 1996
5. Internal financial income and expenses				
Financial income from group companies				
Dividends received			**1.8**	2.0
Interest received from non-current investments			**1.4**	1.5
Interest received from current investments				0.1
Total			**3.2**	3.6
Financial expenses paid to group companies				
Interest paid			**1.1**	1.3
6. Extraordinary income and expenses				
Extraordinary income				
Group contribution			**3.0**	3.0
Extraordinary expenses				
Pension fund pension liability and liability from company's direct pension commitments		-40.9		-40.9
Stamp duty on loan contributed to the pension fund		-10.3		-10.3
Total		-51.2	**3.0**	-48.2
7. Intangible and tangible assets				
Acquisition costs include only those tangible assets whose acquisition costs have not yet been booked in full as planned depreciation.				
Intangible rights				
Acquisition cost 1 Jan.	**4.8**	4.1		
Increase	**1.4**	0.6		
Decrease	**-0.4**			
Acquisition cost 31 Dec.	**5.8**	4.7		
Accumulated planned depreciation	**-1.3**	-1.1		
Book value 31 Dec.	**4.5**	3.6		
Consolidation goodwill				
Acquisition cost 1 Jan.	**14.3**	14.3		
Increase	**2.7**			
Acquisition cost 31 Dec.	**17.0**	14.3		
Accumulated planned depreciation	**-11.7**	-9.2		
Book value 31 Dec.	**5.3**	5.1		
Consolidated appropriations				
Acquisition cost 1 Jan.	**3.7**	3.7		
Acquisition cost 31 Dec.	**3.7**	3.7		
Accumulated planned depreciation	**-3.0**	-2.4		
Book value 31 Dec.	**0.7**	1.3		
Other non-current expenditure				
Acquisition cost 1 Jan.	**167.1**	153.8	**160.0**	143.8
Increase	**51.4**	31.1	**49.4**	28.5
Decrease		-2.8		
Acquisition cost 31 Dec.	**218.5**	182.1	**209.4**	172.3
Accumulated depreciation difference	**-130.8**	-105.2	**-124.3**	-98.9
Book value 31 Dec.	**87.7**	76.9	**85.1**	73.4

FIM million	Group 1997	Group 1996	Parent Co. 1997	Parent Co. 1996
7. Intangible and tangible assets (contd.)				
Land and water				
Acquisition cost 1 Jan.	**41.6**	41.3	**20.1**	19.8
Increase	**0.4**	0.3	**0.2**	0.3
Decrease	**-0.1**		**-0.1**	
Book value 31 Dec.	**41.9**	41.6	**20.2**	20.1
Buildings				
Acquisition cost 1 Jan.	**828.6**	794.0	**614.9**	605.2
Increase	**18.6**	45.9	**18.6**	21.0
Decrease	**-0.5**		**-0.5**	
Acquisition cost 31 Dec.	**846.7**	839.9	**633.0**	626.2
Accumulated planned depreciation	**-381.0**	-345.1	**-268.8**	-254.7
Book value 31 Dec.	**465.7**	494.8	**364.2**	371.5
Planned depreciation difference 1 Jan.			**151.4**	155.8
Decrease			**-5.0**	-4.4
Planned depreciation difference 31 Dec.			**146.4**	151.4
Telecommunications equipment and other machines and equipment				
Acquisition cost 1 Jan.	**2,582.9**	2,591.2	**2,539.2**	2,521.7
Increase	**623.4**	496.0	**608.9**	484.6
Decrease	**-6.6**	-6.4	**-3.3**	-2.5
Acquisition cost 31 Dec.	**3,199.7**	3,080.8	**3,144.8**	3,003.8
Accumulated planned depreciation	**-1,535.5**	-1,646.7	**-1,511.0**	-1,594.2
Book value 31 Dec.	**1,664.2**	1,434.1	**1,633.8**	1,409.6
Planned depreciation difference 1 Jan.			**286.0**	264.4
Increase			**120.0**	21.6
Planned depreciation difference 31 Dec.			**406.0**	286.0
Telecommunications equipment (exchanges and fixed networks) share of book value 31 Dec.	**1,327.8**	1,191.8	**1,327.8**	1,191.8
Prepayments and work in progress				
Acquisition cost 1 Jan.	**23.7**	28.1	**23.7**	27.9
Increase	**8.7**	9.4	**8.7**	9.3
Decrease	**-2.2**	-13.7	**-2.2**	-13.5
Book value 31 Dec.	**30.2**	23.8	**30.2**	23.7
Investments in fixed assets				
Acquisition cost 1 Jan.	**204.1**	162.2	**262.3**	246.8
Increase	**76.9**	42.4	**36.0**	16.1
Decrease	**-0.1**	-0.5	**-0.1**	-0.6
Book value 31 Dec.	**280.9**	204.1	**298.2**	262.3
8. Tax values of fixed assets				
Land and water	**130.1**	130.0	**105.5**	105.4
Buildings	**459.2**	485.1	**335.5**	340.1
Shares in subsidiary undertakings			**135.4**	101.6
Other shares and holdings	**171.1**	107.9	**169.4**	106.4
Total	**760.4**	723.0	**745.8**	653.5

9. Shares and holdings	Group ownership %	Group voting rights %	Parent Company ownership %	Shares owned by Parent Company: Number of shares	Nominal value FIM 1000	Book value FIM 1000	Profit/loss for financial period FIM million	Group share of shareholders' equity FIM million
Group companies								
Oy Comptel Ab	96%	96%	96%	101	1,010	1,202	8.9	16.7
Helsinki TeleCom Deutschland GmbH	100%	100%	100%	1	909	909	-0.5	-1.0
Oy Heltel Ab	63%	63%	63%	200	2,000	2,000	6.5	9.5
Megabaud Oy	100%	100%	100%	1,000	100	3,000	0.1	0.4
Mäkitorppa Yhtiöt Oy	80%	80%	80%	3,144	2,515	16,635	8.3	19.2
Mobinter Oy	80%	80%	0%	0	0	0	6.8	7.3
Mobinter Baltic, SIA, Riga	80%	80%	0%	0	0	0	0.1	0.5
Mobilen OAO, St Petersburg	68%	68%	0%	0	0	0	-1.5	-1.3
Mobinest OU, Tallinn	80%	80%	0%	0	0	0	0.3	0.3
Lietmobinter UAB, Vilnius	80%	80%	0%	0	0	0	0.2	0.4
Mäkitorppa Oy	80%	80%	0%	0	0	0	2.4	2.3
Mäkitorppa Marketing Cooperative	16 %	49 %	0%	0	0	0	0.1	0.0
Rahoituslinkki Oy	100%	100%	100%	3	15	15	0.0	0.3
Kiinteistö Oy Kutomotie 16	100%	100%	100%	15	15	15	1.3	0.4
Kiinteistö Oy Ratavartijankatu 3	64%	64%	64%	5,753	28,765	70,126	0.1	64.2
Kiinteistö Oy Rinnetorppa	100%	100%	50%	5	50	1,345	0.0	2.9
Other companies (dormant)						406		
Total						95,653		
Associated undertakings								
Oy Datatie Ab	22%	22%	22%	251	1,255	2,724	15.4	9.4
Oy Finnet International Ab	41%	41%	41%	1,434	14,340	14,340	36.9	35.3
Finnet Logistiikka Oy	32%	32%	32%	480	528	530	0.4	1.1
Oy Finnet Media Ab	35%	35%	35%	1,053	1,053	1,053	0.9	1.4
Oy Finnet Ventures	42%	42%	42%	42	420	840	0.0	0.9
Kaukoverkko Ysi Oy	34%	34%	34%	336	336	336	41.3	27.7
Oy Omnitele Ab	29%	29%	29%	351	351	351	3.6	2.2
Oy Radiolinja Ab	46%	46%	46%	28,067	135,330	140,361	76.4	159.6
Radiolinja Eesti AS	45%	45%	45%	163	500	12,395	-0.8	5.1
Suomen Keltaiset Sivut Oy	30%	30%	30%	184	920	1,540	4.5	5.0
Vantaan Yhteisverkko Oy	24%	24%	24%	36	4	4		
Total						174,474		

The undepreciated goodwill included in the book value of associated undertakings as at 31 Dec. 1997 was FIM 7.1 million.
The balance sheet date for all associated undertakings was 31 December 1997.

Other shares and holdings owned by the parent company	Parent Company ownership %	Number of shares	Nominal value FIM 1000	Book value FIM 1000
Computec Oy	18 %	750	750	750
Helsinki Halli Oy	under 1%	12	120	1,200
Innopoli Oy	under 1%	3,334	333	0
Luottokunta	under 1%	1	1	1
Merita Bank, A	under 1%	55,409	541	666
Novo Group Oyj	1%	60,000	300	8,700
Pasilan Huolto Oy	1%	10	0	0
Puhelinlaitosten Takaus Oy	3%	1	1	1
Oy Rastor Ab	2%	210	21	2
Kiinteistö Oy Mannerheimintie 168	3%	1,407	1	3,452
Kiinteistö Oy Nekalanpuisto	3%	2,020	20	821
Kiinteistö Oy Pieni Roobertinkatu 7	8%	1,332	1	7,734
Asunto Oy Castreninkatu 28	12%	1,200	120	1,012
Heikintori Oy	3%	3,518	352	1,887
Asunto Oy Helsingin Itämerenkatu	under 1%	205	0	219
Asunto Oy Herttalax	under 1%	96	48	44
Asunto Oy Korkeavuorenkatu 7	5%	5	0	1,518
Asunto Oy Vantaan Keropuisto	3%	279	29	91
Total				28,098
Shares and holdings, total				298,225

FIM million	Group 1997	Group 1996	Parent Co. 1997	Parent Co. 1996
10. Receivables maturing in one year or later included under current assets				
Loan receivables	**5.0**	15.8	**40.7**	39.3
Other receivables		0.4		
Total	**5.0**	16.2	**40.7**	39.3
11. Receivables and payables/group companies and associated undertakings				
Accounts receivable/group companies			**1.8**	1.8
Accounts receivable/associated undertakings	**53.8**	39.9	**51.5**	38.9
Deferred receivables/group companies			**4.0**	3.5
Deferred receivables/associated undertakings	**24.1**	12.6	**18.7**	12.7
Loan receivables/group companies (current)			**9.5**	9.1
Loan receivables/group companies (non-current)			**40.7**	38.9
Other receivables/Helsinki Telephone Association	**0.8**	3.9	**0.8**	3.9
Total	**78.7**	56.4	**127.0**	108.8
Other non-current liabilities/group companies				5.9
Accounts payable/group companies			**13.8**	9.7
Accounts payable/associated undertakings	**65.6**	57.2	**65.3**	57.2
Deferred liabilities/group companies			**0.3**	0.5
Deferred liabilities/associated undertakings	**1.7**	0.8	**1.7**	0.8
Other current liabilities/group companies			**46.0**	18.6
Other current liabilities/Helsinki Telephone Association	**8.4**	14.9	**8.4**	14.9
Total	**75.7**	72.9	**135.5**	107.6
12. Changes in shareholders' equity				
Share capital 1 Jan.	**201.6**	201.6	**201.6**	201.6
Share issue, Series E Shares	**35.0**		**35.0**	
Share capital 31 Dec. of which	**236.6**	201.6	**236.6**	201.6
Series E Shares	**161.6**		**161.6**	
Series K Shares	**75.0**		**75.0**	
Reserve fund 1 Jan.	**1,108.1**	1,108.1	**1,108.1**	1,108.1
Reserve fund 31 Dec.	**1,108.1**	1,108.1	**1,108.1**	1,108.1
Premium reserve 1 Jan.				
Issue premium	**408.5**		**408.5**	
Premium reserve 31 Dec.	**408.5**		**408.5**	
Restricted equity, total 31 Dec.	**1,753.2**	1,309.7	**1,753.2**	1,309.7
Non-restricted equity 1 Jan.	**401.2**	349.8	**45.6**	29.1
Increase in subscription fees	**5.2**	0.5	**5.2**	0.5
Dividends paid	**-8.0**		**-8.0**	
Equity adjustment item	**-0.9**	-0.1		
Profit for the financial year	**132.3**	51.0	**8.4**	16.0
Non-restricted equity, total 31 Dec	**529.8**	401.2	**51.2**	45.6
Shareholders' equity, total 31 dec.	**2,283.0**	1,710.9	**1,804.4**	1,355.3
Distributable shareholders' equity	**125.6**	77.9	**42.2**	41.9

FIM million	Group 1997	Group 1996	Parent Co. 1997	Parent Co. 1996
13. Obligatory reserves				
Warranty repairs and after sales	**1.4**	0.5	**0.5**	0.5
Rent on vacant premises	**0.5**	0.6		
Other obligatory reserves	**1.2**	0.4	**0.2**	0.4
Total	**3.1**	1.5	**0.7**	0.9
14. Non-current loans maturing in five years or later				
Pension loans	**720.9**	721.4	**719.1**	719.1
Loans from financial institutions	**23.7**	5.5		
Total	**744.6**	726.9	**719.1**	719.1
15. Interest-bearing current liabilities				
Employee deposits (with Pay Office) (gross)	**84.8**	86.7	**84.8**	86.7
Employee loans (from Pay Office)	**-5.6**	-6.0	**-5.6**	-6.0
Employee deposits (with Pay Office) (net)	**79.2**	80.7	**79.2**	80.7
Other current interest-bearing liabilities	**35.9**	46.4	**55.1**	33.3
Total	**115.1**	127.1	**134.3**	114.0
16. Contingent liabilities				
For the company and group companies				
Mortgages	**260.0**	261.0	**260.0**	261.0
Guarantees			**49.6**	39.6
Pledges	**0.1**	1.9		
For associated undertakings				
Guarantees	**24.0**	10.0	**24.0**	10.0
For management				
Guarantees	**0.1**	0.2		
For others				
Mortgages	**0.7**	0.7	**0.7**	0.7
Guarantees	**4.0**	14.0	**4.0**	14.0
Other liabilities				
Repurchase commitments	**19.9**	21.0	**19.8**	20.6
Leasing commitments	**203.8**	250.9	**200.7**	248.0
Other contingent liabilities	**0.5**	0.5		
Total				
Mortgages	**260.7**	261.7	**260.7**	261.7
Guarantees	**28.1**	24.2	**77.6**	63.6
Pledges	**0.1**	1.9		
Other contingent liabilities	**224.2**	272.4	**220.5**	268.6
Total	**513.1**	560.2	**558.8**	593.9

17. Leasing payments

Finance leasing payments are FIM 29 million and operation leasing payments are approximately FIM 9 million for 1998. Total finance leasing payments for 1999 and subsequent years are FIM 154 million.

Group indicators

Financial indicators	1997	1996	1995	1994
Income statement				
Turnover, FIM million[1]	2,565.6	2,230.0	1,984.3	1,910.5
Turnover, percentage change	15%	12.4%	3.9%	4.2%
Profit from operations before depreciation, FIM million	701.8	584.6	522.2	517.7
Profit from operations before depreciation. % of turnover	27.4%	26.2%	26.3%	27.1%
Operating profit, FIM million	224.4	140.5	71.8	70.1
Operating profit, % of turnover	8.7%	6.3%	3.6%	3.7%
Profit before extraordinary items and taxes FIM million	188.0	114.2	38.5	36.5
Profit before extraordinary items, % of turnover	7.3%	5.1%	1.9%	1.9%
Profit before taxes, FIM million	188.0	63.0	38.5	36.5
Profit before taxes, % of turnover	7.3%	2.8%	1.9%	1.9%
Return on equity (ROE), %	6.7%	5.1%	1.8%	1.6%
Return on capital invested (ROI), %	8.6%	6.4%	3.8%	4.2%
Research and development, FIM million	55.2	46.8	31.2	23.9
Research and development, % of turnover	2.2%	2.1%	1.6%	1.3%
Balance sheet				
Gearing ratio (%)	8.5%	29.6%	30.3%	26.6%
Liquidity (current ratio)	2.0	1.5	1.6	1.9
Equity ratio, %	59.6%	53.4%	53.4%	54.0%
Balance sheet total, FIM million	3,915.1	3,289.1	3,191.3	3,044.3
Investments				
Gross investments, FIM million	737.2	585.9	584.6	521.8
Gross investments, % of turnover	28.7%	26.3%	29.5%	27.3%
Investments funded by leasing finding, FIM million	-	100.2	60.1	30.0
Employees				
Employees, average	3,814	3,736	3,734	3,656
Turnover/person, FIM thousand	672.7	596.9	531.4	522.6

Per share indicators[2]

Share capital, FIM	236,596,300	201,600,000	201,600,000	201,600,000
Series K Shares at 31 Dec.	32,320,000			
Series E Shares at 31 Dec.	14,999,260			
Total number of shares	47,319,260	40,320,000	40,320,000	40,320,000
Earnings per share, FIM	3.22	2.18	0.70	0.64
Dividend per share, FIM	1.30[3]	0.20	-	-
Dividend per earnings, %	40.4	9.2	-	-
Shareholders' equity per share, FIM	47.22	41.31	40.04	40.45
P/E ratio	38			

Voluntary appropriations and the difference between realised and planned depreciation appear in the consolidated financial statements under profit for the financial year and shareholders equity on the one hand and under change in deferred tax liability on the other.

Orders in hand were not presented, because this information is not essential due to the nature of the Group's business.

The company's annual general meeting of 7 November 1996 resolved to amend the nominal value of each share from FIM 100,000 to FIM 5. The number of shares is given in accordance with the new nominal value.

1) The accounting practice in the 1997 financial statements has been changed so that credit losses and commission are not deducted from turnover but are treated as an expense.

2) There was only one series of share between 1994 and 1996.

3) Proposal by the Board of Directors.

Formulae for main indicators

Return on equity % (ROE) $= \dfrac{\text{Profit before extraordinary items, appropriations and taxes - taxes}}{\text{Shareholders' equity + minority interests (average for year)}} \times 100$

Return on capital invested % (ROI) $= \dfrac{\text{Profit before extraordinary items, appropriations and taxes + financial expenses}}{\text{Balance sheet total - non-interest-bearing liabilities (average for year)}} \times 100$

Gearing ratio (%) $= \dfrac{\text{Interest-bearing liabilities + prepayments - cash in hand and at banks}}{\text{Equity + minority share}} \times 100$

Liquidity (current ratio) $= \dfrac{\text{Current assets + financial assets}}{\text{Short-term liabilities - prepayments}} \times 100$

Equity ratio % $= \dfrac{\text{Equity + minority share}}{\text{Balance sheet total - prepayments}} \times 100$

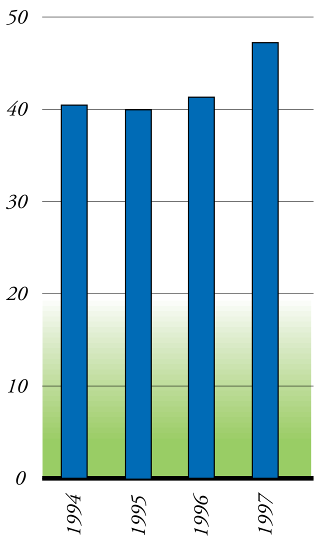
Earnings per share $= \dfrac{\text{Result before extraordinary items, reserves and taxes - minority interests - taxes}}{\text{Adjusted number of shares for the financial year}}$

Dividend per earnings $= \dfrac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

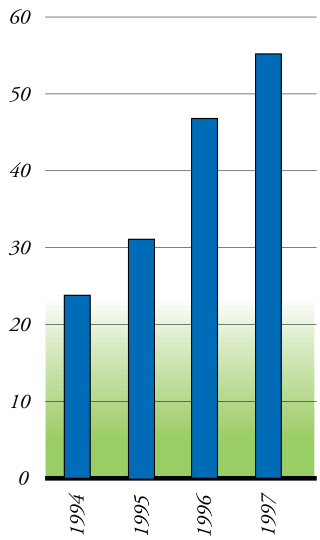
Shareholders' equity per share $= \dfrac{\text{Balance sheet equity - minority interests}}{\text{Number of shares at balance sheet date}}$

P/E ratio $= \dfrac{\text{Stock exchange quote at end of financial year}}{\text{Earnings per share}}$

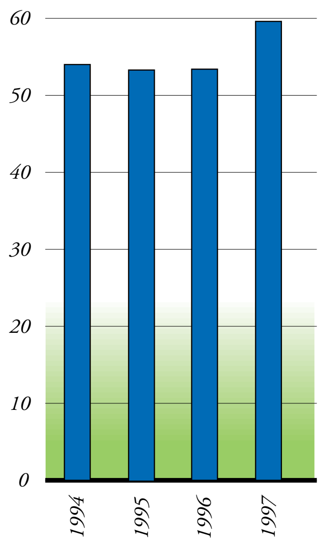
Shareholders' equity per share, FIM



R&D, FIM million



Equity ratio, %



Shares and shareholders

Share capital and shares

The company's registered and fully paid share capital at the balance sheet date was FIM 236,596,300. Under the Articles of Association, the minimum and maximum share capital is FIM 200,000,000 and FIM 800,000,000 respectively.

Share series

At the balance sheet date there were 47,319,260 Helsinki Telephone Corporation shares: 32,320,000 Series K Shares and 14,999,260 Series E Shares, each having a nominal value of FIM 5.

Helsinki Telephone Association owns all 32,320,000 Series K Shares and 8,000,000 Series E Shares. The remaining 6,999,260 Series E Shares are held by other owners.

Series K Shares confer five votes and Series E Shares confer one vote at shareholders' meetings. Dividends are paid only on Series E Shares.

At the end of the financial year, the Board of Directors had no valid authorisations in respect of share offerings.

Share performance

The company's Series E Shares were first quoted on the Helsinki Stock Exchange on 25 November 1997. The shares closed at FIM 123 on 31 December 1997. The highest and lowest quoted prices during the year were FIM 131 and FIM 115 respectively. The middle price was FIM 123.50.

At the balance sheet date, the company had a capitalisation value of FIM 5,820 million.

Quotation and trading

Helsinki Telephone Corporation Series E Shares are listed in the Helsinki Stock Exchange under the code HEPEV.HE.

A total of 946,107, equivalent to 6.3 per cent, of the company's Series E Shares were traded on the Helsinki Stock Exchange between 25 November and 30 December 1997, at a total price of FIM 116.8 million.

Share ownership by owner group as at 31 December 1997

	Shares	% of total shares
1. Public companies	51,686	0.11%
2. Private companies	41,430,859	87.56%
3. Finance and insurance companies	733,314	1.55%
4. Public entities	768,290	1.62%
5. Non-profit making entities	128,654	0.27%
6. Private households	4,164,289	8.80%
7. Foreign	32 874	0.07%
8. Joint accounts and waiting list	9,294	0.02%
Total	47 319 260	100.00%

Analysis of shareholdings as at 31 December 1997

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of total shares	Votes	% of votes
1 - 100	99,975	94.42%	3,260,954	6.89%	3,260,954	1.85%
101 - 500	5,010	4.73%	877,433	1.85%	877,433	0.50%
501 - 1 000	617	0.58%	379,552	0.80%	379,552	0.21%
1 001 - 5 000	219	0.21%	465,879	0.98%	465,879	0.26%
5 001 - 10 000	29	0.03%	189,204	0.40%	189,204	0.11%
10 001 - 50 000	21	0.02%	406,130	0.86%	406,130	0.23%
50 001 - 100 000	2	0.00%	144,122	0.30%	144,122	0.08%
over 100 000	6	0.01%	41,586,692	87.89%	170,866,692	96.75%
In joint accounts and on waiting list			9,294	0.02%	9,294	0.01%
Total	105,879	100.00%	47,319,260	100.00%	176,599,260	100.00%

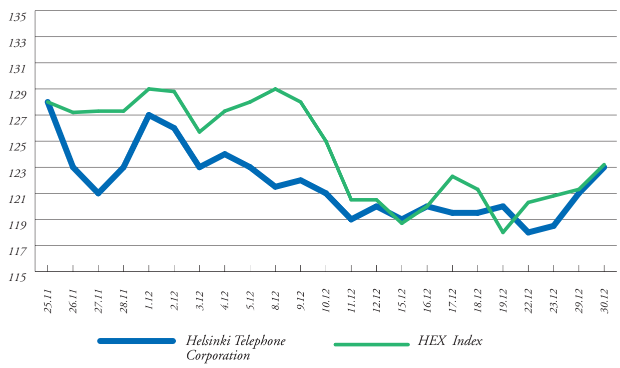
Largest shareholders as at 31 December 1997

	Series K Shares No.	Series E Shares No.	Total No.	Holding, %	Share of votes
1 Helsinki Telephone Association	32,320,000	8,189,640	40,509,640	85.61%	96.14%
Helsinki Telephone Association	32,320,000	8,000,000	40,320,000		
Helsinki Telephone Association Pension Fund		189,640	189,640		
2 Sampo Group		782,130	782,130	1.65%	0.44%
Insurance Company Sampo Pension Ltd		380,590	380,590		
Industrial Insurance Company Ltd		201,390	201,390		
Nova Life Insurance Company		200,150	200,150		
3 Sotka Finland Oy		294,922	294,922	0.62 %	0.17 %
4 City of Helsinki		65,420	65,420	0.14 %	0.04 %
5 Placeringsfonden Gyllenberg Finlandia		35,350	35,350	0.07 %	0.02 %
6 Royal Skandia Life Assurance Ltd		33,816	33,816	0.07 %	0.02 %
7 Merita Bank		32,000	32,000	0.07 %	0.02 %
8 Placeringsfonden Gyllenberg Small Firm		26,740	26,740	0.06 %	0.02 %
9 ABB Pension Fund		25,000	25,000	0.05 %	0.01 %
10 City of Espoo		24,690	24,690	0.05 %	0.01 %
11 Trevise Aktiefond Finland		24,000	24,000	0.05 %	0.01 %
12 Placeringsfonden Gyllenberg Optimum		19,850	19,850	0.04 %	0.01 %
13 Fim Forte Sijoitusrahasto		18,700	18,700	0.04 %	0.01 %
14 The Finnish Cancer Foundation		18,320	18,320	0.04 %	0.01 %
15 Shamrock Oy		18,000	18,000	0.04 %	0.01 %
16 Kesko Oy		16,650	16,650	0.04 %	0.01 %
17 Neste Pension Foudation		15,200	15,200	0.03 %	0.01 %
18 City of Vantaa		15,050	15,050	0.03 %	0.01 %
19 Onninen Sijoitus Oy		15,000	15,000	0.03 %	0.01 %
20 Rausanne Oy		12,250	12,250	0.03 %	0.01 %
Nominee registered		91,164	91,164	0.19 %	0.05 %
Other shareholders, total		5,225,368	5,225,368	11.04 %	2.96 %

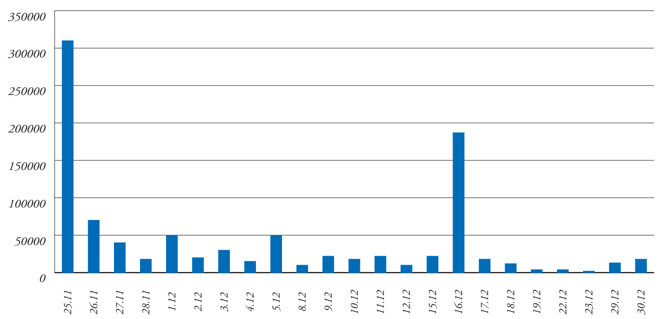
Increase in share capital 1997

	Price FIM	Subscription period	Increase share capital FIM	New share capital FIM	Right to dividend begins	New share-holders No.
Targeted rights issue						
To members of Helsinki Telephone Association	55	12.9.-23.10.	19,112,200		1997	3,822,440
Additional subscriptions	85	12.9.-17.10.	13,887,800		1997	2,777,560
To Helsinki Telephone Corporation employees	77	12.9.-23.10.	1,996,300		1997	399,260
Total			34,996,300	236,596,300		6,999,260

Share performance (closing prices, FIM)



Trading of Helsinki Telephone Corporation shares number per day on the Helsinki Stock Exchange 1997



Proposal for distribution of the parent company profit

The consolidated non-restricted shareholders' equity according to the consolidated balance sheet on 31 December 1997 stands at FIM 529,799,000 of which FIM 125,562,000 is distributable.

The parent company's non-restricted shareholders' equity according to the balance sheet on 31 December 1997 stands at FIM 51,185,691.08.

The Board of Directors proposes to the Annual General Meeting that Helsinki Telephone Corporation pay a dividend of FIM 1.30 on each Series E Share, in other words a total of FIM 19,499,038.00.

Helsinki, 26 February 1998

Kurt Nordman
Chairman of the Board of Directors

Ossi Virolainen	Jukka Alho	Riitta Backas
Matti Ilmari	Jarmo Kalm	Rauno Kousa
Paavo Uronen	Matti Mattheiszen CEO	

Auditors' report

To the shareholders of Helsinki Telephone Corporation

We have audited the accounts, financial statements and corporate governance of Helsinki Telephone Corporation for the period 1 January to 31 December 1997. The financial statements prepared by the Board of Directors and the Chief Executive Officer 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 Chief Executive Officer 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. The parent company's profit for the financial year is FIM 8, 396,567.35 and the consolidated profit FIM 132,321,000. 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 Chief Executive Officer 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.

We have audited the interim reports published during the financial year, and as we understand it, these reports have been properly prepared in accordance with the relevant rules and regulations.

Helsinki, 2 March 1998

SVH Coopers & Lybrand Oy
Authorised Public Accountants

Lasse Lehti
Authorised Accountant

Leo Laitinmäki
Authorised Public Accountant

Henrik Sormunen
Authorised Public Accountant

Statement by the Supervisory Board

The financial statements and consolidated financial statements of Helsinki Telephone Corporation for the period 1 January to 31 December 1997, 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 on the material presented.

In its opinion, 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 all Supervisory Board members are due to expire by rotation at the end of the Annual General Meeting.

Helsinki, 6 March 1998

Supervisory Board

Harri Holkeri
Chairman of the Supervisory Board

Helsinki Telephone Association

Founded in 1882, Helsinki Telephone Association is Helsinki Telephone Corporation's largest owner, with 85.1 per cent of the company's shares and 96 per cent of the votes. The Association owns all the company's Series K Shares and 8 million Series E Shares. Series K Shares may be converted into Series E Shares in the manner provided by the Articles of Association and to the extent decided by the Association Board. In 1997, the Association converted 8 million Series K Shares into the Series E Shares mentioned above before listing. The Association's present status as a shareholder came about when its principal business activities were incorporated into Helsinki Telephone Company Ltd in 1994.

Helsinki Telephone Corporation maintains the subscriber lines which Helsinki Telephone Association members have acquired for themselves by buying a membership certificate for each line held. Helsinki Telephone Corporation provides subscriber lines at a lower basic charge than telecom subscriptions provided to other customers. Under a resolution passed in 1995, the Association's body of representatives decided to limit the number of membership certificates to 575,000. The number currently stands at around 559,000 certificates. Because there were only just under 20,000 membership certificates in stock at the end of 1997, the company decided to cease selling new membership certificates entirely with effect from 12 January 1998.

During the latter part of 1997, Helsinki Telephone Association has been studying ways in which membership certificates can be converted into shareholdings in Helsinki Telephone Corporation. Based on the report of an expert working committee, the Association Board and body of representatives is still considering the matter in early 1998.

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