Registered no: 2212202

Nokia UK Limited

(formerly Nokia Telecommunications Limited)

Annual report

for the year ended 31 December 1998

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Directors' report
for the year ended 31 December 1998

The directors present their report and the audited financial statements for the year ended 31 December 1998.

Principal activities

The profit and loss account for the year is set out on page 7.

The company is a UK subsidiary of Oy Nokia Ab. Its principal activities are the development, manufacture, sales and implementation of telecommunications equipment and systems.

Review of business, future developments and post balance sheet events

Turnover increased to £529 million in 1998 (1997: £502 million) based on continued growth in both UK sales and the export of goods manufactured in the UK.

Major deals during the year continued to secure Nokia's position as a leading GSM supplier in the UK and continue to provide a solid order platform into the next millennium. Business was also secured with a number of new customers for switching. In addition, Nokia also secured a major deal with Dolphin for the supply of a Tetra Network and has also started new contracts for turnkey systems.

The number of personnel increased to 1,711 at the end of 1998 from 1,621 at the end of 1997.

Capital expenditure was £10 million in 1998, most of this being on research and development and manufacturing equipment to continue to develop the Camberley manufacturing facility.

Following the decision to merge all Nokia's trading activities in the UK into one legal entity, the businesses and certain assets and liabilities of Nokia Mobile Phones (Sales) UK Limited, Nokia R&D (UK) Limited and Nokia Multimedia Network Terminals Limited were transferred to the company at net book value on 1 January 1999.

Change of name

At an extraordinary general meeting held by the shareholders a change in name of the company from Nokia Telecommunications Limited to Nokia UK Limited was approved. The certificate of Incorporation on Change of Name approving this change was issued by the Registrar of Companies and became effective as of 31 December 1998.

Dividends

The directors do not recommend the payment of a dividend.

Research and development activities

Expenditure on research and development activities in 1998 amounted to £30 million (1997: £26 million). A significant amount of this work was carried out on behalf of Nokia Telecommunications Corporation. The fees charged for the provision of these services and the associated research and development costs are included in turnover and cost of sales respectively in the profit and loss account on page 7.

Directors

The directors of the company at 31 December 1998, all of whom have been directors for the whole of the year ended on that date except where indicated, are listed below:

P Kuhne
A C Kurten
P Oranen
K Suneli
P A Vartiainen (Chairman)

Directors' interests

None of the directors have any interests in the shares of the company.

Year 2000

The Year 2000 issue, which stems from computer programmes written using two digits rather than four to define the applicable year, could result in processing faults at the change of the century, producing a wide range of consequences.

The company has undertaken a risk based review of its computer systems and computer controlled processes to identify those which could be affected and developed an implementation plan to test and remediate these faults. All business critical work has been completed. The total cost of this work has been estimated and, in the opinion of the directors, is not material in the overall context of the financial statements.

Charitable contributions

The company has continued to make charitable contributions, donating a total of £29,574 (1997: £27,277), including £20,000 to MENCAP.

Employees

Disabled employees

Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicants concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and keeps them informed on matters affecting them and on the various factors affecting the performance of the company.

Insurance of directors

The ultimate parent company Oy Nokia Ab has arranged insurance for the directors in respect of their duties as directors of the company.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Creditor payment policy

The company's current policy concerning the payment of its trade creditors is to:

(a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;

(b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and

(c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services.

Auditors

The company's auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers and Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors.

A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting

By order of the board

Director

Auditors' report to the members of Nokia UK Limited

We have audited the financial statements on pages 7 to 17, which have been prepared under the historical cost convention and the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cambridge
Date 20 September 1999

Nokia UK Limited
(formerly Nokia Telecommunications Limited)

Profit and loss account
for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	**528,544**	502,113
Cost of sales		**(481,139)**	(460,991)
Gross profit		**47,405**	41,122
Administrative expenses		**(12,309)**	(10,180)
Operating profit		**35,096**	30,942
Interest receivable and similar income	6	**6,859**	3,219
Interest payable and similar charges	5	**(3,055)**	(5,993)
Profit on ordinary activities before taxation	7	**38,900**	28,168
Tax on profit on ordinary activities	8	**(13,084)**	(9,555)
Retained profit for the financial year	15	**25,816**	18,613

All revenue and expenses included in the profit and loss account relate to continuing operations.

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Nokia UK Limited
(formerly Nokia Telecommunications Limited)

Balance sheet
at 31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	9	**59,231**	65,799
Current assets			
Stocks	10	**32,325**	51,215
Debtors	11	**83,243**	80,881
Investments		**9,000**	-
Cash at bank and in hand		**1,164**	368
		125,732	132,464
Creditors: amounts falling due within one year	12	**111,957**	147,324
Net current assets/(liabilities)		**13,775**	(14,860)
Total assets less current liabilities		**73,006**	50,939
Provisions for liabilities and charges	13	**5,095**	8,844
Net assets		**67,911**	42,095
Called up share capital	14	**20,000**	20,000
Profit and loss account	15	**47,911**	22,095
Equity shareholders' funds	16	**67,911**	42,095

The financial statements on pages 7 to 17 were approved by the board of directors on 16/8/99 and were signed on its behalf by:

Peter Whitney

Director

Nokia UK Limited
(formerly Nokia Telecommunications Limited)

Notes to the financial statements for the year ended 31 December 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Cash flow

The company is a wholly-owned subsidiary of Nokia UK Holdings Limited (formerly Nokia (UK) Limited) and the cash flows of the company are included in the consolidated cash flow statement of Nokia UK Holdings Limited. Consequently the company is exempt from the requirement to publish a cash flow statement.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	2½ - 4
Fixtures, fittings, tools and equipment	10 - 20
Improvements to leasehold property	Over the lease term
Computer equipment and software	20 - 33

Freehold land is not depreciated. Assets purchased during the year are depreciated by the relevant fraction of the above rates. The rates used are designed to write the assets down to their residual value over their expected useful lives.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. In the opinion of the directors there are no assets held under finance leases.

Stocks and work in progress

Stocks have been valued at the lower of cost and net realisable value, after making allowances for any obsolete or slow moving items. Cost comprises the original purchase price and any direct costs attributable to location and condition. Net realisable value is the amount estimated to be subsequently receivable less costs to completion and related selling and distribution costs. In the opinion of the directors, this valuation is not materially different from replacement cost.

Investments

Investments shown under current assets comprise fixed return deposits, which are not repayable on demand.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Deferred taxation

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made or assets are recognised at the rate which is expected to be applied when the liability or asset is expected to crystallise.

Pension scheme arrangements

Nokia UK Limited (formerly Nokia Telecommunications Limited) has been a participating company of the Nokia Group (UK) Pension Scheme since 1 June 1990. This is a funded group pension scheme which provides both benefits based on final pensionable pay and benefits dependent upon contributions paid. The assets of the scheme are held separately from those of the group, being invested with London & Manchester (Managed Funds) Limited.

Contributions to the defined benefit tier of the scheme are based upon pension costs across the group as a whole, whereas contributions to the defined contribution tier of the scheme are fixed. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' expected working lives with the participating companies.

The company provides no other post retirement benefits to its employees.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Exchange differences arising in the ordinary course of business are included in trading profit. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date.

Foreign exchange contracts and currency options are used to hedge the potential exchange rate exposure and the profit or loss on such transactions is taken to the profit and loss account. The company's open forward contracts and currency options at 31 December 1998 are revalued at year end closing rates.

Research and development expenditure

All such expenditure which is not recharged is written off in the year in which it is incurred, except for expenditure on related fixed assets which is written off over the expected useful lives of those assets.

2 Segmental analysis

In the opinion of the directors it is not necessary to disclose turnover and profit on ordinary activities before taxation by business segment because there is only one main segment. This relates to the sale of telecommunications equipment and related services. Turnover and profit before taxation all originated in the United Kingdom.

	1998	1997
	£'000	£'000
Geographical analysis by destination:		
United Kingdom	**352,203**	329,290
Continental Europe	**166,927**	132,864
Other countries	**9,414**	39,959
	528,544	502,113

3 Directors' emoluments

	1998	1997
	£'000	£'000
Aggregate emoluments	**201**	170
Company pension contributions to money purchase schemes	**12**	9

Retirement benefits are accruing to one director (1997: one director) under the company's money purchase pension scheme.

The amounts stated above represent total emoluments and emoluments payable to the highest paid director.

4 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	1998 Number	1997 Number
Administration	139	102
Marketing and customer services	450	398
Production	788	723
Research and development	321	276
	1,698	1,499

	1998 £'000	1997 £'000
Staff costs (for the above persons)		
Wages and salaries	46,490	36,298
Social security costs	3,568	2,744
Other pension costs	2,326	1,859
	52,384	40,901

5 Interest payable and similar charges

	1998 £'000	1997 £'000
On bank loans and overdrafts	2,080	5,592
Losses on foreign exchange transactions	975	401
	3,055	5,993

6 Interest receivable and similar income

	1998 £'000	1997 £'000
Interest on short term bank deposits	337	358
Gain on foreign exchange	6,522	2,861
	6,859	3,219

7 Profit on ordinary activities before taxation

	1998 £'000	1997 £'000
Profit on ordinary activities before taxation is stated after charging:		
Loss/(gain) on disposal of tangible fixed assets	**2,467**	(33)
Depreciation charge for the year:		
Tangible owned fixed assets	**13,242**	12,963
Auditors' remuneration for audit	**100**	105
Auditors' remuneration for non-audit services	**73**	60
Research and development expenditure	**29,554**	25,956
Hire of plant and machinery - operating leases	**4,609**	3,025
Hire of other assets - operating leases	**1,966**	3,058

8 Tax on profit on ordinary activities

	1998 £'000	1997 £'000
United Kingdom corporation tax at 31% (1997: 31½%):		
Current	**11,820**	9,950
Deferred	**1,264**	(395)
	13,084	9,555

9 Tangible fixed assets

	Freehold land and buildings £'000	Improvements to leasehold property £'000	Fixtures and fittings, tools and equipment £'000	Total £'000
Cost				
At 1 January 1998	34,879	6,882	59,774	101,535
Additions	1,984	441	7,230	9,655
Disposals	(2,325)	(399)	(19,944)	(22,668)
At 31 December 1998	**34,538**	**6,924**	**47,060**	**88,522**
Depreciation				
At 1 January 1998	3,380	1,203	31,153	35,736
Charge for year	992	435	11,815	13,242
Disposals	(1,412)	(301)	(17,974)	(19,687)
At 31 December 1998	**2,960**	**1,337**	**24,994**	**29,291**
Net book value				
At 31 December 1998	**31,578**	**5,587**	**22,066**	**59,231**
At 31 December 1997	31,499	5,679	28,621	65,799

10 Stocks

	1998 £'000	1997 £'000
Raw materials and consumables	**12,926**	16,150
Work in progress	**5,187**	6,058
Finished goods	**14,212**	29,007
	32,325	51,215

11 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year		
Trade debtors	**49,773**	38,316
Amounts owed by group undertakings	**26,583**	32,571
Other debtors	**2,168**	6,566
Prepayments and accrued income	**4,719**	2,648
Group relief receivable	**-**	780
	83,243	80,881

12 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Bank loans and overdrafts	**-**	49,244
Payments received on account	7,302	3,388
Trade creditors	**26,700**	16,676
Amounts owed to group undertakings	**27,928**	34,088
Corporation tax	**13,448**	11,171
Group relief payable	**231**	297
Other taxation and social security	**8,361**	7,828
Other creditors	**12,331**	4,393
Accruals and deferred income	**15,656**	20,239
	111,957	147,324

13 Provisions for liabilities and charges

	Provisions for warranties and other contractual obligations £'000	Deferred taxation £'000	Total £'000
At 1 January 1998	8,563	281	8,844
Profit and loss account	(5,013)	1,264	(3,749)
At 31 December 1998	3,550	1,545	5,095

The company enters into contracts with its main customers for the supply of telecommunications equipment and related services. The directors review the progress of these contracts on a regular basis. Provision is made where costs under existing warranty and other contractual arrangements are expected to arise in future periods. The directors consider the resulting provisions to be the best estimates of such costs.

Deferred taxation provided in the financial statements, and the amount unprovided or not recognised of the total potential liability or asset, are as follows:

	Amount provided		Amount unprovided	
	1998 £'000	1997 £'000	**1998 £'000**	1997 £'000
Tax effect of timing differences because of:				
Excess of capital allowances over depreciation	**1,587**	2,686	-	-
Other	**(42)**	(2,405)	-	-
	1,545	281	-	-

14 Called up share capital

	1998 £'000	1997 £'000
Authorised		
20,000,000 (1997: 20,000,000) ordinary shares of £1 each	**20,000**	20,000
Allotted, called up and fully paid		
20,000,000 (1997: 20,000,000) ordinary shares of £1 each	**20,000**	20,000

15 Profit and loss account

	1998 £'000	1997 £'000
At 1 January	22,095	3,482
Retained profit for the year	25,816	18,613
At 31 December	**47,911**	22,095

16 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Opening shareholders' funds	42,095	23,482
Profit for the financial year	25,816	18,613
Closing shareholders' funds	67,911	42,095

17 Capital commitments

	1998 £'000	1997 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	562	807

18 Contingent liabilities

The company is liable, under the terms of a cash pooling arrangement with National Westminster Bank plc, to contribute to the overdrafts of its holding company Nokia UK Holdings Limited (formerly Nokia (UK) Limited). The company's liability is limited to its cash balance at any time on its account with that bank. At 31 December 1998 the company's maximum potential liability was £Nil (1997: £328,000).

The company has given a counter indemnity to National Westminster Bank plc in respect of a duty deferment bond in favour of H M Customs and Excise in the sum of £600,000 (1997: £1,200,000). At 31 December 1998 the balance outstanding on the deferment account against which the bond could be offset was £141,688 (1997: £537,700).

During the ordinary course of its business the company issues performance bonds to its customers and other related parties. The value of these bonds at 31 December 1998 was £1,052,560 (1997: £1,052,560).

The directors consider that the likelihood of any loss arising from any of these arrangements is remote.

19 Pension scheme

The most recent actuarial valuation, market value of the scheme's assets, level of funding in percentage terms and main assumptions used are disclosed in the accounts of Nokia UK Holdings Limited (formerly Nokia (UK) Limited), the immediate parent company.

The pension charge for the year is shown in Note 4.

An amount of £216,224 (1997: £209,729), which represents pension costs outstanding at the year end, is included in creditors.

20 Financial commitments

At 31 December 1998 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 1998 £'000	**Other 1998 £'000**	Land and buildings 1997 £'000	Other 1997 £'000
Operating leases expiring				
Within one year	**347**	**293**	491	633
In the second to fifth years inclusive	**241**	**2,880**	108	934
In more than five years	**1,402**	**-**	674	48
	1,990	**3,173**	1,273	1,615

21 Ultimate and immediate parent companies

The directors regard Oy Nokia Ab, a company incorporated in Finland, as the ultimate parent company and controlling party. Copies of the consolidated financial statements of Oy Nokia Ab may be obtained from PO Box 226, SF00101, Helsinki, Finland.

The immediate parent company is Nokia UK Holdings Limited (formerly Nokia (UK) Limited), a company registered in England and Wales. Copies of the consolidated financial statements of Nokia UK Holdings Limited (formerly Nokia (UK) Limited) may be obtained from Headland House, The Chord Business Park, London Road, Godmanchester, Cambridgeshire, PE18 8NX.

22 Related party transactions

The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other group companies. There were no other disclosable transactions.