

Nokia Telecommunications Limited
Annual report
for the year ended 31 December 1997



Nokia Telecommunications Limited

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Directors' report for the year ended 31 December 1997

The directors present their report and the audited financial statements for the year ended 31 December 1997.

Principal activities

The profit and loss account for the year is set out on page 6.

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 and future developments

Turnover increased to £502 million in 1997 (1996: £378 million) based on continued growth in both UK sales and the export of goods manufactured in the UK.

Major deals with Cellnet (GSM900) and Orange (GSM1800) secured Nokia's position as a leading GSM supplier in the UK and provide a solid order platform into the next millennium. Business was also secured with a number of new customers for switching and SDH transmission. In addition, Nokia is a member of the QUADRANT Consortium which has been given the go-ahead by the British Government to commence work on the specification of a national TETRA service for use by the UK emergency services.

The number of personnel increased to 1,621 at the end of 1997 from 1,326 at the end of 1996.

Capital expenditure was £14 million in 1997, most of this being on research and development and manufacturing equipment to develop the Camberley manufacturing facility.

The directors' confidence for positive future prospects is based on strong order inflow and Nokia's reputation for innovation, technical excellence and quality.

Dividends

The directors do not recommend the payment of a dividend.

Research and development activities

Expenditure on research and development activities in 1997 amounted to £25,956,000 (1996: £23,520,000). 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 6.

Directors

The directors of the company at 31 December 1997, all of whom have been directors for the whole of the year ended on that date, except where indicated, are listed below:

H M Kosonen (resigned 21 January 1997)
P Kuhne
A C Kurten
T M Laaksonen (resigned 21 January 1997)
P Oranen
K Suneli
P A Vartiainen (Chairman)

Directors' interests

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

Charitable contributions

The company has continued to make charitable contributions, donating a total of £27,277 (1996: £36,000) to good causes, 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.

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 are Coopers & Lybrand. In accordance with section 386 of the Companies Act 1985 the company has passed an elective resolution dispensing with the requirement to appoint auditors annually.

By order of the board



Peter Kuhne
Director

Directors' responsibilities statement

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.

By order of the board



Peter Kuhne
Director

**Report of the auditors to the members of
Nokia Telecommunications Limited**

We have audited the financial statements on pages 6 to 17.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Cambridge

28 April 1998

Profit and loss account for the year ended 31 December 1997

	Notes	1997 £'000	1996 as restated £'000
Turnover	3	502,113	378,087
Cost of sales		(460,991)	(367,188)
Gross profit		41,122	10,899
Administrative expenses		(10,180)	(10,203)
Operating profit		30,942	696
Interest receivable and similar income	7	3,219	112
		34,161	808
Interest payable and similar charges	6	(5,993)	(5,397)
Profit/(loss) on ordinary activities before taxation	8	28,168	(4,589)
Tax on profit/(loss) on ordinary activities	9	(9,555)	104
Retained profit/(loss) for the financial year	16	18,613	(4,485)

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/(losses) above and therefore no separate statement of total recognised gains and losses has been presented.

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

The profit and loss account for the year ended 31 December 1996 has been restated due to the reclassification of certain costs. This reclassification has been made so that the presentation is on a consistent basis with the current year. A reconciliation of the restated balances to the figures previously reported is shown in note 2.

Balance sheet at 31 December 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	10	<u>65,799</u>	<u>65,571</u>
Current assets			
Stocks	11	51,215	69,055
Debtors	12	80,881	77,253
Cash at bank and in hand		368	39
		<u>132,464</u>	<u>146,347</u>
Creditors: amounts falling due within one year	13	<u>147,324</u>	<u>174,676</u>
Net current (liabilities)		<u>(14,860)</u>	<u>(28,329)</u>
Total assets less current liabilities		<u>50,939</u>	<u>37,242</u>
Provisions for liabilities and charges	14	<u>8,844</u>	<u>13,760</u>
Net assets		<u>42,095</u>	<u>23,482</u>
Capital and reserves			
Called up share capital	15	20,000	20,000
Profit and loss account	16	22,095	3,482
Equity shareholders' funds	17	<u>42,095</u>	<u>23,482</u>

The financial statements on pages 6 to 17 were approved by the board of directors on 23/4/98 and were signed on its behalf by:



Peter Kuhne
Director

**Notes to the financial statements
for the year ended 31 December 1997****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 has taken advantage of the exemption under FRS 1 (Revised) not to prepare a cash flow statement as it is a wholly-owned subsidiary of an EC parent undertaking. The consolidated financial statements of the immediate parent company include a consolidated cash flow statement dealing with the cash flows of the group.

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	2.5 - 4
Fixtures, fittings, tools and equipment	10 - 20
Improvements to leasehold property	Over the lease term
Computer equipment and software	20 - 33½

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 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.

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 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 rate of exchange 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 rate of exchange 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 1997 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 incurred, except for expenditure on related fixed assets which is written off over the expected useful lives of those assets.

2 Comparative figures

The comparative figures for cost of sales, administrative expenses and research and development expenditure have been adjusted to reflect a reclassification between the production, research and development and administrative activities of the company. The effect is as follows:

	As previously reported £'000	Transfer £'000	1996 (as restated) £'000
Cost of sales	365,565	1,623	367,188
Research and development expenditure	9,469	(9,469)	-
Administrative expenses	2,357	7,846	10,203
	<u>377,391</u>	<u>-</u>	<u>377,391</u>

3 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.

	1997 £'000	1996 £'000
Geographical analysis by destination:		
United Kingdom	329,290	227,964
Continental Europe	132,864	84,649
Other countries	39,959	65,474
	<u>502,113</u>	<u>378,087</u>

4 Directors' emoluments

	1997 £'000	1996 £'000
Aggregate emoluments	170	184
Company pension contributions to money purchase schemes	9	5
	<u> </u>	<u> </u>

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

5 Employee information

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

	1997 Number	1996 Number
Administration	102	82
Marketing and customer services	398	358
Production	723	497
Research and development	276	276
	<u>1,499</u>	<u>1,213</u>
	<u> </u>	<u> </u>
	1997 £'000	1996 £'000
Staff costs (for the above persons)		
Wages and salaries	36,298	27,978
Social security costs	2,744	2,123
Other pension costs	1,859	1,119
	<u>40,901</u>	<u>31,220</u>

6 Interest payable and similar charges

	1997 £'000	1996 £'000
On bank loans and overdrafts	5,592	4,806
Losses on foreign exchange transactions	401	591
	<u>5,993</u>	<u>5,397</u>

7 Interest receivable and similar income

	1997 £'000	1996 £'000
Interest on short term bank deposits	358	112
Gain on foreign exchange	2,861	-
	<u>3,219</u>	<u>112</u>

8 Profit/(loss) on ordinary activities before taxation

	1997 £'000	1996 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
(Gain)/loss on disposal of tangible fixed assets	(33)	450
Depreciation charge for the year:		
Tangible owned fixed assets	12,963	11,012
Auditors' remuneration for audit	105	70
Auditors' remuneration for non-audit services	60	66
Hire of plant and machinery - operating leases	3,025	1,468
Hire of land and buildings - operating leases	3,058	3,208
	<u></u>	<u></u>

9 Tax on profit/(loss) on ordinary activities

	1997 £'000	1996 £'000
United Kingdom corporation tax at 31.5% (1996: 33%):		
Current	9,950	-
Deferred	(395)	676
Group relief receivable	-	(780)
	<u>9,555</u>	<u>(104)</u>

10 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 1997	34,306	6,468	47,805	88,579
Additions	1,180	414	12,507	14,101
Disposals	(607)	-	(538)	(1,145)
At 31 December 1997	34,879	6,882	59,774	101,535
Depreciation				
At 1 January 1997	2,243	727	20,038	23,008
Charge for year	1,137	476	11,350	12,963
Disposals	-	-	(235)	(235)
At 31 December 1997	3,380	1,203	31,153	35,736
Net book value				
At 31 December 1997	31,499	5,679	28,621	65,799
At 31 December 1996	32,063	5,741	27,767	65,571

11 Stocks

	1997 £'000	1996 £'000
Raw materials and consumables	16,150	21,871
Work in progress	6,058	7,415
Finished goods	29,007	39,769
	51,215	69,055

12 Debtors

	1997 £'000	1996 £'000
Amounts falling due within one year		
Trade debtors	38,316	41,412
Amounts owed by group undertakings: parent and fellow subsidiaries	32,571	31,851
Other debtors	6,566	2,326
Prepayments and accrued income	2,648	884
Group relief receivable	780	780
	80,881	77,253

13 Creditors: amounts falling due within one year

	1997 £'000	1996 £'000
Bank loans and overdrafts (see note 19)	49,244	80,994
Payments received on account	3,388	5,667
Trade creditors	16,676	19,423
Amounts owed to group undertakings: parent and fellow subsidiaries	34,088	47,591
Corporation tax	11,171	1,229
Group relief payable	297	292
Other taxation and social security	7,828	5,262
Other creditors	4,393	1,137
Accruals and deferred income	20,239	13,081
	<u>147,324</u>	<u>174,676</u>

All bank loans are short term, repayable within one year and are unsecured.

14 Provisions for liabilities and charges

	Provisions for warranties and other contractual obligations £'000	Deferred taxation £'000	Total £'000
At 1 January 1997	13,084	676	13,760
Profit and loss account	(4,521)	(395)	(4,916)
At 31 December 1997	<u>8,563</u>	<u>281</u>	<u>8,844</u>

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	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Tax effect of timing differences because of:				
Excess of capital allowances over depreciation	2,686	2,956	-	-
Other	(2,405)	(2,280)	-	-
	<u>281</u>	<u>676</u>	<u>-</u>	<u>-</u>

15 Called up share capital

	1997 £'000	1996 £'000
Authorised		
20,000,000 (1996: 20,000,000) ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>
Allotted, called up and fully paid		
20,000,000 (1996: 20,000,000) ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

16 Profit and loss account

	1997 £'000	1996 £'000
At 1 January	3,482	7,967
Retained profit/(loss) for the year	<u>18,613</u>	<u>(4,485)</u>
At 31 December	<u>22,095</u>	<u>3,482</u>

17 Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Opening shareholders' funds	23,482	27,967
Profit/(loss) for the financial year	<u>18,613</u>	<u>(4,485)</u>
Closing shareholders' funds	<u>42,095</u>	<u>23,482</u>

18 Capital commitments

	1997 £'000	1996 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>807</u>	<u>973</u>

19 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) Limited. The company's liability is limited to its cash balance at any time on its account with that bank. At 31 December 1997 the company had a balance of £328,000 (1996: £39,000) which could be offset against balances elsewhere in the Nokia UK group.

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 £1,200,000 (1996: £150,000). At 31 December 1997 the balance outstanding on the deferment account against which the bond could be offset was £537,700 (1996: £53,811).

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 1997 was £1,052,560 (1996: £1,007,560).

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

20 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) Limited, the immediate parent company.

The pension charge for the year is shown in Note 5.

An amount of £209,729 (1996: £105,000), which represents pension costs outstanding at the year end, is included in creditors.

21 Financial commitments

At 31 December 1997 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	Other	Land and buildings	Other
	1997	1997	1996	1996
	£'000	£'000	£'000	£'000
Operating leases expiring				
Within one year	491	633	587	267
In the second to fifth years inclusive	108	934	545	1,034
In more than five years	674	48	725	48
	<u>1,273</u>	<u>1,615</u>	<u>1,857</u>	<u>1,349</u>

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

23 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.