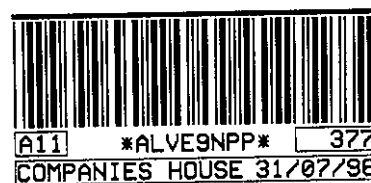


Nokia Telecommunications Limited
Annual report
for the year ended 31 December 1995



Nokia Telecommunications Limited

Annual report for the year ended 31 December 1995

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Directors' report for the year ended 31 December 1995

The directors present their report and the audited financial statements for the year ended 31 December 1995.

Principal activities

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

The principal activities of the company are the development, manufacture, sales, implementation and services of telecommunications equipment and systems.

Review of business and future developments

The company operates as a customer segmented sales and marketing organisation, backed by two global divisions, namely Cellular Systems and Network and Access Systems.

All areas of our operations continued to grow during 1995. The turnover of the company increased from £226 million in 1994 to £350 million in 1995.

The number of personnel increased from 761 at the end of 1994, to 1,131 at the end of 1995.

Capital expenditure was £44.6 million and includes expenditure to date for the construction of new manufacturing facilities as well as R&D and manufacturing equipment.

Capital expenditure approved at 31 December 1995 includes £4.9 million for the completion of the new manufacturing facilities during 1996.

The continued rapid expansion of our business and the considerable investment both in fixed and working capital resulted in the negative cash flow shown on the cash flow statement.

The company issued 12.7 million £1 ordinary shares at par during the year to provide additional working capital.

1995 saw significant growth in the export of goods manufactured in the United Kingdom and this is expected to continue in the future. 1996 will see continued growth in all areas of the business.

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

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend. The profit for the financial year of £5,905,000 (1994: £1,389,000) will be transferred to reserves.

Directors

The directors of the company at 31 December 1995, all of whom have been directors for the whole of the year ended on that date, except where indicated, are listed below:

M Heikkonen	(resigned 1 January 1995)
K Suneli	
P Oranen	
E Vallström	(resigned 1 January 1995)
H M Kosonen	
S Derry	
P Kuhne	(appointed 1 January 1995)
P A Vartianen	(appointed 1 January 1995)
A C Kurten	(appointed 1 January 1995)

Directors' interests

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

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 group continues and appropriate training is arranged. It is the policy of the group 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 group 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 group.

Changes in fixed assets

The movements in fixed assets during the year are set out in note 9 to the financial statements.

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.

Taxation status

The company is not a close company as defined by the provisions of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

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



P 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



P Kuhne
Director

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

We have audited the financial statements on pages 6 to 20.

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.

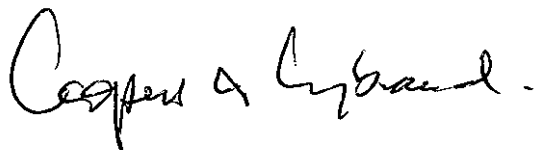
Basis of opinion

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 1995 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'Coopers & Lybrand', is written in a cursive, flowing style.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Cambridge
9 February 1996

**Profit and loss account
for the year ended 31 December 1995**

	Notes	1995 £'000	1994 £'000
Turnover	2	349,911	225,853
Cost of sales		317,247	198,254
		<hr/>	<hr/>
Gross profit		32,664	27,599
Research and development expenses		17,086	18,043
Administrative expenses		4,322	1,889
		<hr/>	<hr/>
Operating profit		11,256	7,667
Interest receivable and similar income	6	1,847	251
		<hr/>	<hr/>
		13,103	7,918
Interest payable and similar charges	5	3,553	5,156
		<hr/>	<hr/>
Profit on ordinary activities before taxation	7	9,550	2,762
Tax on profit on ordinary activities	8	3,645	1,373
		<hr/>	<hr/>
Retained profit for the financial year	15	5,905	1,389
		<hr/>	<hr/>

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.

Balance sheet at 31 December 1995

	Notes	1995 £'000	1994 £'000
Fixed assets			
Tangible assets	9	<u>58,946</u>	<u>20,549</u>
Current assets			
Stocks	10	59,113	31,238
Debtors	11	92,349	47,754
Cash at bank and in hand		761	712
		<u>152,223</u>	<u>79,704</u>
Creditors: amounts falling due within one year	12	<u>161,732</u>	<u>80,744</u>
Net current (liabilities)		<u>(9,509)</u>	<u>(1,040)</u>
Total assets less current liabilities		<u>49,437</u>	<u>19,509</u>
Provisions for liabilities and charges	13	<u>21,470</u>	<u>10,147</u>
Net assets		<u>27,967</u>	<u>9,362</u>
Capital and reserves			
Called up share capital	14	20,000	7,300
Profit and loss account	15	7,967	2,062
Equity shareholders' funds	16	<u>27,967</u>	<u>9,362</u>

The financial statements on pages 6 to 20 were approved by the board of directors on 9 February 1996 and were signed on its behalf by:



P Kuhne
Director

**Cash flow statement
for the year ended 31 December 1995**

	Notes	1995 £'000	1994 £'000
Net cash inflow from continuing operating activities		3,565	2,316
(reconciliation to operating profit on page 9)		—	—
Returns on investments and servicing of finance			
Interest received		558	232
Interest paid		(3,553)	(3,683)
		—	—
Net cash outflow from returns on investments and servicing of finance		(2,995)	(3,451)
		—	—
Taxation			
UK corporation tax paid		(1,096)	(60)
		—	—
Investment activities			
Purchase of tangible fixed assets		(41,859)	(10,203)
Sale of tangible fixed assets		64	73
		—	—
Net cash outflow from investing activities		(41,795)	(10,130)
		—	—
Net cash (outflow) before financing		(42,321)	(11,325)
		—	—
Financing			
Issue of shares		12,700	-
New unsecured short term loans	17	-	9,984
Repayment of unsecured short term loans		(10,700)	-
		—	—
(Decrease) in cash and cash equivalents	18	(40,321)	(1,341)
		==	==

Reconciliation of operating profit to net cash inflow from operating activities

	1995	1994
	£'000	£'000
Continuing operating activities		
Operating profit	11,256	7,667
Depreciation on tangible fixed assets	6,160	3,039
(Gain)/loss on sale of tangible fixed assets	(41)	25
(Increase) in stocks	(27,875)	(8,899)
(Increase)/decrease in trade debtors	(25,031)	3,048
(Increase) in amounts owed by group undertakings	(20,167)	(9,867)
Decrease/(increase) in other debtors	2,292	(3,030)
(Increase) in prepayments and accrued income	(400)	(260)
Increase in trade creditors	7,510	4,902
Increase in payments received on account	66	1,289
Increase in other taxation and social security	368	132
Increase/(decrease) in amounts owed to group undertakings	30,495	(976)
Increase in other creditors	1,272	56
Increase/(decrease) in accruals and deferred income	6,337	(273)
Increase in provision for contractual obligations and warranties	11,323	5,463
	<hr/>	<hr/>
Net cash inflow from continuing operating activities	3,565	2,316
	<hr/>	<hr/>

Notes to the financial statements for the year ended 31 December 1995

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.

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

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. Where this is not known the latest estimate of the long term rate applicable has been adopted.

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 1995 are revalued at year end closing rates.

Research and development expenditure

All such expenditure 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 these 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.

	1995 £'000	1994 £'000
Geographical analysis by destination:		
United Kingdom	198,819	141,060
Continental Europe	109,126	78,960
Other countries	41,966	5,833
	<u>349,911</u>	<u>225,853</u>

3 Directors' emoluments

	1995 £'000	1994 £'000
Other emoluments (including pension contributions and benefits in kind)	<u>255</u>	<u>321</u>

Fees and other emoluments (excluding pension contributions) include amounts paid to:

	1995	1994
The chairman	<u>-</u>	<u>-</u>
The highest-paid director	<u>97</u>	<u>206</u>

The number of directors (including the chairman and the highest-paid director) who received fees and other emoluments (excluding pension contributions) within the following ranges was:

	1995 Number	1994 Number
£ 0 to £ 5,000	6	5
£5,001 to £10,000	-	1
£30,001 to £35,000	-	1
£60,001 to £65,000	-	1
£65,001 to £70,000	1	-
£75,001 to £80,000	1	-
£80,001 to £85,000	-	1
£95,001 to £100,000	1	-
£205,001 to £210,000	-	1

4 Employee information

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

	1995 Number	1994 Number
Administration	57	32
Marketing	115	85
Customer Services Centre	180	127
Production	382	240
Research and development	<u>223</u>	<u>161</u>
	<u>957</u>	<u>645</u>

	1995 £'000	1994 £'000
Staff costs (for the above persons)		
Wages and salaries	20,708	14,699
Social security costs	1,621	1,069
Other pension costs (see note 21)	890	609
	<u>23,219</u>	<u>16,377</u>

5 Interest payable and similar charges

	1995 £'000	1994 £'000
On debentures, bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments	3,553	2,151
Losses on foreign exchange transactions	-	3,005
	<u>3,553</u>	<u>5,156</u>

6 Interest receivable and similar income

	1995 £'000	1994 £'000
Interest on short term bank deposits	140	75
Interest from group undertakings	1,707	79
Other interest	-	97
	<u>1,847</u>	<u>251</u>

7 Profit on ordinary activities before taxation

	1995 £'000	1994 £'000
Profit on ordinary activities before taxation is stated after (crediting)/ charging:		
(Gain)/loss on disposal of tangible fixed assets	(41)	25
Depreciation charge for the year:		
Tangible owned fixed assets	6,160	3,039
Auditors' remuneration for audit	54	44
Auditors' remuneration for non-audit services	53	65
Hire of plant and machinery - operating leases	1,116	747
Hire of land and buildings - operating leases	2,328	1,683
	<u></u>	<u></u>

8 Tax on profit on ordinary activities

	1995 £'000	1994 £'000
United Kingdom corporation tax at 33% (1994: 33%):		
Current	3,946	1,950
Deferred	-	507
Group relief payable	304	4
Over provision in respect of prior years:		
Current	(605)	(1,088)
	<u>3,645</u>	<u>1,373</u>

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 1995	5,651	3,636	17,840	27,127
Additions	21,879	1,272	21,429	44,580
Disposals	-	-	(77)	(77)
At 31 December 1995	<u>27,530</u>	<u>4,908</u>	<u>39,192</u>	<u>71,630</u>
Depreciation				
At 1 January 1995	368	697	5,513	6,578
Charge for year	209	419	5,532	6,160
Disposals	-	-	(54)	(54)
At 31 December 1995	<u>577</u>	<u>1,116</u>	<u>10,991</u>	<u>12,684</u>
Net book value				
At 31 December 1995	<u>26,953</u>	<u>3,792</u>	<u>28,201</u>	<u>58,946</u>
At 31 December 1994	<u>5,283</u>	<u>2,939</u>	<u>12,327</u>	<u>20,549</u>

10 Stocks

	1995 £'000	1994 £'000
Raw materials and consumables	32,369	13,200
Work in progress	3,626	2,717
Finished goods	23,118	15,321
	<u>59,113</u>	<u>31,238</u>

Nokia Telecommunications Limited

16

11 Debtors

	1995 £'000	1994 £'000
Amounts falling due within one year		
Trade debtors	52,247	27,216
Amounts owed by group undertakings: parent and fellow subsidiaries	37,636	16,180
Other debtors	1,248	3,540
Prepayments and accrued income	1,218	818
	<u>92,349</u>	<u>47,754</u>

12 Creditors: amounts falling due within one year

	1995 £'000	1994 £'000
Bank loans and overdrafts (see note 20)	66,462	36,792
Payments received on account	1,567	1,501
Trade creditors	18,082	10,572
Amounts owed to group undertakings: parent and fellow subsidiaries	54,878	24,383
Corporation tax	4,365	2,120
Group relief payable	304	-
Other taxation and social security	5,548	530
Other creditors	1,328	56
Accruals and deferred income	9,198	4,790
	<u>161,732</u>	<u>80,744</u>

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

13 Provisions for liabilities and charges

	Provisions for warranties and other contractual obligations £'000	Total £'000
At 1 January 1995	10,147	10,147
Profit and loss account	11,323	11,323
	<u>21,470</u>	<u>21,470</u>
At 31 December 1995		

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	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
Tax effect of timing differences because of:				
Excess of capital allowances over depreciation	2,639	1,178	-	-
Other	(2,639)	(1,178)	(24)	(9)
	<u>-</u>	<u>-</u>	<u>(24)</u>	<u>(9)</u>
	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(24)</u></u>	<u><u>(9)</u></u>

14 Called up share capital

	1995 £'000	1994 £'000
Authorised		
20,000,000 (1994: 10,000,000) ordinary shares of £1 each	<u>20,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
20,000,000 (1994: 7,300,000) ordinary shares of £1 each	<u>20,000</u>	<u>7,300</u>

During the year the company increased its authorised share capital from 10,000,000 ordinary £1 shares to 20,000,000. Subsequently 12,700,000 shares were issued at par value and paid up in order to provide additional working capital for the company.

15 Profit and loss account

	1995 £'000	1994 £'000
At 1 January	2,062	673
Retained profit for the year	<u>5,905</u>	<u>1,389</u>
At 31 December	<u><u>7,967</u></u>	<u><u>2,062</u></u>

16 Reconciliation of movements in shareholders' funds

	1995 £'000	1994 £'000
Opening shareholders' funds	9,362	7,973
Issue of ordinary shares (see note 14)	12,700	-
Profit for the financial year	<u>5,905</u>	<u>1,389</u>
Closing shareholders' funds	<u><u>27,967</u></u>	<u><u>9,362</u></u>

17 Analysis of changes in financing during the year

	1995		1994	
	Share capital (including premium) £'000	Loans and finance lease obligations £'000	Share capital (including premium) £'000	Loans and finance lease obligations £'000
At 1 January	7,300	10,700	7,300	-
New short term loans	-	-	-	9,984
Unrealised foreign exchange loss	-	-	-	254
Accrued interest on loans	-	-	-	462
Short term loans repaid	-	(10,700)	-	-
Issue of ordinary shares	12,700	-	-	-
At 31 December	<u>20,000</u>	<u>-</u>	<u>7,300</u>	<u>10,700</u>

18 Cash and cash equivalents

	1995 £'000	1994 £'000
Changes in the year		
At 1 January	(25,380)	(24,039)
Net cash flow	<u>(40,321)</u>	<u>(1,341)</u>
At 31 December	<u>(65,701)</u>	<u>(25,380)</u>

	1995 £'000	1995 Change in year £'000	1994 £'000	1994 Change in year £'000	1993 £'000
Analysis of balances					
Cash at bank and in hand	761	49	712	(5,319)	6,031
Bank loans and overdrafts	<u>(66,462)</u>	<u>(40,370)</u>	<u>(26,092)</u>	<u>3,978</u>	<u>(30,070)</u>
At 31 December	<u>(65,701)</u>	<u>(40,321)</u>	<u>(25,380)</u>	<u>(1,341)</u>	<u>(24,039)</u>

19 Capital commitments

	1995 £'000	1994 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>11,461</u>	<u>7,903</u>
Capital expenditure that has been authorised by the directors but has not yet been contracted for	<u>6,201</u>	<u>23,185</u>

20 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 and of Oy Nokia Ab. The company's liability is limited to its cash balance at any time on its account with that bank. At 31 December 1995 the aggregate amount of cash balances which would be set off against fellow UK subsidiaries cash balances with the bank was £2,045,454 (1994: £3,363,200).

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 £300,000 (1994: £3,600,000). At 31 December 1995 the balance outstanding on the deferment account against which the bond could be offset was £28,073 (1994: £1,790,375).

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 1995 was £659,428 (1994: £766,583).

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

21 Pension scheme

The most recent actuarial valuation (as at 1 April 1993) showed that the market value of the scheme's assets was £3,438,000 and that the actuarial value of those assets represents 95% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings.

The projected unit credit method has been applied by the actuary in arriving at his valuation. The main assumptions used are:

	Per annum
Long term investment return	9.00%
Long term salary increases	7.50%
Pension increases	5.00%
Dividend growth	4.25%

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

22 Financial commitments

At 31 December 1995 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 1995 £'000	Other 1995 £'000	Land and buildings 1994 £'000	Other 1994 £'000
Operating leases expiring				
Within one year	45	143	-	52
Within two to five years	1,568	857	1,056	419
In more than five years	726	-	436	-
	<u>2,339</u>	<u>1,000</u>	<u>1,492</u>	<u>471</u>

23 Ultimate parent company

The directors regard Oy Nokia Ab, a company incorporated in Finland, as the ultimate parent company. 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.