

TELIA AB  
Form F-4  
October 01, 2002

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As filed with the Securities and Exchange Commission on October 1, 2002.

Registration No. 333-

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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM F-4**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

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**Telia AB**

*(Exact name of Registrant as specified in its charter)*

**Sweden**  
*(State or other jurisdiction of  
incorporation or organization)*

**4813**  
*(Primary standard industrial  
classification code number)*

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**Not Applicable**  
*(I.R.S. Employer  
Identification No.)*

**Marbackagatan 11  
S-123 86 Farsta, Sweden  
+46 8 713 10 00**  
*(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)*

**Telia International Carrier, Inc.**  
**10780 Parkridge Blvd., Suite 300  
Reston, VA 20191  
(703) 546-4000**  
*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

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***Copy of communications to:***

**Petri Haussila, Esq.**

**White & Case LLP  
Eteläranta 14  
FIN-00130 Helsinki, Finland  
+358 9 228 641**

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**Approximate date of commencement of proposed sale of the securities to the public:** From time to time after this registration statement becomes effective.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered               | Amount to be Registered | Proposed Maximum Offering Price per Unit | Proposed Maximum Aggregate Offering Price | Amount of Registration Fee |
|--|-------------------------|--|---|----------------------------|
| Ordinary shares, nominal value SEK 3.20 per share <sup>(1)</sup> | 66,719,622(2)           | \$ 3.81(3)                               | \$254,201,759.82(3)                       | \$23,386.56                |
| Warrants to purchase ordinary shares                             | 217,602(4)              | (5)                                      | 8,093,450.27(5)                           | \$ 744.60                  |
| Total  |                         |  | 262,295,210.09                            | \$24,131.16                |

- (1) American depositary receipts (ADRs) evidencing American depositary shares (ADSs) issuable on deposit of the shares of Telia AB registered hereby are being registered pursuant to a separate Registration Statement on Form F-6.
- (2) The amount to be registered relates to the Telia shares estimated to be (i) issued to holders of shares of Sonera Corporation in the United States in connection with the exchange offer (including to holders of ADRs evidencing ADSs representing the right to receive Sonera shares and to holders of Sonera warrants entitling holders to subscribe for Sonera shares) and (ii) issued and sold outside of the United States in connection with the exchange offer but that may be resold in the United States from time to time during the distribution thereof.
- (3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 of the Securities Act of 1933, as amended (the Securities Act ). The registration fee was computed pursuant to Rules 457(c) and 457(f) under the Securities Act based on the average of the high and low sales prices of Sonera shares on the Helsinki Exchanges on September 26, 2002 and the noon buying rate in New York City for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York on September 26, 2002, which was \$0.9755 per 1.00.
- (4) The amount to be registered relates to Telia warrants estimated to be (i) issued to holders of Sonera warrants in the United States in connection with the exchange offer and (ii) issued and sold outside of the United States in connection with the exchange offer but that may be resold from time to time during the distribution thereof.
- (5) The registration fee for the Telia warrants to be issued to holders of Sonera warrants in connection with the exchange offer is based on the exercise price of each series of Sonera warrants in accordance with Rule 457(g).

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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Telia AB and Sonera Corporation have agreed to merge. To effect the merger, Telia is making an offer to acquire all of the outstanding shares, including shares in the form of American depositary shares, or ADSs, and certain warrants of Sonera in exchange for Telia shares, including Telia ADSs, and Telia warrants.

Under the terms of the exchange offer:

For each Sonera share you tender in the exchange offer, you will receive 1.51440 Telia shares.

For each Sonera ADS you tender in the exchange offer, you will receive 0.30288 Telia ADSs. Each Telia ADS represents five Telia shares.

For each Sonera warrant issued pursuant to Sonera's 1999 and 2000 stock option programs you tender in the exchange offer, you will receive one Telia warrant. Each Telia warrant entitles the holder to subscribe for 1.5 Telia shares.

The Sonera board of directors has concluded that the exchange offer is in the best interests of Sonera, its shareholders and its warrant holders and has recommended that Sonera shareholders and warrant holders participate in the exchange offer.

**The offer to holders of Sonera shares, Sonera ADSs and Sonera warrants will commence on October 7, 2002 and will expire at 9:00 a.m. New York City time (4:00 p.m. Helsinki time) on November 8, 2002 unless the offer is extended.**

Telia's offer to exchange Telia securities for Sonera securities is subject to the conditions listed in this prospectus under "THE EXCHANGE OFFER - Conditions to Completion of the Exchange Offer," including, among others, the condition that, prior to the expiration of the exchange offer period, Sonera shares, including Sonera ADSs, representing more than 90 percent of the shares and votes in Sonera on a fully diluted basis shall have been validly tendered and not withdrawn.

If the exchange offer is completed, Telia shall, subject to certain conditions, take the necessary actions under Finnish law to acquire any remaining issued and outstanding Sonera shares, Sonera ADSs and Sonera warrants.

Telia's shares are listed on the A-list of the Stockholm Exchange under the symbol "TLIA." Upon completion of the merger, Telia will have its Stockholm Exchange symbol changed from "TLIA" to "TLSN." Telia will apply to list its shares and its warrants 2002/2005:A on the Helsinki Exchanges under the symbols "TLS1V" and "TLS1VEW102," respectively. Telia has applied to have the Telia ADSs quoted on the Nasdaq National Market, or NASDAQ, under the symbol "TLSN." On September 30, 2002, the closing price of Telia's shares on the Stockholm Exchange was SEK 23.30 per share.

**See "RISK FACTORS" beginning on page 27 to read about factors you should consider before investing in Telia's securities.**

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**We are not asking you for a proxy and you are requested not to send us a proxy.**

**Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

**Merrill Lynch & Co.**

*Dealer Manager for the exchange offer in the United States*

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The date of this prospectus is October 1, 2002.

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**QUESTIONS AND ANSWERS ABOUT THE EXCHANGE OFFER**

**Q. What is the proposed transaction?**

- A. Telia and Sonera have agreed to merge. To effect the merger, Telia is making an offer to acquire all of the outstanding Sonera shares, including Sonera ADSs, and all of the outstanding Sonera warrants in exchange for Telia securities.

**Q. What will Sonera securityholders receive in this exchange offer?**

- A. If you tender Sonera securities in the exchange offer, you will receive the following:

holders of Sonera shares will receive 1.51440 Telia shares for each Sonera share they tender;

holders of Sonera ADSs will receive 0.30288 Telia ADSs for each Sonera ADS they tender; and

holders of warrants issued pursuant to Sonera's 1999 and 2000 stock option programs will receive one warrant to be issued by Telia for each Sonera warrant they tender.

**Q. I am a registered holder of Sonera shares. How do I participate in this exchange offer?**

- A. If you are a holder of Sonera shares directly registered in the shareholders' register held by the Finnish Central Securities Depository, or the FCSD, and you wish to accept the exchange offer, you must complete, sign and return the acceptance form which is being mailed to you. The acceptance form must be returned to your account operator on or before the expiration of the exchange offer period or, if the exchange offer period has been extended, before the expiration of the exchange offer period as extended. If your account operator requires you to return the acceptance form before the expiration of the exchange offer period, you must return the acceptance form to your account operator on or before such date specified by your account operator. Shareholders who have registered their Sonera shares with the FCSD can accept the exchange offer at any asset management branch of the Finnish share agent.

**Q. I hold Sonera shares through a nominee. How do I participate in this exchange offer?**

- A. If your Sonera shares are registered in the name of a nominee (e.g., an agent, bank, broker or other custodial institution) and you wish to accept the exchange offer, you have to make such acceptance in accordance with the nominee's instructions. Telia will not send you any documents relating to the exchange offer directly.

**Q. I hold certificates for Sonera ADSs. How do I participate in this exchange offer?**

- A. If you hold certificates for Sonera ADSs, complete and sign the enclosed ADS letter of transmittal and deliver it, together with your Sonera ADR certificates, evidencing your Sonera ADSs, and any other required documents, to the U.S. exchange agent at one of the addresses set forth on the letter of transmittal before the expiration of this exchange offer.

**Q. I hold Sonera ADSs in book-entry form. How do I participate in this exchange offer?**

- A. If you hold your Sonera ADSs in book-entry form, instruct your broker or custodian to arrange, before the expiration date of this exchange offer, for the book-entry transfer of your Sonera ADSs into the U.S. exchange agent's account at The Depository Trust Company, commonly known as DTC, and deliver a message to the U.S. exchange agent via DTC's book-entry confirmation system confirming that you have received and agree to be bound by the terms of this exchange offer. Your broker or custodian will provide you with a form to instruct your broker or custodian to tender your Sonera ADSs.

**Q. I am a registered holder of Sonera warrants. How do I participate in this exchange offer?**

- A. If you are a holder of Sonera warrants directly registered in the register of warrant holders held by the FCSD and you wish to accept the exchange offer, you must complete, sign and return the acceptance form which is being mailed to you. The acceptance form must be returned to your account operator on or before the expiration of the exchange offer period or,



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if the exchange offer period has been extended, before the expiration of the exchange offer period as extended. If your account operator requires you to return the acceptance form before the expiration of the exchange offer period, you must return the acceptance form to your account operator on or before such date specified by your account operator. Warrantholders who have their Sonera warrants registered with the FCSD can accept the exchange offer at any asset management branch of the Finnish share agent.

**Q. I hold Sonera warrants through a nominee. How do I participate in this exchange offer?**

- A. If your Sonera warrants are registered in the name of a nominee (e.g., an agent, bank, broker or other custodial institution) and you wish to accept the exchange offer, you have to make such acceptance in accordance with the nominee's instructions. Telia will not send you any documents relating to the exchange offer directly.

**Q. How long do I have to decide whether to tender in the exchange offer?**

- A. Unless extended by Telia, the exchange offer will expire at 9:00 a.m. New York City time (4:00 p.m. Helsinki time) on November 8 and you will no longer be able to tender your Sonera shares, Sonera ADSs or Sonera warrants in the exchange offer after the applicable expiration time. Telia may extend the exchange offer under certain circumstances which are described below under the next caption.

**Q. Can the exchange offer be extended and, if so, under what circumstances?**

- A. Yes. Telia may extend the offer at any time and for any reason. The maximum duration of the exchange offer is three months from the commencement of the exchange offer; provided, however, that if all consents, approvals, authorizations and registrations required to be obtained from the applicable governmental entities have not been obtained within three months from the commencement of the exchange offer, the exchange offer may be further extended until all such consents, approvals, authorizations and registrations have been obtained. In addition, to the extent Telia and Sonera waive a material condition to the exchange offer, Telia will notify Sonera securityholders of such waiver and will hold the exchange offer open for acceptances and withdrawals for at least five business days after the notification of the waiver of such condition. Telia will not be required to extend the exchange offer beyond December 31, 2002.

**Q. When will I be informed of the outcome of the exchange offer or whether the offer is being extended?**

- A. Telia expects to announce by a press release, on or about four business days following the expiration of the exchange offer period, (i) the percentage of outstanding Sonera shares, Sonera ADSs and Sonera warrants that have been tendered pursuant to the exchange offer and (ii) whether the exchange offer will be completed, extended or abandoned. Such announcements will also be posted on Telia's website at [www.telia.com](http://www.telia.com). Following such announcement, completion of the exchange offer will remain subject to a condition whereby Telia is entitled to abandon the exchange offer on the basis of the valuation of the exchange offer in comparison to the price payable for Sonera shares in a mandatory redemption offer that may follow the completion of the exchange offer.

**Q. Can I change my mind and decide not to participate in this exchange offer after I tender my securities?**

- A. Yes. You may withdraw your tender of your Sonera securities at any time before the expiration of the exchange offer period, initially scheduled for November 8, 2002. If this exchange offer is extended, you may also withdraw your tender at any time prior to the expiration of the extension period.

**Q. Will I receive fractional interests in Telia shares or Telia ADSs?**

- A. No. You will not receive fractional Telia shares or fractional Telia ADSs in connection with the exchange offer. You will receive cash consideration to the extent you are entitled to fractions of Telia shares or Telia ADSs in exchange for your Sonera shares or Sonera ADSs. Your fractional entitlements will be combined with those of the other holders and subsequently sold on your behalf and on the behalf of such other holders on the Stockholm Exchange or the Helsinki Exchanges, in the

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case of Telia shares, or on NASDAQ, in the case of Telia ADSs. You will receive cash consideration corresponding to the proceeds of the sale of your fractional entitlement to a Telia share or Telia ADS.

**Q. When will I receive my Telia securities and any cash attributable to any fractional Telia securities?**

A. Assuming this exchange offer is completed, Telia will deliver the Telia securities to be issued in exchange for properly tendered Sonera securities on or about 15 business days after the expiration of the exchange offer period. The Finnish share agent and/or the U.S. exchange agent will deliver any cash to which you may be entitled within ten business days after the sale of the combined fractional entitlements on the Stockholm Exchange or the Helsinki Exchanges, in the case of Telia shares or, on NASDAQ, in the case of Telia ADSs.

**Q. If I decide not to tender my Sonera securities in the exchange offer, will I be entitled to any appraisal rights in the event the exchange offer is completed?**

A. The exchange offer is, among other things, subject to the condition that prior to the expiration of the exchange offer period, Sonera shares, including Sonera ADSs, representing more than 90 percent of the shares and votes in Sonera on a fully diluted basis shall have been validly tendered and not withdrawn. In the event that this minimum condition is not satisfied, the completion of the exchange offer would require the waiver of the minimum condition by both Telia and Sonera. In the event the exchange offer is completed and, as a consequence, Telia acquires Sonera shares, whether in the form of shares or ADSs, representing more than two-thirds but less than all of the total voting rights attaching to Sonera shares, Telia would be required under Finnish law, within one month after the expiration of the exchange offer period, to offer to purchase your Sonera shares, including shares underlying Sonera ADSs, and Sonera warrants that have not been tendered in the exchange offer for cash at a fair price as determined under Finnish law. In addition, in the event Telia acquires shares, whether in the form of shares or ADSs, representing more than 90 percent of the shares and votes attaching to Sonera shares, Telia may require that you, as a remaining holder of Sonera shares or Sonera ADSs, sell and you may demand that Telia purchase your Sonera shares or Sonera ADSs at, absent a separate agreement, a fair price as determined by an arbitration tribunal. Finnish law does not provide for any other kind of appraisal rights.

**Q. Will I have to pay brokerage commissions?**

A. No, as long as you have your Sonera securities registered in your name and you tender them directly to:

the Finnish share agent or your book-entry account operator, if you hold Sonera shares or Sonera warrants; or

the U.S. exchange agent, if you hold Sonera ADSs.

If your Sonera securities are held through your bank, broker or other nominee, you should consult with them as to whether or not they charge any transaction fee or service charge.

**Q. When is the exchange offer expected to be completed?**

A. We are progressing as quickly as reasonably possible and expect to complete the exchange offer in November of 2002. Telia and Sonera expect to complete the merger shortly after the exchange offer is completed if Telia acquires more than 90 percent of the shares and votes in Sonera on a fully diluted basis. Telia cannot predict the exact timing for the completion of the exchange offer.

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**Q. Who can answer my questions?**

A. If you have more questions about the exchange offer, you may contact:  
Information agent in the United States:

**Georgeson Shareholders**

**Communications Inc.**  
17 State Street, 10th Floor  
New York, NY 10004  
Banks and brokers call  
collect (866) 297-1410  
All others call  
(800) 223-2064

Finnish share agent:

**Nordea Bank**

**Finland Plc**  
Aleksanterinkatu 36  
Helsinki 00020 NORDEA  
For information call  
+358-200-3000

U.S. exchange agent:

**Citibank, N.A.**

111 Wall Street  
New York, NY 10005  
For information, call toll free  
(800) 308-7887

Dealer manager in the United States:

**Merrill Lynch & Co.**

Four World Financial Center  
New York, New York 10080  
(866) 276-1462

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|   |                                   |
|---|-----------------------------------|
| Beginning of the exchange offer period  | October 7, 2002                   |
| Telia extraordinary general meeting of shareholders to, among other things, authorize the new Telia securities to be issued in the exchange offer | November 4, 2002                  |
| Expiration of the initial exchange offer period   | November 8, 2002                  |
| Announcement by Telia and Sonera of the results of the exchange offer   | November 14, 2002                 |
| Sonera ADSs suspended from trading  | November 15, 2002*                |
| Sonera exchanged shares and Sonera 1999A exchanged warrants begin trading on the pre-list of the Helsinki Exchanges                               | November 15, 2002*                |
| Delivery of Telia securities  | On or about<br>November 29, 2002* |
| Telia shares and Telia warrants 2002/2005:A begin regular trading on the main list of the Helsinki Exchanges                                      | December 2, 2002*                 |
| Telia ADSs begin regular trading on NASDAQ  | December 2, 2002*                 |

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\* This date will change if Telia extends the offer period.



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**SUMMARY**

*This summary highlights selected information described in greater detail elsewhere in this prospectus. It does not contain all of the information that may be important to you. You should carefully read this entire prospectus and the additional documents referred to in this prospectus to fully understand the exchange offer.*

**The Companies**

**Telia AB (see page 152)**

Marbackagatan 11  
S-123 86 Farsta  
Sweden  
Telephone: 011-46-8-713-1000

Telia is the leading telecommunications company in the Nordic region and a market leader in a number of growth areas, including mobile communications, broadband Internet services and IP-based network services, which are based on protocols used in Internet communications. As of June 30, 2002, Telia provided mobile telecommunications services to approximately 5.1 million subscribers in the Nordic region and had approximately 6.5 million equivalent fixed telephone access lines in Sweden. Telia also offers advanced data transmission services and, with approximately 1.2 million residential and business subscribers, Telia is the leading dial-up and broadband Internet service provider in the Nordic region. Telia also has extensive international carrier operations located primarily in Europe. In 2001, Telia recorded net sales of SEK 57,196 million ( 6,284 million) and net income of SEK 1,869 million ( 205 million).

**Sonera Corporation (see page 290)**

Teollisuuskatu 15  
FIN-00510 Helsinki  
Finland  
Telephone: 011-358-20401

Sonera is the leading provider of mobile communications services and one of the leading providers of domestic, local and long distance and international fixed line voice and data services in Finland. Mobile communications, Sonera's principal area of focus, accounted for approximately 55 percent of its total revenues in 2001. As of June 30, 2002, Sonera provided mobile communications services to approximately 2.5 million subscribers and had approximately 0.7 million fixed network access lines in Finland. Sonera has made investments in mobile and fixed line operators and joint ventures outside of the Nordic countries and, in August 2002, Sonera acquired control in Fintur Holdings B.V., which as of June 30, 2002 had approximately 1.4 million mobile subscribers in certain Eurasian countries. Sonera has also committed substantial resources to the development of new services and applications for mobile communications as well as for data and media services. In 2001, Sonera recorded revenues of 2,187 million (SEK 19.9 billion) and net income of 409 million (SEK 3.7 billion).

**Reasons for the TeliaSonera Merger (see page 56)**

Both Telia and Sonera believe that the merger of Telia and Sonera will provide enhanced growth potential based on the current market positions and strategic fit of the two companies, and that the future prospects for both companies therefore will be improved through the merger.

Telia and Sonera are both active in some of the most developed telecommunications markets in the world. Both companies have joint interests in leading mobile and fixed line operators in the Baltic and Russian markets. Telia and Sonera expect that the close geographic proximity of the companies and the shared strategic values will be very important in realizing the benefits of the combination. Such benefits will be incremental to the cost saving and capital efficiency focus programs that have been introduced at both Telia and Sonera. Both of these programs will be continued and further strengthened through the merger.

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The most important benefits of the merger include:

The combined company will have a larger customer base in the Nordic region.

The merger will strengthen the existing positions of Telia and Sonera in the Baltic region, Russia and Eurasia.

Telia and Sonera expect to derive significant synergies as a result of the merger.

The combined company will have a strong financial position from which to execute its strategy.

Telia and Sonera expect the larger scale operation and the combined competence of the two companies to make the combined entity a strong partner in the future shaping of the telecommunications industry in the Nordic and Baltic regions and, in the longer term, in Europe.

See THE TRANSACTION Reasons for the TeliaSonera Merger.

**Terms and Conditions of the Exchange Offer (see page 76)**

Telia is offering:

1.51440 shares of Telia, nominal value SEK 3.20 each, in exchange for each outstanding share of Sonera, with no nominal value, validly tendered in the exchange offer. This gives each Sonera share an implied equivalent value (calculated by multiplying the price per Telia share, converted into euros at the currency exchange rate for that day, by the exchange ratio) of 3.86 (\$3.80) based on the closing price of Telia shares on the Stockholm Exchange as of September 30, 2002.

0.30288 Telia ADSs in exchange for each Sonera ADS validly tendered in the exchange offer. Each Telia ADS represents five shares of Telia.

one Telia warrant to be issued by Telia in exchange for each warrant issued pursuant to Sonera's 1999 and 2000 stock option programs validly tendered in the exchange offer.

The offer to holders of Sonera shares, ADSs and warrants will commence on October 7, 2002 and expire at 9:00 a.m. New York City time (4:00 p.m. Helsinki time) on November 8, 2002 unless the offer is extended. Telia reserves the right, at any time and from time to time beginning two business days after the commencement of the exchange offer period, to extend or abandon this exchange offer or to amend this exchange offer in any respect in accordance with applicable law.

The obligation of Telia to accept for payment and pay for Sonera shares, Sonera ADSs and Sonera warrants tendered pursuant to the exchange offer is subject to the satisfaction or, if permitted by applicable law, prior waiver by both Telia and Sonera, of a number of conditions, including, but not limited to:

that a number of Sonera shares (including Sonera shares represented by ADSs) representing more than 90 percent of the shares and votes in Sonera (on a fully diluted basis) shall have been validly tendered and not withdrawn;

that any waiting period (and any extension thereof) applicable to the consummation of the transactions related to the exchange offer under any competition, merger control or similar law of the European Union, Sweden, Finland or any other relevant jurisdiction, shall have expired or been terminated; and

that there are no circumstances which prevent or materially hinder the implementation of the combination of the businesses of Telia and Sonera due to legislation, legal rulings, decisions by public authorities or the like in Sweden, Finland or elsewhere, which exist or are anticipated at the time, or due to other circumstances beyond the control of Telia, including, without limitation, that, Telia determines in good faith, following consultation with Sonera, that the cash offer price to be paid by Telia for each share of Sonera in connection with the mandatory redemption offer that Telia may be required to make pursuant to Finnish law following the completion of the exchange offer would, pursuant to an opinion of independent, reputable legal counsel based upon a ruling of or

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consultation with the Finnish Financial Supervision Authority, be higher than the equivalent cash value of the Telia shares offered in exchange for each Sonera share pursuant to the terms of the exchange offer as determined pursuant to Finnish law; provided that the difference between such cash offer price for each Sonera share to be paid in such mandatory redemption offer and such cash value of the Telia shares multiplied by the aggregate number of shares issued and outstanding in Sonera shall exceed 300 million.

**Telia will only be in a position to determine immediately prior to the completion of the exchange offer whether to invoke the third condition listed above.** In making such determination, Telia will consider various facts and circumstances, including the price development of Telia's and Sonera's shares, interpretations of the relevant provisions of Finnish law and any relevant legal or other developments. If Telia had to take a decision on whether to invoke such condition on the basis of information available to Telia as of the date of this prospectus, Telia would invoke such condition. For additional information on Telia's right to terminate the exchange offer by invoking the third condition listed above, see Telia's Termination Right below and RISK FACTORS Risks Related to the Exchange Offer. Telia has a right to terminate the combination agreement between Telia and Sonera and abandon the exchange offer after the exchange offer period has ended if one of the conditions to the exchange offer is not satisfied. Under this condition and subject to certain additional requirements, Telia may elect to terminate the combination agreement and abandon the exchange offer if it determines in good faith that the cash amount it may be required to pay for each share of Sonera not tendered in the exchange offer were to, in a mandatory redemption offer made under Finnish law after the completion of the exchange offer, exceed by more than approximately 0.27 per Sonera share, or by more than 300 million in the aggregate for all outstanding Sonera shares, the equivalent cash value of the Telia shares offered for Sonera shares in connection with the exchange offer.

Any of the exchange offer conditions may, subject to applicable law, be waived, but only if both Telia and Sonera agree in writing to such waiver.

Telia expects to announce by press release, on or about four business days following the expiration date of the exchange offer, (i) the percentage of Sonera shares, Sonera ADSs and Sonera warrants that have been tendered pursuant to the offer and (ii) whether the exchange offer will be completed, extended or abandoned. This announcement will also be posted on Telia's website at [www.telia.com](http://www.telia.com). At the time of such announcement, completion of the exchange offer will remain subject to the third condition listed above.

Sonera securities tendered for exchange may be withdrawn at any time prior to the expiration of the exchange offer period.

In the event that the Telia board of directors decides to invoke the third condition described above, the U.S. exchange agent shall, upon receipt of notice from Telia of such decision, promptly return the Sonera ADSs properly tendered in the exchange offer to the tendering holders thereof.

**If you trade in Telia ADSs on a when issued basis, please note that if the Telia board of directors invokes the third condition described above, your trade may be required to be unwound.** See THE EXCHANGE OFFER Acceptance and Delivery of Securities Conditions to Completing the Exchange Offer and Delivery of Telia ADSs.

**Combination Agreement and Shareholders Agreement (see page 101)**

To facilitate the completion of the merger, Telia and Sonera entered into a combination agreement on March 26, 2002, which was amended as of September 27, 2002, and is referred to herein as the combination agreement. The combination agreement sets forth the terms and conditions of the exchange offer, certain representations, warranties and covenants of Telia and Sonera and the terms under which the exchange offer may be abandoned. For a summary of the material terms of the combination agreement, see SUMMARY OF THE COMBINATION AGREEMENT.

In connection with the execution of the combination agreement, the Kingdom of Sweden, the majority shareholder of Telia, and the Republic of Finland, the majority shareholder of Sonera, entered into a

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shareholders agreement. For a summary of the material terms of the shareholders agreement, see SUMMARY OF THE SHAREHOLDERS AGREEMENT.

### **Board Recommendation (see page 74)**

At a meeting on March 26, 2002, the Sonera board of directors concluded that the exchange offer was in the best interests of Sonera and its shareholders and unanimously passed a resolution to recommend that Sonera shareholders participate in the exchange offer.

### **Irrevocable Undertaking by the Republic of Finland (see page 75)**

The Republic of Finland, which owns 52.8 percent of the shares of Sonera, has irrevocably undertaken to Telia that it will tender all of its shares in Sonera in the exchange offer, provided that neither Sonera nor Telia has terminated the combination agreement in accordance with its terms.

### **Opinion of Financial Adviser to Sonera (see page 67)**

On March 26, 2002, Goldman Sachs International delivered its written opinion to the Sonera board of directors that, as of that date, and based upon and subject to the factors and assumptions referred to in the opinion, the exchange ratio of 1.51440 Telia shares to be received for each Sonera share pursuant to the combination agreement, was fair from a financial point of view to the holders of the outstanding shares of Sonera.

**The full text of the written opinion of Goldman Sachs, dated March 26, 2002, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion, is contained in Annex D to this prospectus. Goldman Sachs provided its opinion for the information and assistance of Sonera's board of directors in connection with its consideration of the transaction contemplated by the combination agreement. The Goldman Sachs opinion is not a recommendation as to whether or not any holder of Sonera shares or Sonera ADSs should tender such Sonera shares or Sonera ADSs in connection with the transaction. We urge you to read the opinion in its entirety.**

### **Interests of Members of the Sonera Board of Directors and Management (see page 93)**

When considering the recommendation of the Sonera board of directors, you should be aware that Sonera's directors and officers may have interests in the exchange offer that are different from, or are in addition to, yours. In particular:

Tapio Hintikka, chairman of the Sonera board of directors, will become chairman of the board of directors of the combined company;

Harri Koponen, president and chief executive officer of Sonera, will become deputy chief executive officer of the combined company;

three current members of the Sonera board of directors, in addition to Tapio Hintikka, will be nominated to the board of directors of the combined company;

if the directors and members of the executive management team of Sonera elect to tender their Sonera warrants, such warrants will be exchanged into warrants to purchase Telia shares and assumed by Telia in accordance with existing plan provisions to the extent possible;

executive agreements with certain members of Sonera's management provide that in certain change of control events where such persons are reassigned to perform tasks that do not correspond to their capabilities, they may retain certain Sonera warrants granted to them even if they choose to resign;

each of the seven members of Sonera's executive management team and 66 other key employees of Sonera have been granted cash bonuses representing one year's salary payable in installments beginning on the completion of the exchange offer provided that such persons continue to be



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employed by Sonera or the combined company at the relevant times on and after the completion of the exchange offer. If paid in full, such cash bonuses would amount, in the aggregate, to approximately 8.2 million; and

Sonera's directors and officers will be entitled to insurance coverage and indemnification with respect to acts and omissions in their capacities as directors and officers of Sonera.

As of August 31, 2002, directors and executive officers of Sonera and their affiliates beneficially owned less than 0.1 percent of the outstanding Sonera shares and approximately 11.9 percent of the outstanding Sonera warrants.

**Extraordinary General Meeting of Telia's Shareholders (see page 94)**

In connection with the exchange offer, the Telia board of directors has convened an extraordinary general meeting of Telia's shareholders to be held on November 4, 2002. At the meeting, Telia's shareholders will be asked, among other things:

to authorize the Telia board of directors to decide upon the issuance of Telia shares, including shares that will allow for the creation and issuance of ADSs, necessary to complete the exchange offer, as unanimously proposed by the Telia board of directors;

to authorize the Telia board of directors to decide upon the issuance of Telia warrants, necessary to complete the exchange offer, as unanimously proposed by Telia's board of directors;

to elect as directors of Telia, effective as of the completion of the exchange offer, the persons nominated pursuant to Section 4 of the shareholders' agreement between the Kingdom of Sweden and the Republic of Finland;

to change, subject to the completion of the exchange offer, Telia's name to TeliaSonera; and

to change, subject to the completion of the exchange offer, the composition of the nomination committee.

The affirmative vote of holders of a majority of the votes cast at the extraordinary general meeting is required to approve the authorization to issue the Telia shares necessary to complete the exchange offer and to change the composition of the nomination committee. The affirmative vote of two-thirds by number and voting power of the Telia shares is required to approve the authorization to issue the Telia warrants necessary to complete the exchange offer and to change the company's name. The election of directors will be determined by a plurality of the votes cast.

The Kingdom of Sweden, which holds 70.6 percent of the shares and votes of Telia, has undertaken, subject to the terms of the shareholders' agreement with the Republic of Finland, that it will vote in favor of the resolutions necessary to implement the exchange offer to be proposed by the Telia board of directors at the extraordinary general meeting of Telia's shareholders.

**Mandatory Redemption Offer and Compulsory Acquisition (see page 88)**

The tender offer is subject to the condition that, prior to the expiration of the exchange offer period, Sonera shares, including Sonera ADSs, representing more than 90 percent of the shares and votes in Sonera on a fully diluted basis shall have been validly tendered and not withdrawn. In the event that this minimum condition is not satisfied, the completion of the exchange offer would require the waiver of the minimum condition by both Telia and Sonera. Currently, Telia and Sonera have no intention of waiving the minimum condition.

Under the Finnish Securities Market Act, in the event that the exchange offer is completed and, as a consequence, Telia acquires Sonera shares, whether in the form of shares or ADSs, representing more than two-thirds but less than all of the total voting rights attaching to Sonera shares, Telia would be required, within one month after the expiration of the exchange offer period, to offer to purchase the remaining Sonera shares, whether in the form of shares or ADSs, and Sonera warrants that have not been tendered in the

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exchange offer. In connection with this so-called mandatory redemption offer, although Telia could continue to offer to exchange Sonera shares, including Sonera shares represented by Sonera ADSs, into Telia shares and Sonera warrants into Telia warrants, Telia would be under no obligation to do so and would in any event be required to offer to purchase the remaining Sonera shares, including Sonera shares represented by Sonera ADSs, and warrants for cash at their fair price. In the absence of any special circumstances and subject to certain other conditions, the volume-weighted average trading price of the Sonera shares and, to the extent applicable, Sonera warrants on the Helsinki Exchanges during the 12-month period prior to the expiration of the exchange offer period would form a basis for the determination of the fair price of the Sonera shares, including shares underlying Sonera ADSs, and, to the extent applicable, Sonera warrants. No assurance can be given as to the amount of the cash redemption price to be paid per Sonera share in connection with any future mandatory redemption offer and such amount could be more or less than the amount of consideration per Sonera share to be received in connection with the exchange offer.

Under Finnish corporate law, when a person, alone or together with one or more of its affiliates, owns both more than nine-tenths of all outstanding shares in a Finnish company and shares representing more than nine-tenths of the votes entitled to be cast at a meeting of shareholders, that person may require the minority shareholders to sell their shares to such person in a so-called compulsory acquisition. On the other hand, any minority shareholder, which is a shareholder in a Finnish company that has a majority shareholder with sufficient share capital and voting rights to effect a compulsory acquisition, may demand that the majority shareholder purchase his or her shares. Absent an agreement on the purchase price, an arbitration tribunal will determine the fair price to be paid in the compulsory acquisition. Therefore, no assurance can be given as to the amount of the cash redemption price to be paid in connection with a compulsory acquisition that may follow the completion of the exchange offer and such amount could be more or less than the amount of consideration per Sonera share received in connection with either the exchange offer or a mandatory redemption offer that may be commenced after the completion of the exchange offer. However, the fair price offered in connection with compulsory acquisitions following a mandatory redemption offer has, typically, been the same as the cash redemption price offered in connection with such mandatory redemption offer. Finnish corporate law does not provide for any other kind of appraisal rights.

**Telia's Termination Right (see page 27)**

Under the conditions to the exchange offer, Telia may elect to terminate the combination agreement between Telia and Sonera and abandon the exchange offer under certain circumstances if it determines in good faith that the amount of cash it may be required to pay in a mandatory redemption offer for each share of Sonera not tendered in the exchange offer were to exceed by more than approximately 0.27 per Sonera share, or by more than 300 million in the aggregate for all outstanding Sonera shares, the equivalent cash value of the Telia shares offered for Sonera shares in connection with the exchange offer. This condition is important to Telia because under Finnish law, if the equivalent cash value paid for Sonera shares in the exchange offer were deemed to be lower than the cash price paid in a mandatory redemption offer, Telia would be required to pay the difference, also known as a top-up payment, in cash to all Sonera securityholders who participated in the exchange offer.

The terms of the combination agreement provide that this top-up payment condition will remain in effect after the expiration of the exchange offer period until such time Telia either completes or abandons the exchange offer, during which time holders of Sonera securities who have tendered their securities pursuant to the exchange offer will be unable to withdraw their securities. As a result, holders of Sonera securities who tender their securities in the exchange offer risk being unable to withdraw such securities for a substantial period of time after the scheduled expiration date of the exchange offer period, currently expected to be approximately 15 business days, during which time Telia may decide to terminate the offer.

For purposes of calculating the equivalent cash value of the Telia shares offered in the exchange offer in this situation, the Finnish Financial Supervision Authority has issued a ruling to the effect that the Telia shares received in connection with the exchange offer would be valued based upon the higher of the volume-weighted average trading price prevailing for Telia's shares during a relatively short period prior to the expiration of the exchange offer period and the market price prevailing for Telia shares immediately prior to

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the announcement of the exchange offer. Applying the Finnish Financial Supervision Authority's interpretation on mandatory redemption offers adopted in its ruling, Telia would not be required to make any top-up payment to the Sonera securityholders that tendered their Sonera shares in the exchange offer unless, in the subsequent mandatory redemption offer, the cash redemption price per Sonera share or Sonera ADS were to exceed 6.68 without the prevailing market price of the Telia shares having increased correspondingly.

The ruling of the Finnish Financial Supervision Authority is, however, not binding on the Finnish courts, and there can be no assurance that its position would ultimately be accepted by the Finnish courts in the event that it were to be challenged by former Sonera shareholders subsequent to the completion of the exchange offer. If a Finnish court were to determine, contrary to the ruling of the Finnish Financial Supervision Authority, that the equivalent cash value of the Telia shares were to be based, for example, on the prevailing trading price of the Telia shares at the completion of the exchange offer, it would significantly alter the calculation of the difference between the mandatory cash redemption price and the equivalent cash value of the Telia shares offered in the exchange offer. On September 30, 2002, the last trading day before the date of this prospectus, the closing price per Telia share on the Stockholm Exchange was SEK 23.30, or 2.55 (using the prevailing exchange rate), giving, under such a determination, an equivalent cash value to the Telia shares offered in the exchange offer of 3.86 per Sonera share. On the other hand, based upon the volume-weighted average trading price of the Sonera shares for the 12 months ending on September 30, 2002, the cash redemption price Telia would have to pay in the mandatory redemption offer would be 4.91 per Sonera share. Thus, in the event that the exchange offer were to have been completed on September 30, 2002, Telia would have been obligated to make a total top-up payment of 1.05 per Sonera share, or 1,175.4 million in the aggregate for all outstanding Sonera shares, to the shareholders of Sonera if the alternative method for calculating the equivalent cash value of Telia shares described above were to be adopted.

Due to the legal uncertainties related to the possible obligation to make a top-up payment in connection with the exchange offer and due to the current volatility of the equity markets, Telia will not be in a position to make a final determination on whether to terminate the combination agreement and abandon the exchange offer by invoking the top-up payment condition until immediately prior to the completion of the exchange offer. In making such determination, Telia will consider various facts and circumstances, including the following:

the price development of the Telia shares and Sonera shares, including the development of the 12-month volume-weighted average trading price for Sonera shares;

alternative interpretations of the relevant provisions of Finnish law; and

any relevant legal or other developments that could make it more or less likely that the application of the provisions of the Finnish Securities Market Act related to the top-up payment obligation would be consistent with the ruling of the Finnish Financial Supervision Authority.

If Telia had to take a decision on whether to invoke the top-up payment condition on the basis of information available to Telia as of the date of this prospectus, including the ruling from the Finnish Financial Supervision Authority, the current trading prices for the Telia shares and Sonera shares and the 12-month volume-weighted average trading price for the Sonera shares as of September 30, 2000, Telia would invoke the top-up payment condition. However, Telia will not be in a position to finally determine whether to invoke the top-up payment condition until immediately prior to the scheduled completion of the exchange offer.

**Ownership of Sonera Shareholders in the Combined Company (see page 91)**

Assuming full acceptance of the exchange offer, former Sonera shareholders will own in the aggregate approximately 36 percent of the combined company after the exchange offer is completed.



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### **Listing of Telia Shares, Telia ADSs and Telia Warrants 2002/2005:A (see page 91)**

Upon completion of the merger, Telia will have its Stockholm Exchange symbol changed from TLIA to TLSN. Telia will apply to list its shares and warrants 2002/2005:A on the Helsinki Exchanges under the symbols TLS1V and TLS1VEW102, respectively.

Telia has applied to have the Telia ADSs quoted on NASDAQ under the symbol TLSN.

### **Finnish Income Tax Consequences (see page 107)**

Provided that the exchange offer qualifies as a tax neutral share exchange under Finnish tax law, the receipt of Telia shares in the exchange offer generally will be tax neutral for Finnish tax purposes.

### **Swedish Income Tax Consequences (see page 110)**

Generally, the exchange offer may be accepted by non-residents of Sweden and corporations not domiciled in Sweden without any Swedish tax consequences. However, the holding of Telia shares after the completion of the exchange offer will raise certain Swedish tax issues, such as Swedish withholding tax issues.

### **U.S. Federal Income Tax Consequences (see page 111)**

For United States federal income tax purposes, your exchange of Sonera shares, Sonera ADSs or Sonera warrants for Telia shares, Telia ADSs or Telia 2002/2005A warrants in the exchange offer will likely be a taxable exchange.

**The tax consequences of the exchange offer to you will depend on your own situation. You should consult your tax advisors for a full understanding of the tax consequences of the exchange offer to you.**

### **Comparative Rights of Shareholders of Telia and Sonera (see page 484)**

If you tender your Sonera securities in connection with the exchange offer, you will receive Telia securities in exchange for the Sonera securities you currently hold. Because Sonera is a corporation organized under the laws of the Republic of Finland and Telia is a corporation organized under the laws of the Kingdom of Sweden, there are differences between the rights of Sonera shareholders and Sonera ADS holders and the rights of Telia shareholders and Telia ADS holders. For a discussion of some of these differences, see **COMPARISON OF RIGHTS OF SONERA SHAREHOLDERS AND TELIA SHAREHOLDERS**, **DESCRIPTION OF SHARES AND SHARE CAPITAL OF TELIA** and **DESCRIPTION OF TELIA AMERICAN DEPOSITARY SHARES**.

### **Disclosure Obligation of Telia in Finland (see page 499)**

The Finnish Financial Supervision Authority has granted an exemption to Telia (no. 28/269/2002), pursuant to which TeliaSonera may publish in Finland its financial statements, financial statement releases and interim reports prepared in accordance with the Swedish laws and regulations. Pursuant to the exemption, Telia has the option of publishing the annual financial statements, annual financial statement releases and interim reports only in English. Currently, Telia intends, however, to publish such information in Finnish and Swedish as well.

Telia's ongoing disclosure obligations are governed by the Finnish Securities Market Act and the Swedish Stock Exchange and Clearing Business Act as implemented by the listing agreement between Telia and the Stockholm Exchange. In accordance with the requirements of the Finnish Securities Market Act and the listing agreement with the Stockholm Exchange, Telia will inform the market of any matters likely to have a material impact on the value of the securities by issuing stock exchange releases. Pursuant to the new rules of the Helsinki Exchanges, that entered into force on September 1, 2002, Telia may issue stock exchange releases in accordance with the rules of the Stockholm Exchange. Currently, Telia intends to issue



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its stock exchange releases in Finland in Finnish, Swedish and English. See THE FINNISH SECURITIES MARKET Disclosure Obligation of Telia in Finland.

**Restrictions on Ability of Certain Persons to Participate in the Exchange Offer**

Due to restrictions under securities laws of Australia, the Hong Kong Special Administrative Region of the People's Republic of China, Italy, Japan, New Zealand and South Africa, the exchange offer will not be extended to persons with registered addresses in, and who are residents of, any of Australia, the Hong Kong Special Administrative Region of the People's Republic of China, Italy, Japan, New Zealand or South Africa.

**Risk Factors (see page 27)**

In deciding whether to tender your Sonera securities in connection with the exchange offer, you should carefully consider the risks described under RISK FACTORS in addition to the other information contained in this prospectus.

**Table of Contents****Comparative Market Price Information**

The following table sets forth:

the closing prices per share as reported on the Stockholm Exchange for the Telia shares and on the Helsinki Exchanges for the Sonera shares on March 25, 2002, the last trading day on both the Stockholm Exchange and the Helsinki Exchanges prior to any public announcement of the exchange offer, and on September 30, 2002; and

the implied equivalent price per share for the Sonera shares on each such date by multiplying the price per Telia share, converted into euros at the currency exchange rate for that day, by the exchange ratio.

Amounts in Swedish kronor have been translated into euros solely for your convenience at the exchange rate of 1.00 = SEK 9.0038, and 1.00 = SEK 9.1516, the Swedish krona to euro reference rate as published by the European Central Bank on March 25, 2002 and September 30, 2002 respectively. Amounts in euros have been translated into U.S. dollars solely for your convenience at the exchange rate of \$1.00 = 1.1405, and \$1.00 = 1.0122, the U.S. dollar to euro noon buying rate on March 25, 2002 and September 30, 2002, respectively.

Telia urges you to obtain current market quotations for the Sonera shares and the Telia shares before making a decision with respect to the exchange offer.

|                         | Telia share price |      | Sonera share price |      | Implied equivalent price per Sonera share |      |      |
|-------------------------|-------------------|------|--------------------|------|---|------|------|
|                         | SEK               | \$   | \$                 | \$   | \$  | \$   |      |
| On March 25, 2002       |                   |      |                    |      |   |      |      |
| Closing price per share | 39.70             | 4.41 | 3.87               | 5.83 | 5.11                                      | 6.68 | 5.86 |
| On September 30, 2002   |                   |      |                    |      |   |      |      |
| Closing price per share | 23.30             | 2.55 | 2.51               | 3.68 | 3.64                                      | 3.86 | 3.80 |

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**Presentation of Financial and Other Information**

Telia publishes its consolidated financial statements in Swedish kronor. This prospectus contains Telia's audited consolidated financial statements as of and for the years ended December 31, 1999, 2000 and 2001, and its unaudited condensed consolidated interim financial information for the six months ended June 30, 2001 and 2002, each of which has been prepared in accordance with International Accounting Standards, or IAS, as issued by the International Accounting Standards Board. IAS differ in certain respects from accounting principles generally accepted in the United States, or U.S. GAAP. For a discussion of the principal differences between IAS and U.S. GAAP relevant to Telia, together with a reconciliation of net income and shareholders' equity recorded under IAS to net income and shareholders' equity under U.S. GAAP in connection with Telia's consolidated financial statements, see Note 39 to Telia's consolidated financial statements and Note 23 to Telia's unaudited condensed consolidated interim financial statements.

Sonera publishes its consolidated financial statements in euros ( euros, euro, EUR or ). This prospectus contains Sonera's audited consolidated financial statements as of and for the years ended December 31, 1999, 2000 and 2001, and its unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2001 and 2002, each of which have been prepared in accordance with Finnish generally accepted accounting principles, or Finnish GAAP. Finnish GAAP and accounting principles adopted by Sonera differ in certain respects from U.S. GAAP. For a discussion of the principal differences between Finnish GAAP and U.S. GAAP relevant to Sonera, together with a reconciliation of net income and shareholders' equity recorded under Finnish GAAP to net income and shareholders' equity under U.S. GAAP in connection with Sonera's consolidated financial statements, see Note 24 to Sonera's consolidated financial statements and Note 12 to Sonera's unaudited condensed consolidated interim financial statements.

This prospectus also contains unaudited condensed pro forma combined financial information that gives effect to the proposed merger of Telia and Sonera.

This prospectus also contains:

audited consolidated financial statements for Netia Holdings S.A., a company in which Telia has a significant investment, as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001;

audited consolidated financial statements for Group 3G UMTS Holding GmbH (formerly named Orla Siebzehnte Vermögenswaltung GmbH), a company in which Sonera has a 42.8 percent interest, as of December 31, 2000 and 2001 and for the period from the date of inception (August 2, 2000) to December 31, 2000 and for the year ended December 31, 2001;

audited consolidated financial statements for Turkcell İletisim Hizmetleri A.S., a company in which Sonera has a 37.1 percent interest, as of December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001;

audited consolidated financial statements for Fintur Holdings B.V., a company in which Sonera has a 58.55 percent interest, as of December 31, 2000 and 2001 and for the years ended December 31, 2000 and 2001; and

audited consolidated financial statements for NetCom ASA, a company which Telia acquired in 2000, as of and for the years ended December 31, 1997, 1998 and 1999.

References in this prospectus to Swedish krona, Swedish kronor and SEK are to the currency of the Kingdom of Sweden. References to euro, euros, or EUR are to the currency of the European Union's Economic and Monetary Union. References to Finnish markka or FIM used with respect to any time or period before January 1, 1999, are to the currency of the Republic of Finland and, when used with respect to any time or period from January 1, 1999 and before January 1, 2002, are to the sub-unit of the euro. References in this prospectus to dollar, U.S. dollar, U.S.\$, \$ and USD mean the lawful currency of the United States of America.

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In this prospectus, unless otherwise stated, Swedish kronor and euros have been translated, solely for convenience, into U.S. dollars using the noon buying rate in New York City for cable transfers in Swedish kronor and euros, respectively, as certified for customs purposes by the Federal Reserve Bank of New York on June 28, 2002, which was SEK 9.2070 per U.S. \$1.00 (SEK 1.00 per U.S. \$0.1086) and 1.0146 per U.S. \$1.00 (1.00 per U.S. \$0.9856). On September 30, 2002, the noon buying rate for the krona was SEK 9.2740 per U.S. \$1.00 (SEK 1.00 per U.S. \$0.1078) and the noon buying rate for the euro was 1.0122 per U.S. \$1.00 (1.00 per U.S. \$0.9879). These translations should not be construed as a representation that the U.S. dollar amounts actually represent, or could be converted into, krona or euros, respectively, at the rates indicated.

The period end, average and range of high and low kronor to U.S. dollar and euro to U.S. dollar exchange rates for the five-year period ended December 31, 2001 and the period from January 1, 2002 to September 30, 2002 are presented in the section entitled CURRENCY AND EXCHANGE RATES INFORMATION in this prospectus.

In this prospectus, unless otherwise stated, Swedish kronor have been translated, solely for convenience, into euros at the Swedish krona to euro reference rate of 1.00 = SEK 9.1015 and euros into Swedish kronor at the euro to Swedish krona reference rate of SEK 1.00 = 0.1099, in each case, as published by the European Central Bank on June 28, 2002.

In this prospectus, both Telia and Sonera use underlying EBITDA as a non-GAAP measure for the financial performance of their respective business areas or segments.

When used with respect to Telia, underlying EBITDA equals:

Operating income before depreciation, amortization and write-downs, net of items not reflecting the underlying business operations and excluding income from associated companies. Items not reflecting the underlying business operations include capital gains and losses, restructuring/phase-out of operations, personnel redundancy costs, year 2000 compliance (in 1998 and 1999), and expenses in conjunction with the initial public offering in 2000 and with the abandoned merger with Telenor in 1999. Telia's management uses underlying EBITDA and operating income as the principal measures for monitoring profitability in internal operations. Management believes that, besides operating income, underlying EBITDA is also a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. Accordingly, underlying EBITDA is presented to enhance the understanding of Telia's historical operating performance. Underlying EBITDA, however, should not be considered as an alternative to operating income as an indicator of our operating performance. Similarly, underlying EBITDA should not be considered as an alternative to cash flows from operating activities as a measure of liquidity. Underlying EBITDA is not a measure of financial performance under IAS or U.S. GAAP and may not be comparable to other similarly titled measures for other companies. Underlying EBITDA is not meant to be predictive of potential future results.

When used with respect to Sonera, underlying EBITDA equals:

Underlying EBITDA equals operating profit before depreciation and amortization, before gains and losses from sale of shares and fixed assets, before write-downs and before restructuring expenses. Sonera's management believes that, except for depreciation and amortization, these items excluded from the definition of underlying EBITDA do not reflect the underlying fundamentals of the operating results from Sonera's business segments. Sonera's management also believes that underlying EBITDA is a standard measure commonly reported and widely used by analysts, investors and others in the telecommunications industry. Accordingly, this information has been disclosed to permit a more complete comparative analysis of the segmented operating performance relative to other companies in the industry. Underlying EBITDA, however, should not be considered as an alternative to operating profit as an indicator of operating performance. Sonera's definition of underlying EBITDA does not show significant changes related to the following items: depreciation,

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amortization and write-downs; restructuring expenses; gains and losses from sale of shares and fixed assets; equity (income) loss in associated companies; financial income and expense; and income taxes. Similarly, underlying EBITDA should not be considered as an alternative to cash flows from operating activities as a measure of liquidity. Underlying EBITDA is not a measure of financial performance under Finnish GAAP or U.S. GAAP and may not be comparable to other similarly titled measures for other companies. Underlying EBITDA is not meant to be predictive of potential future results.

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**Selected Consolidated Financial Data**

Presented below are selected historical financial data of Telia and Sonera as of and for the six months ended June 30, 2001 and 2002 and as of and for each of the years in the five-year period ended December 31, 2001. The selected consolidated financial data as of and for the six months ended June 30, 2001 and 2002 presented below has been derived from the unaudited condensed consolidated interim financial statements of each of Telia and Sonera. The selected consolidated financial data as of and for each of the years in the five-year period ended December 31, 2001 presented below has been derived from the audited annual consolidated financial statements of each of Telia and Sonera.

Telia's consolidated financial statements and its unaudited condensed interim financial statements have been prepared in accordance with IAS. For a discussion of the principal differences between IAS and U.S. GAAP relevant to Telia, together with a reconciliation of net income and shareholders' equity recorded under IAS to net income and shareholders' equity under U.S. GAAP in connection with Telia's consolidated financial statements, see Note 39 to Telia's consolidated financial statements and Note 23 to Telia's unaudited condensed consolidated interim financial statements.

Sonera's consolidated financial statements and its unaudited condensed consolidated interim financial statements have been prepared in accordance with Finnish GAAP. For a detailed discussion of the principal differences between Finnish GAAP and U.S. GAAP relevant to Sonera, together with a reconciliation of net income and shareholders' equity recorded under Finnish GAAP to net income and shareholders' equity under U.S. GAAP in connection with Sonera's consolidated financial statements, see Note 24 to Sonera's consolidated financial statements and Note 12 to Sonera's unaudited condensed consolidated interim financial statements.

You should read the following selected consolidated financial data in conjunction with the consolidated financial statements of Telia and Sonera and the sections entitled "OPERATING AND FINANCIAL REVIEW AND PROSPECTS OF TELIA" and "OPERATING AND FINANCIAL REVIEW AND PROSPECTS OF SONERA," each included elsewhere in this prospectus.

The interim financial information included below is unaudited but reflects normal and recurring adjustments that are necessary for a fair presentation of the results for the interim periods presented. Results for interim periods are not necessarily indicative of results for the full year.

Solely for the convenience of the reader:

Swedish krona amounts have been translated into U.S. dollars at the rate of SEK 1.00 = \$0.1086 (\$1.00 = SEK 9.2070), the noon buying rate for the Swedish krona on June 28, 2002.

euro amounts have been translated into U.S. dollars at the rate of 1.00 = \$0.9856 (\$1.00 = 1.0146), the noon buying rate for the euro on June 28, 2002.

Sonera's consolidated financial statements for all periods prior to January 1, 1999 were prepared in Finnish markkas, and have been restated into euros using the irrevocable conversion rate of 1.00 = FIM 5.94573 between the euro and the Finnish markka, which conversion rate was set on January 1, 1999. Sonera's consolidated financial statements for such periods depict the same trends as would have been presented if Sonera had continued to present consolidated financial statements in Finnish markkas. However, Sonera's consolidated financial statements for periods prior to January 1, 1999 are not comparable to the financial statements of other companies that currently report in euros and that have restated their financial statements from a currency other than the Finnish markka.



**Table of Contents****Selected Telia Consolidated Financial Data**

|   | For the year ended December 31, |           |           |           |           |           | For the six months ended June 30, |                      |           |
|---|---------------------------------|-----------|-----------|-----------|-----------|-----------|-----------------------------------|----------------------|-----------|
|   | 1997                            | 1998      | 1999      | 2000      | 2001      | 2001      | 2001                              | 2002                 | 2002      |
|   | (SEK)                           | (SEK)     | (SEK)     | (SEK)     | (SEK)     | (\$)      | (SEK)                             | (SEK)<br>(unaudited) | (\$)      |
| <b>(in millions, except shares, percentages and per share data)</b> |                                 |           |           |           |           |           |                                   |                      |           |
| <b>INCOME STATEMENT DATA</b>  |                                 |           |           |           |           |           |                                   |                      |           |
| <i>IAS</i>  |                                 |           |           |           |           |           |                                   |                      |           |
| Net sales   | 45,665                          | 49,569    | 52,121    | 54,064    | 57,196    | 6,212.2   | 27,795                            | 28,231               | 3,066.3   |
| Costs of production   | (29,634)                        | (30,988)  | (31,206)  | (33,028)  | (40,435)  | (4,391.8) | (18,001)                          | (18,344)             | (1,992.4) |
| Gross income  | 16,031                          | 18,581    | 20,915    | 21,036    | 16,761    | 1,820.4   | 9,794                             | 9,887                | 1,073.9   |
| Sales, administrative, and research and development expenses        | (13,456)                        | (15,045)  | (14,887)  | (16,326)  | (17,943)  | (1,948.8) | (8,324)                           | (9,004)              | (978.0)   |
| Other operating revenues and expenses, net                          | 806                             | 4,388     | (805)     | 8,493     | 506       | 55.0      | 278                               | (430)                | (46.7)    |
| Income from associated companies                                    | (163)                           | (704)     | 723       | (1,197)   | 6,136     | 666.4     | 51                                | 375                  | 40.7      |
| Operating income  | 3,218                           | 7,220     | 5,946     | 12,006    | 5,460     | 593.0     | 1,799                             | 828                  | 89.9      |
| Financial net income after financial items                          | (90)                            | (77)      | 34        | (289)     | (652)     | (70.8)    | (388)                             | (371)                | (40.3)    |
| Income taxes  | 3,128                           | 7,143     | 5,980     | 11,717    | 4,808     | 522.2     | 1,411                             | 457                  | 49.6      |
| Minority interests  | (946)                           | (2,092)   | (1,754)   | (1,447)   | (2,917)   | (316.8)   | (848)                             | (308)                | (33.4)    |
| Net income  | 40                              | (40)      | (4)       | 8         | (22)      | (2.4)     | (22)                              | 8                    | 0.9       |
| Earnings per share  | 2,222                           | 5,011     | 4,222     | 10,278    | 1,869     | 203.0     | 541                               | 157                  | 17.1      |
| Basic   | 0.78                            | 1.76      | 1.48      | 3.50      | 0.62      | 0.07      | 0.18                              | 0.05                 | 0.01      |
| Diluted   | 0.78                            | 1.76      | 1.48      | 3.50      | 0.62      | 0.07      | 0.18                              | 0.05                 | 0.01      |
| Cash dividend per share <sup>(1)</sup>                              | 0.40                            | 0.42      | 0.49      | 0.52      | 0.50      | 0.05      | N/A                               | N/A                  | N/A       |
| Operating margin (%) <sup>(2)</sup>                                 | 7.0                             | 14.6      | 11.4      | 22.2      | 9.5       | 9.5       | 6.5                               | 2.9                  | 2.9       |
| Return on sales (%) <sup>(3)</sup>                                  | 8.4                             | 15.9      | 13.0      | 25.1      | 12.5      | 12.5      | 10.0                              | 5.1                  | 5.1       |
| Net profit margin (%) <sup>(4)</sup>                                | 4.9                             | 10.1      | 8.1       | 19.0      | 3.3       | 3.3       | 1.9                               | 0.6                  | 0.6       |
| <i>U.S. GAAP</i> <sup>(5)</sup>                                     |                                 |           |           |           |           |           |                                   |                      |           |
| Net income  | N/A                             | N/A       | 4,218     | 9,991     | 4,534     | 492.5     | 584                               | 1,187                | 128.9     |
| Earnings per share  |                                 |           |           |           |           |           |                                   |                      |           |
| Basic   | N/A                             | N/A       | 1.48      | 3.41      | 1.51      | 0.16      | 0.19                              | 0.40                 | 0.04      |
| Diluted   | N/A                             | N/A       | 1.48      | 3.41      | 1.51      | 0.16      | 0.19                              | 0.40                 | 0.04      |
| Weighted average number of shares outstanding (in thousands)        |                                 |           |           |           |           |           |                                   |                      |           |
| Basic   | 2,851,200                       | 2,851,200 | 2,851,200 | 2,932,757 | 3,001,200 | 3,001,200 | 3,001,200                         | 3,001,200            | 3,001,200 |
| Diluted   | 2,851,200                       | 2,851,200 | 2,851,200 | 2,932,757 | 3,001,200 | 3,001,200 | 3,001,200                         | 3,001,200            | 3,001,200 |
| <b>CASH FLOW DATA</b>   |                                 |           |           |           |           |           |                                   |                      |           |
| <i>IAS</i>  |                                 |           |           |           |           |           |                                   |                      |           |
| Cash flow from operating activities                                 | 8,920                           | 10,301    | 10,715    | 10,152    | 10,416    | 1,131.3   | 2,810                             | 4,701                | 510.6     |
| Cash flow from investing activities                                 | (12,426)                        | (8,967)   | (10,701)  | (37,121)  | 3,632     | 394.5     | (2,678)                           | (4,094)              | (444.7)   |
|   | 3,896                           | (2,301)   | 1,005     | 26,818    | (6,608)   | (717.7)   | (405)                             | (6,535)              | (709.8)   |

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|                                     |     |       |       |       |       |       |       |         |         |
|-------------------------------------|-----|-------|-------|-------|-------|-------|-------|---------|---------|
| Cash flow from financing activities |     |       |       |       |       |       |       |         |         |
| Cash flow for the period            | 390 | (967) | 1,019 | (151) | 7,440 | 808.1 | (273) | (5,928) | (643.9) |

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|  | At December 31, |        |        |         |         |          | At June 30, |                      |          |
|--|-----------------|--------|--------|---------|---------|----------|-------------|----------------------|----------|
|  | 1997            | 1998   | 1999   | 2000    | 2001    | 2001     | 2001        | 2002                 | 2002     |
|  | (SEK)           | (SEK)  | (SEK)  | (SEK)   | (SEK)   | (\\$)    | (SEK)       | (SEK)<br>(unaudited) | (\\$)    |
| (in millions, except percentages and financial ratios) |                 |        |        |         |         |          |             |                      |          |
| <b>BALANCE SHEET DATA</b>                              |                 |        |        |         |         |          |             |                      |          |
| <i>IAS</i>   |                 |        |        |         |         |          |             |                      |          |
| Intangible fixed assets                                | 1,566           | 1,844  | 2,146  | 25,198  | 26,816  | 2,912.6  | 26,884      | 27,233               | 2,957.9  |
| Tangible fixed assets                                  | 39,239          | 34,801 | 33,318 | 43,807  | 47,314  | 5,138.9  | 47,361      | 45,700               | 4,963.6  |
| Financial fixed assets                                 | 8,666           | 12,553 | 18,023 | 22,335  | 20,784  | 2,257.4  | 20,563      | 19,695               | 2,139.1  |
| Current assets   | 16,439          | 18,080 | 23,117 | 31,375  | 33,277  | 3,614.3  | 35,384      | 26,581               | 2,887.0  |
| Total assets   | 65,910          | 67,278 | 76,604 | 122,715 | 128,191 | 13,923.2 | 130,192     | 119,209              | 12,947.6 |
| Shareholders' equity                                   | 25,487          | 29,344 | 32,893 | 55,988  | 59,885  | 6,504.3  | 58,570      | 59,728               | 6,487.2  |
| Minority interests                                     | 306             | 210    | 210    | 320     | 204     | 22.1     | 1,497       | 245                  | 26.6     |
| Provisions   | 12,262          | 7,735  | 10,488 | 11,351  | 13,107  | 1,423.6  | 12,042      | 12,475               | 1,354.9  |
| Long-term debt   | 7,082           | 6,491  | 9,123  | 20,876  | 25,193  | 2,736.3  | 26,092      | 20,933               | 2,273.6  |
| Current debt   | 7,731           | 7,062  | 6,934  | 13,166  | 3,931   | 427.0    | 10,685      | 2,850                | 309.6    |
| Non-interest-bearing liabilities                       | 13,042          | 16,436 | 16,956 | 21,014  | 25,871  | 2,809.9  | 21,306      | 22,978               | 2,495.7  |
| Total equity and liabilities                           | 65,910          | 67,278 | 76,604 | 122,715 | 128,191 | 13,923.2 | 130,192     | 119,209              | 12,947.6 |
| Capital employed <sup>(6)</sup>                        | 46,329          | 43,440 | 50,936 | 92,374  | 90,971  | 9,880.6  | 99,097      | 85,250               | 9,259.3  |
| Operating capital <sup>(7)</sup>                       | 39,192          | 34,921 | 39,160 | 75,042  | 70,150  | 7,619.2  | 78,361      | 70,008               | 7,603.8  |
| Net interest-bearing liabilities <sup>(8)</sup>        | 14,609          | 6,767  | 7,527  | 20,235  | 10,661  | 1,157.9  | 19,069      | 10,336               | 1,122.6  |
| <i>U.S. GAAP<sup>(5)</sup></i>                         |                 |        |        |         |         |          |             |                      |          |
| Total assets   | N/A             | N/A    | 77,974 | 123,689 | 132,495 | 14,390.7 | 131,367     | 124,404              | 13,511.9 |
| Shareholders' equity                                   | N/A             | N/A    | 29,168 | 51,870  | 58,589  | 6,363.5  | 54,652      | 59,472               | 6,459.4  |
| <b>RATIOS</b>  |                 |        |        |         |         |          |             |                      |          |
| <i>IAS</i>   |                 |        |        |         |         |          |             |                      |          |
| Debt/equity ratio (multiple) <sup>(9)</sup>            | 0.60            | 0.24   | 0.24   | 0.37    | 0.18    | 0.18     | 0.33        | 0.17                 | 0.17     |
| Equity/assets ratio (%) <sup>(10)</sup>                | 36.8            | 41.5   | 41.0   | 44.4    | 46.2    | 46.2     | 44.4        | 49.9                 | 49.9     |

- (1) Dividends are declared and paid annually on the basis of income and retained earnings as of the end of the preceding year.
- (2) Operating margin is operating income expressed as a percentage of net sales.
- (3) Return on sales is operating income plus financial revenues, expressed as a percentage of net sales.
- (4) Net profit margin is net income expressed as a percentage of net sales.
- (5) Telia has not presented a reconciliation to U.S. GAAP of its net income for the years ended December 31, 1997 and 1998, nor of its total assets and shareholders' equity as of December 31, 1997 and 1998.
- (6) Capital employed is the balance sheet total less non-interest-bearing liabilities and non-interest-bearing provisions reported, and the proposed dividend.
- (7) Operating capital is non-interest-bearing assets less non-interest-bearing liabilities and non-interest-bearing provisions.
- (8) Net interest-bearing liability is interest-bearing liabilities and provisions less interest-bearing assets but including participations in associated companies.
- (9) Debt/equity ratio is net interest-bearing liability divided by equity (less the proposed dividend).

(10) Equity/ assets ratio is equity (less the proposed dividend) expressed as a percentage of the balance sheet total.

**Table of Contents****Selected Sonera Consolidated Financial Data**

|  | For the year ended December 31,                                   |         |         |         |         | For the six months ended June 30, |             |           |           |
|--|---|---------|---------|---------|---------|-----------------------------------|-------------|-----------|-----------|
|  | 1997  | 1998    | 1999    | 2000    | 2001    | 2001                              | 2001        | 2002      | 2002      |
|  |   |         |         |         |         | \$                                | (unaudited) |           | \$        |
|  | (in millions, except shares, percentages, per share and ADS data) |         |         |         |         |                                   |             |           |           |
| <b>INCOME STATEMENT DATA</b>   |   |         |         |         |         |                                   |             |           |           |
| <i>Finnish GAAP</i>  |   |         |         |         |         |                                   |             |           |           |
| Revenues   | 1,352   | 1,623   | 1,849   | 2,057   | 2,187   | 1,906                             | 1,082       | 1,084     | 1,068     |
| Other operating income   | 18  | 24      | 45      | 1,589   | 916     | 798                               | 902         | 382       | 377       |
| Operating expenses   | (881)   | (1,097) | (1,226) | (1,599) | (1,820) | (1,586)                           | (890)       | (1,204)   | (1,186)   |
| Depreciation and amortization  | (204)   | (261)   | (281)   | (299)   | (332)   | (289)                             | (168)       | (161)     | (159)     |
| Operating profit   | 285   | 289     | 387     | 1,748   | 951     | 829                               | 926         | 101       | 100       |
| Equity income (loss) in associated companies                                 | 19  | 59      | 110     | 121     | (202)   | (176)                             | (94)        | (3,979)   | (3,922)   |
| Sales and write-downs of short-term investments                              |   |         |         |         | (272)   | (237)                             |             | (43)      | (43)      |
| Financial income and expenses  | 5   | (2)     |         | (9)     | (32)    | (28)                              | (27)        | 12        | 12        |
| Profit (loss) before income taxes, minority interest and extraordinary items | 309   | 346     | 497     | 1,860   | 445     | 388                               | 805         | (3,909)   | (3,853)   |
| Income taxes   | (89)  | (94)    | (126)   | (318)   | (35)    | (30)                              | (128)       | 1,246     | 1,228     |
| Minority interest in income  |   | (1)     | (1)     | (1)     | (1)     | (1)                               | 1           |           |           |
| Extraordinary items, net of income taxes <sup>(1)</sup>                      |   |         |         | (35)    |         |                                   |             |           |           |
| Net income (loss)  | 220   | 251     | 370     | 1,506   | 409     | 357                               | 678         | (2,663)   | (2,625)   |
| Net income (loss) per share and ADS <sup>(2)</sup>                           | 0.25  | 0.29    | 0.42    | 1.68    | 0.44    | 0.39                              | 0.74        | (2.39)    | (2.35)    |
| Cash dividends per share and ADS <sup>(2)(3)</sup>                           | 0.04  | 0.15    | 0.07    | 0.10    | 0.07    | 0.06                              | 0.07        |           |           |
| <i>U.S. GAAP</i>   |   |         |         |         |         |                                   |             |           |           |
| Net income (loss)  | 203   | 237     | 338     | 704     | 284     | 248                               | 584         | (2,676)   | (2,637)   |
| Net income (loss) per share and ADS (non-diluted) <sup>(2)</sup>             | 0.23  | 0.27    | 0.38    | 0.78    | 0.31    | 0.27                              | 0.64        | (2.40)    | (2.37)    |
| Net income (loss) per share and ADS on a fully diluted basis <sup>(2)</sup>  | 0.23  | 0.27    | 0.38    | 0.78    | 0.31    | 0.27                              | 0.64        | (2.40)    | (2.37)    |
| <i>Weighted average number of shares outstanding (in thousands)</i>          |   |         |         |         |         |                                   |             |           |           |
| Non-diluted <sup>(2)</sup>   | 878,061   | 878,362 | 880,500 | 897,472 | 924,346 | 924,346                           | 906,091     | 1,114,752 | 1,114,752 |
| Diluted <sup>(2)</sup>   | 878,061   | 878,362 | 881,632 | 902,193 | 924,346 | 924,346                           | 906,091     | 1,114,752 | 1,114,752 |
| <b>OTHER RATIOS</b>  |   |         |         |         |         |                                   |             |           |           |
| Operating profit margin (%) <sup>(4)</sup>                                   | 21.1  | 17.8    | 20.9    | 85.0    | 43.5    | 43.5                              | 85.6        | 9.3       | 9.3       |
| Net income (loss) margin (%) <sup>(5)</sup>                                  | 16.2  | 15.5    | 20.0    | 73.2    | 18.7    | 18.7                              | 62.7        | (245.7)   | (245.7)   |
| <b>CASH FLOW DATA</b>  |   |         |         |         |         |                                   |             |           |           |
| Cash provided by operating activities  | 455   | 508     | 442     | 227     | 197     | 172                               | 22          | 289       | 285       |
| Cash (used in) provided by investing activities                              | (531)   | (1,126) | (771)   | (4,572) | 1,223   | 1,066                             | 495         | (7)       | (7)       |
| Capital expenditures   | (373)   | (351)   | (338)   | (430)   | (359)   | (313)                             | (172)       | (107)     | (105)     |
| Investments in shares and shareholder loans                                  | (22)  | (898)   | (410)   | (4,852) | (572)   | (499)                             | (431)       | (123)     | (121)     |
| Cash provided by (used in) financing activities                              | 93  | 632     | 309     | 4,394   | (1,410) | (1,229)                           | (523)       | (295)     | (291)     |



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|  | At December 31,                   |       |       |        |       |       | At June 30, |             |       |
|--|-----------------------------------|-------|-------|--------|-------|-------|-------------|-------------|-------|
|  | 1997                              | 1998  | 1999  | 2000   | 2001  | 2001  | 2001        | 2002        | 2002  |
|  |                                   |       |       |        |       |       | \$          | (unaudited) | \$    |
|  | (in millions, except percentages) |       |       |        |       |       |             |             |       |
| <b>BALANCE SHEET DATA</b>                  |                                   |       |       |        |       |       |             |             |       |
| <i>Finnish GAAP</i>                        |                                   |       |       |        |       |       |             |             |       |
| Intangible assets                          | 42                                | 53    | 69    | 116    | 98    | 85    | 114         | 90          | 88    |
| Property, plant and equipment              | 1,090                             | 1,123 | 1,159 | 1,265  | 1,269 | 1,106 | 1,279       | 1,198       | 1,181 |
| Long-term investments and receivables      | 293                               | 1,231 | 1,826 | 4,779  | 6,068 | 5,290 | 5,914       | 2,761       | 2,721 |
| Inventories                                | 15                                | 22    | 36    | 40     | 33    | 29    | 44          | 15          | 15    |
| Receivables                                | 281                               | 292   | 404   | 3,418  | 610   | 532   | 695         | 562         | 554   |
| Cash and short-term investments            | 145                               | 93    | 115   | 156    | 716   | 624   | 1,999       | 1,044       | 1,029 |
| Total assets                               | 1,866                             | 2,814 | 3,609 | 9,774  | 8,794 | 7,666 | 10,045      | 5,670       | 5,588 |
| Shareholders' equity                       | 1,312                             | 1,424 | 1,801 | 3,233  | 4,575 | 3,988 | 3,956       | 1,856       | 1,829 |
| Minority interest                          |                                   | 12    | 14    | 16     | 13    | 11    | 17          | 1           | 1     |
| Long-term debt                             | 171                               | 788   | 1,124 | 1,842  | 2,007 | 1,750 | 2,586       | 2,236       | 2,204 |
| Other long-term liabilities                | 86                                | 91    | 115   | 171    | 148   | 129   | 145         | 204         | 201   |
| Current debt                               | 2                                 | 135   | 172   | 3,955  | 1,473 | 1,284 | 2,755       | 950         | 936   |
| Other current liabilities                  | 295                               | 364   | 383   | 557    | 578   | 504   | 586         | 423         | 417   |
| Total shareholders' equity and liabilities | 1,866                             | 2,814 | 3,609 | 9,774  | 8,794 | 7,666 | 10,045      | 5,670       | 5,588 |
| Net debt <sup>(6)</sup>                    | 28                                | 830   | 1,181 | 5,641  | 3,268 | 2,849 | 5,122       | 2,142       | 2,111 |
| Net debt-to-equity (%) <sup>(7)</sup>      | 2.1                               | 57.8  | 65.1  | 173.6  | 71.2  | 71.2  | 128.9       | 115.3       | 115.3 |
| Equity-to-assets (%) <sup>(8)</sup>        | 70.9                              | 51.5  | 50.6  | 33.4   | 52.4  | 52.4  | 39.7        | 32.9        | 32.9  |
| <i>U.S. GAAP</i>                           |                                   |       |       |        |       |       |             |             |       |
| Shareholders' equity                       | 1,341                             | 1,446 | 1,896 | 4,432  | 4,912 | 4,282 | 4,419       | 2,128       | 2,097 |
| Total assets                               | 1,898                             | 2,848 | 3,757 | 11,181 | 9,104 | 7,936 | 10,570      | 5,951       | 5,865 |

- (1) Extraordinary items reported for the year ended December 31, 2000 consist of the cumulative effect of accounting changes related to (a) equity accounting for Turkcell and (b) capitalization of borrowing costs. See Note 8 to Sonera's consolidated financial statements.
- (2) All per share and ADS data before November 2001 has been adjusted to reflect the rights offering in 2001, in order to present information that is comparable to amounts after the rights offering.
- (3) Dividends for each year were declared and paid on the basis of profits and retained earnings as of the end of the previous year.
- (4) Operating profit margin is operating profit expressed as a percentage of revenues.
- (5) Net income margin is net income expressed as a percentage of revenues.
- (6) Net debt means total debt (which includes current and long-term interest-bearing debt) less cash and short-term investments. For purposes of this prospectus, net debt as of June 30, 2001 and December 31, 2001 does not take into account Sonera's short-term investment in shares of Deutsche Telekom, which, as of such dates, had a market value of 1,780 million and 504 million, respectively.
- (7) Net debt-to-equity ratio is the ratio of net debt to shareholders' equity and minority interest.
- (8) Equity-to-assets ratio is shareholders' equity and minority interest expressed as a percentage of total assets less advances received.

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**Unaudited Selected Condensed Pro Forma Combined Financial Information (see page 128)**

The following pro forma combined financial information is being provided to give you a better understanding of what the results of operations and financial position of the combined TeliaSonera might have looked like had the merger occurred on an earlier date. This information is provided for illustrative purposes only and does not show what the results of operations or financial position of the combined entity would have been if the exchange offer had been completed and the merger had actually occurred on the dates assumed. This information also does not indicate what the combined entity's future operating results or combined financial position will be.

The following unaudited pro forma combined financial information gives pro forma effect to the merger, after giving effect to the pro forma adjustments described in the notes to the unaudited condensed pro forma consolidated financial statements. For accounting purposes, the merger will be accounted for as Telia's acquisition of Sonera. The unaudited condensed pro forma consolidated income statements for the year ended December 31, 2001 and for the six months ended June 30, 2002, give effect to the merger as if the transaction had occurred on January 1, 2001. The unaudited condensed pro forma consolidated balance sheet as of June 30, 2002 gives effect to the merger as if it had occurred on June 30, 2002.

The unaudited condensed pro forma consolidated financial information of the combined company is based on the historical financial statements of Telia and Sonera, which are included elsewhere in this prospectus.

Please see **UNAUDITED CONDENSED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS** for a more detailed explanation of this analysis.

Solely for your convenience, the unaudited pro forma consolidated SEK amounts have been translated into euros at the exchange rate of 1.00 = SEK 9.1015, the euro to Swedish krona reference rate as published by the European Central Bank on June 28, 2002, and into U.S. dollars at the exchange rate of \$1.00 = SEK 9.2070, the U.S. dollar to Swedish krona noon buying rate on June 28, 2002.



**Table of Contents****Unaudited Selected Condensed Pro Forma Combined Financial Information**

|  | For the year ended<br>December 31, 2001 |         |         | As of or for the<br>six months ended<br>June 30, 2002 |           |           |
|--|---|---------|---------|---|-----------|-----------|
|  | SEK                                     |         | \$      | SEK   |           | \$        |
| (in millions, except per share and per ADS data) |   |         |         |   |           |           |
| <b>IAS</b>                                       |   |         |         |   |           |           |
| <b>Income Statement Data</b>                     |   |         |         |   |           |           |
| Net sales  | 80,924                                  | 8,891.3 | 8,789.5 | 39,932  | 4,387.4   | 4,337.1   |
| Operating income                                 | 10,174                                  | 1,118.0 | 1,105.2 | (32,926)  | (3,617.7) | (3,576.2) |
| Net income                                       | 2,691                                   | 295.7   | 292.3   | (23,209)  | (2,550.0) | (2,520.8) |
| Earnings per share                               |   |         |         |   |           |           |
| Basic  | 0.57                                    | 0.06    | 0.06    | (4.95)  | (0.54)    | (0.54)    |
| Diluted  | 0.57                                    | 0.06    | 0.06    | (4.95)  | (0.54)    | (0.54)    |
| <b>Balance Sheet Data</b>                        |   |         |         |   |           |           |
| Fixed assets                                     |   |         |         | 162,472   | 17,851.3  | 17,646.7  |
| Current assets                                   |   |         |         | 42,335  | 4,651.3   | 4,598.0   |
| Total assets                                     |   |         |         | 204,807   | 22,502.6  | 22,244.7  |
| Shareholders' equity                             |   |         |         | 103,186   | 11,337.3  | 11,207.3  |
| Minority interest                                |   |         |         | 2,663   | 292.6     | 289.2     |
| Provisions                                       |   |         |         | 17,122  | 1,881.2   | 1,859.7   |
| Long-term and short-term loans                   |   |         |         | 53,176  | 5,842.6   | 5,775.6   |
| Non-interest-bearing liabilities                 |   |         |         | 28,660  | 3,148.9   | 3,112.9   |
| Total liabilities and shareholders' equity       |   |         |         | 204,807   | 22,502.6  | 22,244.7  |
| <b>U.S. GAAP</b>                                 |   |         |         |   |           |           |
| <b>Income Statement Data</b>                     |   |         |         |   |           |           |
| Net income                                       | 7,453                                   | 818.9   | 809.5   | (23,428)  | (2,574.1) | (2,544.6) |
| Earnings per share                               |   |         |         |   |           |           |
| Basic  | 1.59                                    | 0.17    | 0.17    | (5.00)  | (0.55)    | (0.54)    |
| Diluted  | 1.59                                    | 0.17    | 0.17    | (5.00)  | (0.55)    | (0.54)    |
| Earnings per ADS <sup>(1)</sup>                  |   |         |         |   |           |           |
| Basic  | 7.95                                    | 0.87    | 0.86    | (24.98)   | (2.74)    | (2.71)    |
| Diluted  | 7.95                                    | 0.87    | 0.86    | (24.98)   | (2.74)    | (2.71)    |
| <b>Balance Sheet Data</b>                        |   |         |         |   |           |           |
| Shareholders' equity                             |   |         |         | 121,754   | 13,377.4  | 13,224.0  |
| Total assets                                     |   |         |         | 231,608   | 25,447.2  | 25,155.6  |

(1) Each Telia ADS will represent five Telia shares.

**Table of Contents****Comparative Historical and Pro Forma Per Share Data**

The following tables present historical and pro forma per share data that reflect the completion of the proposed merger based upon the historical financial statements of Telia and Sonera as of and for the year ended December 31, 2001 and unaudited condensed consolidated interim financial information of Telia and Sonera as of and for the six months ended June 30, 2002.

The pro forma data is not indicative of the results of future operations or the actual results that would have occurred had the merger been completed at the beginning of the periods presented. You should read the data presented below together with the historical consolidated financial statements of Telia and Sonera, the historical unaudited condensed consolidated interim financial statements of Telia and Sonera and the unaudited condensed pro forma combined financial information each appearing elsewhere in this prospectus.

The first and second columns on the left in the tables present historical per share amounts for Telia and Sonera. The third column sets forth unaudited pro forma combined data based on 1,688,180,018 Telia shares assumed to be issued in connection with the acquisition based upon an exchange ratio of 1.51440 Telia shares per Sonera share. The fourth column sets forth implied equivalent data for Sonera which is calculated by multiplying the unaudited pro forma combined per share data by 1.51440.

Solely for your convenience, historical Swedish krona per share amounts for Telia in the first column and Swedish krona pro forma per share amounts for TeliaSonera in the third column have been translated into euros at the exchange rate of 1.00 = SEK 9.1015, the euro to Swedish krona reference rate as published by the European Central Bank on June 28, 2002 and into U.S. dollars at the exchange rate of \$1.00 = SEK 9.2070, the U.S. dollar to Swedish krona noon buying rate on June 28, 2002. Also, solely for your convenience, historical euro per share amounts for Sonera in the second column and equivalent implied euro pro forma amounts for Sonera in the fourth column have been translated into U.S. dollars at the exchange rate of \$1.00 = 1.0146, the U.S. dollar to euro noon buying rate on June 28, 2002.

|  | Telia historical per share data |       | Sonera historical per share data |        | Telia and Sonera unaudited pro forma combined per share data |        |        | Sonera equivalent unaudited pro forma combined per share data |        |        |
|--|---------------------------------|-------|----------------------------------|--------|--|--------|--------|---|--------|--------|
|  | SEK                             | \$    |                                  | \$     | SEK  |        | \$     |   | \$     |        |
| <b>Amounts under IAS</b>                                   |                                 |       |                                  |        |  |        |        |   |        |        |
| As of and for the six months ended June 30, 2002 unaudited |                                 |       |                                  |        |  |        |        |   |        |        |
| Earnings from continuing operations per share              |                                 |       |                                  |        |  |        |        |   |        |        |
| Basic  | 0.05                            | 0.005 | 0.005                            | (2.26) | (2.23)   | (4.95) | (0.54) | (0.54)  | (0.82) | (0.81) |
| Diluted  | 0.05                            | 0.005 | 0.005                            | (2.26) | (2.23)   | (4.95) | (0.54) | (0.54)  | (0.82) | (0.81) |
| Dividends  | N/A                             | N/A   | N/A                              | N/A    | N/A  | N/A    | N/A    | N/A   | N/A    | N/A    |
| Book value <sup>(1)</sup>                                  | 19.90                           | 2.19  | 2.16                             | 1.91   | 1.89   | 22.00  | 2.42   | 2.39  | 3.66   | 3.62   |
| For the year ended December 31, 2001                       |                                 |       |                                  |        |  |        |        |   |        |        |
| Earnings from continuing operations per share              |                                 |       |                                  |        |  |        |        |   |        |        |
| Basic  | 0.62                            | 0.07  | 0.07                             | 0.17   | 0.17   | 0.57   | 0.06   | 0.06  | 0.09   | 0.09   |
| Diluted  | 0.62                            | 0.07  | 0.07                             | 0.17   | 0.17   | 0.57   | 0.06   | 0.06  | 0.09   | 0.09   |
| Dividends  | 0.20                            | 0.02  | 0.02                             | 0.00   | 0.00   | N/A    | N/A    | N/A   | N/A    | N/A    |

(1) Book value per share is calculated by dividing shareholders' equity by the number of shares outstanding at the end of the period.

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*In deciding whether to tender your Sonera securities in connection with the exchange offer, you should carefully consider the risks set forth below in addition to the other information contained in this prospectus.*

**Risks Related to the Exchange Offer**

*The value of the Telia shares has decreased significantly since the announcement of the exchange offer and may decrease further between the time the acceptance period of the exchange offer starts and the time the exchange offer is completed. Because you will receive a fixed number of Telia securities in the exchange offer, and not a fixed value, the value of the Telia securities you will receive at the completion of the exchange offer may be less than the value of such Telia securities at the date of this prospectus or the date you tender your Sonera securities.*

Under the terms of the exchange offer, holders of Sonera securities are being offered a fixed number of securities of Telia, rather than securities of Telia with a fixed value. Because the market price of the Telia shares may fluctuate, the value of the Telia securities you receive at the time of the completion of the exchange offer will depend on the market price of such securities at that time and may vary significantly from the value of such securities at the date of this prospectus. The terms of the exchange offer will not be adjusted based on fluctuations in the market price of Telia shares or on the relative financial performance of Telia and Sonera. As a result, the market price of the Telia securities you receive at the time of the completion of the exchange offer could be significantly lower than the market price of such securities at the time of the announcement of the exchange offer or at the date of this prospectus. On March 26, 2002, the date the exchange offer was announced, the closing price of Telia shares on the Stockholm Exchange was SEK 35.40, giving each Sonera share an implied value of SEK 53.61 (€ 5.96 based on the Swedish krona to euro reference rate as published by the European Central Bank on March 26, 2002, and \$5.22 based on the Swedish krona to U.S. dollar noon buying rate as published by the U.S. Federal Reserve on March 26, 2002) based on the exchange ratio of 1.51440 shares of Telia for each Sonera share. On September 30, 2002, the closing price of Telia shares on the Stockholm Exchange was SEK 23.30 (€ 2.55 based on the Swedish krona to euro reference rate as published by the European Central Bank on September 30, 2002, and \$2.51 based on the Swedish krona to U.S. dollar noon buying rate as published by the Federal Reserve Bank of New York on September 30, 2002), giving each Sonera share an implied value of € 3.86, a decrease of 35.3 percent as compared to the implied value on March 26, 2002.

The price of Telia shares may change as a result of changes in the business, operations or prospects of Telia or the combined company, market assessments of the impact of the merger, regulatory considerations, general market and economic conditions, factors affecting the telecommunications industry in general and other factors. You should obtain current market quotations for Telia shares and Sonera shares.

*Telia has a right to terminate the combination agreement between Telia and Sonera and abandon the exchange offer after the exchange offer period has ended if one of the conditions to the exchange offer is not satisfied. Under this condition and subject to certain additional requirements, Telia may elect to terminate the combination agreement and abandon the exchange offer if it determines in good faith that the cash amount it may be required to pay for each Sonera share not tendered in the exchange offer were to, in a mandatory redemption offer made under Finnish law after the completion of the exchange offer, exceed by more than approximately € 0.27 per Sonera share, or by more than € 300 million in the aggregate for all outstanding Sonera shares, the equivalent cash value of the Telia shares offered for Sonera shares in connection with the exchange offer. The existence of this condition poses two main risks for Sonera shareholders:*

*Because this condition will continue to be in effect after the expiration of the exchange offer period, you cannot be certain that the exchange offer will be completed at the time of the expiration of the exchange offer period.*

*Because shareholders' withdrawal rights cease after the expiration of the exchange offer period, if you tender your securities in the exchange offer, you risk being unable to withdraw your securities for a substantial period of time after the expiration of the exchange offer period and before the scheduled settlement date of the exchange offer, currently expected to be approximately 15 business days, during which time Telia may decide to abandon the offer.*

In the event that Telia decides to complete the offer and in doing so acquires more than two-thirds of the total voting rights attaching to Sonera shares, Telia would, in a so-called mandatory redemption offer, be

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required under Finnish law to offer to purchase for cash the remaining Sonera shares that have not been tendered. The price offered in connection with a mandatory redemption offer must represent the fair price of the remaining shares, as determined in accordance with Finnish law.

Under the conditions to the exchange offer, Telia may elect to terminate the combination agreement and abandon the exchange offer if it determines in good faith that the amount of cash it may be required to pay in a mandatory redemption offer for each share of Sonera not tendered in the exchange offer were to exceed by more than approximately 0.27 per Sonera share, or by more than 300 million in the aggregate for all outstanding Sonera shares, the equivalent cash value of the Telia shares offered for Sonera shares in connection with the exchange offer.

This condition is important to Telia because under Finnish law, if the equivalent cash value paid for Sonera shares in the exchange offer were deemed to be lower than the cash price paid in a mandatory redemption offer, Telia would be required to pay the difference, also known as a top-up payment, in cash to all Sonera securityholders who participated in the exchange offer. Accordingly, this condition is intended to protect Telia from having to make a large cash payment in connection with the exchange offer by allowing it to abandon the transaction under the circumstances described in the condition.

The terms of the combination agreement provide that this top-up payment condition will remain in effect after the expiration of the exchange offer period until such time Telia either completes or abandons the exchange offer, during which time holders of Sonera securities who have tendered their securities pursuant to the exchange offer will be unable to withdraw their securities. As a result, holders of Sonera securities, who tender their securities in the exchange offer, risk being unable to withdraw such securities for a substantial period of time after the scheduled expiration date of the exchange offer period, currently expected to be approximately 15 business days, during which time Telia may decide to terminate the offer.

***Whether Telia exercises its right to terminate the combination agreement and abandon the exchange offer based on the failure of this top-up payment condition to be satisfied depends in large part on the price development of Telia and Sonera shares. While the Finnish Financial Supervision Authority has recently issued a ruling that, if followed, would, at the prevailing price levels, mean that Telia would not have to make any top-up payment after the completion of the exchange offer, the Finnish Financial Supervision Authority's ruling remains subject to legal challenge in that it is not binding on Finnish courts.***

***Cash Redemption Price for the Sonera Shares.*** In connection with a mandatory redemption offer under Finnish law, Telia would be required to offer to purchase the remaining Sonera shares at a cash redemption price which, in general, would be based on the volume-weighted average trading price of Sonera shares on the Helsinki Exchanges during the 12-month period prior to the expiration of the exchange offer period. For illustrative purposes only, based upon the volume-weighted average trading price of the Sonera shares for the 12 months ending on September 30, 2002, the cash redemption price Telia would have to pay in the mandatory redemption offer would be 4.91 per Sonera share.

***Equivalent Cash Value of the Telia Shares based on the Interpretation of the Finnish Financial Supervision.*** For purposes of calculating the equivalent cash value of the Telia shares offered in the exchange offer in this situation, the Finnish Financial Supervision Authority has issued a ruling to the effect that the Telia shares received in connection with the exchange offer would be valued based upon the higher of the volume-weighted average trading price prevailing for Telia shares during a relatively short period prior to the expiration of the exchange offer period (for example, five trading days) and the market price prevailing for Telia shares immediately prior to the announcement of the exchange offer, which equalled 4.41 per Telia share (based upon the closing price per Telia share on the Stockholm Exchange on March 25, 2002). Based upon such method of valuation, after the application of the exchange ratio, the Telia shares to be received in the exchange offer would have an equivalent cash value of 6.68 per Sonera share.

Therefore, applying the interpretation of the Finnish law on mandatory redemption offers adopted in the ruling of the Finnish Financial Supervision Authority, Telia would not be required to make any top-up payment to the Sonera securityholders that tendered their Sonera shares in the exchange offer unless, in the subsequent mandatory redemption offer, the cash redemption price per Sonera share or Sonera ADS were to exceed 6.68 without the prevailing market price of the Telia shares having increased correspondingly.

***Alternative Methods for Calculating the Equivalent Cash Value of Telia Shares.*** The ruling of the Finnish Financial Supervision Authority is, however, not binding on the Finnish courts, and there can be no assurance that its position would ultimately be accepted by the Finnish courts in the event that it were to be challenged by former Sonera shareholders subsequent to the completion of the exchange offer. If a Finnish

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court were to determine, contrary to the ruling of the Finnish Financial Supervision Authority, that the equivalent cash value of the Telia shares were to be based, for example, on the prevailing price of the Telia shares at the closing of the exchange offer, it would significantly alter the calculation of the difference between the mandatory cash redemption price and the equivalent cash value of the Telia shares offered in the exchange offer. On September 30, 2002, the closing price per Telia share on the Stockholm Exchange was SEK 23.30, or 2.55 (using the prevailing exchange rate), giving, under such a determination, an equivalent cash value to the Telia shares offered in the exchange offer of 3.86 per Sonera share.

***The current market situation has created considerable uncertainty in relation to the top-up payment condition.***

At the time of the announcement of the exchange offer on March 26, 2002, the equivalent cash value of Telia shares offered in the exchange offer was 6.68 per Sonera share and Sonera ADS based on the previous day's closing prices, representing a premium over both the then prevailing market price of the Sonera shares and Sonera ADSs as well as a premium over the volume-weighted average trading price of Sonera shares on the Helsinki Exchanges during the 12-month period prior to the announcement of the exchange offer. Due to a broad decline in the global equity markets, including those in Sweden and Finland, after such date, the equivalent cash value of Telia shares offered in the exchange offer, if calculated based upon the Telia closing price on September 30, 2002, currently is below the 12-month volume-weighted average trading price of Sonera shares even though it still represents a premium over the prevailing trading price of Sonera shares.

The following table illustrates for the period from March 25, 2002 until September 30, 2002 the development of:

the equivalent cash value of Telia shares offered in the exchange offer for each Sonera share (as calculated based on the closing price for Telia shares on each trading day and the prevailing Swedish krona to euro exchange rate as published by the European Central Bank),

the closing price for Sonera shares, and

the 12-month volume-weighted average trading price of Sonera shares.

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The following table sets forth the amount by which the 12-month volume-weighted average trading price of Sonera shares in the aggregate for all outstanding Sonera shares has exceeded the equivalent cash value of the Telia shares offered in the exchange offer (as calculated based on the then current Telia share price) during the period from March 25, 2002 until September 30, 2002:

As indicated above, in the event the exchange offer were to have been completed on September 30, 2002, Telia would have been obligated to make a top-up payment of 1.05 per Sonera share, or 1,175.4 million in the aggregate for all outstanding Sonera shares, to the shareholders of Sonera if the alternative method for calculating the equivalent cash value of Telia shares, as described above, were to be adopted.

***Telia will only make a final determination of the risks addressed by the top-up payment condition immediately prior to the scheduled completion of the exchange offer.***

Due to the legal uncertainties related to the possible obligation to make a top-up payment in connection with the exchange offer and due to the current volatility of the equity markets, Telia will not be in a position to make a final determination on whether to terminate the combination agreement and abandon the exchange offer by invoking the top-up payment condition until immediately prior to the completion of the exchange offer. In making such determination, Telia will consider various facts and circumstances including the following:

the price development of the Telia shares and Sonera shares, including the development of the 12-month volume-weighted average trading price for Sonera shares;

alternative interpretations of the relevant provisions of Finnish law; and

any relevant legal or other developments that could make it more or less likely that the application of the provisions of the Finnish Securities Market Act related to the top-up payment obligation would be consistent with the ruling of the Finnish Financial Supervision Authority.

If Telia had to take a decision on whether to invoke the top-up payment condition on the basis of information available to Telia as of the date of this prospectus, including the ruling from the Finnish Financial Supervision Authority, the current trading prices for the Telia shares and Sonera shares and the 12-month volume-weighted average trading price for the Sonera shares as of September 30, 2002, Telia would invoke the top-up payment condition. However, Telia will not be in a position to finally determine whether to invoke the top-up payment condition until immediately prior to the scheduled completion of the exchange offer.

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***In the event Telia abandons the exchange offer by invoking the top-up payment condition, you will receive back your Sonera securities, without any additional compensation, after a period ending approximately 15 business days after the expiration of the exchange offer period.***

During the time from the expiration of the exchange offer period until either the completion of the exchange offer or Telia's abandonment of the exchange offer, those holders of Sonera securities will have no withdrawal rights. In the event Telia invokes the top-up payment condition, you will receive back your Sonera securities, without any additional compensation, after a period of approximately 15 business days, during which time you will not have any withdrawal rights.

***Telia and Sonera may have difficulty integrating their large and complex businesses and realizing the anticipated benefits of the merger.***

The merger involves the integration of two large and complex businesses that currently operate independently. Telia and Sonera may not be able to achieve the expected synergies and other benefits of the merger or may not be able to achieve them within the expected timescale. Neither Telia nor Sonera has previously undertaken a restructuring project comparable in size or complexity with the integration plans associated with the merger. The combined company may face difficulties integrating their businesses, operations and personnel in a timely and efficient manner. In particular, the combined company may have difficulty integrating the two companies' information systems, product development and marketing and sales departments, and other functions. Integrating Telia and Sonera may also be difficult and unpredictable because of cultural conflicts. Members of the combined company's management team may also have difficulty adjusting to the corporate governance structure of the combined company and implementing the combined company's strategy. The combined company may experience disruption in its employee base as a result of uncertainty in connection with the merger, which may result in a loss of focus on the two companies' respective ongoing businesses. The combined companies' competitors may also seek to take advantage of potential integration problems to gain customers. There can be no assurance that the above factors or other integration issues will not result in a delay or a reduction in achieving the expected total annual cost and capital expenditure synergy from the merger of approximately 300 million after 2005. Finally, although work has been done on the development of detailed plans for achieving the synergy and other benefits from the merger, such plans have not been finalized and cannot be implemented until the completion of the merger.

***Regulatory authorities have already imposed and may seek to impose conditions that could reduce the anticipated benefits of the merger.***

Completion of the exchange offer requires consents or approvals of different regulatory authorities, including competition authorities. These regulatory authorities have already imposed conditions and may seek to impose additional conditions, such as operating restrictions or divestitures, on Telia and Sonera as a condition to giving their approval or consent to the combination, and meeting those conditions could jeopardize or reduce the anticipated benefits of the merger and/or have a material adverse effect on the business and financial condition of the combined company.

***Sonera may not be able to enter into a merger or business combination with another party at a more favorable price because of provisions in the shareholders' agreement between the Kingdom of Sweden and the Republic of Finland.***

In accordance with the terms of the shareholders' agreement between the Kingdom of Sweden and the Republic of Finland, the Republic of Finland has undertaken to Telia that it will, subject to certain exceptions, tender all of its shares in Sonera in the exchange offer, which is likely to deter any third-party from making an offer to Sonera shareholders on more attractive terms. As a result of this undertaking, Sonera may not be able to enter into an alternative transaction at a more favorable price.

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***You will likely recognize a gain or loss for U.S. federal income tax purposes on the exchange of Sonera shares, Sonera ADSs or Sonera warrants for Telia shares, Telia ADSs or Telia warrants 2002/2005:A.***

Although not free from doubt, the receipt of Telia shares, Telia ADSs or Telia warrants 2002/2005:A in exchange for your Sonera shares, Sonera ADSs or Sonera warrants will likely be a taxable event for U.S. federal income tax purposes. If the exchange of Sonera shares, Sonera ADSs or Sonera warrants for Telia shares, Telia ADSs or Telia warrants 2002/2005:A is taxable, U.S. Holders and certain non-U.S. Holders (both as defined in the section entitled "TAXATION - United States Federal Income Tax Consequences") will recognize gain or loss equal to the difference between the sum of (1) the fair market value, as of the date of distribution, of Telia shares, Telia ADS or Telia warrants 2002/2005:A and (2) any cash received in the exchange or in connection with the mandatory redemption or compulsory acquisition provisions and your adjusted tax basis in Sonera shares, Sonera ADSs or Sonera warrants. The deductibility of capital losses is subject to limitations. For a more complete description of United States federal income tax consequences, see the section entitled "TAXATION - United States Federal Income Tax Considerations."

The tax consequences of the exchange offer to you will depend on your own situation. You should consult your tax advisors for a full understanding of the tax consequences of the exchange offer to you.

***The exchange offer may trigger a change of control provision in Sonera's credit facilities, which may cause all outstanding debt under those facilities to become due.***

A majority of Sonera outstanding debt is governed by loan agreements, which provide that a change of control may constitute an event of default. A breach of the covenants contained in these agreements could cause a default under the terms of these agreements and other financings of Sonera, potentially causing all debt under those financings to become due. In the event this were to occur, the combined company would have to refinance these loans, which might result in the combined company paying a higher rate of interest than Sonera currently pays on its existing loans.

***The completion of the planned exchange offer will trigger the right of Sonera's partner in Group 3G to exercise a call option to purchase Sonera's 42.8 percent interest in Group 3G and may trigger a right of first offer with respect to the other shareholders of Ipse 2000 to purchase Sonera's 12.6 percent interest in Ipse 2000.***

In November 2001, Sonera entered into a shareholders' agreement with Telefónica Móviles Intercontinental with respect to Group 3G, Sonera's UMTS (Universal Mobile Telecommunications Systems) joint venture in Germany. The shareholders' agreement contains a call option which may be exercised in the event the planned Telia/Sonera merger is completed that gives Telefónica Móviles the right to purchase all of Sonera's shares in Group 3G at a share price based on the fair market value of Group 3G less any outstanding indebtedness of Group 3G. The determination of fair market value shall be based on appraisals of at least two international investment banks, one appointed by Sonera and the other by Telefónica Móviles. Under the terms of the Group 3G shareholders agreement, upon completion of the exchange offer, Telefónica Móviles may request that the parties make a determination of the fair market value of Sonera's shareholding in Group 3G without undue delay. Telefónica Móviles shall then have the right to exercise its call option within ten business days of the determination of the fair market value of Sonera's shares in Group 3G.

Sonera has recorded a 3,844 million write-down of its investment in Group 3G for the second quarter of 2002, thereby reducing the carrying value of its investment in Group 3G to zero. This write-down reflects changes in the circumstances relating to Group 3G's business plans and operating environment. In July 2002, the board of directors of Group 3G decided to halt Group 3G's commercial operations after reviewing Group 3G's business plan and actual results of commercial operations, as well as receiving an external analysis of the German mobile market and Group 3G's competitive position in the market and determining that Group 3G's business strategy was no longer viable. This led Sonera to perform an impairment analysis based on the changed circumstances of Group 3G, which resulted in the write-down. Telefónica Móviles has also provisioned for the write-down of a substantial portion of the aggregate carrying value of its UMTS investments in Germany and Italy. While there is no existing market for Group 3G shares or the UMTS



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licenses in Germany on which to base an estimate of the current fair market value of Sonera's investment in Group 3G for purposes of the exercise of the call option, it is reasonable to assume that the fair market value of Group 3G is substantially less than at the time Sonera initially made its investment in Group 3G. As a result, Telefónica Móviles may be able to acquire Sonera's 42.8 percent interest in Group 3G at a substantial discount to Sonera's total investment in Group 3G.

In August 2000, Sonera entered into an association agreement with respect to its shareholding in Ipse 2000, Sonera's UMTS joint venture in Italy. Under the terms of the agreement, in the event that one of the parties to the agreement wishes to transfer its shares to a third party outside of a public offering, such party is first required to offer its share to the other Ipse 2000 shareholders. Under the terms of the agreement, a transfer is deemed to include a succession by merger and, accordingly, such right of first refusal on the part of the other Ipse 2000 shareholders to offer to purchase Sonera's interest in Ipse 2000 may be triggered by the exchange offer. The price at which the other Ipse 2000 shareholders would make such an offer to purchase would be determined by an independent expert appointed by Sonera. As a result, the other shareholders in Ipse 2000 may be able to acquire Sonera's interest in Ipse 2000 at a substantial discount to Sonera's total investment in Ipse 2000.

***The exchange offer may result in the combined company being obliged to make a tender offer for all of the issued and outstanding shares of Turkcell.***

Currently, Sonera owns, directly and through its shareholding in Turkcell Holding A.S., approximately 37.1 percent of Turkcell. If the exchange offer is completed, the combined company would be deemed to acquire Sonera's ownership interest in Turkcell. This acquisition may trigger the tender offer requirements under Turkish capital markets regulations. Pursuant to these regulations, in the event a party or parties acting together acquire, either directly or indirectly, (a) 25 percent or more of the capital and voting rights of a public company, or (b) management control of a public company, such party or parties are required to make an offer to purchase all of the remaining issued and outstanding shares of such company. It is possible that such tender offer requirement might be triggered following the completion of the exchange offer. The Turkish Capital Markets Board (the "CMB") may, however, at its discretion, grant an exemption from the requirement to conduct a mandatory tender offer in certain instances. CMB officials have indicated to Telia and Sonera that the CMB may be willing to grant an exemption provided that the CMB concludes that there is no change in the management control of Turkcell. TeliaSonera will file a petition promptly after the completion of the exchange offer to seek an exemption from the CMB.

There can be no assurance that the CMB will grant such an exemption. In the event the CMB refuses to grant an exemption, TeliaSonera would be required to make an offer to purchase all of remaining issued and outstanding shares of Turkcell. While the price the combined company would have to offer to Turkcell's shareholders is not clear under Turkish capital markets regulations, the CMB may require the offer price to be set at the then prevailing market price for Turkcell shares on the Istanbul Stock Exchange. Based on the closing price of Turkcell's shares on the Istanbul Stock Exchange on September 30, 2002, the issued and outstanding shares of Turkcell not held by Sonera had an estimated aggregate market value of approximately 1,469 million or \$1,464 million (based on the respective Turkish lira to euro and Turkish lira to U.S. dollar exchange rates, as published by the Central Bank of Turkey on September 27, 2002). Any such acquisition by the combined company would, if paid for in cash, increase the interest-bearing debt of the combined company and would increase its financial expenses.

***There can be no assurance that future impairment tests of goodwill and other intangible assets will not result in charges to earnings or affect the combined company's ability to pay out dividends.***

The merger of Telia and Sonera will be accounted for as an acquisition of Sonera by Telia under the purchase method of accounting. Under such accounting, the amount of the purchase price of Sonera's securities not directly related to existing assets and liabilities of Sonera will, as a general matter, be treated as either goodwill or other intangible assets. Based on the unaudited condensed pro forma consolidated financial statements as of June 30, 2002 presented in this prospectus, the estimated additional goodwill that the

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combined company will record on its balance sheet if the merger is consummated is 2.0 billion (SEK 18.1 billion) under IAS and 3.2 billion (SEK 29.5 billion) under U.S. GAAP. As required by the applicable accounting rules, the combined company will have to regularly review the carrying value of its goodwill and other intangible assets and will recognize an impairment charge whenever the carrying value of goodwill or other intangible assets is not supported by the combined company's expected future cash flows attributable to such assets or other reasonable estimate of the fair value of such assets. Such an impairment test could be adversely impacted by many factors, including further negative trends in the telecommunications industry or in the general economy and the intensity of competition in the combined company's markets. If such an impairment test were to determine that the value of the goodwill or other intangible assets was ultimately not recoverable, a partial or full write-down in goodwill or other intangible assets could be required. Such a write-down could adversely affect the combined company's results of operations.

In addition, a write-down of the goodwill related to the merger as well as other future announced or potential write-downs, such as the announced write-down of the fixed assets of the Telia International Carrier business area, may adversely affect the combined company's ability to pay dividends. Under Swedish law, the amount of dividends that a Swedish company may pay is generally limited to profits and other non-restricted reserves available at the end of the preceding fiscal year for the parent company or for the consolidated company, whichever is lower. As of December 31, 2001, and before the announced write-down relating to the Telia International Carrier business area, Telia had consolidated non-restricted reserves of SEK 14.0 billion ( 1.5 billion) and the parent company had non-restricted reserves of SEK 9.8 billion ( 1.1 billion). At the time of the merger, the purchase price of Sonera will be added to the restricted equity as share capital and share premium reserve. The merger, thus, will not affect Telia's non-restricted reserves when the transaction is closed. Any write-down of tangible or intangible assets, including goodwill, will have the effect of reducing, or possibly eliminating, the combined company's non-restricted reserves that are available to pay dividends. Since the purchase price for Sonera will exceed the book value of Sonera's assets, the future annual amortization charges under IAS will also reduce the profits available for dividends.

However, under the provisions of the Swedish Companies Act, restricted equity may, in certain circumstances, be converted into non-restricted equity. The Telia board of directors has, accordingly, proposed that the shareholders shall vote upon a resolution at the extraordinary general meeting of shareholders to reduce Telia's existing share premium reserve by a maximum amount of SEK 11,957 million ( 1.3 billion). If such resolution is passed, this amount will be added to Telia's non-restricted reserves.

As of June 30, 2002, on a pro forma basis, the combined company had SEK 46.6 billion ( 5.1 billion) of goodwill and SEK 10.8 billion ( 1.2 billion) of other intangible assets on its balance sheet under IAS.

**Risks Related to the Combined Company's Business**

*The revenues and profitability of the combined company could decline if the growth in the Nordic telecommunications markets slows.*

The telecommunications industry in the Nordic countries is currently well developed relative to most other European countries. In particular, each of Denmark, Finland, Norway and Sweden has among the highest mobile penetration rates and lowest mobile calling tariffs in the world. The high penetration rate in the Nordic countries will make it more difficult for the combined company to match Telia's and Sonera's previous subscriber growth. In addition, economic growth in the Nordic countries has slowed considerably since the beginning of 2001, causing a decrease in the growth of customer demand for telecommunications services. These trends may result in the combined company recording slower revenue growth than Telia and Sonera achieved in the past.

*Increased competition in the Nordic mobile and fixed network communications markets may result in decreased prices, loss of market share or inability to gain market share.*

Both Telia and Sonera operate in the highly competitive Nordic telecommunications market. As competition continues to intensify, the mobile, fixed network and Internet services businesses of both Telia and Sonera may lose market share or fail to gain market share and be forced to reduce tariffs.

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Currently, Telia faces strong competition in the mobile telecommunications market in Sweden from Vodafone and Tele2 (Comviq). Sonera faces strong competition in Finland from Oy Radiolinja Ab, a subsidiary of Elisa Communications Corporation, which has recently entered into an extensive partner agreement with Vodafone, as well as from DNA Finland Ltd., which entered the Finnish GSM (Global System for Mobile Communication) market in 2001. The recent arrival of Vodafone, one of the world's leading wireless telecommunications companies, on the Finnish mobile market, is expected to result in an intensification of competition in the Finnish market. In Denmark, Telia faces strong competition from the incumbent operator TDC A/S, which also has entered into a partner agreement with Vodafone, as well as Tele2 and Sonofon, which is majority owned by Telenor, and, in Norway, Telia faces strong competition from the incumbent operator Telenor. In addition, the commercial introduction in each of the Nordic countries of third generation mobile services will open the Nordic telecommunications market to even more competition. The companies also expect to experience increased competition from non-traditional operators, including Mobile Virtual Network Operators (MVNOs) which are telecommunications service providers that typically do not own their own network infrastructure but rather lease capacity from the network operators.

In the Nordic fixed line market, both Telia and Sonera expect that competition from operators such as Song Networks, Utfors, Elisa Communications, TDC, Telenor and Tele2 will increase, resulting in further reductions of tariffs. With the continuation of the trend of traditional users of fixed network services to switch to mobile phone usage, a trend sometimes referred to as fixed-mobile substitution, the combined company's fixed network businesses are also expected to face increased competition from mobile operators. Moreover, new forms of telecommunications that do not use conventional tariff structures, such as Internet telecommunications, are expected to increase the sources of competition, which the combined company will face. In the Nordic Internet communications market, the combined company expects to face increased competition from large Nordic Internet service providers such as Tele2, Finnet, Utfors, Elisa Communications, Sonofon, Telenor, TDC, Spray and Tiscali.

In the International Carrier business area, the combined company faces strong competition from multinational operators such as France Telecom, British Telecom and Cable & Wireless. While several of the combined company's competitors, such as WorldCom and Global Crossing, are currently undergoing financial difficulties, there is also a risk that a financially stronger telecommunications operator may acquire the businesses or assets of these troubled carriers, resulting in increased competition and pricing pressure.

*The combined company faces a number of significant risks relating to its investment in UMTS licenses and networks.*

***UMTS technology is new and not yet commercially tested and there can be no assurance that third generation services will achieve acceptance in the market.***

The size of the market for third generation services is as yet unknown. The combined company cannot be certain that the demand for such services will justify the related costs. In particular, there can be no assurance that future levels of customer acceptance of third generation services will be sufficient to generate an acceptable return on the combined company's substantial investment in UMTS licenses and networks. Operators may be forced to pass on the high costs of obtaining UMTS licenses and rolling out the networks to users of third generation services, which may slow down market acceptance of third generation services by making existing, second generation services more attractive to consumers who are unwilling to pay a higher price for UMTS services. In addition, due to a variety of technical problems facing the development of third generation networks and handsets, the combined company does not expect that it will be in a position to launch third generation services on a commercial basis until 2003, which is significantly later than originally expected. These delays mean that it will take longer than expected for the combined company to realize revenue and profits, if any, from offering third generation services. In particular, the Spanish UMTS joint venture may never be profitable. If the combined company fails to generate significant revenue from planned UMTS services or fails to do so within the envisaged timeframe, it could have a material adverse effect upon the combined company.

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Moreover, a variety of new entrants in the third generation market could intensify competition and reduce the potential profitability of providing third generation services. Possible new entrants include MVNOs, which typically do not have their own network infrastructure and thus would not have the fixed cost burdens facing the combined company and its UMTS joint ventures. Competition from companies providing Wireless Local Area Network (WLAN) services, which are based on wireless short distance transmission networks, can deliver wireless data services at a lower cost than UMTS in concentrated areas, may also affect the market and pricing for third generation services.

In addition, operators utilizing UMTS technology may face competition from other operators using other technological standards to deliver third generation services. Although most European operators, including Telia and Sonera, are committed under the terms of their UMTS licenses to UMTS technology, which uses Wideband Code Division Multiple Access (WCDMA) technology, there is currently no universally adopted technological standard for delivering third generation services. UMTS technology may face competition from other third generation standards, such as CDMA 2000 technology, a technology which is currently being used by certain mobile operators in Japan. Because CDMA 2000 technology can operate on existing GSM spectrum and is expected to be compatible with existing GSM networks, whereas UMTS technology uses different spectrum and requires that operators build entirely new networks, CDMA 2000 technology may prove both cheaper and faster to implement than UMTS technology. This may allow operators without UMTS licenses and networks to compete effectively in the market for third generation services, which may have a negative effect on the market and pricing of the combined company's third generation services.

***The combined company's UMTS joint venture in Spain, Xfera, is a new entrant in its market without an existing customer base and will face strong competition from incumbent operators and other new entrants.***

Xfera is a new entrant in its market. Xfera will have to gain customers either by attracting them away from other existing operators or by attracting people who do not currently use mobile communications services. Given the highly competitive nature of the Spanish market and the superior market position of incumbent operators, as well as the presence of other new entrants, the combined company cannot assure you that Xfera will be able to develop competitive and profitable businesses in the Spanish market.

Furthermore, the combined company expects that the cost of rolling out UMTS networks in the Xfera's market in Spain will be high. If Xfera is unable to obtain vendor and other third party financing, or is unable to enter into network sharing agreements on commercially desirable terms with other operators, it may have difficulties funding the cost of rolling out its UMTS network.

***The combined company will assume Sonera's significant ongoing financial obligations in connection with its investment in its UMTS joint ventures in Spain and Italy, including commitments to provide additional capital and counter-guarantees provided to banks that issued guarantees on behalf of some of Sonera's UMTS joint ventures. Previous actions taken by Sonera to limit its financial exposure to these UMTS investments may not be successful in limiting the exposure of the combined company to these investments to the degree intended.***

Sonera assumed significant ongoing financial obligations in connection with its investment in UMTS joint ventures in Spain and Italy. In Spain, under the shareholders agreements for Xfera, Sonera agreed to provide financing to the joint venture for ongoing operations in accordance with the business plan adopted by the company. Based on the initial business plan for Xfera, Sonera anticipated being obligated to contribute an additional 300 million to the company through 2004. Sonera, together with the other shareholders of Xfera, provided counter-guarantees to banks that have issued guarantees on behalf of Xfera in favor of the Spanish government relating to the fulfillment of Xfera's commitments in connection with its UMTS license. Sonera's outstanding counter-guarantees with respect to Xfera currently amount to 387 million. In addition, Sonera provided a counter-guarantee of 23 million in March 2002 as its pro rata share to cover the payment of Xfera's spectrum fee for 2001. In Italy, Ipse 2000 has committed to pay the remaining 1.2 billion portion (plus interest) of the UMTS license in ten yearly installments commencing at the end of 2001. Sonera,

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together with the other shareholders of Ipse 2000, issued counter-guarantees to banks that have issued payment guarantees on behalf of Ipse in favor of the Italian government. Sonera, together with the other shareholders of Ipse 2000, have also issued counter-guarantees on behalf of Ipse 2000 in connection with the rental of base station sites, which form an integral part of a mobile telecommunications network consisting of fixed transceiver equipment that communicates with mobile handsets. Sonera's counter-guarantees with respect to Ipse 2000 amount to 180 million, of which approximately 142 million relates to Sonera's pro rata portion of the deferred purchase price for the UMTS license.

In Spain, the board of directors agreed in October 2001 to significantly curtail Xfera's capital and operating expenditures until the necessary UMTS technology becomes commercially available for Xfera to launch commercial UMTS services or Xfera receives the necessary license and spectrum allocation to launch GPRS/GSM services. This is expected to defer, and possibly reduce, Sonera's existing capital commitment to Xfera. Sonera will, however, remain liable for the counter-guarantees it has issued on behalf of Xfera in connection with Xfera's fulfillment of certain conditions contained in its UMTS license.

Under applicable accounting rules, the combined company will regularly review the value of Xfera and will recognize an impairment if the carrying value of Xfera is not supported by the combined company's expectations of future cash flows attributable to Xfera at the time of the review. Factors such as potential difficulties in the build out and launch of Xfera's UMTS network, failure to obtain third party financing, lower than expected market acceptance of third generation services, and difficulties in gaining customers may result in the write-down of the carrying value of Xfera in the future.

In the fourth quarter of 2001, Sonera notified the board of directors of Ipse 2000 that it does not intend to provide any additional funding to Ipse 2000. Moreover, in July 2002, the board of directors of Ipse 2000 decided to halt Ipse 2000's commercial operations. Sonera will, however, remain obligated to fund its pro rata share of the deferred purchase price of Ipse 2000's UMTS license and remain liable on the counter-guarantees that it issued for Ipse 2000 in the aggregate amount of 180 million. In connection with the decision to halt Ipse 2000's commercial operations, Sonera charged to expenses its remaining capital commitments with respect to its pro rata portion of the deferred purchase price for Ipse 2000's UMTS license of 142 million over the next nine years, and recorded the amount as a liability on its balance sheet.

Previous actions taken by Sonera to limit its financial exposure to these UMTS ventures may not prove successful and may not limit the combined company's potential exposure to these investments to the degree intended. Furthermore, the combined company's proportionate ownership interest in these UMTS joint ventures could be substantially diminished due to the dilution it will suffer if the funding requirements of these joint ventures are satisfied through equity investments from other parties.

***As a result of the decision of Group 3G and Ipse 2000 to cease commercial operations, both of these associated companies may be required to forfeit their UMTS licenses.***

In addition, as a result of the decision of Group 3G and Ipse 2000 to cease commercial operations, neither associated company may be able to fulfill their respective UMTS license requirements, which may result in either or both companies having to forfeit their licenses. If this were to happen, the combined company would not be able to realize any future potential benefits from holding such UMTS licenses, including the possibility of realizing proceeds from the sale of such license or the ability to trade frequencies granted under the license.

***Telia's international carrier operations are expected to face continued intense competition, which may lead to further price declines and margin pressure. In light of continued turbulence in the market, Telia has decided to restructure its international carrier operations, which will result in Telia recording significant restructuring provisions and asset write-downs in the third quarter of 2002. In addition, certain of Telia's customers in the international carrier business are experiencing, or may in the future experience, financial difficulties, which may negatively impact the business.***

Telia has experienced and expects that the combined company will face intense competition in the international carrier services area. Since the late 1990s, competition in the global data and voice

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communications services area has increased substantially. The entry of a considerable number of competitors in this area has created overcapacity and has resulted in a rapid decline in the price of wholesale bandwidth capacity in the markets where Telia's international carrier business operates. This led Telia to write down the carrying value of its international carrier business by approximately SEK 3 billion ( \$330 million) in 2001. The industry is presently undergoing significant consolidation, with many market participants withdrawing. Telia expects the consolidation to continue and the industry to be marked by intense competition and continued price pressure.

In light of the ongoing turbulence in the market, Telia undertook a comprehensive review of Telia International Carrier's operations to clarify how the international carrier business can achieve a positive cash flow as quickly as possible. As a result of such review, which was completed in early September 2002, Telia has decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. As part of Telia International Carrier's new strategy, it will focus on offering wholesale capacity and IP services to large customers over the profitable parts of its wholly owned European and trans-Atlantic networks. As part of the restructuring program, Telia has decided to close down Telia International Carrier's Asian operations as well as its national voice reseller business in the United Kingdom and Germany, discontinue offering domestic capacity services in the United States and terminate its co-location business. Telia will also significantly reduce the number of commercial points of presence of Telia International Carrier. Telia will also centralize Telia International Carrier's sales, finance, administration and customer care resources to Sweden. Telia also estimates that, as part of the restructuring, Telia International Carrier will reduce its current workforce of approximately 800 persons by more than 50 percent. While Telia believes that the refocusing and restructuring of Telia International Carrier will allow it to achieve positive cash flow in the future, there can be no assurance that such efforts will be successful. Furthermore, it may be difficult for a down-sized Telia International Carrier to compete effectively in the international carrier market.

The restructuring of Telia International Carrier will result in provisions of an estimated SEK 3.5 billion ( \$385 million), most of which are expected to be recorded in the third quarter of 2002. In addition, due to the adverse market developments in the international carrier operations and the significant downscaling of Telia International Carrier, Telia will write down the value of its fixed assets relating to its international carrier operations by approximately SEK 6.0 billion ( \$660 million) in the third quarter of 2002.

In addition, Telia International Carrier's principal customers include other international carriers, telecommunications operators and service providers, some of which have experienced, or may in the future experience, financial difficulties. In certain cases, Telia's international carrier customers and partners such as KPNQwest, have filed for bankruptcy. This may have an adverse short-term impact on Telia's international carrier operations. In addition, because of the nature of the contractual arrangements made between carriers, in which amounts paid for network capacity are often paid up-front, Telia may not be able to realize the full benefits of long-term contracts with certain of its suppliers experiencing financial difficulties and may have to write down the carrying value of such contract rights.

***As part of the combined company's strategy, it may seek to participate in the ongoing consolidation of the telecommunications industry through acquisitions, strategic alliances or business combinations. The failure to participate successfully in the consolidation of the industry could harm the combined company's business and its shareholders.***

As part of its growth strategy, the combined company may seek to participate in the consolidation of the telecommunications industry. To implement this strategy, the combined company expects to review acquisition prospects, as well as proposals for business combinations and strategic alliances or partnerships that may complement the combined company's existing businesses. This strategy would entail a variety of risks that could negatively affect the combined company's business. There is, on the one hand, the risk that due to competition in the identification of acquisitions or strategic partners, the combined company will make an acquisition or enter into a strategic alliance on unfavorable terms. There is also the risk that the combined company will not be able to successfully integrate and manage any acquired company or strategic alliance, that the acquisition or strategic alliance will fail to achieve the synergies sought and that management's attention will be diverted away from other ongoing business concerns.

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***The combined company will have significantly more outstanding debt than Telia as a stand-alone entity. This may trigger a ratings downgrade for Telia and result in the combined company having higher borrowing costs and reduced financial flexibility as compared to Telia as a stand-alone entity.***

Even though Sonera's average cost of debt is currently lower than Telia's, Sonera is a more highly leveraged company than Telia. As a result of the combination, the combined company will assume Sonera's outstanding debt and will have significantly higher levels of indebtedness than Telia as a stand-alone entity. On a pro forma basis, the combined company had approximately SEK 54.9 billion ( 6.0 billion) in interest-bearing liabilities as of June 30, 2002, as compared to SEK 25.6 billion ( 2.8 billion) for Telia as a stand-alone entity.

On March 26, 2002, Moody's Investor Services, or Moody's, placed Telia's long-term and short-term debt ratings on review for a possible downgrade. On April 18, 2002, Standard & Poor's Ratings Services, or S&P, lowered its long-term credit rating on Telia from AA to A+ and its short-term rating from A-1+ to A-1. S&P continues to keep Telia's ratings on CreditWatch for a possible downgrade. S&P stated that, based on current information, it considers that the ratings for the combined company would be in the mid-to-low single A category.

Possible future downgrades could increase the financing cost of the combined company by increasing the interest rates at which the combined company can refinance existing debt and incur new debt. Such downgrades might also harm the combined company's ability to obtain future financing and to refinance its existing debt.

***Telia has made substantial investment in developing and marketing its broadband services. Broadband services are relatively new to the Nordic market and there can be no assurance that the combined company's broadband services will achieve profitability.***

Telia Internet Services recorded an underlying EBITDA loss of SEK 970 million ( 105 million) in 2001, largely as a result of the build-up of its broadband services. While this was an improvement over the business area's results of operations in the previous year, prices for broadband services remain low in relation to the costs for providing such services. There can be no assurance that future levels of customer acceptance and use of broadband services will be sufficient to generate an acceptable return on Telia's substantial investment in developing and marketing such services. The combined company may be unable to successfully introduce broadband services for which customers are willing to pay higher prices than they currently pay. The combined company will periodically assess the carrying value of Telia's Internet Services operations and will recognize an impairment whenever the carrying value of such asset is not supported by the combined company's current expectations of the future cash flows attributable to such asset. In addition, the Swedish National Post and Telecommunications Agency, or NPTA (*Post-och Telestyrelsen* or *PTS*), has proposed new regulations relating to the provision of broadband services in Sweden, which may have a negative impact on the combined company's flexibility to set prices for broadband services.

***Telia's operations in Denmark have generated significant losses to date and may continue to have a negative effect on the combined company's profitability.***

Telia's Danish mobile and fixed network operations have to date had a negative effect on Telia's overall profitability. In 2001, Telia's Danish mobile telephony businesses generated underlying EBITDA losses of SEK 602 million ( 66 million) and Telia's Danish fixed network businesses generated a positive underlying EBITDA of SEK 19 million ( 2 million). In Denmark, Telia faces competition from, among others, incumbent operators with significantly greater market share than Telia. While Telia has made significant investments in its mobile and fixed network operations in Denmark, including investments related to the expansion of its GSM 900 network and the acquisition of the Danish infrastructure company Powercom, there can be no assurance that such investments will succeed in improving the results of operations generated by Telia's Danish operations. The combined company will periodically assess the carrying value of its Danish operations and will recognize an impairment whenever the carrying value of such asset is not supported by the combined company's current expectations of the future cash flows attributable to such asset.

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*To obtain clearance for the merger from the European Commission, Telia has agreed to dispose of its mobile business in Finland and its cable TV business, Com Hem AB, in Sweden. Telia may be unable to find a buyer for such businesses on satisfactory terms. In addition, the sale of Com Hem may have a negative effect on the growth of Telia's Internet Services business.*

In connection with the proposed exchange offer and the ensuing combination, Telia has agreed with the European Commission to dispose of its loss-making mobile business in Finland. For the year ended December 31, 2001, on a pro forma basis, Telia's consolidated net sales would have been SEK 663 million, ( 73 million), or 1.2 percent lower, excluding its mobile business in Finland. Telia may, however, be unable to find a buyer for the business on terms as favorable as it might if it were not required to dispose of the business and may incur a capital loss in connection with the disposal. Moreover, at the time Telia sells its Finnish mobile business, the Finnish State may have the right to cancel Telia's UMTS license in Finland and may have the option of re-granting the license to a third party mobile operator. This may result in the combined company facing additional competition in the third generation mobile communications market in Finland.

To obtain clearance for the merger from the European Commission, Telia has also agreed to dispose of its Cable TV network and related distribution business in Sweden owned and operated by Com Hem AB. As a result, Telia may be required to sell Com Hem on terms that it might not have otherwise found acceptable if it were not required to dispose of Com Hem and may incur a capital loss in connection with the sale. In addition, the sale of Com Hem may have a negative effect on the fast-growing business of Telia Internet Services. Com Hem, which has approximately 1.4 million cable television subscribers and has reported strong cable access broadband subscriber growth in recent periods, contributed to the recent revenue and subscriber growth of Telia's Internet Services. For the year ended December 31, 2001, on a pro forma basis, Telia's consolidated net sales would have been SEK 612 million ( 67 million), or 1.1 percent lower, excluding Com Hem's operations.

*Telia's cooperation with Tele2 in connection with the build out and operation of a UMTS network in Sweden may not be successful.*

As part of its long-term growth strategy, Telia plans to offer UMTS applications and services in the Nordic region. While Telia was not awarded a UMTS license in Sweden in connection with a license tender held by the Kingdom of Sweden in 2000, Telia has entered into a cooperation arrangement with Tele2 to build and operate a UMTS network in Sweden to exploit, through the joint venture Svenska UMTS-nät, the Swedish UMTS license originally granted to Tele2. Telia and Tele2 are significant competitors in both the mobile and fixed line telecommunications market in Sweden. As in any joint venture, there is a risk that the partners may disagree on important aspects of the venture, including the funding of the venture, and this risk may be magnified when the partners are competitors. A disagreement or deadlock regarding the joint venture or a breach by one of the parties of the material provisions of the joint venture arrangements would result in a setback to the joint venture's goal of building out and operating a UMTS network in Sweden, which, in turn, would have a negative effect on Telia's ability to pursue its UMTS strategy. In addition, the joint venture will be subject to review by the Swedish Competition Authority in 2007 after the current exemption from the anti-competitive agreements prohibition in the Swedish Competition Act expires. Accordingly, there can be no assurance that the Swedish Competition Authority will not in the future revoke or restrict the exemption granted the joint venture, which could have a material adverse effect upon the joint venture and the combined company's operations.

In addition, Telia has made an aggregate capital contribution of SEK 500 million ( 55 million) to the venture and has issued a guarantee of SEK 5.5 billion ( 0.6 billion) in favor of Svenska UMTS-nät. Telia has also pledged its interest in Svenska UMTS-nät to the joint venture's lenders. If Svenska UMTS-nät is unsuccessful, whether due to the failure of UMTS services to achieve market acceptance, the joint venture's inability to build out the network in a timely fashion, disagreements between the parties, or otherwise, Telia may face significant financial exposure with respect to its UMTS joint venture.



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***Telia and Sonera have assumed various ongoing obligations in connection with their recent divestment of non-core businesses and assets.***

As part of their strategy to focus on core businesses, both Telia and Sonera have recently divested or partially divested, or are in the process of divesting or partially divesting, several businesses and certain operations, including, in the case of Telia, its network construction and maintenance, installation and servicing of access and customer equipment operations and, in the case of Sonera, its network construction and maintenance, directory assistance, SmartTrust and Sonera Zed operations. In addition, as part of its efforts to concentrate its geographic presence, Telia divested several of its international investments, including its financial interests in the Brazilian mobile operator Tess S.A., its fixed network (wired telephone network) operations in Finland and its ISP (Internet Service Provider) businesses in Spain and the United States. Sonera has also divested several of its international investments, including Pannon GSM in Hungary and Libancell S.A.L. in Lebanon. As is customary in negotiated sales, in many of these transactions Telia and Sonera gave representations, warranties and indemnities relating to the sold businesses to the purchasers, some of which remain in force. Telia and Sonera, accordingly, have both assumed ongoing potential liabilities with respect to many of these divested or partially divested businesses. In addition, in some cases, such as in connection with its sale of a 51 percent interest in its former wholly owned subsidiary Telefon AB and the sale of its entire interest in the Orbiant Group, Telia entered into long-term commitments to purchase products and services from such divested or partially divested businesses, which may restrict the combined company's operational flexibility in the future.

***The value of the combined company's investments in telecommunications companies outside of Western Europe may be adversely affected by political, economic and legal developments in these countries.***

Both Telia and Sonera have made a number of significant equity investments in telecommunications operators in countries outside of Western Europe, such as Turkey, the Baltic States and Russia. The political, economic and legal systems in these countries are less predictable than in countries with more developed institutional structures. Political or economic upheaval, changes in laws and other factors, such as legal or regulatory proceedings brought against such companies, may have a material effect upon the operations of the companies in which the combined company has invested and, in turn, the amount of income from, and the value of, these investments. The more significant risks of operating in emerging market countries arise from the establishment or enforcement of foreign exchange restrictions, which could effectively prevent the combined company from receiving profits from, or from selling its investments in, these countries. While none of the countries in which Telia's or Sonera's associated companies are located currently has foreign exchange controls that affect them significantly, all of these countries have had such controls in the recent past and we cannot assure you that they will not reinstitute such controls in the future.

***Turkcell continues to operate in a difficult economic environment.***

The Turkish economy has experienced hyperinflation over the past five years and has been severely affected by adverse events including the economic crises of November 2000 and February 2001 and two major earthquakes in 1999. In February 2001, in the face of a potential financial and political crisis, Turkey abandoned its exchange rate controls which were a key part of its economic stabilization program. This and other factors caused the Turkish lira to fall sharply against the U.S. dollar in 2001, which had a material adverse effect on the operating profit and cash flow of Turkcell in 2001. In addition, Turkcell has stated that its operating results, including average monthly minutes of use and average revenues per user, have been negatively affected as a result of the economic crisis in Turkey and that it expects that the continuation of the crisis will have a negative impact on its future operating results, which could contribute to a decrease in its operating cash flow.

Several political crises in 2001 and 2002 have had a major impact on investor confidence in Turkey and precipitated an economic crisis. Turkey's current political crisis began in early May 2002, when Turkish Prime Minister Bülent Ecevit became ill and unable to work, cancelling many of his public appearances. On July 31, 2002, the Turkish parliament voted to hold an early general election on November 3, 2002. As a result of the current political crisis in Turkey, the Turkish lira has depreciated by approximately 18 percent

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since the beginning of May 2002. Any changes in the government of Turkey as a result of early elections or otherwise may create instability and may adversely affect the Turkish economy. In addition, any new government may fail to devise or implement appropriate economic programs as required to ensure continued IMF support, which may also adversely affect the Turkish economy.

In the aftermath of the major earthquakes that occurred in the Marmara Region of Turkey in August and November of 1999, the Turkish Parliament imposed a temporary earthquake relief tax on mobile telephone subscriptions representing 25 percent of a subscriber's monthly mobile telephone charges. The tax, initially in effect from December 1999 through the end of 2000 and recently extended up to the end of 2002, has negatively affected mobile usage in Turkey and Turkcell's net profit. Turkcell's management believes that Turkcell will continue to be negatively affected by this tax, if the tax is extended beyond 2002.

***Fintur operates in emerging markets that have weak and undeveloped market institutions and commercial practices.***

Sonera's investment in Fintur, the holding company for Sonera's interests in mobile companies in Azerbaijan, Georgia, Kazakhstan and Moldova, could expose the combined company to economic, political and social risks in these countries, which were all a part of the former Soviet Union until each republic gained its independence in 1991. Azerbaijan, Georgia, Kazakhstan and Moldova are emerging markets and their legal systems, including telecommunications regulations, are relatively underdeveloped. Market institutions and commercial practices are weaker and less developed than in the European Union and corruption is more common. In addition, the political situation in each of these nations remains unstable, with each of Azerbaijan, Georgia and Moldova facing regional separatist movements. Each of these nations is also experiencing financial difficulties, including high inflation, weak currencies and high external debt. There can be no assurance that political, legal, economic, social or other developments in these nations will not have an adverse impact on the combined company's investments and businesses in these countries.

***Economic or political instability in Russia could adversely affect MegaFon and the combined company's Baltic investments.***

Russia has also been a focus of both Telia's and Sonera's international investments. The combined company will have an approximate 44 percent direct and indirect interest in the Russian GSM operator MegaFon. As recently as 1998, Russia experienced a period of high economic and political instability, marked by a currency devaluation, hyperinflation, a severe banking crisis and changes of government. While the Russian economy has recently improved, there can be no assurance that such trends will continue or will not be abruptly reversed. Consequently, there is a risk that the combined company's investments in Russia and the neighboring Baltic region may be adversely affected by potential political or economic upheaval or legal change in Russia.

***The seizure of Pamukbank, one of Turkcell's shareholders and a member of the Cukurova Group of companies, by the Turkish banking authorities may have a negative impact on Turkcell and Sonera's shareholding in Turkcell.***

On June 18, 2002, the Banking Regulation and Supervision Agency of Turkey (BRSA) decided to transfer the management and supervision of Pamukbank T.A.S., one of Turkcell's shareholders, to the Savings Deposit Insurance Fund of Turkey (SDIF). The SDIF, in turn, assumed all of the rights of the shareholders of Pamukbank, excluding their entitlement to dividends. In its decision, the BRSA cited, among other things, that Pamukbank failed to take measures required under the Turkish Banks Act, that its total liabilities exceeded its total assets and that it had a capital deficit of approximately \$2 billion as of December 31, 2001. To the best of Turkcell's knowledge, Pamukbank currently holds a 0.51 percent direct ownership interest and a 7.87 percent indirect ownership interest in Turkcell. Pamukbank is majority owned by the Cukurova Group, a large industrial and financial conglomerate in Turkey, which is the largest shareholder of Turkcell. As part of its seizure of Pamukbank, the BRSA also decided to assume control of the voting rights held by the Pamukbank in Yapi Kredi Bankasi A.S., another bank controlled by the Cukurova Group, which, to the best of Turkcell's knowledge, holds a 1.05 percent direct ownership and a 10.21 percent indirect ownership interest in Turkcell. Among its various direct and indirect holdings in Turkcell, the Cukurova Group of

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companies holds a majority ownership in Turkcell Holding A.S., which in turn holds a 51 percent ownership interest in Turkcell.

It is currently too early to assess what consequences the seizure of Pamukbank by the Turkish banking authorities may have on Turkcell. Under the Turkish Bank Act, the BRSA may in certain circumstances assume management control over any company that is controlled by the shareholders of a bank which has been seized by the SDIF. As a result, the BRSA may have the legal authority to assume management control over one or more of the Cukurova Group companies, including Turkcell. The Turkish government may have interests, such as its holding in the Turkish telecommunications operator Türk Telekom, which may be adverse to Turkcell.

In addition, the Turkish authorities have the power to compel the Cukurova Group to dispose of its assets to satisfy the liabilities of Pamukbank. On June 29, 2002, the BRSA invited potential investors to submit bids by October 4, 2002 for the purchase of Pamukbank. This might require the Cukurova Group to dispose of part or all of its shareholdings in Turkcell, which could have a number of potentially negative consequences on Sonera's shareholding in Turkcell. As part of Sonera's shareholder agreement with the Cukurova Group, in the event the Cukurova Group intends to dispose of its shareholding it is obligated to first offer to sell such shares to Sonera. Sonera may accordingly decide to exercise its right to purchase such shares and thereby increase its shareholding in Turkcell. This could be costly and increase Sonera's financial exposure to Turkcell. On the other hand, to the extent Sonera were to decide not to exercise its right of first offer to purchase such shares, the shares might be sold to third parties with whom Sonera has had no previous business relationship. Sonera and the potential new owners of Turkcell might have different approaches with respect to Turkcell and might be unable to reach agreement on key business decisions. The potential sale of a large block of Turkcell shares might also have the effect of depressing the market price of Turkcell's shares.

***Turkcell is presently subject to numerous legal and regulatory proceedings which may, if decided unfavorably, have a material adverse effect on Turkcell.***

Turkcell is presently subject to numerous legal and regulatory proceedings relating to, among other things, the following:

violations of the U.S. securities laws in connection with Turkcell's initial public offering;

the calculation of payments owed by Turkcell to the Turkish Treasury and the Ministry of Transportation with respect to Turkcell's licenses;

the payment of VAT by Turkcell on its upfront license fee to the Turkish Tax Office;

license fees on value-added services and other charges owed by Turkcell to the Turkish Treasury and the Ministry of Transportation;

license fees on interconnection revenues owed by Turkcell to the Turkish Treasury, the Ministry of Transportation and the Telecommunications Authority;

fees charged by Türk Telekom to Turkcell for access to Türk Telekom's transmission lines;

interconnection fees paid by Türk Telekom to Turkcell;

monthly fixed payments by postpaid customers to Turkcell;

fees relating to national roaming; and

certain allegedly anticompetitive activities of Turkcell relating to its business dealings with KVK, the primary distributor of Ericsson GSM handsets in Turkey.

There can be no assurance that these or other proceedings will be determined in favor of Turkcell. Turkcell's failure to successfully defend itself against any such proceedings could have a material adverse effect on its consolidated financial position, results of operations, liquidity and prospects.

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***Telia's and Sonera's investments in telecommunications companies outside of the Nordic countries will face increased competition.***

Most of the associated companies in which Telia and Sonera hold an equity interest face significant competition in the markets in which they operate. The combined company's most significant GSM associated companies operate in Turkey, the Baltic States and Russia. The competition in Turkey and Russia is expected to increase as additional GSM licenses are granted and the competition in the Baltic States will increase as regulation favoring competition is adopted in line with EU directives. For instance, Turkcell is beginning to experience increased competition. In Turkey, two new GSM operators, Aria and Aycell, began offering services in March and December 2001, respectively. In Russia, the associated GSM operating company MegaFon faces strong competition from MTS and Vimpelcom, two New York Stock Exchange listed operators which have significantly larger subscriber bases. In Georgia, in addition to facing strong competition from the leading Georgian cellular provider Magticom, Geocell is also expected to face competition from two new operators which are anticipated to begin offering GSM 1800 services in Georgia in the near future.

In addition, the fixed line telecommunications market in Estonia was opened to competition in the beginning of 2001 and the combined company expects that the fixed line telecommunications markets in Latvia and Lithuania will be opened to competition in the beginning of 2003. As a result, the combined company expects that its associated companies, which offer fixed line services in the Baltic States (AS Eesti Telefon in Estonia and Lattelekom SIA in Latvia), and the combined company's subsidiary AB Lietuvos Telekomas in Lithuania may lose market share and be forced to reduce some of their tariffs in response to increased competition. In Poland, Polish membership negotiations with, and possible entry into, the European Union may lead to alterations to the current or currently anticipated regulatory environment that would be unfavorable to Netia, the leading alternative fixed line telecommunications provider in Poland, such as the introduction of the permit system in the Polish New Telecommunications Act allowing the low-cost entry of new competitors to provide fixed line telephone services.

The combined company currently cannot assess what specific effects increased competition will have on the business, results of operations or financial condition of the combined company's associated companies and other international investments and, in turn, the amount of income the combined company will derive from its associated companies and other international investments.

***The value of the combined company's investments in associated GSM operating companies, and the income it derives from its associated GSM operating companies, could decrease due to possible future UMTS license costs and conditions imposed by those countries in which these companies operate.***

Some of the countries where the combined company's associated GSM operating companies do business are planning or are expected to plan UMTS license tenders. The prices of, and conditions imposed by, UMTS licenses in those countries are not yet known. It is possible that UMTS license tenders may have a negative impact on the valuation of these associated companies, their ability to pay dividends and their need for external financing. The impact on these associated GSM operating companies will depend upon a number of factors, including the prices of the licenses, the conditions imposed by the licenses and whether the associated companies are successful in bidding for the licenses. In addition, UMTS license tenders give new operators a chance to enter the market, which may increase the overall level of competition for mobile telecommunications services in those markets.

***MegaFon, an associated GSM company operating in Russia, has significant capital needs and may be required to change its strategy if it is unable to obtain financing on satisfactory terms.***

MegaFon, a GSM operator in Russia in which the combined company will hold an approximate 44 percent interest, directly and indirectly, has significant capital needs and will have to secure additional financing if it is to implement its current strategy of becoming a provider of nationwide GSM services in Russia. In particular, MegaFon will need additional financing to build-out its GSM network. If MegaFon is unable to secure such financing on satisfactory terms or if the Russian mobile market does not develop as expected, MegaFon might have to revise its strategic focus, which may adversely affect its growth prospects.

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***The combined company may not be able to fully realize anticipated tax benefits resulting from Sonera's recent write down of its UMTS investments in Germany and Italy.***

As a result of its 4,280 million write-down of its UMTS investments in Germany and Italy, Sonera recorded a deferred tax benefit of 1,235 million in the second quarter of 2002. There can be no assurance, however, that Sonera or the combined company will be able to use this tax benefit in full to reduce their tax obligations in the future. The use of the tax benefit will depend, among other things, on the recognition by the Finnish tax authorities of the write-down for purposes of Finnish taxation. It is possible that the Finnish tax authorities may not recognize the write-down in whole or in part for purposes of reducing the combined company's tax liabilities in the future, if they argued that the impairment in value is not permanent. In addition, the ultimate realization of the deferred tax benefit is dependent upon the generation of sufficient taxable income by the combined company during the period the deferred tax benefit is applicable. Although Sonera currently estimates that the deferred tax asset can be realized in six to eight years under different scenarios, there can be no assurance of sufficient taxable income within this period. Tax loss carry-forwards in Finland expire after ten years.

***If the combined company were to determine that its current expectations concerning future cash flows from NetCom ASA, the Norwegian mobile operator that Telia acquired in 2000, are not likely to be met, it may be required to write down the carrying value of NetCom.***

As of December 31, 2001, the carrying value of the goodwill related to Telia's investment in NetCom amounted to SEK 23,998 million (2.6 billion). Under applicable accounting rules, the combined company will regularly review the value of its long-lived assets and will recognize an impairment whenever the carrying value of an asset is not supported by the combined company's current expectations of future cash flows attributable to such asset. Telia purchased NetCom in 2000, a time during which telecommunications operators generally had significantly higher market values than they currently have. As a consequence, Telia has been regularly performing a review of the carrying value of NetCom's goodwill. While Telia has not deemed it necessary to write down the value of NetCom to date, there can be no assurance that a change in Telia's or the combined company's business model or strategy, competitive pressures, regulatory environment or other factors will not require the company to write-down the carrying value of NetCom. While a write-down would not be cash negative to the combined company, a significant write-down in the value of NetCom would result in a reduction of the combined company's distributable equity and could impair its ability to declare dividends.

***Netia, in which Telia is currently the largest shareholder, is in default of certain of its indebtedness and may be forced to go into bankruptcy.***

Netia, in which Telia has a 48 percent interest, is the leading alternative fixed line telecommunications provider in Poland. Netia has had a history of operating losses and has been struggling under a heavy debt burden. As of December 31, 2001, it had an accumulated deficit of PLN 2.3 billion (0.65 billion) and a working capital deficit of PLN 3.5 billion (1 billion). In December 2001, one of its wholly owned subsidiaries failed to make interest payments on its outstanding notes and, in February 2002, Netia petitioned a Polish court to open arrangement proceedings under Polish law to allow it to restructure its debt obligations. In March 2002, Netia reached an agreement on restructuring its debt with an ad hoc committee of note holders, certain financial creditors and Netia's largest shareholders, including Telia. Under the restructuring plan, the note holders and certain financial creditors would receive new Netia shares representing 91 percent of Netia's post-restructuring share capital (on an undiluted basis) in exchange for relinquishing their claims with respect to Netia's existing notes and certain swap payments. If the restructuring is successfully completed, Telia's ownership interest in Netia will be diluted from 48 percent to approximately 2.1 percent on a fully diluted basis. If the restructuring is not successful, Netia may be forced to go into bankruptcy proceedings.

Telia already records the carrying value of its investment in Netia at zero, and so does not expect to be required to make any further impairment charges with respect to its investment in Netia. Nonetheless, Netia's

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financial crisis will adversely affect Telia's efforts to achieve growth in the less developed Polish telecommunications market.

***The combined company will have only limited control of its associated companies.***

Many of the combined company's business activities as a telecommunications operator principally outside of the Nordic and Baltic regions are conducted through joint ventures or associated companies in which the combined company will have less than a majority holding. As a result, the combined company will have limited control over the conduct of its international operator businesses. Under the governing documents for certain of these entities, certain key matters such as the approval of business plans and decisions as to timing and amount of cash distributions require the agreement of the combined company's partners. The risk of disagreement or deadlock is inherent in jointly controlled entities. The combined company's partners may have different approaches with respect to the associated companies and the combined company may be unable to reach agreement with its joint venture partners. Because the combined company will not have control of these entities, its partners may have the right to make certain decisions on key business matters with which it does not agree. In some cases, strategic or joint venture partners may choose not to continue partnerships that they have with the combined company. Any of these factors could impact the combined company's ability to pursue its stated strategies with respect to those entities and may harm its operating results and financial condition.

***The value held by the combined company in its associated companies, and the income the combined company derives from its associated companies, could decrease if the exchange rate between the Swedish krona and the operating and accounting currencies of its associated companies change significantly.***

Substantially all of the associated companies of the combined entity conduct their operations, prepare their financial statements and pay dividends in currencies other than the Swedish krona. Moreover, some of the associated companies of the combined company, including Turkcell, operate under currencies that are relatively volatile and may therefore fluctuate greatly against the Swedish krona. Any loss in value of any such currencies against the Swedish krona will have a negative impact on the value of the combined company's investments in the relevant associated company and the amount of income the combined company derives from the relevant associated company, in each case, as reflected in its krona-denominated financial statements.

***The combined company will face increased currency risks compared to Sonera.***

Because the large majority of Sonera's current operations are based in Finland and other member states of the European Union's Economic and Monetary Union that have adopted the euro as their common currency, Sonera does not have significant currency exposure with respect to its consolidated operations. The combined company will face increased currency exposure as compared to Sonera as a stand-alone entity. In particular, the combined company will have significant exposure to exchange rate movements between the Swedish krona and the euro as well as between the Swedish krona and each of the Norwegian krone and the Danish krone, which may have an adverse effect on its operating results and financial condition.

***The combined company may not be able to remain competitive and implement its strategy if it cannot hire and retain skilled personnel.***

To remain competitive and implement its growth strategy, the combined company will need to hire and retain highly skilled employees with particular expertise. In particular, competition is intense for qualified telecommunications and information technology personnel in the Nordic countries and elsewhere. To a considerable extent, the combined company's ability to hire and retain skilled personnel for high growth business areas will depend on its ability to offer them competitive incentive programs. The adoption of such incentive programs may require the support of the combined company's largest shareholders, including the Kingdom of Sweden and the Republic of Finland, and no assurance can be given that such shareholders will be supportive of such proposals. If the combined company cannot implement competitive incentive programs, it may be unable to hire and retain skilled employees, which may limit its ability to develop its high growth

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business areas and new business areas or remain competitive in its traditional business areas. Furthermore, the combined company will be particularly dependent on certain key members of management responsible for managing the integration of the two companies and developing the strategic direction for the company. The integration process of Telia and Sonera may, however, prove to be disruptive and may cause these and other key employees to leave.

***Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to decreased mobile communications usage.***

Concern has been expressed that the electromagnetic signals from mobile handsets and transmission masts, which serve as antennae for transmitting radio signals, may pose health risks and interfere with the operation of electronic equipment, including automobile braking and steering systems. These concerns may intensify in relation to third generation handsets and telecommunications equipment, which may emit higher maximum levels of radiation but, due to more advanced power control features and ongoing development, are not expected to emit higher average levels of radiation than GSM handsets or equipment. In the European Union, the European Council has adopted a recommendation on the limitation of exposure of the general public to electromagnetic fields (1999/S19/EC). These recommended levels are assessed on an ongoing basis and may be tightened based on new scientific findings. Actual or perceived risks of mobile handsets or transmission masts and related publicity or litigation could reduce the growth rate, customer base or average usage per customer of the combined company's mobile communications business area or may result in significant restrictions on the location and operation of transmission masts, any of which could have a negative impact on the combined company's operating results and financial condition.

***If the combined company loses or is unable to renew licenses necessary for conducting its operations in any of the Nordic countries, the Baltic region or internationally, it may not be able to carry on parts of its current or planned business.***

The combined company will in many cases only be permitted to provide telecommunications services and operate networks under licenses granted by competent authorities in each country where it carries out such activities. All of these licenses are issued for a limited period of time and may not be renewed or, if they are renewed, their terms may be changed.

These licenses contain a number of requirements regarding the way the combined company conducts its business, as well as regarding network quality and coverage. Failure to meet these requirements could result in fines or other sanctions, including, ultimately, revocation of the licenses.

The combination of Telia and Sonera brings about a change of ownership triggering notifications in a number of jurisdictions where licenses are held, including Europe, the Baltic States and Eurasia. There can be no assurance that the regulatory authorities in these jurisdictions will timely approve the change in ownership. Any failure to do so could result in a temporary disruption of service or the potential loss of licenses.

***The combined company will depend on its relationships with various partners and suppliers and the disruption of these relationships may adversely affect its business.***

The business of the combined company will depend on its ability to obtain adequate supplies of telecommunications equipment (and related software), its contractors' ability to build and roll out telecommunications networks on schedule, and its suppliers' ability to deliver dependable technical support and network maintenance. The combined company will also be reliant on mobile handset manufacturers to develop and market sophisticated and easy-to-use devices for mobile telecommunications. Its dependence on suppliers is now particularly important because of its strategy to market GPRS services, build and roll-out third generation networks, and launch third generation services. Telia and Svenska UMTS-nät currently have significant contracts with LM Ericsson with regard to mobile telecommunications equipment and networks. In addition, Sonera, which is to a large extent dependent on Nokia Corporation to deliver its UMTS networks and related equipment, could incur significant costs, in the form of lost revenues and added expenses, were it to be required to find alternative suppliers for this technology. The combined company also has significant

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long-term contracts with Flextronics to supply network planning and maintenance services for both the combined company's fixed line and mobile networks. The combined company cannot be certain that it will be able to obtain telecommunications equipment or network services from its alternative suppliers on a timely basis if its existing suppliers are unable to satisfy its requirements. This could lead to an interruption to the operation and build out of its networks and the networks of its associated companies, which could harm its operating results and financial condition.

### **Risks Related to Legal and Regulatory Matters**

*The combined company will operate in a regulated industry and changes in, or adverse applications of, the regulations affecting it could harm its operating results and financial condition.*

The combined company's activities will, to a large extent, be regulated either at the national level or at an international level, such as by the European Union. Implementation and application of these regulations may be undertaken by one or more regulatory or competition authorities, which may challenge the combined company's compliance with one or more aspects of such regulation. If the combined company is found not to have complied with this regulation, it may be subject to damage awards, fines, penalties and suspensions.

In addition, changes in legislation, regulation or government policy affecting the combined company's business activities, as well as decisions by competition and other regulatory authorities or courts, could harm its operating results and financial condition and could have a negative impact on its share price.

*The market position of the combined company will subject it to legal constraints that may negatively affect its revenues.*

*The combined company will be required to provide certain services on non-discriminatory, cost-oriented and transparent terms.*

The NPTA has determined that Telia has significant market power in fixed telephony, leased lines, in the national market for interconnection through which telephone operators connect their network to the networks of other telephone operators and in mobile telephony. The Finnish Ministry of Transport and Communications has deemed Sonera to be an operator with significant market power in long distance, international and mobile telecommunications throughout Finland and in local telecommunications in its traditional service areas. As a result, the combined company will be required to provide certain services on non-discriminatory and cost-oriented terms in Sweden and Finland. This means that the amounts that the combined company charges for these services must be reasonably related to the costs of providing the services and that it cannot discriminate among customers. These obligations may hamper its future pricing flexibility. In particular, in the event that the NPTA or Finnish Communications Regulatory Authority (the FICORA) were to determine that the combined company's interconnection tariffs were not cost-related, these authorities would have the power to modify the terms and conditions of the combined company's interconnection arrangements, which could reduce the combined company's interconnection revenue and have a material adverse effect on its operating results or financial condition. Sonera is currently a party to a proceeding relating to the pricing of its mobile interconnection fees, the outcome of which could have a material adverse effect on its operating results and financial condition.

The combined company will also be subject to the European Union's competition law and to the competition laws of, among other countries, Sweden and Finland. In Finland, the combined company is deemed to have a dominant market position in the market for mobile services, which could impact the combined company's flexibility in marketing and pricing of its services, including its Short Messaging Services, also known as SMS, a mobile communications system, which allows users to send alpha-numeric messages from one mobile handset to another. The Finnish Competition Authority, or FCA, has stated that the pricing of Sonera's mobile services must be cost-based, non-discriminatory and transparent and Sonera is currently a party to several Finnish administrative proceedings, including a proceeding before the FCA relating to the pricing of its SMS services to content providers, the outcome of which could have a material adverse effect on its operating results and financial condition.



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In February 2002, the European Parliament and the European Council adopted a new regulatory framework for electronic communications networks and services that, among other things, would give national regulatory authorities the right to impose a variety of obligations on operators with significant market power which could have a material adverse effect upon the combined company's business.

***The combined company will be required to provide access to the local loop at cost-based rates under supervision of the NPTA.***

The local loop refers to the infrastructure that connects subscribers to the network. EC-regulation 2887/2000 on unbundled access to the local loop requires, among other things, Telia to give other operators direct access to and use of the infrastructure that Telia has traditionally controlled. As a result, the combined company will be required to provide access to the local loop to other operators at cost-based rates under the supervision of the NPTA. This may cause Telia to lose customers in its local fixed line business.

***Additional regulatory requirements regarding the provision of national roaming services in Sweden or Finland or the fees the combined company charges for roaming services could have a material adverse effect on its business.***

The introduction of national roaming in Sweden or Finland could have a negative impact on the combined company's results of operations or financial condition. Roaming allows subscribers to other operators' services to use the combined company's networks when they are outside the reach of their own operators' network service areas. To the extent Swedish, Finnish or European Union authorities were to require telecommunications operators in Sweden or Finland to offer national roaming, the combined company would be required to give other telecommunications providers, including competitors, access to its GSM networks. If this were to take place on terms and conditions that do not provide an adequate return on the investment in the combined company's GSM network, or if it were required to compensate one of its competitors for direct or indirect damages resulting from an alleged failure to provide national roaming, it could have a material adverse effect on the operating results or financial condition of the combined company. In addition, under Swedish and Finnish telecommunications law, holders of UMTS licenses may have a right to roam on the GSM networks of other operators under certain conditions.

***Possible regulatory requirements regarding the universal service principle may have a material adverse effect on the combined company's business.***

The combined company may, under universal service principles, in the future be required to offer functional Internet access using a fixed network throughout Sweden and Finland. If this were to take place on terms and conditions that do not provide an adequate return on the possible new investments required in the combined company's fixed network in its remote service areas in Sweden and Finland, it could have a material adverse effect on the combined company's operating results and financial condition.

## **Risks Related to the Combined Company's Ownership by the Kingdom of Sweden and the Republic of Finland**

***The combined company could be influenced by the Kingdom of Sweden and the Republic of Finland whose interests may not always be aligned with yours.***

After the completion of the exchange offer, the Kingdom of Sweden will hold approximately 45 percent and the Republic of Finland will hold approximately 19 percent of the combined company's shares, assuming the exchange of all Sonera shares to Telia shares. The Kingdom of Sweden and the Republic of Finland have, furthermore, agreed to consult each other with respect to voting on matters to be resolved by the shareholders at general meetings of the combined company. Accordingly, the Kingdom of Sweden, acting alone, may have and the Kingdom of Sweden and the Republic of Finland, if they should choose to act together, will have the power to influence matters submitted for a vote of shareholders, including the approval of the annual financial statements, declarations of dividends, capital increases in connection with acquisitions, investments and the election and removal of members of the combined company's board of directors. The interests of the

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Kingdom of Sweden and the Republic of Finland in deciding these matters and the factors they consider in exercising their votes could be different from the interests of the combined company's other shareholders.

***The Kingdom of Sweden and the Republic of Finland may sell significant amounts of shares in the combined company and this could significantly depress the market price of the combined company's shares.***

The Kingdom of Sweden and the Republic of Finland, which will together hold approximately 64 percent of the shares of the combined company, have announced their intention to reduce their shareholdings in the combined entity during the five-year period following the closing of the exchange offer. Neither the Kingdom of Sweden nor the Republic of Finland is under any contractual commitment that would restrict their ability to sell any shares. Furthermore, both the Kingdom of Sweden and the Republic of Finland have the right to require the combined company to register their shares with the U.S. Securities and Exchange Commission (the "SEC") for resale in the United States. It is currently not possible to assess the precise timing and manner of any future sales by the Kingdom of Sweden or the Republic of Finland of shares in the combined company. However, any sale by the Kingdom of Sweden or the Republic of Finland of a significant number of shares, or the public perception that these sales could occur, may cause the market price of the combined company's shares to decline significantly and may also make it more difficult for the combined company to issue new shares in the future.

### **Risks to Non-Tendering Securityholders**

***If you do not participate in the exchange offer you may choose to participate in a mandatory redemption offer or be required to participate in a compulsory acquisition proceeding that may result in a cash payment that may be either less or more than the value of the share consideration to be received in connection with the exchange offer.***

#### *Mandatory Redemption Offer*

Under the Finnish Securities Market Act, in the event the exchange offer is completed and, as a consequence, Telia acquires Sonera shares, whether in the form of shares or ADSs, representing more than two-thirds of the total voting rights attaching to Sonera shares, Telia would be required, within one month after the expiration of the exchange offer period, to offer to purchase the remaining Sonera shares, whether in the form of shares or ADSs, and Sonera warrants that have not been tendered in the exchange offer. In connection with this so-called mandatory redemption offer, although Telia could continue to offer to exchange Sonera shares into Telia shares, Sonera ADSs into Telia ADSs and Sonera warrants into Telia warrants, Telia would be under no obligation to do so and would in any event be required to offer to purchase the remaining Sonera shares, including Sonera shares represented by Sonera ADSs, and warrants for cash at their fair price.

In the absence of any special circumstances and subject to certain other conditions, the volume-weighted average trading price of Sonera's shares and, to the extent applicable, Sonera warrants, on the Helsinki Exchanges during the 12-month period prior to the expiration of the exchange offer period would form a basis for the determination of the fair price of Sonera's shares, including shares underlying Sonera ADSs, and, to the extent applicable, Sonera warrants. However, no assurance can be given as to the amount of the cash redemption price to be paid in connection with any future mandatory redemption offer and such amount could be more or less than the amount of consideration per Sonera share to be received in connection with the exchange offer.

#### *Compulsory Acquisition*

Under the Finnish Companies Act, once Telia acquires more than nine-tenths of all Sonera shares, whether in the form of shares or ADSs, and more than nine-tenths of all votes entitled to be cast at a general meeting of shareholders of Sonera, it shall also have the right to require the minority shareholders of Sonera to sell the remaining Sonera shares, whether in the form of shares or ADSs, to Telia for a fair price in a compulsory acquisition proceeding. Any disputes concerning the right of redemption or the redemption price

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in a compulsory acquisition would be resolved by an arbitral panel of one or more arbitrators appointed by the Central Chamber of Commerce of Finland in accordance with the Finnish Companies Act. Under the Finnish Companies Act, the arbitration panel so appointed has considerable latitude in deciding upon the method or methods used in determining the fair price of the shares of the target company and in establishing the final amount of such fair price inasmuch as the Finnish Companies Act does not contain any similar provisions to those included in the Finnish Securities Market Act and used in the determination of the fair price in connection with a mandatory redemption offer pursuant to such the Finnish Securities Market Act, as described in more detail herein. Therefore, no assurance can be given as to the amount of the cash redemption price to be paid in connection with a compulsory acquisition that may follow the completion of the exchange offer and such amount could be more or less than the amount of consideration per Sonera share received in connection with either the exchange offer or a mandatory redemption offer that may be commenced after the completion of the exchange offer. In addition, under the Finnish Companies Act, the shareholders of a target company have the right to appeal the decision of the arbitral tribunal in respect of the cash redemption price to be paid in connection with a compulsory acquisition and, therefore, the final determination of such cash redemption price could be subject to protracted litigation.

*If you do not participate in the exchange offer, the market for your Sonera securities may be less liquid than before the exchange offer and the value of your Sonera securities may be lower.*

The exchange of Sonera securities pursuant to the exchange offer will reduce the number of Sonera securityholders and the number of Sonera securities that might otherwise trade publicly and, depending upon the number of Sonera securities so exchanged, could adversely affect the liquidity and market value of the remaining Sonera securities held by the public. Furthermore, Telia and Sonera intend to cause the delisting of Sonera ADSs from NASDAQ following the completion of the exchange offer. While it is possible that the Sonera ADSs would continue to be traded in the over-the-counter market and that price quotations would be reported, there can be no assurance that such an over-the-counter market would develop. The extent of the public market for the Sonera ADSs and the availability of such quotations would depend upon such factors as the number of holders remaining at such time, the interest on the part of securities firms in maintaining a market in Sonera ADSs, the intended termination of the deposit agreement for the Sonera ADSs and the possible termination of registration of Sonera's securities under the Exchange Act, which would adversely affect the amount of publicly available information on Sonera's securities.

## **Forward-Looking Statements**

This prospectus contains forward-looking statements. Statements that are not strictly historical statements, including statements about Telia's and Sonera's beliefs and expectations, constitute forward-looking statements. By their nature, forward-looking statements are subject to risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The following factors, among others, could cause results to differ materially from those described in the forward-looking statements:

risks and uncertainties with respect to the expectations of Telia and Sonera regarding:

- the timing and completion of the exchange offer;
- the value of the exchange offer consideration;
- market positions;
- earnings improvements;
- costs and capital expenditure savings;
- Telia's and Sonera's outlook for growth in the telecommunications industry in Europe, including sources of increasing revenues to offset the impact of increasing competition;
- the adequacy of Telia's and Sonera's capacity and capital resources;
- other benefits anticipated from the merger of Telia and Sonera;

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◦ the implementation of the strategy of the combined company;

the effects of potential mergers and consolidations within the telecommunications industry, Telia's and Sonera's ability to complete planned divestitures and the costs associated with possible future acquisitions and dispositions;

the amounts of future capital expenditures;

the timing and effect of the roll-out of UMTS networks and other new, enhanced or upgraded networks, systems, products and services, and their performance;

uncertainties associated with developments related to fluctuations in interest rates, exchange rates, currency devaluations and other macroeconomic monetary policies;

potential downgrades in credit ratings of Telia or the combined company by credit rating agencies;

the level of demand for telecommunications services, particularly with respect to mobile services and new, higher value-added products;

regulatory developments and changes, including with respect to the levels of tariffs, the terms of interconnection, customer access and issues related to national roaming;

the outcome of legal and regulatory proceedings in which Telia, Sonera or both are involved or may become involved;

the effects of competition;

technological innovations, including the cost of developing new products and the need to increase expenditures to improve the quality of service;

the success of the combined company's international investments;

other economic, business, competitive and/or regulatory factors affecting the businesses of Telia and Sonera generally, including factors affecting the market for telecommunications services; and

factors discussed under RISK FACTORS.

Telia and Sonera are under no obligation to, and expressly disclaim any such obligation to, update or alter their forward-looking statements, whether as a result of new information, future events or otherwise.

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**THE TRANSACTION**

**Background of the TeliaSonera Merger**

***Telia General Background***

Telia has as part of its growth strategy been seeking to expand in the Nordic region through acquisitions, investments and joint undertakings within all of its business areas. Telia considers expansion in the Nordic region to be one of the principal components of its overall business strategy.

One of the reasons underlying Telia's strategic focus on the Nordic region is management's belief that Telia needs to expand its customer base to stay competitive. Expanding its customer base would make it possible for Telia to achieve significant cost synergies through: (i) sharing fixed costs over a larger number of subscribers, (ii) centralizing certain administrative and other functions, and (iii) applying best practice programs to gain from different experiences within a larger organization. The focus on expansion within the Nordic market is premised in large part on Telia's existing presence in and familiarity with the Nordic market, the similarity of customers' habits and needs in the market, and the high level of commercial activity and travel among the countries within the region. Telia expects that, through a strong presence in all major Nordic markets and the ability to offer attractive pan-Nordic services, Telia would be a strong partner for both corporate customers as well as providers of related services.

As part of its review of opportunities for Nordic expansion, Telia has engaged and may continue to engage in discussions with other parties that may lead to substantial cross-border acquisitions or mergers. In early 1999, for example, Telia agreed to a merger with the Norwegian operator Telenor, which was abandoned later that year due to differences in opinion between the management, boards of directors and owners of the two companies, including disagreements relating to the management of the merged company and the location of the headquarters of the mobile unit of the merged company. Among other transaction opportunities, Telia and its financial advisors, D. Carnegie AB and Merrill Lynch International, have explored acquisition or business combination opportunities in Finland, including a merger with Sonera. The management of Telia has, since the fall of 2000, from time to time engaged in discussions with the management of Sonera, aimed at establishing whether a common view existed concerning the business rationale for a combination of the two companies. Relative valuations and related topics have also been discussed. In particular, Telia had discussions with Sonera regarding a potential business combination in November 2000 - February 2001, and again in June 2001.

***Sonera General Background***

Since the Finnish Parliament's decision in June 2000 to allow the Finnish State to reduce its ownership interest in Sonera to zero, Sonera has actively explored opportunities to participate in the consolidation process of the telecommunications industry in Europe. Sonera believes that larger multinational operators are better able to serve the needs of corporate and other customers and have better resources to introduce new value-added data services to their customers. Sonera also believes that it has been well positioned to participate in the consolidation due to its leadership position in telecommunications services in the sophisticated Finnish market and due to its international investments.

During 2000 and the first half of 2001, Sonera, together with its financial advisers Goldman Sachs and Lehman Brothers, explored various merger, alliance, asset swap and other business combination alternatives in the Nordic region and the rest of Europe, including with Telia, the Danish operator TDC and other large European operators. None of these discussions resulted in firm agreements and all such discussions were terminated during the first half of 2001.

The following events relating to Sonera during the second half of 2001 and the beginning of 2002 had a significant impact on the development of discussions leading up to the execution of the business combination agreement between Telia and Sonera:

*Mounting financial pressures.* In the summer of 2001, Sonera faced mounting financial pressures stemming largely from borrowings and ongoing contractual financial commitments related to its

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investments in UMTS licenses. At June 30, 2001, Sonera had net debt of 5,122 million as compared to net debt of 1,181 million at December 31, 1999 as well as contractual financial commitments related to its UMTS investments in excess of 500 million.

*Shift in strategic focus.* From the summer of 2001 through November 2001, the attention of Sonera's management focused on the formulation of a new strategy, the limitation of the company's exposure to its UMTS investments and the execution of a rights issue. As part of Sonera's new strategy, Sonera committed to take decisive action to ensure its financial strength.

*Completion of the rights offering and sale of non-core assets.* Sonera successfully completed its rights offering in December 2001, as a result of which it received approximately 982 million in net proceeds. In addition, Sonera received approximately 1,018 million in proceeds from the disposal of non-core equity holdings, including its shareholding in Deutsche Telekom, in the second half of 2001. Sonera used the proceeds from the rights offering and the disposal of non-core equity assets to reduce its net debt from 5,122 million as of June 30, 2001 to 3,268 million as of December 31, 2001.

*Stabilization of credit ratings.* Following the announcement of the rights offering, Sonera's credit ratings stabilized, with Standard & Poor's confirming its rating of Sonera's long-term corporate credit and senior unsecured debt of BBB and Moody's confirming Sonera's senior unsecured credit rating of Baa2 and placing Sonera on stable outlook. In March 2002, S&P placed its BBB rating of Sonera on CreditWatch with positive implications and Moody's placed its Baa2 rating of Sonera on review for a possible upgrade.

*Improved results of operations.* Sonera reported improved results of operations and cash flows from operations in the second half of 2001 and the first quarter of 2002 partly as a result of reduced losses generated from its Service Businesses. In the three months ended March 31, 2002, Sonera realized an underlying EBITDA loss of 15 million from its Service Businesses as compared to a loss of 86 million in the three months ended March 31, 2001 and a loss of 244 million in the year ended December 31, 2001.

These developments contributed to an increase in Sonera's share price from 3.27 per share (as adjusted for the rights offering) on October 19, 2001, immediately prior to the announcement of Sonera's rights offering, to 5.83 per share on March 25, 2002, the date immediately prior to the announcement of the execution of the business combination agreement between Telia and Sonera. With its improved outlook, Sonera had transformed itself into a more attractive partner with less financial risk attached to its balance sheet and UMTS investments. These events provided improved circumstances for renewed discussions with Telia, which eventually led to the negotiation process outlined in more detail below.

### ***The TeliaSonera Merger***

During the course of 2001, several important changes in the telecommunications industry and in the business operations, results and financial situation of Telia and Sonera coincided to cause significant changes in the relative valuations of the two companies. Such important changes included:

*Sharply reduced expectations regarding the anticipated growth and size of the market for third generation mobile services and delays in the commercial introduction of such services.* Factors contributing to such lowered expectations include the low take-up of mobile data services utilizing WAP and GPRS technologies and the delay in the commercial availability of third generation handsets, networks and services. In 2000, when the majority of the auctions for UMTS licenses in Europe were conducted, the assumptions underlying the decision to invest in such licenses were overly optimistic, with most operators expecting that third generation services would be adopted by the mass market by 2003. Based on current market expectations, third generation services are not anticipated to have a positive impact on operators' earnings until, at the earliest, 2004 or 2005. Further evidence of the unrealistic assumptions made in connection with earlier UMTS investments has recently been demonstrated by the write-downs and impairment losses reported by a number of

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operators since the beginning of 2002, indicating that the value of these UMTS investments has declined significantly.

*Sharply reduced expectations regarding the future revenue growth for telecommunications services.* Revenue growth for telecommunications operators has historically been driven mainly by subscriber growth. Future growth, however, was expected to be driven primarily by the introduction of new value-added mobile services and through a roll out of broadband in the fixed networks. However, the wireless market started to show signs of saturation in the second half of 2001 and, in combination with the limited adoption of new value-added mobile services, telecommunications operators, investors and analysts have fundamentally revised their view on the telecommunications industry's near- and medium-term growth prospects. In addition, operators have experienced and are continuing to experience higher pricing pressure, both as a result of regulatory changes and intensified competition resulting from overcapacity in the fixed telecommunications market. Overcapacity and pricing pressure has been particularly acute in the international carrier market.

Each of these developments had a negative impact on the market valuations of the telecommunications sector generally, including both Telia and Sonera. Sonera's valuation also declined relative to Telia's, primarily given Sonera's greater investment in UMTS licenses. During 2001, Sonera's share price on the Helsinki Exchanges fell from a high of 20.38 during the first quarter to a low of 2.23 (as adjusted for the rights issue) during the third quarter while Telia's share price on the Stockholm Exchange fell from a high of SEK 71.00 during the second quarter to a low of SEK 36.00 during the third quarter.

These changes in the industry also emphasized the importance for telecommunications operators of maximizing operating efficiencies and the benefit of having a larger customer base to achieve economies of scale. In view of the new circumstances in the industry, and the improvement in Sonera's outlook as a result of the decisive management action in the second half of 2001, contacts between the companies, which had terminated during the first half of 2001, were renewed towards the end of 2001, eventually leading up to the negotiation process described below.

On February 21, 2002, the chairman of the Telia board of directors agreed with the chairman of the Sonera board of directors to meet during the following week to discuss the viability and key terms of a potential merger of Telia and Sonera. On February 27, 2002, the two chairmen met in Stockholm and discussed the key terms of a possible transaction, including, but not limited to, relative valuation, governance issues, business rationale and corporate strategy. During the following days, several discussions were held during which the chairmen agreed on the key transaction terms and decided to start the transaction process between the companies.

On March 4, 2002, members of the management of Telia and Sonera met and were informed about the key transaction terms and principles. On March 5, 2002, members of the management of Telia and Sonera met to agree on the key items of the corporate strategy for the combined company and the process of merger discussion between the companies.

On March 8, 2002, members of the management of Telia and Sonera met to discuss the rationale of the proposed merger, including the potential synergies to be derived from the transaction.

On March 13, 2002, members of the management of Telia and Sonera met to discuss legal aspects of the merger and to conduct management presentations relating to Telia's and Sonera's legal and regulatory affairs. On March 14 and March 15, 2002, members of the management of Telia and Sonera met to discuss issues relating to the various business areas of the two companies as well as financial matters.

During the period between March 11 and March 26, 2002, members of the management of Telia and Sonera met repeatedly to discuss and formulate a framework on the future strategy of the merged company, to prepare preliminary pro forma financial information for the combined company and to prepare for the public announcement of the proposed merger.

During the period shortly preceding the date of the announcement of the transaction, representatives of the Kingdom of Sweden and the Republic of Finland met on several occasions to discuss and agree to the

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terms of a shareholders' agreement between the Kingdom of Sweden and the Republic of Finland as well as the key principles of corporate governance for the combined company.

On March 26, 2002, Telia and Sonera entered into a combination agreement and the Kingdom of Sweden and the Republic of Finland entered into a shareholders' agreement in connection with the proposed merger. Both companies and governments announced the proposed transaction later on the same day.

### **Reasons for the TeliaSonera Merger**

Telia and Sonera are both active in some of the most developed telecommunications markets in the world. Both companies also have joint interests in leading mobile and fixed line operators in the Baltic and Russian markets.

Telia and Sonera believe that the merger will provide enhanced growth potential based on the current market positions and strategic fit of the two companies, and that the future prospects for both companies therefore will be improved through the merger.

Telia and Sonera expect that the close geographic proximity of the companies and the shared strategic values will be very important in realizing the benefits of the combination. Such benefits are expected to be incremental to the cost saving and capital efficiency focus programs that have been introduced at both Telia and Sonera. Both these programs will be continued and are expected to be further strengthened through the merger.

The most important benefits of the combination are summarized below:

**Larger customer base in the Nordic region and strong market leadership.** The combined company will be the largest telecommunications operator in the Nordic region. Based on the number of subscribers, the combined company will be the leading mobile operator in Sweden and Finland, the second ranking operator in Norway and the fourth ranking operator in Denmark. The total mobile subscriber base of the combined company in the Nordic region will be approximately 7.4 million following the merger. The combined company will also be the largest fixed voice and data provider in the Nordic region with leading positions in Sweden and Finland and a significant position in Denmark.

Telia and Sonera expect that its significantly increased scale will enable the combined company to serve its customers better. The combined company will be able to offer seamless services to corporate customers throughout the region. The customer base of the combined company will also allow for faster development of integrated fixed and mobile service offerings.

**Consolidation of Baltic position.** The combination will substantially strengthen the existing positions of Telia and Sonera in the Baltic region. AB Lietuvos Telekomas (in which the combined company will hold a 60 percent interest) and UAB Omnitel (combined interest of 55 percent), each of which are based in Lithuania, will become consolidated subsidiaries of the combined company. Latvijas Mobilais Telefons SIA (Latvia), in which the combined company will hold a 49 percent direct interest and an approximate 11 percent indirect interest through Sonera's holding in Lattelekom SIA, and with respect to which the combined company will have the right to nominate the majority of the members of the board of directors, will also become a consolidated subsidiary of the combined company. The combined company will also hold a 49 percent interest in each of AS Eesti Telekom (Estonia) and Lattelekom SIA (Latvia). As of June 30, 2002, the mobile operators and fixed line operators in the Baltic region in which the combined company has an interest had an aggregate of approximately 1.5 million subscribers and 2.2 million subscribers, respectively.

**Strengthened position in growth areas of Russia and Eurasia.** The combined company will have a direct and indirect holding of 43.8 percent in the Russian mobile operator MegaFon, a direct and indirect holding of 37.1 percent in the Turkish mobile operator Turkcell and a 58.55 percent holding in Fintur Holdings B.V., which operates in emerging mobile markets through its 51.3 percent interest in Azercell Telecom B.M. of Azerbaijan, its 83.2 percent interest in Geocell LLC of Georgia, its 51 percent interest in GSM Kazakhstan LLP OAO Kazakhtelecom of Kazakhstan, and its 77 percent interest in Moldcell S.A. of



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Moldova. As of June 30, 2002, (i) the GSM operators within the MegaFon Group had approximately 1.7 million subscribers, (ii) Turkcell had approximately 13.8 million subscribers and (iii) the mobile operators in which Fintur had a controlling interest had an aggregate of approximately 1.4 million subscribers.

**Significant synergies.** Telia and Sonera expect to derive significant synergies as a result of the merger and have identified and quantified cost and capital expenditure synergies within a number of areas in their respective operations. Synergies are expected to be derived mainly from the combined company's wholly-owned operations in the Nordic countries. In addition, synergies are expected to be derived from the combining of Telia's and Sonera's interests in the Baltic region and Russia although such synergies have not been included in the figures presented below due to the fact that not all the telecommunications operators in the Baltic countries and Russia in which Telia and Sonera have interests will be consolidated for purposes of the combined company's financial statements. In addition to cost and capital expenditure synergies, Telia and Sonera expect to achieve revenue synergies, although such revenue synergies have not been quantified.

The non-recurring savings resulting from the elimination of the overlapping mobile operations in Finland (i.e., the planned divestiture of Telia Mobile Finland and the elimination of the need to build two separate UMTS networks in Finland) are excluded. Similarly, the one-off costs resulting from the combination have been excluded from the analysis of recurring synergies.

Following the announcement of the merger, both companies have jointly undertaken detailed analyses in order to identify, quantify and develop implementation plans for potential synergies. A number of working groups have been established across the business lines and geographical areas of both companies. These efforts have been coordinated and managed by an Integration Office staffed by representatives of the management of both Telia and Sonera. However, it is important to note that the work relating to the analysis of synergy benefits has been limited by the inability of the joint working groups to mutually disclose confidential information relating, among other things, to confidential contractual terms, due principally to competition law restraints.

Telia and Sonera have estimated the magnitude of the cost synergies and capital expenditure savings using various assumptions, including:

the magnitude of Telia's and Sonera's projected costs and capital expenditures for IT systems and infrastructure, product and service development, network operations and production, purchasing and general and administrative functions;

the mix of these costs and capital expenditures across different areas; and

the proportion of the projected costs and capital expenditures that could be eliminated as a result of combining Telia's and Sonera's activities, eliminating unnecessary duplication, coordinating purchasing activities and capital expenditure programs and adopting best practices in cost control throughout the combined company.

**Cost synergies 2002-2005.** Telia and Sonera expect that the annual cost synergies will reach SEK 2.3 billion ( 250 million) by the end of 2005. Measured on a monthly basis, TeliaSonera is expected to achieve approximately 20 percent of this annual level by the end of 2003, and 50 percent by the end of 2004. These percentages represent an average across all areas of the combined company and may vary in different areas.

Cost synergies are expected to be derived within the following areas:

Product and service development (approximately 32 percent of all cost synergies) These synergies are expected to be achieved mainly through eliminating overlapping activities in product and competence development, and product management as well as in research.

IT systems and infrastructure (approximately 27 percent of all cost synergies) These synergies are expected to be achieved mainly through moving to common IT systems and technology infrastructure, eliminating overlapping technical platforms and activities, resulting in savings in system development and maintenance costs.

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Purchasing (approximately 18 percent of all cost synergies) These synergies are expected to be achieved mainly through improved bargaining power and optimizing existing supplier contracts between the two companies.

Network operations and production (approximately 14 percent of all cost synergies) These synergies are expected to be achieved mainly through modifying roaming arrangements and unifying network technologies, technical platforms and processes in network control, development and support functions for mobile, fixed and IP networks.

Corporate functions (approximately 9 percent of all cost synergies) These synergies are expected to be achieved mainly through eliminating overlapping corporate activities.

*Capital expenditure synergies 2002-2005.* Annual capital expenditure savings are expected to amount to approximately SEK 640 million ( 70 million) by the end of 2005. Measured on a monthly basis, TeliaSonera is expected to achieve approximately 30 percent of this annual level by the end of 2003, and 60 percent by the end of 2004. These percentages represent an average across all areas of the combined company and may vary in different areas.

Capital expenditure synergies are expected to be derived within the following areas:

Product and service development (approximately 38 percent of all capital expenditure synergies) These synergies are expected to be achieved mainly through elimination of overlapping investments in platforms and product development and management.

Purchasing (approximately 38 percent of all capital expenditure synergies) These synergies are expected to be achieved mainly through improved bargaining power and optimizing existing supplier contracts between the two companies.

IT systems and infrastructure (approximately 20 percent of all capital expenditure synergies) These synergies are expected to be achieved mainly through economies of scale and elimination of overlapping investments in system development and maintenance.

Network operations and production (approximately 4 percent of all capital expenditure synergies) These synergies are expected to be achieved mainly through unifying network technologies and technical platforms.

*Revenue synergies.* Revenue synergies have not been quantified, but are expected to be achieved mainly by combining the offerings of both companies and actively marketing such offerings to the combined company's larger customer base, through improved customer retention and customer relationship management as well as through the implementation of best practices. The combined company is expected to have a more attractive customer offering for current and potential customers of both companies.

*One-off expenses 2002-2005.* One-off expenses (excluding transaction expenses) resulting from the merger are expected to be limited in 2002 and to total approximately SEK 2 billion ( 220 million) over the years 2003-2005, of which approximately one-third will be in the form of capital expenditure. Most of the costs are related to the elimination of overlapping activities and most of the capital expenditure are related to investments in telecommunications and IT systems. On a pro forma basis, the total transaction expenses related to the merger are expected to amount to approximately SEK 1.2 billion ( 135 million).

*Total pre-tax cash flow synergies after 2005.* Telia and Sonera estimate that the total recurring annual pre-tax cash flow synergies to be generated from the TeliaSonera merger will be approximately SEK 2.7 billion ( 300 million) after 2005.

*Implementation process.* The identification of potential synergies has been conducted by eight separate working teams and overseen by a joint Integration Office. The eight synergy areas comprise all of Telia's and Sonera's businesses, and have been defined according to the nature of the relevant businesses.

The working groups have been assigned the task of verifying the synergy estimates and developing an implementation plan. Implementation plans contain a summary of the main activities and milestones, primary

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responsibilities and key performance indicators for follow-up. The execution of the implementation plan will commence immediately upon closing of the merger.

**Strong financial resources and cash flows.** The financial position of the combined company is expected to provide a solid and stable base from which to execute its strategy. In addition, management expects that the cash flow generation of the combined company will increase its ability to maintain its strong financial condition.

As of June 30, 2002, Telia had interest-bearing liabilities of SEK 25.6 billion ( 2.8 billion), cash and short-term investments of SEK 3.3 billion ( 0.4 billion), and short-term and long-term interest-bearing receivables of SEK 12.0 billion ( 1.3 billion). Telia's interest-bearing liabilities net of cash and short-term investments totaled SEK 22.3 billion ( 2.5 billion), and its interest-bearing liabilities net of cash and short-term investments and all interest-bearing receivables totaled SEK 10.3 billion ( 1.1 billion) as of June 30, 2002.

As of June 30, 2002, Sonera under IAS had interest-bearing debt of 3.2 billion (SEK 28.8 billion), cash and short-term investments of 1.0 billion (SEK 9.5 billion), and short-term and long-term interest-bearing receivables of 0.2 billion (SEK 1.8 billion). Sonera's interest-bearing debt net of cash and short-term investments totaled 2.1 billion (SEK 19.3 billion), and its interest-bearing debt net of cash and short-term investments and all interest-bearing receivables totaled 2.0 billion (SEK 17.6 billion) as of June 30, 2002.

Management estimates that on a pro forma basis as of June 30, 2002, the combined company had interest-bearing liabilities of SEK 54.9 billion ( 6.0 billion), cash and short-term investments of SEK 13.4 billion ( 1.5 billion), and short-term and long-term interest-bearing receivables of SEK 13.9 billion ( 1.5 billion). On a pro forma basis, the combined company's interest-bearing liabilities net of cash and short-term investments totaled SEK 41.6 billion ( 4.6 billion), and its interest-bearing liabilities net of cash and short-term investments and all interest-bearing receivables totaled SEK 27.7 billion ( 3.0 billion) as of June 30, 2002.

The combined company is expected to have relatively strong credit ratings, although lower than Telia's current credit ratings. Standard and Poor's currently has ratings of A+/A-1 on Telia's long-term and short-term debt, respectively, and ratings of BBB/A-2 on Sonera's long-term and short-term debt, respectively. Moody's currently has ratings of A-1/Prime-1 on Telia's long-term and short-term debt, respectively, and ratings of Baa2/Prime-2 on Sonera's long-term and short-term debt, respectively. S&P has placed Telia's A+/A-1 ratings on CreditWatch with negative implications and Moody's has placed its A-1/Prime-1 ratings of Telia on review for a possible downgrade. S&P has placed Sonera's BBB/A-2 ratings on CreditWatch with positive implications and Moody's has placed its Baa2/Prime-2 ratings of Sonera on review for a possible upgrade.

On a combined basis, the combined company's cash provided by operating activities totaled SEK 14.2 billion ( 1.6 billion) for the year ended December 31, 2001. In comparison, cash provided by operating activities during the same period for Telia was SEK 10.4 billion ( 1.1 billion) and for Sonera it was SEK 1.8 billion ( 0.2 billion). Similarly, on a combined basis for the six months ended June 30, 2002, the combined company's cash provided by operating activities totaled SEK 7.7 billion ( 0.9 billion), while for Telia it was SEK 4.7 billion ( 0.5 billion) and for Sonera SEK 2.6 billion ( 0.3 billion). The combined cash flows also reflect the fact that the Baltic telecommunications operators AB Lietuvos Telekomas, UAB Omnitel and Latvijas Mobilais Telefons SIA, which are currently treated by each of Telia and Sonera as associated companies accounted for under the equity method, will become consolidated subsidiaries of the combined company and their cash flows will be under the control of the combined company and will be included in the consolidated financial statements of the combined company. Furthermore, the combined cash flows reflect the fact that Telia has to divest its mobile operations in Finland and its Swedish cable TV operations to comply with the EU conditions for the merger.

**Footprint and customer base will attract best partners.** Telia and Sonera believe that the transaction constitutes a major step in the consolidation of the Nordic telecommunications industry. Further, Telia and Sonera expect that the larger scale operation and the combined competence of the two companies will make

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the combined company a strong partner in the future shaping of the telecommunications industry in the Nordic and Baltic regions and, in the longer term, in Europe.

### **Considerations of the Sonera Board of Directors**

At a meeting on March 26, 2002, the Sonera board of directors concluded that the exchange offer was in the best interests of Sonera and its shareholders and unanimously passed a resolution to recommend that Sonera shareholders accept the exchange offer.

In arriving at its determination, the Sonera board of directors consulted with Sonera's management, as well as its financial and legal advisers, and considered a number of factors, including, without limitation, the following:

The significant benefits described above that the Sonera board of directors believes will occur as a result of the merger. See Reasons for the TeliaSonera Merger.

Current industry, economic and market conditions and trends, including the likelihood of continuing consolidation and increasing competition in the telecommunications industry and the suitability of Telia as a merger partner for Sonera.

The written opinion of Goldman Sachs, delivered to the Sonera board of directors, that, as of the date of such opinion, the exchange ratio was fair from a financial point of view to the holders of Sonera shares. The Sonera board of directors accepted that Goldman Sachs' conclusion as to fairness was based on its experience, professional judgment and the financial analyses it performed as a whole. Sonera's board of directors did not reach a conclusion as to the significance of any of the individual analyses contained in the Goldman Sachs presentation materials presented to the Sonera board of directors on March 26, 2002 and summarized in Opinion of Financial Adviser to Sonera below.

That the business combination provides for balanced representation of each company on the board of directors, and that the combined company would benefit from the best of the management from both companies.

The commitment of the Republic of Finland, as Sonera's largest shareholder, to support the business combination and tender its Sonera shares in the exchange offer.

That the TeliaSonera shares are expected to be listed on the Helsinki Exchanges as well as the Stockholm Exchange, and that the TeliaSonera ADSs are expected to be quoted on NASDAQ.

The belief of the Sonera board of directors, based upon its review of other strategic alternatives available to Sonera, including remaining independent, that the merger would generate higher value for Sonera's shareholders than other strategic alternatives.

The limited overlap in the markets and customer base of Sonera's and Telia's respective businesses.

In view of the wide variety of factors considered in connection with its evaluation of the proposed merger, the Sonera board of directors did not otherwise find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the special factors considered in reaching its determination.

### **Considerations of the Telia Board of Directors**

On March 26, 2002, the Telia board of directors voted to approve the combination agreement between Telia and Sonera. The Telia board of directors has determined that the exchange offer is fair to, and in the best interests of, Telia and its securityholders.

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In arriving at its determination, the Telia board of directors consulted with Telia's management, as well as its financial and legal advisers, and considered a number of factors, including, without limitation, the following:

The significant benefits described above that the Telia board of directors believes will occur as a result of the merger. See *Reasons for the TeliaSonera Merger*.

Current industry, economic and market conditions and trends, including the likelihood of continuing consolidation and increasing competition in the telecommunications industry and the suitability of Sonera as a merger partner for Telia.

The commitment of the Kingdom of Sweden, as Telia's largest shareholder, to support the business combination and to vote its shares in favor of the resolutions to be proposed by the Telia board of directors at the extraordinary general meeting of Telia shareholders.

The fact that current Telia shareholders would hold approximately 64 percent of the share capital of the combined company, assuming full acceptance of the exchange offer by Sonera shareholders.

The belief of the Telia board of directors, based upon its review of other strategic alternatives available to Telia, including remaining independent, that the merger would generate higher value for Telia's shareholders than other strategic alternatives.

The limited overlap in the markets and customer base of Sonera's and Telia's respective businesses.

In view of the wide variety of factors considered in connection with its evaluation of the proposed merger, the Telia board of directors did not otherwise find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the special factors considered in reaching its determination.

## **The Combined Company Following the Exchange Offer**

### ***Business and Operations***

The combined company will be the leading telecommunications group in the Nordic and Baltic regions. Based on number of customers, the combined company will be the largest mobile operator in Sweden and Finland, the second largest operator in Norway and the fourth largest operator in Denmark. The combined company will also be the largest fixed voice and data provider in the Nordic region with leading positions in Sweden and Finland and a significant position in Denmark. Further, the combined company will be the largest operator in the Baltic region, with consolidated mobile and fixed line operations in Lithuania, consolidated mobile operations in Latvia, a minority interest in fixed line operations in Latvia and minority interests in mobile and fixed line operations in Estonia. The combined company will also have holdings in mobile companies in Russia, Turkey, Azerbaijan, Georgia, Kazakhstan and Moldova.

On a combined basis as of June 30, 2002, adjusted for the disposal of Telia Finland and Com Hem AB and the consolidation of Fintur Holdings as of September 1, 2002, the combined company had:

approximately 9.8 million mobile customers across the Nordic, Baltic and Eurasian regions,

approximately 8.6 million fixed network access lines, and

approximately 1.5 million Internet subscriptions across the Nordic and Baltic regions.

Additionally, on a combined basis as of June 30, 2002, the associated companies of the combined company had approximately 15.9 million mobile customers in Turkey, Russia and the Baltic region; and approximately 1.2 million fixed network access lines in the Baltic region and approximately 0.1 million fixed network access lines in Finland.

For the year ended December 31, 2001 and for the six months ended June 30, 2002, on a pro forma basis and not including the results of Fintur Holdings, net sales of the combined company amounted to SEK 80.9 billion ( \$ 8.9 billion) and SEK 39.9 billion ( \$ 4.4 billion), respectively.

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As of June 30, 2002, the combined company had 30,045 employees on a combined basis, adjusted for the disposal of Telia Finland and Com Hem AB and the consolidation of Fintur Holdings as of September 1, 2002.

The combined company is proposed to be renamed TeliaSonera. The combined company will, however, retain its current brand names, using Telia in Sweden and Denmark, Sonera in Finland, and NetCom in Norway.

TeliaSonera will use the Swedish krona as its reporting currency but will also, in all investor information, show key information in relation to its results of operations, financial condition and cash flows in euros.

### ***Strategy of the Combined Company***

The implementation of the strategy and business structure for the combined company will not commence until the exchange offer has been completed. Until such time, Telia and Sonera will continue their respective operations under their current strategies and business structures.

Members of the senior management of Telia and Sonera have undertaken the task of formulating a strategy for and defining the governance of the combined company. Following a review of the operations, financial condition and strategic direction of Telia and Sonera as stand-alone companies, Telia and Sonera have reached the following preliminary conclusions with respect to the strategy of the combined company:

#### ***Group Strategy***

The combined company's overall focus will be on best serving its customers in its core business and creating value for its shareholders through stronger profits and cash flows.

#### ***Focus on core business***

The principal focus of the combined company will be to further develop its business in its home market, which comprises the Nordic and Baltic markets. In Sweden, Finland and the Baltic countries, the combined company will provide a full range of telecommunications services to its customers, whereas in Norway and Denmark the combined company will initially offer a selected range of services with a focus on services that can be delivered profitably. Provided that the right expansion opportunities develop, the combined company intends to become a provider of a full range of services in all countries within its home market.

#### ***Growth opportunities outside of the home market***

The combined company intends to achieve growth through the further development of its Russian businesses with the aim, in the longer term, of having Russia form part of the combined company's extended home market.

The combined company will seek to grow and create value in the international mobile businesses of Turkcell in Turkey and Fintur in Eurasia.

The combined company will also seek growth in the refocused international carrier business.

#### ***Adopt customer-oriented approach***

The combined company will be in the business of providing telecommunications services to customers rather than providing technology or access to networks as such. Accordingly, the combined company will aim at accelerating the refocusing of its operations from a technology-driven approach to a customer-oriented approach, thereby enhancing its ability to achieve growth in its core businesses. The combined company will seek to be innovative in packaging its product and service offerings for both retail and business customers to better meet the needs of its customers for integrated and easy-to-use services.

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*Pursue profitable growth*

The combined entity will seek balanced growth in its home market and target selected growth opportunities outside its home market where requirements for return on investment and other factors are satisfied as well as continue to evaluate participation in the consolidation of the European telecommunications services industry.

*Increase revenues in its home market.*

The combined company will seek to achieve profitable growth in its core business through combined product and service offerings, cross selling and an intensified customer service approach.

The combined company is committed to strengthening its customer-oriented focus by offering its customers a comprehensive range of telecommunication services. For consumers, the combined company's goal is to offer simple, easy-to-use services that combine fixed network, mobile and Internet communications capabilities. For corporate customers, the combined company will work to enhance its ability to deliver communication services through its diverse portfolio of voice and data services. The combined company will also expand its services, together with its partners, in a focused manner to include telecommunications-intensive IT services when they are related to the telecommunications needs of its corporate customers.

This full service approach, capitalizing on the breadth and competence of the combined company, will be pursued not only in Sweden, Finland and the Baltic countries but also in Norway and Denmark to the extent the combined company believes that it can be carried out profitably.

Management believes that these initiatives will provide substantial opportunities to increase revenues both from Telia's and Sonera's existing customer base and from new customers in selected market segments and, consequently, will strengthen the combined company's market position in both the consumer and corporate segments in its home market.

Management believes that there are significant growth opportunities to be achieved through increased use of telecommunications services in the Baltic countries, where penetration rates are lower than in the Nordic countries. The combined company will aim to benefit from these growth opportunities by obtaining controlling interests in its Baltic operations, to the extent practicable and financially viable, while maintaining strong cooperation and joint ownership with its local partners.

*Pursue growth in Russia.*

The Russian market represents a significant growth opportunity for TeliaSonera. The combined company will own a 43.8 percent direct and indirect interest in MegaFon, the first Russian GSM operator with licenses to offer services nationwide. The combined company will seek to take advantage of the growth opportunities presented by increasing the penetration of mobile services in Russia. Management believes that the combined company can enhance the value of MegaFon by making available its competence in telecommunications operations on the basis of its home market experience. TeliaSonera may consider capitalizing on such growth opportunities by increasing its ownership interest in its Russian operations, to the extent practicable and financially viable, while maintaining strong cooperation and joint ownership with its local partners. While the combined company's focus is on its mobile operations, it may also consider other opportunities. Because investing in Russia involves a higher degree of risk than investing in the combined company's home markets, the combined company will only decide on making additional investments in Russia where it believes it can achieve a higher return on its investment than in its home market.

*Pursue growth in international mobile operations in Turkey and Eurasia.*

TeliaSonera foresees significant growth potential in its international operations in Eurasia and Turkey, as the market for mobile services in these areas continues to grow. Management believes that, through its majority owned investments in Azerbaijan, Georgia, Kazakhstan and Moldova through Fintur

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and its 37.1 percent investment in Turkey through Turkcell, the combined company will be able to capitalize on the strong market position of its majority owned and associated companies in these regions that have comparatively low penetration rates for mobile services. Management believes that, with the combined company's expertise in mobile communications, TeliaSonera will be able to enhance the ability of these companies to achieve significant growth.

*Participate in the consolidation of the European telecommunications services industry.*

TeliaSonera expects that the consolidation of the telecommunications services industry will continue. Before pursuing any potential transaction, TeliaSonera's management will carefully evaluate whether the transaction would improve its ability to serve its customers and enhance shareholder value.

The first priority is to strengthen the combined company's position in its home market and to develop the home market business into a valuable asset.

In the longer term, TeliaSonera's intention is to use its home market business as a strong base from which to build a larger company by participating in the consolidation of the European telecommunications services industry. This could take the form of acquisitions, business combinations or partnership arrangements.

*Generate increased profits and cash flow*

The combined company aims to significantly increase profits in the longer term, both on an operating income level as well as on an EBITDA and net income per share level. Management expects increased profits to come from profitable growth, anticipated cost synergies from the merger, stand-alone efficiency improvements, improvement of under-performing businesses and divestment of non-core assets.

The combined company will have an equally strong focus on increasing operating cash flows, which management expects to come from increased profits, from anticipated capital expenditure synergies resulting from the merger and from a cautious business-oriented approach to capital expenditures.

The combined company plans to maintain a strong financial position to enable it to develop its core business.

The following actions will be undertaken to support increased profits and cash flows:

*Increased profits and cash flow from implementation of synergies.*

TeliaSonera will seek to realize the expected synergy benefits for the merger. Management estimates that the total recurring annual pre-tax cash flow synergies to be generated from the merger will amount to approximately SEK 2.7 billion ( 300 million) after 2005. See

Reasons for the TeliaSonera Merger Significant synergies.

*Increased profits and cash flow from stand-alone efficiency improvements.*

TeliaSonera aims to achieve cost and capital expenditure savings on a stand-alone basis to improve its profits and cash flow. The combined company plans to realize these savings from both the continuation of the independent companies' on-going efficiency programs as well as from new efficiency improvement programs. The areas designated for improvement are similar to those in which expected synergy benefits are to be achieved in connection with the merger. The larger size of the combined company is expected to allow it to use benchmarking more efficiently as a tool to achieve cost and capital expenditure savings.

*Increased profits from divestment of non-core assets.*

Both Telia and Sonera have divested non-core assets in recent years. The combined company intends to continue to streamline its businesses by divesting operations and assets that are not essential to



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its core business. In particular, TeliaSonera is considering the potential divestment of the following businesses:

TeliaSonera is planning to divest the remainder of Telia's present non-core investments in telecommunications operators outside of the Nordic countries, the Baltic region and Russia in light of market conditions or otherwise in an effort to maximize return on such investments.

Sonera has entered into an agreement to divest a portion of its shareholdings in SmartTrust AB and has divested a portion of Sonera Zed, and TeliaSonera intends to continue the process of working with third parties to further develop the SmartTrust AB and Sonera Zed businesses.

The combined company will consider the disposal of certain operations that could be sourced more efficiently from outside providers.

The combined company will continue to cap its expenditure and investments in its international UMTS ventures to no more than 450 million (SEK 4.1 billion) during the years 2002-2011. In the second quarter of 2002, Sonera wrote down its investments in each of Group 3G and Ipse 2000 to zero reflecting changes in the circumstances relating to such companies' business plans and operating environments. In July 2002, the board of directors of each of Group 3G and Ipse 2000 decided to halt the commercial operations of the companies. These UMTS holdings are now being treated as financial investments.

TeliaSonera has agreed to dispose of Telia's existing mobile business in Finland and Telia's existing cable TV business in Sweden as a condition to the receipt of competition clearance for the merger from the European Commission.

*Generate increased profitability from improving under-performing businesses*

TeliaSonera plans to improve the performance of its under-performing businesses with the goal of having such businesses achieve profitability on an operating profit level and also result in a positive operating cash flow. Specifically, TeliaSonera plans to:

*Transform the International Carrier business into a financially viable operation.*

The combined company will aim to make its international carrier business cash flow positive as quickly as possible. In September 2002, Telia completed a comprehensive review of its international carrier operations, and decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. As part of Telia International Carrier's new strategy, it will focus on offering wholesale capacity and IP services to large customers over the profitable parts of its wholly owned European and trans-Atlantic networks. As part of the restructuring program, Telia has decided to close down Telia International Carrier's Asian operations as well as its national voice reseller business in the United Kingdom and Germany, discontinue to offer domestic capacity services in the United States and terminate its co-location business. Telia will also significantly reduce the number of commercial points of presence of Telia International Carrier. Telia will also centralize the sales, finance, administration and customer care resources of Telia International Carrier in Sweden. Telia also estimates that, as part of the restructuring, Telia International Carrier will reduce its current workforce of approximately 800 persons by more than 50 percent. The strategic refocusing and restructuring will also enable Telia International Carrier to substantially scale down the number of offices and technical facilities it maintains, as well as reduce the number of its operation and maintenance contracts and leased lines. Adjusted for the estimated restructuring charges, Telia expects its refocused international carrier operations to achieve positive cash flow during 2003.

*Continue improvement of the operational performance in Telia's Danish units.*

Telia has already taken actions to improve the performance of its Danish operations. Management expects that its current initiatives related to the Danish fixed voice and Internet services operations will improve the combined company's market position in Denmark. Management expects Telia's new Danish GSM 900 network, which is due to be completed in 2002, to improve its market position in

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Denmark. Starting from a small market share, challenging the largest operator in Denmark, the combined company will aim to pursue growth. Telia's Danish mobile operations have recently recorded strong customer growth, having increased its subscriber base by over 40 percent in the first half of 2002.

### *Continue restructuring of Sonera's Service Businesses.*

Sonera commenced restructuring its Service Businesses in 2001 and has made a commitment that underlying EBITDA losses from the Service Businesses will not exceed 50 million (SEK 450 million) in 2002, and will reach at least break-even in 2003. This restructuring is proceeding according to plan and will be continued following the TeliaSonera merger. Underlying EBITDA losses have already been reduced substantially to 23 million (approximately SEK 210 million) for the first six months of 2002 compared to 155 million (approximately SEK 1.4 billion) for the same period in 2001.

## ***Group Governance***

The combined company intends to ensure that the appointment of the combined company's executives and the members of management will be based only on competence and ability.

### *Board of Directors*

In accordance with the terms of the shareholders' agreement between the Kingdom of Sweden and the Republic of Finland relating to the merger of Telia and Sonera, the board of directors of the combined company will comprise a total of nine non-executive members. Initial members, in addition to the current chairmen of the boards of directors of Telia and Sonera, will include three representatives from each of the current boards of directors of Telia and Sonera and one newly appointed independent director. As of the annual general meeting of the shareholders of the combined company in the year 2003, two of the members appointed from the current boards of directors (one from each board of directors), will step down and two new independent directors will be appointed.

In addition, the board of directors of the combined company will include up to three employee representatives.

The nomination committee of the combined company will comprise the chairman and deputy chairman of its board of directors. The nomination committee shall organize a consultation procedure to provide the principal shareholders of the combined company an opportunity to participate in the nomination process. It is the intention that the board members initially appointed in connection with the exchange offer and re-appointed at the annual general meeting of the shareholders of the combined company in 2003 will serve at least until the annual general meeting of the shareholders of the combined company in 2004.

Tapio Hintikka, the chairman of the board of directors of Sonera, is proposed to be the chairman of the board of directors of the combined company and Lars-Eric Petersson, the chairman of the board of directors of Telia, is proposed to be the deputy chairman.

### *Management*

TeliaSonera will operate as an integrated company with strong central control over strategic matters and over achievement of synergies and stand-alone improvements. At the same time, responsibilities for achieving profitability, day-to-day operations and local business will be decentralised to country-based profit centers managed without frequent corporate headquarter management involvement. Central control of the combined company will be carried out by the corporate headquarters and two operational units.

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### *Corporate Headquarters*

The principal executive officers of TeliaSonera upon completion of the exchange offer will be as follows:

*Anders Igel* will be the chief executive officer of the combined company.

*Harri Koponen* will be the deputy chief executive officer of the combined company.

*Kim Ignatius* will be the chief financial officer of the combined company.

*Michael Kongstad* will be responsible for corporate communications.

*Jan Henrik Ahmell* will be responsible for corporate legal affairs.

*Harri Koponen* will also be responsible for the operational unit Marketing, Products and Services, with responsibility for the control of common product and services development in the combined company's home markets and key account responsibility for large multi-domestic home market accounts.

*Lars-Gunnar Johansson* will be responsible for the operational unit Networks and Technology, which will be responsible for the common telecommunications platforms and IT support platforms in the combined company's home markets and will also have responsibility for procurement.

The two operational units will have authority over country-based profit centers on central control matters and over decisions involving a longer time horizon. Country-based profit centers and the two operational units will use the same financial reporting systems, including customer segment profits, product segment profits and selected key performance indicators.

### *Country-based Profit Centers*

Country-based profit centers will be grouped into four units. Upon completion of the exchange offer, the persons responsible for such profit centers will be as follows:

*Anders Igel* will, for the time being, be responsible for the profit center Sweden.

*Anni Vepsäläinen* will be responsible for the profit center Finland.

*Kenneth Karlberg* will be responsible for the profit center Norway, the Baltic countries and Denmark.

*Aimo Eloholma* will be responsible for the profit center International Operations, which will include Russia, Turkey, Eurasia and International Carrier.

Country-based profit centers are to be responsible for all operational resources, including marketing, sales, network operations and development of products and services. In Sweden and Finland, the network operations units will be maintained separately from the units carrying out the corresponding retail activities, with transparent financial reporting and will also provide wholesale services to third-party operators. In Sweden and Finland, profit center responsibilities will be allocated based on the following customer segments: consumer, business and large corporate customers.

The combined company's corporate governance structure will be based on the current corporate governance structure of each of Telia and Sonera to the extent possible, with a goal of limiting changes primarily to control structure changes. Thus, it is expected that Sonera's new governance model in Finland will continue to be implemented mainly as planned. Telia's current corporate governance model in Sweden will be modified mainly to reflect the combined company's new customer-focused approach. Existing business area responsibilities based on product and service offerings, such as mobile and fixed network services, will be discontinued and replaced by customer segment responsibilities.

## **Opinion of Financial Adviser to Sonera**

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On March 26, 2002, Goldman Sachs delivered its written opinion to the Sonera board of directors that, as of that date, and based upon and subject to the factors and assumptions referred to in the opinion, the

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exchange ratio of 1.51440 shares of Telia to be received for each share of Sonera pursuant to the combination agreement was fair from a financial point of view to the holders of the outstanding shares of Sonera.

**The full text of the written opinion of Goldman Sachs, dated March 26, 2002, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this prospectus. Goldman Sachs provided its opinion for the information and assistance of the Sonera board of directors in connection with its consideration of the transaction contemplated by the combination agreement. The Goldman Sachs opinion is not a recommendation as to whether or not any holder of Sonera shares or Sonera ADSs should tender such Sonera shares or Sonera ADSs in connection with the transaction. We urge you to read the opinion in its entirety.**

In connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

the combination agreement;

the shareholders' agreement between the Republic of Finland and the Kingdom of Sweden;

certain publicly available information relating to Sonera, including the audited consolidated annual reports of Sonera to its shareholders for each of the years ended December 31, 1999, December 31, 2000 and December 31, 2001, the Annual Reports on Form 20-F of Sonera for each of the years ended December 31, 2000 and December 31, 2001, the Prospectus, dated as of November 9, 2001, relating to the rights offering of 371,767,243 shares of Sonera, and certain interim reports of Sonera to its shareholders;

certain publicly available information relating to Telia, including the audited consolidated annual reports of Telia to its shareholders for each of the years ended December 31, 1999 and December 31, 2000 and certain interim reports of Telia to its shareholders;

certain internal financial analyses and forecasts for Sonera and Telia prepared by their respective managements, including certain cost savings and operating synergies projected by the managements of Sonera and Telia to result from the transaction contemplated by the combination agreement; and

certain pro forma consolidation calculations of the effect of a merger between Sonera and Telia prepared by their respective managements.

Goldman Sachs also held discussions with members of the senior managements of Sonera and Telia regarding their assessment of the strategic rationale for, and the potential benefits of, the transaction contemplated by the combination agreement and the past and current business operations, financial condition and future prospects of their respective companies. In addition, Goldman Sachs:

reviewed the reported price and trading activity for the shares of Sonera and the shares of Telia;

compared certain financial and stock market information for Sonera and Telia with similar information for certain other companies, the securities of which are publicly traded; and

reviewed the financial terms of certain recent business combinations in the telecommunications industry specifically and in other industries generally, and performed such other studies and analyses as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting and other information discussed with or reviewed by it and assumed such accuracy and completeness for purposes of rendering its opinion described above. In that regard, with the consent of the board of directors of Sonera, Goldman Sachs assumed that the internal financial analyses and forecasts for Sonera and Telia prepared by their respective managements, including certain cost savings and operating synergies projected by the managements of Sonera and Telia to result from the transaction, have been reasonably prepared on a basis reflecting the best currently available estimates of Sonera and Telia and that such synergies will be realized in the amounts and time periods contemplated thereby. In addition, Goldman Sachs did not make an

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independent evaluation or appraisal of the assets and liabilities of Sonera or Telia or any of their subsidiaries and Goldman Sachs has not been furnished with any such evaluation or appraisal.

The following is a summary of the material financial analyses used by Goldman Sachs in connection with rendering the opinion described above. A summary, by its nature, does not purport to be a complete description of the information it summarizes. The order of the analyses described below and the results of those analyses do not represent the relative importance or weight given to those analyses by Goldman Sachs. To the extent that the following quantitative information is based on market data, internal financial analyses or forecasts prepared by the management of Sonera or Telia, or published analysts' reports or estimates, such quantitative information is based on such market data, financial analyses or forecasts and analyst reports and estimates as they existed at or about March 22, 2002 and is not necessarily indicative of current conditions.

**Some of the summaries of the financial analyses below include information presented in tabular format. The tables alone are not a complete description of Goldman Sachs' financial analyses and should be read together with the full text of each summary.**

(i) *Historical Stock Trading Analysis.* Goldman Sachs reviewed the historical trading prices and volumes for the shares of Sonera and the shares of Telia, in each case, for the one-year period ended March 22, 2002.

Goldman Sachs observed that the high, low and volume-weighted average closing prices of the Sonera shares for the year ended March 22, 2002 were 10.12, 2.25 and 5.62, respectively. Goldman Sachs observed that the high, low and volume-weighted average closing prices of the Sonera shares for the six months ended March 22, 2002 were 6.20, 2.25 and 5.00, respectively. Goldman Sachs observed that the high, low and volume-weighted average closing prices of the Sonera shares for the three months ended March 22, 2002 were 6.12, 4.69 and 5.38, respectively. The Sonera shares closed at 5.70 on March 22, 2002.

Goldman Sachs also observed that the high, low and volume-weighted average closing prices of the Telia shares for the year ended March 22, 2002 were SEK 70.50, SEK 33.70 and SEK 49.86, respectively. Goldman Sachs observed that the high, low and volume-weighted average closing prices of the Telia shares for the six months ended March 22, 2002 were SEK 53.50, SEK 33.70 and SEK 45.18, respectively. Goldman Sachs observed that the high, low and volume-weighted average closing prices of the Telia shares for the three months ended March 22, 2002 were SEK 47.90, SEK 33.70 and SEK 40.75, respectively. The Telia shares closed at SEK 39.30 on March 22, 2002.

Such analysis indicated that the exchange ratio of 1.51440 Telia shares to be received for each Sonera share pursuant to the combination agreement represented a premium of 15.9 percent based on the closing prices for the Sonera shares and the Telia shares on March 22, 2002.

As of the close of business on March 22, 2002, the last trading day before wide spread speculation in the Finnish and Swedish media as to an imminent Telia/ Sonera transaction, the Sonera share price on the Helsinki Exchanges was 5.70 per share and the Telia share price on the Stockholm Exchange was SEK 39.30 per share. Based upon the exchange ratio of Telia shares for Sonera shares in the combination agreement, the closing price of Telia shares on the Stockholm Stock Exchange on March 22, 2002 and Swedish krona to euro exchange rate of 9.0117 on the same date, the implied consideration pursuant to the combination agreement was 6.60 per Sonera share.

(ii) *Selected Companies Analysis.* Goldman Sachs reviewed and compared certain financial information for Sonera and Telia to corresponding financial information, ratios and public market multiples for the following 12 companies in the European mobile telecommunications industry:

Europolitan Holdings AB,

Libertel-Vodafone NV,

mmO2 plc,

Mobistar SA,

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Orange SA,

Panafon Hellenic Telecoms Company SA,

Stet Hellas Telecommunications SA,

Vodafone Telecel-Comunicacoes Pessoais SA,

Teléfono Móviles SA,

Telecom Italia Mobile SpA,

Turkcell İletisim Hizmetleri A.S., and

Vodafone Group plc.

Goldman Sachs also reviewed and compared certain financial information for Sonera and Telia to corresponding financial information, ratios and public market multiples for the following 12 companies in the European fixed line telecommunications industry:

BT Group plc,

Deutsche Telekom AG,

France Telecom SA,

Koninklijke KPN NV,

Hellenic Telecommunications Organization,

Portugal Telecom SGPS SA,

Swisscom AG,

Telecom Italia SpA,

TDC A/S,

Teléfono SA,

Telekom Austria AG, and

Telenor ASA.

Although none of the selected companies is directly comparable to Sonera or Telia, the selected companies included in this analysis were chosen because they are companies with operations that, for purposes of analysis, may be considered similar to certain operations of Sonera and Telia.

Goldman Sachs also calculated and compared various financial multiples and ratios based on information it obtained from published research analysts' estimates and other publicly available information. The multiples and ratios for Sonera and Telia were based on information provided by their respective managements. The multiples and ratios of Sonera and Telia were calculated using the respective closing prices on March 22, 2002. With respect to the selected companies, Goldman Sachs calculated enterprise value, which is the market value of the common equity plus the actual or estimated fiscal year 2001 net book value of debt and the value of minority interests less the estimated value of

associated companies, as a multiple of the projected fiscal year 2002 and 2003 earnings before interest, taxes, depreciation and amortization, or EBITDA.



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The results of this analysis are summarized as follows:

| Enterprise Value as a multiple of: | Selected Companies                           |        |  |        |        |       |
|------------------------------------|--|--------|--|--------|--------|-------|
|                                    | European mobile telecommunications companies |        | European fixed line telecommunications companies |        | Sonera | Telia |
|                                    | Range  | Median | Range  | Median |        |       |
| EBITDA                             |  |        |  |        |        |       |
| 2002E                              | 5.3-12.3x                                    | 8.3x   | 5.4-8.5x   | 7.5x   | 8.4x   | 8.2x  |
| 2003E                              | 4.3-13.6x                                    | 7.2x   | 4.4-8.0x   | 7.1x   | 7.2x   | 7.3x  |

Goldman Sachs also calculated:

projected fiscal year 2002 and 2003 EBITDA margins, and

three-year compound annual growth rate, or CAGR, of projected EBITDA for the period ending in the fiscal year 2005.

The results of this analysis are summarized as follows:

|                       | Selected Companies                           |        |  |        |        |       |
|-----------------------|--|--------|--|--------|--------|-------|
|                       | European mobile telecommunications companies |        | European fixed line telecommunications companies |        | Sonera | Telia |
|                       | Range  | Median | Range  | Median |        |       |
| EBITDA 2002E          | 13.0-43.0%                                   | 34.0%  | 24.8-41.6%                                       | 31.2%  | 34.0%  | 24.8% |
| Margin 2003E          | 17.0-42.0%                                   | 33.0%  | 26.4-41.7%                                       | 31.4%  | 36.0%  | 26.4% |
| 2002-2005 EBITDA CAGR | 4.0-31.0%                                    | 11.0%  | 2.6%-11.2%                                       | 6.5%   | 10.0%  | 10.0% |

(iii) *Discounted Cash Flow Analysis.* Goldman Sachs performed a discounted cash flow analysis of Telia and Sonera using projections prepared by the respective managements of Telia and Sonera. Goldman Sachs calculated an implied net present value of free cash flows for the fiscal years 2002 through 2005, using a range of weighted average cost of capital as the discount rate. Goldman Sachs calculated the implied net present values for the cash flows for the fiscal year 2006 and subsequent periods based on the perpetuity method. The implied equity values per Sonera share and per Telia share derived from this discounted cash flow analysis are presented in the following table:

|        | Implied Equity Value Per Share |          |
|--------|--------------------------------|----------|
| Sonera | 5.49                           | 7.12     |
| Telia  | SEK 32.7                       | SEK 47.4 |

(iv) *Synergies Analysis.* Goldman Sachs reviewed the synergy estimates provided by the managements of Sonera and Telia. For the purposes of analyzing the potential impact of the synergy estimates on the implied premium to the holders of the shares of Sonera as well as the potential impact on the future trading level of the combined company, Goldman Sachs used the annual revenue and cost synergy estimates of 300 million for each fiscal year beginning in the fiscal year 2006, which were prepared by the managements of Sonera and Telia. Goldman Sachs then applied an EBITDA multiple derived from publicly available information to these synergy estimates. In addition, Goldman Sachs used the implied net present value of the capital expenditure synergy estimates of approximately 400 million, prepared by the managements of Sonera and Telia. The total implied value of the synergy estimates based on this analysis was approximately 2.3 billion.

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Goldman Sachs also analyzed the total profit synergies in 15 selected transactions in the telecommunications industry announced since 1996. Goldman Sachs obtained all of the information for the analysis from publicly available sources. The analysis showed that the total profit synergies as a percentage of the combined revenues ranged from 1.6 percent to 31.8 percent, the total profit synergies as a percentage of the combined EBITDA ranged from 5.9 percent to 415.7 percent and the total profit synergies as a percentage

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of the combined capital expenditures ranged from 0.0 percent to 36.5 percent, in each case for the fiscal year in which such transaction was announced. Goldman Sachs compared this data to the total profit synergy estimates as a percentage of the combined revenues of 3.3 percent, the total profit synergy estimates as a percentage of the combined EBITDA of 13.3 percent and the total profit synergy estimates as a percentage of the combined capital expenditures of 2.6 percent, in each case, of Sonera and Telia on a pro forma basis, assuming completion of the transaction contemplated by the combination agreement and based on the synergy estimates prepared by the managements of Sonera and Telia.

(v) *Combination Analysis.* Goldman Sachs prepared analyses of the financial impact of the transaction contemplated by the combination agreement for each of the fiscal years 2001 through 2004. The analysis was performed using the earnings estimates for Sonera and Telia prepared by their respective managements, excluding amortization costs relating to Sonera's 3G telecommunications license and assuming, in the alternative, that no synergies will be realized and that full synergies will be realized from the transaction contemplated by the combination agreement. Goldman Sachs compared the estimated earnings per Telia share on a stand-alone basis, to the estimated earnings per share of the combined company. Goldman Sachs performed this analysis based on the respective closing prices of Sonera shares and Telia shares on March 22, 2002. Based on management estimates, the proposed transaction would have been dilutive to the holders of Telia shares on an estimated earnings per share basis in both scenarios in the fiscal year 2001 and would be accretive to the holders of Telia shares on an estimated earnings per share basis in each of the fiscal years 2002 through 2004.

(vi) *Contribution Analysis.* Goldman Sachs performed a contribution analysis in which it analyzed and compared the relative contributions to be made by each of Sonera and Telia to:

revenues,

EBITDA,

EBITDA less capital expenditures,

market capitalization, and

enterprise value,

in each case, of the combined company on a pro forma basis and assuming completion of the transaction contemplated by the combination agreement. Goldman Sachs obtained all of the information for the analysis from publicly available information regarding Sonera and Telia, as well as certain published analysts' reports and estimates and information provided by the managements of Sonera and Telia. Goldman Sachs performed the analysis using the respective closing prices of Sonera shares and Telia shares on March 22, 2002.

For comparison purposes, Goldman Sachs then derived the relative implied ownership of the combined company using the exchange ratio of 1.51440 Telia shares to be received for each Sonera share pursuant to the combination agreement. Goldman Sachs observed that based on such exchange ratio, the holders of Sonera shares would contribute 36.0 percent of the equity value of the combined company and 40.9 percent of the enterprise value of the combined company. The average equity contribution by the holders of Sonera shares would be 27.4 percent for the six-month period ending March 22, 2002, 31.5 percent for the three-month period ending March 22, 2002 and 32.7 percent for the month ending March 22, 2002.

The results of Goldman Sachs' contribution analysis of the relative percentage contributions to be made by each of Sonera and Telia to the combined company are presented in the table below. The contribution to the combined company based on the combined revenues, the combined EBITDA and the combined EBITDA less capital expenditures should be compared to the contribution by the holders of Sonera shares of 40.9 percent of the combined enterprise value.

**Table of Contents****Percentage Contribution to the Combined Company**

|   | Sonera         | Telia          |
|---|----------------|----------------|
| Combined revenues                         |                |                |
| 2000A                                     | 25.5%          | 74.5%          |
| 2001A                                     | 25.6%          | 74.4%          |
| 2002E                                     | 25.2%          | 74.8%          |
| 2003E                                     | 25.2%          | 74.8%          |
| 2004E                                     | 24.6%          | 75.4%          |
| Combined EBITDA                           |                |                |
| 2000A                                     | 25.6%          | 74.4%          |
| 2001A                                     | 28.2%          | 71.8%          |
| 2002E                                     | 31.6%          | 68.4%          |
| 2003E                                     | 29.5%          | 70.5%          |
| 2004E                                     | 28.0%          | 72.0%          |
| Combined EBITDA less capital expenditures |                |                |
| 2000A                                     | Not meaningful | Not meaningful |
| 2001A                                     | Not meaningful | Not meaningful |
| 2002E                                     | 61.2%          | 38.5%          |
| 2003E                                     | 44.7%          | 55.0%          |
| 2004E                                     | 34.4%          | 65.3%          |
| Combined market capitalization            | 32.7%          | 67.3%          |
| Combined enterprise value                 | 38.1%          | 61.9%          |

(vii) *Selected Transactions Analysis.* Goldman Sachs analyzed certain information relating to 104 merger of equals business combinations across a variety of industries since 1992. Goldman Sachs obtained all of the information for the analysis from publicly available sources. Goldman Sachs analyzed each transaction by comparing the relative equity values of the target company involved in the transaction as of one day prior to the announcement of the transaction to the equity value of the target company after giving effect to the transaction. This analysis indicated that the mean premium in terms of the equity value of the target company after giving effect to the transaction to the equity value of the target company prior to the announcement of the transaction, based on closing market prices one day prior to the announcement of the transaction, was 12.7 percent. Goldman Sachs also analyzed each transaction by comparing the equity value of the target company involved in the transaction as of one day prior to announcement of the transaction to the implied equity value of the target company based on the agreed split of ownership in the transaction. This analysis indicated that the mean premium in terms of implied equity value of the target company over the equity market value of the target company based on closing prices one day prior to the announcement of the transaction was 6.2 percent.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs' opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all such analyses and did not attribute any particular weight to any factor or analysis that it considered. No company or transaction used in the above analyses as a comparison is directly comparable to Sonera or Telia or the contemplated transaction.

In addition, Goldman Sachs prepared its analyses for purposes of rendering an opinion to the Sonera board of directors as to the fairness from a financial point of view to the holders of the Sonera shares of the exchange ratio of 1.51440 shares of Telia to be received for each Sonera share pursuant to the combination

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agreement. The analysis that Goldman Sachs performed in connection with rendering its opinion were not appraisals and do not necessarily reflect the prices at which businesses or securities actually may be sold. In addition, Goldman Sachs analyses were, in part, based upon forecasts of future results that are not necessarily indicative of actual future results, and which may be significantly more or less favorable than suggested by these analyses. Because these analyses performed by Goldman Sachs in connection with rendering its opinion are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of Sonera, Telia, Goldman Sachs or any other person assumes responsibility if future results are materially different from those forecast.

As described above, Goldman Sachs opinion to the Sonera board of directors was one of many factors taken into consideration by the Sonera board of directors in making its determination to approve the combination agreement. A summary, by its nature, does not purport to be a complete description of the information it summarizes. The foregoing summary is qualified in its entirety by reference to the written opinion of Goldman Sachs attached as Annex D to this prospectus.

Goldman Sachs, as part of its investment banking business, is continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities and private placements as well as for estate, corporate and other purposes. Goldman Sachs is familiar with Sonera having acted as global coordinator in connection with the offering of 143,950,000 Sonera shares by the Republic of Finland in October 1999 and having provided certain investment banking services to Sonera from time to time, including having acted as financial adviser to Sonera and as joint global coordinator in connection with the rights offering of 371,767,253 Sonera shares in November 2001 and having acted as the financial adviser to Sonera in connection with the sale of Sonera Info Communications Ltd. and in connection with the combination agreement.

Goldman Sachs has provided certain investment banking services to Telia from time to time, including having acted as the financial adviser to the Kingdom of Sweden in connection with the merger of Telia and Telenor ASA in 1998, which was subsequently unwound. Goldman Sachs provides a full range of financial advisory and securities services and, in the course of its normal trading activities, may from time to time effect transactions and hold securities, including derivative securities, of Sonera or Telia, for its own account and for the accounts of customers.

Sonera selected Goldman Sachs as its financial adviser because it is a globally recognized investment banking firm that has substantial experience in transactions similar to the transaction contemplated by the combination agreement.

Pursuant to a letter agreement dated March 18, 2002, Sonera engaged Goldman Sachs to act as its financial adviser in connection with the contemplated transaction. Pursuant to the terms of this engagement letter, Sonera has agreed to pay Goldman Sachs a transaction fee of 20 million, of which 7 million was payable upon announcement of the transaction contemplated by the combination agreement and the remainder is due upon the completion of the contemplated transaction. Sonera also has agreed to reimburse Goldman Sachs for its reasonable out-of-pocket expenses, including attorneys fees, and to indemnify Goldman Sachs against certain liabilities, including certain liabilities under the U.S. federal securities laws.

## **Board Recommendation**

At a meeting on March 26, 2002, the Sonera board of directors concluded that the exchange offer was in the best interests of Sonera and its shareholders and unanimously passed a resolution to recommend that Sonera shareholders participate in the exchange offer.

Please refer to THE EXCHANGE OFFER Interest of Members of Sonera s Board and Management; Potential Conflicts of Interest for a description of, among other things, potential conflicts of interest the Sonera board of directors may have in recommending that Sonera shareholders participate in the exchange offer. You should note the potential for conflicts of interest and the benefits available to Sonera s directors when considering the Sonera board of directors recommendation to approve the exchange offer and the

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merger. Sonera's officers and directors have employment agreements, benefit plans, stock options and rights to indemnification that provide them with interests in the merger that may be considered different from, or in addition to, interests of Sonera's shareholders.

**Irrevocable Undertaking by the Republic of Finland**

The Republic of Finland, which owns 52.8 percent of the shares of Sonera, has irrevocably undertaken to Telia that it will tender all of its shares in Sonera in the exchange offer, provided that neither Sonera nor Telia has terminated the combination agreement in accordance with its terms.

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**THE EXCHANGE OFFER**

**General Terms of the Exchange Offer**

*Sonera Shares and ADSs*

Telia is offering:

1.51440 Telia shares, nominal value SEK 3.20 each, in exchange for each Sonera share, with no nominal value, validly tendered in the exchange offer; and

0.30288 Telia ADSs in exchange for each Sonera ADS, each representing one Sonera share, validly tendered in the exchange offer. Each Telia ADS represents five Telia shares.

Fractional entitlements to Telia shares or Telia ADSs will not be delivered to holders of Sonera securities validly tendered in the exchange offer. Instead, fractional entitlements to Telia shares or Telia ADSs following from the exchange ratio will subsequently be combined and sold on the Stockholm Exchange or the Helsinki Exchanges, in the case of Telia shares, or on NASDAQ, in the case of Telia ADSs, in each case on behalf of, and proceeds of the sales will be distributed pro rata to, the Sonera security holders entitled to fractional entitlements. See *Fractional Shares and ADSs* below.

Pursuant to the terms of the combination agreement, as amended, the 550,000 Sonera shares currently held by Sonera in treasury are excluded from the exchange offer.

Upon completion of the exchange offer, the share capital of Telia will be increased by a maximum of SEK 5,460,175,724.80 from SEK 9,603,840,000 to SEK 15,064,015,724.80. If all the holders of Sonera shares, including holders of Sonera ADSs, elect to receive Telia shares or Telia ADSs, respectively, a maximum of 1,706,304,914 Telia shares (assuming that all holders of exercisable Sonera warrants elect to exercise their Sonera warrants and subscribe for Sonera shares, and thereafter tender such Sonera shares), including Telia shares represented by Telia ADSs, will be issued, and the number of issued Telia shares will increase from 3,001,200,000 to 4,707,504,914. The maximum of 1,706,304,914 Telia shares offered to holders of Sonera shares represents approximately 36 percent of the share capital and voting rights of Telia after the completion of the exchange offer. The issue of a maximum of 1,706,304,914 Telia shares is not expected to affect the operations or liabilities of Sonera.

*Sonera Warrants*

Telia is offering one warrant to be issued by Telia in exchange for each warrant issued pursuant to Sonera 1999 and 2000 stock option programs, validly tendered in the exchange offer. In this connection Telia is offering:

- one Telia warrant 2002/2005:A for each Sonera warrant 1999A;
- one Telia warrant 2002/2005:B for each Sonera warrant 1999B;
- one Telia warrant 2002/2008:A for each Sonera warrant 2000A1;
- one Telia warrant 2002/2008:B for each Sonera warrant 2000B1;
- one Telia warrant 2002/2008:C for each Sonera warrant 2000C1;
- one Telia warrant 2002/2008:D for each Sonera warrant 2000A2;
- one Telia warrant 2002/2008:E for each Sonera warrant 2000B2;
- one Telia warrant 2002/2008:F for each Sonera warrant 2000C2;

one Telia warrant 2002/2010:A for each Sonera warrant 2000A3;

one Telia warrant 2002/2010:B for each Sonera warrant 2000B3;

one Telia warrant 2002/2010:C for each Sonera warrant 2000C3;

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one Telia warrant 2002/2010:D for each Sonera warrant 2000A4;

one Telia warrant 2002/2010:E for each Sonera warrant 2000B4; and

one Telia warrant 2002/2010:F for each Sonera warrant 2000C4.

In furtherance of the exchange offer for Sonera warrants, Telia will issue debentures with a maximum of 31,220,339 detachable Telia warrants (assuming that all holders of exercisable Sonera warrants elect to tender such Sonera warrants, instead of exercising their Sonera warrants and subscribing for Sonera shares, and thereafter tendering such Sonera shares). Under Swedish law, warrants may only be issued in connection with the issuance of debentures, to which the warrants are attached at the time of issuance. Each Telia warrant entitles its holder to subscribe for 1.5 Telia shares. The 31,220,339 Telia warrants entitle the holders to subscribe for a total of 46,830,508 Telia shares (leading to an increase of the share capital by a maximum of SEK 149,857,625.60). The maximum of 46,830,508 Telia shares represents 1.0 percent of the share capital and voting rights of Telia after the completion of the exchange offer (assuming that all outstanding Sonera shares, including ADSs, are tendered in the exchange offer). The debentures with attaching Telia warrants will be subscribed for by Telia Förlagslan AB, a wholly owned subsidiary of Telia. Upon completion of the exchange offer, Telia Förlagslan AB will detach the warrants and transfer them in consideration of the Sonera warrants tendered in the exchange offer. The transferred warrants are subject to terms and conditions complying with Swedish market practice for listed companies as well as certain additional terms and conditions, reflecting the terms and conditions of the Sonera warrants. The approximately 0.95 percent difference between the exchange ratio for Sonera shares, whereby holders of Sonera shares will receive 1.51440 Telia shares for each Sonera share they tender, and the terms of the Telia warrants, whereby each Telia warrant will entitle the holder thereof to subscribe for 1.5 Telia shares, has been compensated for by setting the exercise price of each Telia warrant at a correspondingly lower level than the exercise price for the Sonera warrants. The terms of the new warrants to be issued by Telia are described below under the caption Terms and Conditions of the New Telia Warrants.

**Restrictions on Ability of Certain Persons to Participate in the Exchange Offer**

Due to restrictions under securities laws of Australia, the Hong Kong Special Administrative Region of the People's Republic of China, Italy, Japan, New Zealand and South Africa, the exchange offer will not be extended to persons with registered addresses in, and who are residents of, any of Australia, the Hong Kong Special Administrative Region of the People's Republic of China, Italy, Japan, New Zealand or South Africa.

**Conditions to Completion of the Exchange Offer**

The obligation of Telia to accept for payment and pay for Sonera shares, Sonera ADSs and Sonera warrants tendered pursuant to the exchange offer shall be subject only to the satisfaction or, if permitted by applicable law, prior waiver by both Telia and Sonera, of the following conditions:

that (i) the capital increase necessary to complete the exchange offer through the issuance of new Telia shares and Telia warrants and (ii) the election as directors of Telia, effective as of the completion of the exchange offer, of the persons nominated pursuant to the shareholders' agreement between the Kingdom of Sweden and the Republic of Finland, shall have been approved by the vote of Telia shareholders;

that a number of Sonera shares (including shares represented by ADSs) representing more than 90 percent of the shares and votes in Sonera (on a fully diluted basis), shall have been validly tendered and not withdrawn;

that no court of competent jurisdiction or any governmental or regulatory (including stock exchange) authority, agency, commission, body or other governmental entity shall have issued or entered any order which has the effect of making any of the transactions related to the exchange offer illegal or otherwise prohibiting their consummation and that such transactions shall not otherwise be illegal under any applicable competition law or regulation;

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that any waiting period (and any extension thereof) applicable to the consummation of the transactions related to the exchange offer under any competition, merger control or similar law of the European Union, Sweden, Finland or any other relevant jurisdiction, shall have expired or been terminated;

that all consents, approvals, authorizations and registrations required to be obtained from the applicable governmental entities to consummate the transactions related to the exchange offer shall have been obtained (unless the failure to obtain any such consents, approvals and authorizations would not result in a event that is, or is reasonably likely to be, materially adverse to the business, assets, financial condition or results of operations of either Telia or Sonera);

that the Telia shares to be issued pursuant to the exchange offer shall have been authorized for listing on the Stockholm Exchange and the Helsinki Exchanges and the Telia ADSs to be issued in connection with the exchange offer have been approved for quotation on the Nasdaq National Market;

that the combination agreement, as amended, shall not have been terminated by either Telia or Sonera in accordance with its terms;

that there are no circumstances which prevent or materially hinder the implementation of the combination of the businesses of Telia and Sonera due to legislation, legal rulings, decisions by public authorities or the like in Sweden, Finland or elsewhere, which exist or are anticipated at the time, or due to other circumstances beyond the control of Telia, including without limitation, that Telia determines in good faith, following consultation with Sonera, that the cash offer price to be paid by Telia for each share of Sonera in connection with the mandatory redemption offer that Telia may be required to make pursuant to Finnish law following the completion of the exchange offer would, pursuant to an opinion of independent, reputable legal counsel based upon a ruling of or consultation with the Finnish Financial Supervision Authority, be higher than the equivalent cash value of the Telia shares offered in exchange for each such share pursuant to the terms of the exchange offer as determined pursuant to Finnish law; provided that the difference between such offer price to be paid in such mandatory redemption offer and such cash value of the Telia shares multiplied by the aggregate number of shares issued and outstanding in Sonera shall exceed 300 million; and

that this registration statement relating to the Telia shares and Telia warrants offered in connection with the exchange offer shall have become effective in accordance with the provisions of the U.S. Securities Act of 1933, as amended, no stop order suspending the effectiveness of this registration statement shall have been issued by the SEC and no proceedings for that purpose shall have been initiated by the SEC and not concluded or withdrawn and all state securities or blue sky authorizations necessary to consummate the exchange offer shall have been obtained and be in effect.

**Telia will only be in a position to determine immediately prior to the completion of the exchange offer whether to invoke the eighth condition listed above.** In making such determination, Telia will consider various facts and circumstances, including the price development of Telia's and Sonera's shares, interpretations of the relevant provisions of Finnish law and any relevant legal or other developments. If Telia had to take a decision on whether to invoke such condition on the basis of information available to Telia as of the date of this prospectus, Telia would invoke such condition. For additional information on Telia's right to terminate the exchange offer by invoking the eighth condition listed above, see SUMMARY Telia's Termination Right and RISK FACTORS Risks Related to the Exchange Offer. Telia has a right to terminate the combination agreement and abandon the exchange offer after the exchange offer period has ended if one of the conditions to the exchange offer is not satisfied. Under this condition and subject to certain additional requirements, Telia may elect to terminate the combination agreement and abandon the exchange offer if it determines in good faith that the cash amount it may be required to pay for each Sonera share not tendered in the exchange offer were to, in a mandatory redemption offer made under Finnish law after the completion of the exchange offer, exceed by more than approximately 0.27 per Sonera share, or by

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more than 300 million in the aggregate for all outstanding Sonera shares, the equivalent cash value of the Telia shares offered for Sonera shares in connection with the exchange offer.

Any of the exchange offer conditions may, subject to applicable law, be waived, but only if both Telia and Sonera agree in writing to such waiver.

To the extent Telia and Sonera waive a material condition to the exchange offer, including the minimum condition, Telia will notify Sonera securityholders of such waiver and will hold the offer open for acceptances and withdrawals for at least five business days after the notification of the waiver of such condition.

### **Exchange Offer Period and Extension**

The offer to holders of Sonera shares, ADSs and warrants will commence on October 7, 2002 and expire at 9:00 a.m. New York City time (4:00 p.m., Helsinki time) on November 8, 2002 unless the offer is extended.

Telia may, from time to time, extend the period of time during which the exchange offer is open until all the conditions listed above under the caption *Conditions to Completion of the Exchange Offer* have been satisfied or waived. The maximum duration of the exchange offer is three months from the commencement of the exchange offer period, provided, however, that, if all consents, approvals, authorizations and registrations required to be obtained from the applicable governmental entities have not been obtained within three months from the commencement of the exchange offer period, the exchange offer period may be further extended until all such consents, approvals, authorizations and registrations have been obtained. Telia will not be required to extend the exchange offer beyond December 31, 2002.

If Telia extends the period of time during which the exchange offer is open, the exchange offer will expire at the latest time and date to which Telia extends the exchange offer. Telia expects to announce by press release on or about four business days following the expiration date of the exchange offer, (i) the percentage of outstanding Sonera shares, Sonera ADSs and Sonera warrants that have been validly tendered pursuant to the offer and (ii) whether the exchange offer will be completed, extended or abandoned. These announcements will also be posted on Telia's website at [www.telia.com](http://www.telia.com).

If all conditions to the exchange offer are satisfied or, where appropriate, waived, Telia will accept for exchange all Sonera securities that have been validly tendered and not withdrawn pursuant to the terms of the exchange offer. The exchange offer will lapse unless all of the conditions to completion of the exchange offer have been and continue to be satisfied or, where appropriate, have been waived. Pursuant to the combination agreement, either Telia or Sonera may require that the exchange offer be terminated if the exchange offer has not been completed on or before December 31, 2002. Upon termination of the exchange offer, Telia will release all Sonera shares, Sonera ADSs and Sonera warrants tendered pursuant to the exchange offer as soon as reasonably possible after such termination. Telia reserves the right, at any time and from time to time beginning two business days after the commencement of the exchange offer period, to extend or terminate this exchange offer or to amend this exchange offer in any respect in accordance with applicable law.

### **Procedures for Tendering**

Telia has retained Nordea Bank Finland Plc to act as Finnish share agent in connection with the exchange offer made to holders of Sonera shares and warrants. Telia has retained Citibank, N.A. to act as the U.S. exchange agent in connection with the exchange offer made to Sonera ADS holders.

### ***Holders of Sonera Shares***

If you are a holder of Sonera shares who is directly registered in the shareholders' register held by the Finnish Central Securities Depository on or about October 3, 2002, you will receive an acceptance form with tender instructions from the account operator managing the book-entry account where your Sonera shares are registered. The acceptance forms are also available from your book-entry account operator.

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If your Sonera shares are registered in the name of a nominee (or other custodial institution) and you wish to accept the exchange offer, you have to make such acceptance in accordance with such nominee's instructions. Telia will not send you any documents relating to the exchange offer directly.

If your Sonera shares have been pledged, the consent of the appropriate pledgee is required for acceptance of the exchange offer and it is your responsibility to obtain such consent.

If you wish to accept the exchange offer, you have to complete, sign and return the acceptance form to your account operator in accordance with such account operator's instructions on or before 4:00 p.m. Helsinki time on November 8, 2002 or, if the exchange offer period has been extended, before the expiry of the exchange offer period as extended. Your book-entry account operator may ask you to return your acceptance form at an earlier date. Do not send your acceptance form to Telia or Sonera.

You may accept the exchange offer only in relation to all of your Sonera shares. If you hold both Sonera shares and Sonera warrants, or Sonera warrants of more than one series, you are not obligated to tender all of your Sonera securities but may elect instead to tender only your Sonera shares or your Sonera warrants of a particular series. Except as provided in the foregoing sentence, any partial tender of your Sonera shares or Sonera warrants may be rejected as a non-acceptance of the exchange offer.

By accepting the exchange offer, you authorize Nordea Bank Finland Plc or your account operator to effect the exchange of the relevant Sonera shares for Telia shares, including the necessary registrations in the book-entry account and the authorization to subscribe for Telia shares, and to transfer the title of tendered Sonera shares to Telia as the payment for the subscription for the Telia shares offered in the exchange offer. The authorization also covers the sale of any fractional entitlements to Telia shares by Nordea Bank Finland Plc as described below under Fractional Shares and ADSs.

Following receipt of a duly completed acceptance form by your account operator or any asset management branch of the Finnish share agent, each Sonera share you have tendered for exchange will be converted into one Sonera exchanged share, which represents a Sonera share in the book-entry system that has been tendered and designated for exchange. The Sonera exchanged shares will be registered on your book-entry account. You must allow five business days for the registration of the acceptance before the Sonera exchanged shares are entered into your book-entry account. During the exchange offer period and until the listing of Sonera exchanged shares commences on the pre-list of the Helsinki Exchanges, you may not transfer any of your Sonera exchanged shares. A transfer restriction in respect of such exchanged shares will be registered in the book-entry system. The transfer restriction in respect of Sonera exchanged shares will be removed when the listing of Sonera exchanged shares commences on the pre-list of the Helsinki Exchanges. During the exchange offer period and until the announcement of the completion of the exchange offer by Telia, each one Sonera exchanged share is equal to and, with the exception of the transfer restriction, carries the same rights as one Sonera share.

An application will be made to the Helsinki Exchanges to list Sonera exchanged shares on the pre-list of the Helsinki Exchanges. The listing is expected to commence on the first trading day following announcement by Telia that the exchange offer will be completed. The trading in Sonera exchanged shares will cease as soon as the Sonera exchanged shares have been converted into Telia shares and such Telia shares are registered on the book-entry accounts of each tendering shareholder.

Following completion of the exchange offer, each Sonera exchanged share will be converted into 1.51440 Telia shares. See Fractional Shares and ADSs.

The conversion will take place after the increase in Telia's share capital has been registered with the Swedish Patent and Registration Office.

If the exchange offer is not completed, the Sonera exchanged shares will be converted back into Sonera shares on the book-entry accounts of the holders of the Sonera exchanged shares as soon as practically possible.

The method of delivery of acceptance forms and all other required documents is at your option and risk, and the delivery will be deemed made only when actually received by an asset management branch of the

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Finnish share agent or your book-entry account operator. In all cases, you should follow the instructions sent to you by your book-entry account operator and allow sufficient time to ensure timely delivery.

If you are a holder of Sonera shares located outside Finland and the United States, please see [Restrictions on Ability of Certain Persons to Participate in the Exchange Offer](#) above.

### ***Holders of Sonera ADSs***

If you hold your Sonera ADSs in the form of a Sonera ADR certificate, you may tender your Sonera ADSs to the U.S. exchange agent by delivering to the U.S. exchange agent a properly completed and duly executed letter of transmittal, with all applicable signature guarantees from an eligible guarantor institution, together with the Sonera ADR certificate evidencing your Sonera ADSs specified on the face of the letter of transmittal, prior to the expiration date for the U.S. exchange offer.

If you hold your Sonera ADSs in a brokerage account, you should instruct your broker, dealer, commercial bank, trust company or other entity through which you hold your Sonera ADSs to arrange for the DTC participant holding the Sonera ADSs in its DTC account to tender your Sonera ADSs in the exchange offer to the U.S. exchange agent by means of delivery through the book-entry confirmation facilities of DTC of your Sonera ADSs to the DTC account of the U.S. exchange agent, together with an agent's message acknowledging that the tendering participant has received and agrees to be bound by the letter of transmittal, prior to the expiration date of the U.S. exchange offer.

Tendered Sonera ADSs will be held in an account controlled by the U.S. exchange agent, and consequently you will not be able to sell, assign, transfer or otherwise dispose of such securities, until such time as (1) you withdraw your Sonera ADSs from the exchange offer; (2) your Sonera ADSs have been exchanged for Telia ADSs (in which case you will only be able to sell, assign, transfer or otherwise dispose of the Telia ADSs received in respect of your Sonera ADSs); or (3) your Sonera ADSs have been returned to you if the exchange offer is terminated or because they were not accepted for exchange.

**Please note that registered holders of Sonera ADSs should send their properly completed and duly executed letters of transmittal together with the corresponding ADR certificate only to the U.S. exchange agent and not to Telia. Letters of transmittal properly completed and duly executed, together with the corresponding Sonera ADR certificates, must be received by the U.S. exchange agent before 9:00 a.m., New York City time, on November 8, 2002 to be accepted for exchange. The method of delivery of ADR certificates and letters of transmittal and all other required documents is at your option and risk, and the delivery will be deemed made only when actually received by the exchange agent. In all cases, you should allow sufficient time to ensure timely delivery.**

You may accept the exchange offer only in relation to all of your Sonera ADSs.

### ***Guaranteed Delivery Procedures***

If you desire to tender your Sonera ADSs in the exchange offer and your Sonera ADSs are not immediately available or time will not permit all required documents to reach the U.S. exchange agent prior to the expiration date or the procedure for book-entry transfer cannot be completed on a timely basis, you may nevertheless properly tender your Sonera ADSs if all the following conditions are satisfied:

your tender is made by or through an eligible institution;

a properly completed and duly executed notice of guaranteed delivery, substantially in the form provided with this prospectus, is received by the U.S. exchange agent as provided below prior to the expiration date; and

Sonera ADSs in proper form for transfer, together with, in the case of Sonera ADSs evidenced by ADR certificates properly completed and duly executed letter of transmittal (or a copy thereof), together with any required signature guarantees or, in the case of a book-entry transfer, a book-entry confirmation along with an agent's message and any other required documents, are received by the

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U.S. exchange agent within three NASDAQ trading days after the date of execution of the notice of guaranteed delivery. A NASDAQ trading day is a day on which NASDAQ is open for business.

Any notice of guaranteed delivery may be delivered by hand or mail to the U.S. exchange agent and must include a guarantee by an eligible institution in the form set forth in the notice of guaranteed delivery. In the case of Sonera ADSs held through the book-entry transfer system of DTC, the notice of guaranteed delivery must be delivered to the U.S. exchange agent by a DTC participant by means of the DTC book-entry transfer confirmation system.

If you are a holder of Sonera shares located outside Finland and the United States, please see [Restrictions on Ability of Certain Persons to participate in the Exchange Offer](#) above.

***Holders of Sonera Warrants***

If you are a holder of Sonera warrants who is directly registered in the register of warrant holders held by the Finnish Central Securities Depository on or about October 3, 2002, you will receive an acceptance form with tender instructions from the account operator managing the book-entry account where your Sonera warrants are registered. The acceptance forms are also available from your book-entry account operator.

If your Sonera warrants are registered in the name of a nominee (or other custodial institution) and you wish to accept the exchange offer, you have to make such acceptance in accordance with such nominee's instructions. Telia will not send you any documents relating to the exchange offer directly.

If your Sonera warrants have been pledged, the consent of the appropriate pledgee is required for acceptance of the exchange offer and it is your responsibility to obtain such consent.

If you wish to accept the exchange offer, you have to complete, sign and return the acceptance form to your account operator in accordance with such account operator's instructions on or before 4:00 p.m. Helsinki time on November 8, 2002 or, if the exchange offer period has been extended, before the expiry of the exchange offer period as extended. Your book-entry account operator may ask you to return your acceptance form at an earlier date. Do not send your acceptance form directly to Telia or Sonera.

You may accept the exchange offer only in relation to all of your Sonera 1999A warrants, Sonera 1999B warrants, Sonera 2000A1 warrants, Sonera 2000A2 warrants, Sonera 2000A3 warrants or Sonera 2000A4 warrants. If you hold both Sonera shares and Sonera warrants, or Sonera warrants of more than one series, you are not obligated to tender all of your Sonera securities but may elect instead to tender only your Sonera shares or your Sonera warrants of a particular series. Except as provided in the foregoing sentence, any partial tender of Sonera shares or warrants may be rejected as a non-acceptance of the exchange offer. By tendering your Sonera 2000A warrants of a certain series, you are also deemed to tender your Sonera 2000B and 2000C warrants attached to your Sonera 2000A warrants of that series.

By accepting the exchange offer, you authorize Nordea Bank Finland Plc or your account operator to effect the exchange of relevant Sonera warrants for warrants to be issued by Telia, including necessary registrations in the book-entry accounts, the authorization to transfer the title of tendered warrants to Telia as the payment for the purchase of warrants offered in the exchange offer.

Following receipt of a duly completed acceptance form by your account operator or any asset management branch of the Finnish share agent, each Sonera 1999A warrant will be converted into one Sonera 1999A exchanged warrant, each Sonera 1999B warrant will be converted into one Sonera 1999B exchanged warrant, each Sonera 2000A1 warrant will be converted into one Sonera 2000A1 exchanged warrant, each Sonera 2000A2 warrant will be converted into one Sonera 2000A2 exchanged warrant, each Sonera 2000A3 warrant will be converted into one Sonera 2000A3 exchanged warrant and each Sonera 2000A4 warrant will be converted into one Sonera 2000A4 exchanged warrant. Each Sonera 2000A exchanged warrant represents one Sonera 2000A warrant, one Sonera 2000B warrant and two Sonera 2000C warrants. The Sonera exchanged warrants will be registered on your book-entry account. You must allow five business days for the registration of the acceptance before the Sonera exchanged warrants are entered into your book-entry account. During the exchange offer period and until the listing of Sonera 1999A exchanged warrants commences on

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the pre-list of the Helsinki Exchanges, you may not transfer any of your Sonera 1999A exchanged warrants. You may not transfer any of your Sonera 1999B exchanged warrants, Sonera 2000A1 exchanged warrants, Sonera 2000A2 exchanged warrants, Sonera 2000A3 exchanged warrants or Sonera 2000A4 exchanged warrants. A transfer restriction in respect of such exchanged warrants will be registered in the book-entry system. The transfer restriction in respect of Sonera 1999A exchanged warrants will be removed when the listing of Sonera 1999A exchanged warrants commences on the pre-list of the Helsinki Exchanges. During the exchange offer period and until the completion of the exchange offer by Telia, each Sonera exchanged warrant is equal to, and carries, with the exception of the transfer restriction, the same rights as, one underlying Sonera warrant.

An application will be made to the Helsinki Exchanges to list Sonera 1999A exchanged warrants on the pre-list of the Helsinki Exchanges. The listing is expected to commence on the first trading day following announcement by Telia that the exchange offer will be completed. The trading in Sonera 1999A exchanged warrants will cease as soon as the Sonera 1999A exchanged warrants have been converted into Telia warrants 2002/2005:A and such Telia warrants are registered on the book-entry accounts of each tendering warrant holder.

Following completion of the exchange offer, Sonera exchanged warrants will be converted into Telia warrants in the book-entry system as follows:

each Sonera 1999A exchanged warrant will be converted into one Telia warrant 2002/2005:A;

each Sonera 1999B exchanged warrant will be converted into one Telia warrant 2002/2005:B;

each Sonera 2000A1 exchanged warrant will be converted into one Telia warrant 2002/2008:A, one Telia warrant 2002/2008:B and two Telia warrants 2002/2008:C;

each Sonera 2000A2 exchanged warrant will be converted into one Telia warrant 2002/2008:D, one Telia warrant 2002/2008:E and two Telia warrants 2002/2008:F;

each Sonera 2000A3 exchanged warrant will be converted into one Telia warrant 2002/2010:A, one Telia warrant 2002/2010:B and two Telia warrants 2002/2010:C; and

each Sonera 2000A4 exchanged warrant will be converted into one Telia warrant 2002/2010:D, one Telia warrant 2002/2010:E and two Telia warrants 2002/2010:F.

The conversion will take place after the increase in Telia's share capital and the issue of debentures with attached warrants has been registered with the Swedish Patent and Registration Office.

If the exchange offer is not completed, the Sonera exchanged warrants will be converted back into Sonera warrants in the book-entry accounts of the holders of the Sonera exchanged warrants as soon as practically possible.

The method of delivery of acceptance forms and all other required documents is at your option and risk, and the delivery will be deemed made only when actually received by an asset management branch of the Finnish share agent or your book-entry account operator. In all cases, you should follow the instructions sent to you by your book-entry account operator and allow sufficient time to ensure timely delivery.

If you are a holder of Sonera warrants located outside Finland and the United States, please see [Restrictions on Ability of Certain Persons to Participate in the Exchange Offer](#) above.

## **Withdrawal Rights**

### *Withdrawal of Tendered Sonera Shares and Sonera Warrants*

Sonera securities tendered for exchange, including the Sonera exchanged shares and Sonera exchanged warrants, may be withdrawn at any time prior to the applicable expiration of the exchange offer period.

In addition, in accordance with the U.S. tender offer laws, you may withdraw tendered securities if they are not yet accepted for exchange at any time 60 days after the commencement of the exchange offer.





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For your withdrawal to be effective, you must follow the procedures described below and the instructions sent to you by your book-entry account operator, including:

in the event that you are a holder of Sonera exchanged shares or Sonera exchanged warrants who is directly registered in the shareholders register or the register of warrant holders held by the Finnish Central Securities Depository, you must submit a written notice of withdrawal to your book-entry account operator, for arrival prior to the expiration date and time of the exchange offer; and

in the event that you are a holder of Sonera exchanged shares or Sonera exchanged warrants that are registered in the name of a nominee (or other custodial institution), you must instruct such nominee (or other custodial institution) to submit a written notice of withdrawal to the book-entry account operator of your nominee, for arrival prior to the expiration date and time of the exchange offer.

The written notice of withdrawal must be submitted to the book-entry account operator to which the original acceptance form was delivered. Account details for the redelivery of the tendered securities must be included in the notice of withdrawal.

Your book-entry account operator is entitled to charge a fee for withdrawals as agreed between you and your account operator.

After the expiration of the exchange offer period, holders who tendered their Sonera securities will have no withdrawal rights unless the exchange offer period is extended.

### *Withdrawal of Tendered Sonera ADSs*

If you tendered your Sonera ADSs to the U.S. exchange agent by means of delivery of a letter of transmittal together with the Sonera ADR certificate evidencing your Sonera ADSs, you may withdraw your tender by delivering to the U.S. exchange agent a properly completed and duly executed notice of withdrawal, guaranteed by an eligible guarantor institution (unless the notice of withdrawal related to a tender made for the account of an eligible guarantor institution), prior to the expiration of the exchange offer period in the United States.

If you tendered your Sonera ADSs by means of the book-entry confirmation procedures of DTC, you may withdraw your tender by instructing your broker, dealer, commercial bank, trust company or other entity to cause the DTC participant through which your Sonera ADSs were tendered to deliver a notice of withdrawal to the U.S. exchange agent by means of an agent's message transmitted through the book-entry confirmation facilities of DTC, prior to the expiration of the exchange offer period in the United States.

### *Other*

Neither Sonera, Telia, the U.S. exchange agent, the Finnish share agent, the information agent, the dealer manager nor any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal nor will any of them incur any liability for failure to give any notification. Any Sonera shares, Sonera ADSs or Sonera warrants properly withdrawn will be deemed not to have been validly tendered for purposes of Telia's offer. However, you may re-tender withdrawn Sonera shares, Sonera ADSs or Sonera warrants by following one of the procedures discussed under *Procedures for Tendering* at any time prior to the expiration of the exchange offer period.

## **Validity of the Tender of Securities**

Telia will determine questions as to the validity, form, eligibility, including time of receipt, and acceptance for exchange of any tender of Sonera shares, Sonera ADSs and Sonera warrants, in its sole discretion and Telia's determination shall be final and binding. Telia reserves the right to reject any and all tenders of Sonera shares, Sonera ADSs and Sonera warrants that it determines are not in proper form or the acceptance of or exchange for which may be unlawful. No tender of Sonera shares, Sonera ADSs or Sonera warrants will be deemed to have been validly made until all defects and irregularities in tenders of Sonera shares have been cured or waived. Neither Telia, the U.S. exchange agent, the Finnish share agent nor any

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other person will be under any duty to give notification of any defects or irregularities in the tender of any Sonera shares, Sonera ADSs or Sonera warrants or will any of them incur any liability for failure to give any such notification. Telia's interpretation of the terms and conditions of the offer, including the acceptance forms and instructions thereto, will be final and binding.

### **Announcement of the Results of the Exchange Offer**

Telia will make the results of the exchange offer public by an announcement to be issued on or about four business days after the expiration of the exchange offer period or the expiration of the extended exchange offer period, if applicable. The announcement will be made by means of a press release which will also be posted on Telia's website at [www.telia.com](http://www.telia.com) and will include information as to whether or not the exchange offer will be completed by Telia. At the time of such announcement, completion of the exchange offer will remain subject to the eight conditions listed under "Conditions to the Completion of the Exchange Offer" above.

### **Transactions Involving a Waiver of a Minimum Condition**

The tender offer is subject to the condition that prior to the expiration of the exchange offer period, Sonera shares, including Sonera ADSs, representing more than 90 percent of the shares and votes in Sonera on a fully diluted basis shall have been validly tendered and not withdrawn. In the event that this minimum condition is not satisfied, the completion of the exchange offer would require the waiver of the minimum condition by both Telia and Sonera. Currently, Telia and Sonera have no intention to waive the minimum condition.

In the event that, at the time of the expiration of the exchange offer period, including any extension thereof, Sonera shares (including shares represented by ADSs) representing 90 percent or less of Sonera shares and votes attaching to Sonera shares (on a fully diluted basis) would have been tendered, Telia and Sonera may consider waiving the minimum condition taking into account various factors that they deem relevant for such decisions, including the level of valid tenders received, the prevailing market prices for Telia and Sonera shares and the anticipated cash redemption price for Sonera shares to be paid in connection with any mandatory redemption offer to follow the completion of the exchange offer.

According to the Finnish Securities Market Act, if a tender offer is conditioned upon the acquisition of a minimum proportion of ownership or voting rights of the target company, and those conditions are subsequently waived, any securityholder that has accepted the offer may, within one month after the publication of the result of the exchange offer, withdraw securities so tendered if the offeror does not acquire such minimum proportion of ownership or voting rights. The right to withdraw subsequent to the completion of the exchange offer in the event of a waiver of such a condition to the offer does not exist, however, in cases where the offeror undertakes, in the event that the offeror purchases any additional securities that were the subject of the tender offer or sells any tendered securities within one year from the end of the tender offer period, to pay such tendering securityholder the difference, if any, between the price paid or received in connection with the subsequent purchase or sale, as the case may be, and the price paid for the subject company's securities in connection with the tender offer.

In accordance with the above provisions, Telia hereby undertakes, in the event Telia and Sonera waive the minimum condition and Telia completes the exchange offer even though the minimum condition has not been satisfied, to inform Sonera securityholders who have accepted the exchange offer in the event that Telia, within one year from the end of the exchange offer period, purchases or sells Sonera securities at a higher price than that paid for the Sonera securities tendered in the exchange offer and to pay the difference between such higher price and the price of the securities tendered in connection with the exchange offer to such securityholders who have accepted the exchange offer. Therefore, Sonera securityholders who have accepted the exchange offer may not withdraw their acceptances pursuant to the above described provision of the Finnish Securities Market Act.

In its ruling (no. 2/263/2002) issued on September 30, 2002, the Finnish Financial Supervision Authority has stated that, for the purposes of the relevant provisions of the Finnish Securities Market Act related to a

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possible waiver of the minimum condition in the event Telia acquires in the exchange offer Sonera shares, whether in the form of shares or ADSs, representing more than two-thirds of the total voting rights but 90 percent or less of Sonera shares and votes attaching to Sonera shares, the above described provision on the obligation to notify Sonera securityholders and to pay any difference in consideration would not be applied in respect of any purchases of Sonera shares and Sonera warrants pursuant to a mandatory redemption offer following the completion of the exchange offer. Therefore, any purchase of Sonera securities in the mandatory redemption offer would not result in any obligation to notify or to pay any price difference to such securityholders who have accepted the exchange offer. Accordingly, the undertaking included in the preceding paragraph shall not apply as a result of any purchase of Sonera securities by Telia in connection with a mandatory redemption offer in such case. In addition, such obligation would not apply in connection with any later purchase in the event that Telia would, in connection with such purchase, continue to offer to exchange Sonera securities to Telia securities on the same terms as in connection with the exchange offer. According to such ruling, in order to determine whether the cash price paid in connection with a compulsory acquisition or any other purchase or any sale of Sonera securities within one year from the end of the exchange offer period were to be considered higher than the amount of consideration received in connection with the exchange offer in the form of Telia shares, including Telia shares represented by Telia ADSs, the Telia shares received in connection with the exchange offer would be valued based upon the higher of the volume-weighted average trading price prevailing for Telia's shares during a relatively short period prior to the expiration of the exchange offer period (for example five trading days) and the volume-weighted average trading price prevailing for Telia's shares for a relatively short period prior to the time of such later purchase or sale (for example, five trading days). According to the ruling of the Finnish Financial Supervision Authority, in connection with a compulsory acquisition, the highest price offered by Telia in connection therewith shall be taken into account for purposes of the obligation to notify Sonera securityholders and to pay any difference in consideration. The obligation to pay any difference in consideration would not apply in the event such difference were to be insignificant.

**Acceptance and Delivery of Securities**

If the conditions referred to above under **Conditions to Completion of the Exchange Offer** have been fulfilled or, if permitted by applicable law, waived by both Telia and Sonera, Telia will accept for exchange and will exchange all Sonera securities that have been validly tendered and not withdrawn pursuant to the terms of the exchange offer at the earliest practicable time following the expiration date and deliver Telia securities to tendering holders or, in the case of tendered Sonera ADSs, to the depository for Telia ADSs, which, in the case of Sonera shares or Sonera warrants, shall be on or about 15 business days following the expiration date of the exchange offer. Holders of Telia shares delivered in the exchange offer will be able to exercise their rights as Telia shareholders from the date of the registration of the shares in the holders securities accounts with the VPC (the Swedish Central Securities Depository) or the FCSD (the Finnish Central Securities Depository), respectively. Holders of Telia warrants will be able to exercise their rights as Telia warrant holders from the date of the registration of the warrants in the holders securities accounts with the VPC or the FCSD, respectively. The rights of holders of Telia shares and Telia warrants that are held through VPC or FCSD are subject to the rules and regulations of VPC and FCSD concerning, among other matters, voting at shareholders meetings, payment of dividends and trading and settlement. For a further discussion of VPC and FCSD, see **DESCRIPTION OF SHARES AND SHARE CAPITAL OF TELIA – FCSD Registered Telia Shares and Telia Warrants**, **THE SWEDISH SECURITIES MARKET** and **THE FINNISH SECURITIES MARKET**.

Title to Sonera shares and Sonera warrants tendered in the exchange offer will transfer to Telia upon the acceptance by Telia of the exchange of the Sonera exchanged shares and Sonera exchanged warrants for Telia shares and Telia warrants, respectively, in accordance with the above.

*Delivery of Telia Shares and Telia Warrants.* Telia shares and Telia warrants will be delivered to the Finnish book-entry accounts of the holders of the Sonera exchanged shares or Sonera exchanged warrants, through a book-entry link between the Finnish Central Securities Depository and the Swedish Central Securities Depository. See **DESCRIPTION OF SHARES AND SHARE CAPITAL OF TELIA**

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FCSD Registered Telia Shares and Telia Warrants. As to fractional entitlements, see Fractional Shares and ADSs.

Provided that the exchange offer is completed by Telia, the Telia shares and Telia warrants are expected to be entered into the relevant book-entry accounts on or about November 29, 2002 and Telia shares and Telia warrants 2002/2005:A are expected to become eligible for trading on December 2, 2002 from which date the trading in Telia shares and Telia warrants 2002/2005:A is also expected to commence on the Helsinki Exchanges.

*Delivery of Telia ADSs.* Subject to the terms and conditions of the exchange offer, upon Telia's acceptance of Sonera ADSs tendered in the exchange offer and confirmation from the Telia depository of Telia's deposit of the applicable number of Telia shares to be represented by the Telia ADSs to be issued in the exchange offer, the U.S. exchange agent will deliver the applicable whole number of Telia ADSs, together with any cash in respect of fractional entitlements to Telia ADSs, to the tendering holders of Sonera ADSs in the following manner:

*if you tendered your Sonera ADSs to the U.S. exchange agent by means of delivery of a letter of transmittal together with the Sonera ADR certificate(s) evidencing your Sonera ADSs,* the U.S. exchange agent will deliver a single Telia ADR certificate evidencing the applicable number of Telia ADSs, together with a check in U.S. dollars for any cash in lieu of fractional entitlements to Telia ADSs according to the issuance and delivery instructions of the tendering Sonera ADS holder provided in the letter of transmittal; or

*if you tendered your Sonera ADSs by means of DTC's book-entry confirmation system,* the U.S. exchange agent will deliver the applicable whole number of Telia ADSs, together with any cash in lieu of fractional entitlements to Telia ADSs in U.S. dollars, to the account of the DTC participant who tendered the Sonera ADSs on your behalf in the U.S. exchange offer.

In the event that Telia invokes the eighth condition described above under Conditions to Completion of the Exchange Offer, the U.S. exchange agent shall, upon receipt of notice from Telia of such decision, promptly return the Sonera ADSs properly tendered in the exchange offer to the tendering holders thereof.

**If you trade in Telia ADSs on a when issued basis, please note that if the Telia board of directors invokes the eighth condition described under Conditions to Completion of the Exchange Offer your trade may be required to be unwound.**

## **Dividend Payments**

The Telia shares to be issued in connection with the exchange offer, including the Telia shares to be represented by Telia ADSs, will have the same dividend rights as the other currently outstanding Telia shares with respect to the fiscal year 2002 and subsequent years.

The Telia ADS depository will deliver any dividends paid upon deposited Telia shares to the holders of Telia ADSs in the manner set forth under the Telia deposit agreement.

The Swedish Central Securities Depository will transfer any dividend paid by Telia on the Telia shares held in Finnish book-entry accounts in a single sum in Swedish kronor to the Finnish Central Securities Depository who in turn is responsible for distributing the dividends to the book-entry account operators in euros. The book-entry account operators will pay the dividend to the bank accounts related to the book-entry accounts of the holders entitled to the dividend.

For a description of Swedish, Finnish and United States federal income tax consequences of dividend payments see TAXATION.

## **Fractional Shares and ADSs**

Fractional entitlements to Telia shares or fractional entitlements to Telia ADSs will not be delivered to holders of Sonera securities validly tendered in the exchange offer. To the extent that holders of Sonera

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securities are entitled to receive fractions of Telia shares or fractions of Telia ADSs, in exchange for their Sonera securities, those fractional entitlements will be combined with the other holders' fractional entitlements and subsequently sold on behalf of such holders on the Stockholm Exchange or the Helsinki Exchanges in the case of Telia shares or, on NASDAQ in the case of Telia ADSs. Each such holder of Sonera securities who would not receive full consideration as Telia shares or Telia ADSs will receive a cash consideration corresponding to the fraction of the price of the Telia share or Telia ADS, which price shall be based on the average net sale price (after deduction of related fees and expenses, excluding any commission) of all the shares, in the case of shareholders, and of all the ADSs, in the case of ADS holders, combined from the fractional entitlements and sold on behalf of those tendering holders.

By the acceptance of the exchange offer, the tendering Sonera shareholder, or tendering holder of Sonera ADSs, authorizes Nordea Bank Finland Plc, in the case of fractional entitlements to Telia shares, or the U.S. exchange agent, in the case of fractional entitlements to Telia ADSs, to combine such holders' fractional entitlements to a Telia share or Telia ADS with other such fractional entitlements and sell them on the Stockholm Exchange or the Helsinki Exchanges, in the case of Telia shares, or on NASDAQ, in the case of Telia ADSs. The sales are intended to take place promptly after the conditions referred to above under "Conditions to Completion of the Exchange Offer" have been fulfilled.

The payment of the consideration for the fractional entitlements will be made, in the case of a tendering Sonera shareholder, into the bank account related to the book-entry account of the tendering Sonera shareholders entitled to fractional entitlements and, in the case of a tendering Sonera ADS holder, (a) by book-entry transfer of the applicable amount in U.S. dollars into the DTC account of the DTC participant which tendered the Sonera ADSs on behalf of such holder in the exchange offer by means of the DTC book-entry confirmation system or (b) by means of a check in U.S. dollars to the order of the tendering Sonera ADS holder as provided in the corresponding letter of transmittal, within ten business days after the sale of the combined fractional entitlements on the Stockholm Exchange or the Helsinki Exchanges or on NASDAQ, as the case may be.

No commissions will be charged from the holders for the sale of fractional entitlements.

## **Costs and Finnish Transfer Taxes**

If a holder of Sonera shares or Sonera warrants is directly registered in the shareholders' or warrantholders' register held by the Finnish Central Securities Depository, such holder will not have to pay any duties and fees in Finland relating to book-entry registrations in connection with his or her acceptance of the exchange offer or the conversion of Sonera shares into Telia shares or Sonera warrants into Telia warrants. The book-entry account operator may charge a fee for other services in connection with the exchange offer as agreed between the holder and the account operator. If a holder has Sonera shares or Sonera warrants registered in the name of a nominee (or other custodial institution) such nominee may charge such holder for tendering Sonera shares or Sonera warrants on such holder's behalf.

Telia shall be responsible for the payment of Finnish transfer taxes, if any, levied on the exchange of Sonera securities as well as fees relating to the registrations of Sonera exchanged securities and Telia securities in the Finnish book-entry system in connection with the exchange offer.

The holder of Sonera exchanged shares and Sonera 1999A exchanged warrants shall be responsible for any fees charged by the account operator for trading in the Sonera exchanged shares and Sonera 1999A exchanged warrants as agreed between the holder and the account operator.

## **Mandatory Redemption Offer and Compulsory Acquisition**

In the event that the minimum condition is not satisfied, the completion of the exchange offer would require the waiver of the minimum condition by both Telia and Sonera. See "Withdrawal Rights - Transactions Involving a Waiver of a Minimum Condition" above.

Under the Finnish Securities Market Act, in the event the exchange offer is completed and, as a consequence, Telia acquires Sonera shares, whether in the form of shares or ADSs, representing more than

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two-thirds of the total voting rights attaching to Sonera shares, Telia would be required, within one month after the expiration of the exchange offer period, to offer to purchase the remaining Sonera shares, whether in the form of shares or ADSs, and Sonera warrants that have not been tendered in the exchange offer. In connection with this so-called mandatory redemption offer, although Telia could continue to offer to exchange Sonera shares into Telia shares, Sonera ADSs into Telia ADSs and Sonera warrants into Telia warrants, Telia would be under no obligation to do so and would in any event be required to offer to purchase the remaining Sonera shares, including Sonera shares represented by Sonera ADSs, and Sonera warrants for cash at their fair price.

According to the Finnish Securities Market Act, in the event that, following completion of a voluntary tender offer, the bidder would be obligated to commence a mandatory redemption offer and, if the consideration paid for securities of the target company in connection with the voluntary tender offer would be deemed to be lower than the consideration offered to holders of such securities in connection with the mandatory redemption offer, then the bidder would be required to pay, before the completion of the mandatory redemption procedure, the difference in cash to all securityholders who tendered their securities in the voluntary tender offer. The applicability and interpretation of the relevant provisions of the Finnish Securities Market Act is, however, unclear in connection with voluntary tender offers taking the form of an exchange offer which results in the obligation to commence a mandatory redemption offer. Under the circumstances and subject to the conditions set forth under the eighth condition indicated under Conditions to Completion of the Exchange Offer above, Telia would have the right not to complete the exchange offer. In such event and absent a mutual waiver by Telia and Sonera of such condition, the exchange offer would not be completed.

To clarify the applicability and interpretation of the relevant provisions of the Finnish Securities Market Act, Telia has sought a ruling on the matter from the Finnish Financial Supervision Authority. In its ruling (no. 2/263/2002) issued on September 30, 2002, the Finnish Financial Supervision Authority has stated that, in its opinion, the provisions of the Finnish Securities Market Act relating to the obligation to pay additional consideration to holders of a target company's securities that have accepted a voluntary tender offer followed by a mandatory redemption offer with a higher cash redemption price than the consideration offered in the voluntary tender offer would also apply in connection with voluntary tender offers taking the form of an exchange offer. The Finnish Financial Supervision Authority further stated that, in order to determine whether the cash redemption price paid in connection with the mandatory redemption offer were to be considered higher than the amount of consideration received in connection with the exchange offer in the form of Telia shares, including Telia shares represented by Telia ADSs, the Telia shares received in connection with the exchange offer would be valued based upon the higher of the volume-weighted average trading price prevailing for Telia shares during a relatively short period prior to the expiration of the exchange offer period (for example, five trading days) and the trading price prevailing for Telia shares prior to the announcement of the exchange offer, which equalled 4.41 per Telia share (based upon the closing price per Telia share on the Stockholm Exchange on March 25, 2002, converted into euros at the currency exchange rate for that day). After the application of the exchange ratio, the Telia shares received in the exchange offer would have an implied cash value of 6.68 per Sonera share or Sonera ADS. Therefore, applying the interpretation of the Finnish Securities Market Act adopted in the ruling of the Finnish Financial Supervision Authority, additional consideration would be payable to the Sonera securityholders that tendered their Sonera shares or ADSs in the exchange offer only if, in the subsequent mandatory redemption offer, the cash redemption price per Sonera share or Sonera ADS were to exceed 6.68 or a higher implied cash value of the Telia shares offered in the exchange offer and prevailing during a relatively short period prior to the expiration of the exchange offer period.

According to the Finnish Securities Market Act, the fair price to be paid in connection with a mandatory redemption offer shall be determined by taking into account: (i) the volume-weighted average trading price of the target company's shares during the 12-month period prior to the time when the obligation to commence a mandatory redemption offer first arises, (ii) any higher price paid by the bidder for the target company's shares purchased during such 12-month period; and (iii) any special circumstances. In its ruling dated September 30, 2002, the Finnish Financial Supervision Authority has stated that, in the case of the

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exchange offer, the redemption duty, if any, under the Finnish Securities Market Act, shall arise at the expiration of the exchange offer period and the 12-month period referred to in item (i) and item (ii) above should be deemed to refer to the 12-month period ending at the time of the expiration of the exchange offer period. Accordingly, for illustrative purposes only, based upon the volume-weighted average trading price of the Sonera shares for the 12 months ending on September 30, 2002, item (i) above would result in the cash redemption price of 4.91 if the exchange offer period were to have expired on September 30, 2002. In relation to item (ii) above, the Finnish Financial Supervision Authority has stated in its ruling that the purchases of Sonera shares by Telia pursuant to the exchange offer would be taken into account as purchases of Sonera shares and that, in order to determine whether the cash redemption price paid in connection with such purchases were to be considered higher than the 12-month volume-weighted average trading price determined pursuant to item (i) above, the Telia shares offered in connection with the exchange offer should be valued based upon the lower of the volume-weighted average price prevailing for the Telia shares during a relatively short period prior to the expiration of the exchange offer period (for example, five trading days) and the market price prevailing for Telia shares prior to the announcement of the exchange offer, which equalled 4.41 per Telia share (based upon the closing market price per Telia share on March 25, 2002, converted into euros at the currency exchange rate for that day). In the event that the exchange offer, based upon such method of valuation, represented a value more than insignificantly higher than the volume-weighted average trading price of the Sonera shares during the 12-month period prior to the expiration of the exchange offer period, such higher value should be taken into account in establishing the fair price. In addition, the Finnish Financial Supervision Authority stated that, by extending the exchange offer on terms unchanged to the remaining shareholders of Sonera in connection with the mandatory redemption offer so that the shareholders of Sonera would have an opportunity to choose between the cash redemption price and share consideration in the form of Telia shares, Telia would be released from any obligation to pay a higher cash redemption price as a result of item (ii) above. For illustrative purposes only, in the event that the exchange offer period were to expire on September 30, 2002, and the closing price of the Telia shares for September 30, 2002, were to be used for this purpose, the price paid for Sonera shares in the exchange offer would be deemed to equal 3.86 for the purposes of item (ii) above. Consequently, assuming no major changes in the trading price and trading volumes for Telia shares and Sonera shares during the exchange offer period and absent any special circumstances of the kind referred to in item (iii) above, the cash redemption price for each Sonera share in connection with the mandatory redemption offer could be expected to be equal to the volume-weighted average trading price of Sonera shares during the 12 months preceding the expiration of the exchange offer period regardless of whether or not Telia extends the exchange offer to the remaining shareholders of Sonera in connection with the mandatory redemption offer. However, no assurance can be given as to the amount of the cash redemption price to be paid in connection with any future mandatory redemption offer and such amount could be more or less than the amount of consideration per Sonera share to be received in connection with the exchange offer. The discussion above also applies, *mutatis mutandis*, to Sonera warrants.

Under the Finnish Companies Act, once Telia acquires more than nine-tenths of all Sonera shares, whether in the form of shares or ADSs, and more than nine-tenths of all votes entitled to be cast at a general meeting of shareholders of Sonera, it shall also have the right to require the minority shareholders of Sonera to sell the remaining Sonera shares, whether in the form of shares or ADSs, to Telia for a fair price in a compulsory acquisition proceeding. In addition, such minority shareholders would have the right to require that Telia purchase their Sonera shares, whether in the form of shares or ADSs, for a fair price. Any disputes concerning the right of redemption or the redemption price in a compulsory acquisition would be resolved by an arbitral panel of one or more arbitrators appointed by the Finnish Central Chamber of Commerce in accordance with the Finnish Companies Act. Under the Finnish Companies Act, the arbitration panel so appointed has considerable latitude in deciding upon the method or methods used in determining the fair price of the shares of the target company and in establishing the final amount of such fair price inasmuch as the Finnish Companies Act does not contain any similar provisions to those included in the Finnish Securities Market Act and used in the determination of the fair price in connection with a mandatory redemption offer pursuant to such the Finnish Securities Market Act, as described in more detail

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above. Therefore, no assurance can be given as to the amount of the cash redemption price to be paid in connection with a compulsory acquisition that may follow the completion of the exchange offer and such amount could be more or less than the amount of consideration per Sonera share received in connection with either the exchange offer or a mandatory redemption offer that may be commenced after the completion of the exchange offer. However, the fair price offered in connection with compulsory acquisitions following a mandatory redemption offer has, typically, been the same as the cash redemption price offered in connection with such mandatory redemption offer. Under the Finnish Companies Act, the shareholders of a target company have the right to appeal the decision of the arbitral tribunal in respect of the cash redemption price to be paid in connection with a compulsory acquisition. Any such appeal is to be launched, in the first instance, with the local district court in the domicile of the target company, with the decision of such local district court being subject to further appeal to the relevant Court of Appeals in Finland and, in the event that a permission is granted, to the Finnish Supreme Court. Therefore, the final determination of such cash redemption price could be subject to protracted litigation.

Under the terms of Sonera's stock option programs, in the event the conditions for the commencement of a compulsory acquisition are met, holders of Sonera warrants shall be given an opportunity to exercise the Sonera warrants to subscribe for shares within a specified period of time and otherwise in accordance with the terms of the option programs. In addition, under the terms of Sonera's 2000 stock option program, in the event a shareholder has an obligation to make a mandatory redemption offer, holders of Sonera warrants issued pursuant to such program shall be given an opportunity to exercise such Sonera warrants within a specified period of time and otherwise in accordance with the terms of Sonera's 2000 stock option program and to sell all or a part of their respective warrants to said shareholder, Sonera or to another party appointed by Sonera at the price defined in the terms of Sonera's 2000 stock option program. Holders of such Sonera warrants shall notify Sonera, said shareholder or such other party appointed by Sonera of their intention to sell such Sonera warrants within two months after the obligation to make a mandatory redemption offer was made public.

In the combination agreement, Telia has undertaken to take all action necessary and proper to complete a mandatory redemption offer for, and compulsory acquisition of, Sonera shares and Sonera ADSs as soon as reasonably practicable after the completion of the exchange offer but only so long as the minimum condition has been satisfied.

## **Ownership of Sonera Shareholders in the Combined Company**

Assuming full acceptance of the exchange offer, former Sonera shareholders will own in the aggregate approximately 36 percent of the outstanding shares of the combined company after the exchange offer is completed.

## **Trading in Sonera Securities During the Exchange Offer Period and After the Expiration of the Exchange Offer Period**

Sonera shares and Sonera 1999A warrants not tendered in the exchange offer will continue to trade on the Helsinki Exchanges and Sonera ADSs not tendered in the exchange offer will continue to trade on NASDAQ during the exchange offer period. The trading in Sonera shares and Sonera 1999A warrants will continue on the Helsinki Exchanges after the completion of the exchange offer in case all such shares and warrants are not tendered in the exchange offer. See [Delisting of Sonera Securities](#). Sonera exchanged shares and Sonera 1999A exchanged warrants are expected to be listed on the pre-list of the Helsinki Exchanges as from the first trading day after Telia's announcement of the results of the exchange offer.

## **Listing of Telia Shares, Telia ADSs and Telia Warrants 2002/2005:A**

An application will be made to the Helsinki Exchanges to list Telia shares and Telia warrants 2002/2005:A on the main list of the Helsinki Exchanges. The listings on the Helsinki Exchanges are expected to commence on or about December 2, 2002, subject to the completion of the exchange offer.



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An application has been made to have the Telia ADSs to be issued in connection with the exchange offer quoted for trading on NASDAQ.

### **Delisting of Sonera Securities**

Sonera will seek to delist its shares and warrants from the Helsinki Exchanges and its ADSs from NASDAQ as soon as practicable under applicable rules and regulations. Sonera expects to have its ADSs delisted from NASDAQ shortly after completion of the exchange offer. The rules of the Helsinki Exchanges permit the discontinuation of listing of Sonera's securities after all the Sonera shares have been exchanged for Telia shares or redeemed by Telia.

### **Terms and Conditions of the New Telia Warrants**

Below is a brief description of the terms and conditions of the Telia warrants to be issued in 14 series to mirror the terms and conditions of the outstanding series of Sonera warrants. The approximately 0.95 percent difference between the exchange ratio for Sonera shares, whereby holders will receive 1.51440 Telia shares for each Sonera share they tender, and the terms of the Telia warrants, whereby each Telia warrant will entitle the holder thereof to subscribe for 1.5 Telia shares, has been compensated for by setting the exercise price of each Telia warrant at a correspondingly lower level than the exercise price for the Sonera warrants. The complete terms and conditions and the complete additional terms and conditions of the Telia warrants to be issued in connection with the exchange offer are included as Annex F and Annex G, respectively, to this prospectus and are incorporated herein by reference.

Pursuant to the terms and conditions of the Telia warrants:

The Telia warrants will be registered by VPC in a securities register pursuant to Chapter 4 of the Swedish Act on Operation of Financial Instruments Accounts and, consequently, no physical securities will be issued.

Each Telia warrant entitles the holder to subscribe for 1.5 new Telia shares.

The exercise price per Telia share for each of the series is:

- (i) SEK 72.02 for Telia warrants 2002/2005:A;
- (ii) SEK 132.82 for Telia warrants 2002/2005:B;
- (iii) SEK 347.38 for Telia warrants 2002/2008:A, 2002/2008:B and 2002/2008:C;
- (iv) SEK 108.17 for Telia warrants 2002/2008:D, 2002/2008:E and 2002/2008:F;
- (v) SEK 49.09 for Telia warrants 2002/2010:A, 2002/2010:B and 2002/2010:C; and
- (vi) SEK 33.64 for Telia warrants 2002/2010:D, 2002/2010:E and 2002/2010:F.

The exercise period for each of the series is:

- (i) June 1, 2001 – June 30, 2005 for Telia warrants 2002/2005:A;
- (ii) June 1, 2003 – June 30, 2005 for Telia warrants 2002/2005:B;
- (iii) November 2, 2002 – May 31, 2008 for Telia warrants 2002/2008:A and 2002/2008:D;
- (iv) May 2, 2003 – May 31, 2008 for Telia warrants 2002/2008:B and 2002/2008:E;

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- (v) May 2, 2004 May 31, 2008 for Telia warrants 2002/2008:C and 2002/2008:F;
- (vi) November 2, 2002 May 31, 2010 for Telia warrants 2002/2010:A and 2002/2010:D;
- (vii) May 2, 2003 May 31, 2010 for Telia warrants 2002/2010:B and 2002/2010:E; and
- (viii) May 2, 2004 May 31, 2010 for Telia warrants 2002/2010:C and 2002/2010:F.

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The exercise price and the number of Telia shares, which each Telia warrant entitles the holder to subscribe for, may be recalculated in the event Telia carries out a bonus issue or a rights issue and in certain other circumstances.

The exercise period may be brought forward in connection with mergers and in certain other situations.

The additional terms and conditions for the Telia warrants, which are applicable to each series of Telia warrants except Telia warrants 2002/2005:A, which further reflect the terms and conditions of the Sonera warrants, include the following:

The holder shall not be entitled to transfer the Telia warrants until the exercise period begins.

If the holder's employment with Telia or any of its subsidiaries terminates before a Telia warrant has become exercisable, the holder shall transfer all his/her Telia warrants to Telia Förlagslan AB without compensation.

If the holder changes employment and becomes employed by a company within the Telia group, which has its own incentive program which entitles the holder to subscribe for shares, warrants or the like and if the holder is entitled to participate in the program, he/she shall transfer all his/her Telia warrants to Telia Förlagslan AB without compensation. This restriction is not applicable to Telia warrants 2002/2005 B.

Holders of Telia warrants 2002/2008:A, 2002/2008:B, 2002/2008:D, 2002/2008:E, 2002/2010:A, 2002/2010:B, 2002/2010:D and 2002/2010:E are not entitled to subscribe for Telia shares unless the development of the value of the Sonera share during the period from April 1, 1999 to December 31, 2002, inclusive, exceeds the development of the value of a certain index during the same period or unless the development of the value of the Sonera share during the period from April 1, 1999 to December 31, 2003, inclusive, exceeds the development of the value of this index during the same period.

Holders of Telia warrants 2002/2008:C, 2002/2008:F, 2002/2010:C and 2002/2010:F are not entitled to subscribe for Telia shares unless the development of the value of the Sonera share during the period from April 1, 1999 to December 31, 2003, inclusive, exceeds the development of the value of a certain index during the same period.

Holders of Telia warrants 2002/2005:B are not entitled to subscribe for Telia shares unless the cumulative earnings per share of the Sonera group for the period from January 1, 1999 to December 31, 2002, inclusive, is at least 1.66 and unless the operating profit of Sonera on a consolidated basis for the same period is, on the average, at least 15 percent of the revenues.

Holders of Telia warrants 2002/2005:B, who were members of the executive management team of Sonera Corporation prior to the merger, are, in addition to the above, not entitled to subscribe for Telia shares unless the development of the value of the Sonera share during the period from April 1, 1999 to December 31, 2002, inclusive, exceeds the development of the value of a certain index during the same period.

After completion of the exchange offer, the value of the Sonera shares shall be calculated on the basis of the quoted prices of Telia shares on the Helsinki Exchanges multiplied by the exchange ratio of 1.51440 Telia shares per Sonera share as used in the exchange offer.

**Interests of Members of the Sonera Board of Directors and Management; Potential Conflicts of Interest**

You should be aware that Sonera's executive officers who negotiated the combination agreement and directors who discussed, deliberated over and passed a resolution to approve the combination agreement may have interests in the combination that are in addition to or may be different from the interests of Sonera shareholders generally.

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### ***Board Seats***

The shareholders' agreement provides that Tapio Hintikka, the current chairman of the Sonera board of directors, will be nominated to the board of directors of the combined company and shall, as of the completion of the exchange offer and subject to election by Telia's shareholders, serve as the chairman of the board of directors of the combined company for at least three years. In addition, three current members of the Sonera board of directors who are nominated by the current nomination committee of the Sonera board of directors will be nominated to the board of directors of the combined company and shall, as of the completion of the exchange offer and subject to election by the Telia's shareholders, serve as members of the board of directors of the combined company, two of whom shall serve as members of the board of directors at least until the annual general meeting of shareholders of the combined company in 2004.

### ***Treatment of Warrants***

Sonera warrants held by the directors and the executive management team of Sonera as of September 30, 2002, will, upon their exercise, entitle them to subscribe for an aggregate of 3,660,004 Sonera shares. If the directors and members of the executive management team of Sonera decide to tender their Sonera warrants issued pursuant to Sonera 1999 and 2000 stock option programs, each such Sonera warrant will be exchanged for a warrant to subscribe for Telia shares, entitling the holders to subscribe for an aggregate of 5,490,006 Telia shares.

### ***Certain Agreements of Sonera Management***

Generally, the executive agreements entered into by Sonera with members of its management do not contain any change of control provisions that would entitle members of management to additional compensation or other benefits in the event that a change of control event in respect of Sonera has occurred. However, executive agreements entered into by Sonera with certain members of its management provide that, in the event that a change of control event, as defined in the terms and conditions of the Sonera 2000 stock option program, has occurred and such members of management are thereafter within 18 months reassigned to perform tasks that do not correspond to their capabilities, then they have the right, contrary to the general terms of the Sonera stock option program, to retain the options granted to them pursuant to the Sonera 2000 stock option program even if they choose to resign at their own initiative. In addition, the Sonera board of directors has on April 23, 2002 granted to each of the seven members of Sonera's executive management team as well as 66 other key employees of Sonera cash transaction bonuses that represent up to one year's salary and are payable in three installments with 25 percent being payable upon completion of the exchange offer, 25 percent payable three months after the completion of the exchange offer and 50 percent payable on December 31, 2002, provided that members of management continue to be employed by Sonera or the combined company at the relevant times. If paid in full, the transaction bonuses would amount, in the aggregate, to approximately 8.2 million.

### ***Extraordinary General Meeting of Telia's Shareholders***

In connection with the exchange offer, the Telia board of directors has convened an extraordinary general meeting of Telia's shareholders to be held on November 4, 2002. At the meeting, Telia's shareholders will be asked, among other things:

to authorize the Telia board of directors to decide upon the issuance of Telia shares, including Telia shares that will allow for the creation and issuance of Telia ADSs, necessary to complete the exchange offer, as unanimously proposed by the Telia board of directors;

to authorize the Telia board of directors to decide upon the issuance of Telia warrants in deviation from shareholders' pre-emptive rights, necessary to complete the exchange offer, as unanimously proposed by the Telia board of directors;

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to elect as directors of Telia, effective as of the completion of the exchange offer, the persons nominated pursuant to Section 4 of the shareholders' agreement between the Kingdom of Sweden and the Republic of Finland;

to change, subject to completion of the exchange offer, Telia's name to TeliaSonera; and

to change, subject to completion of the exchange offer, the composition of the nomination committee.

The affirmative vote of holders of a majority of the votes cast at the extraordinary general meeting is required to approve the authorization to issue the Telia shares necessary to complete the exchange offer and to change the composition of the nomination committee. The affirmative vote of two-thirds by number and voting power of the Telia shares is required to approve the authorization to issue the Telia warrants necessary to complete the exchange offer and to change the company name. The election of directors will be determined by a plurality of the votes cast.

The Kingdom of Sweden, which holds 70.6 percent of the Telia shares and votes attaching to the Telia shares, has undertaken, subject to the terms of the shareholders' agreement with the Republic of Finland, that it will vote in favor of the resolutions necessary to implement the exchange offer to be proposed by the Telia board of directors at the extraordinary general meeting of Telia shareholders.

In addition, the Telia board of directors has proposed that the shareholders shall vote upon a resolution at the extraordinary general meeting of shareholders to reduce Telia's share premium reserve by a maximum amount of SEK 11,957 million. If such resolution is passed, this amount will be added to Telia's non-restricted reserves.

As of August 31, 2002, members of the Telia board of directors and managers as a group held an aggregate of 75,001,033 shares of Telia AB, including 74,959,933 shares held by affiliated companies and as to which members of the Telia board of directors disclaim beneficial ownership, which represents approximately 2.5 percent of the outstanding shares of Telia AB. See OWNERSHIP OF SECURITIES OF TELIA AND SONERA Ownership of Telia and DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES OF TELIA Compensation.

**Certain Legal and Regulatory Matters**

One of the conditions to the completion of the exchange offer is the receipt of all applicable governmental consents, approvals, authorizations and registrations. Telia and Sonera have received or are in the process of pursuing all required regulatory approvals. However, apart from the approvals Telia and Sonera have already obtained, there can be no assurance that other necessary approvals will be obtained, or, if they are obtained, that (i) they will be obtained in a timely manner or (ii) conditions which are imposed to obtain such approvals will not have an adverse effect on the combined company.

***European Union Merger Control***

Telia and Sonera each conduct business in member states of the European Union. EU Council Regulation 4064/89, as amended, requires that certain mergers or acquisitions involving parties with aggregate worldwide sales and individual European Union sales exceeding certain thresholds be formally notified to and approved by the European Commission before such mergers or acquisitions are implemented. Telia formally notified the European Commission of the proposed merger on May 28, 2002. On July 10, 2002, the European Commission granted its approval of the notified merger.

In response to certain competition concerns raised by the European Commission, Telia has agreed to certain obligations and conditions vis-à-vis the European Commission in those markets where competition concerns have been identified. In particular, Telia has agreed to the following obligations and conditions:

The combined company has committed to sell Telia's existing mobile operations, dealership chain and equipment related to its wireless LAN business in Finland. In addition, the combined company has agreed to provide to the purchaser of its mobile operations in Finland national roaming on

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commercial terms and at a fair price if the purchaser does not already belong to a group that has a nationwide GSM network in Finland.

The combined company has committed to sell Telia's existing Com Hem AB cable TV business in Sweden.

The combined company has committed to ensure that its fixed and mobile network businesses in Sweden and Finland are held in separate legal entities which are distinct from related retail activities, with an independent director appointed to the board of directors of each of these companies. The independent directors will be appointed in accordance with applicable governance principles. These commitments will not prevent the combined company from, in the future, reorganizing the internal legal structure of the network companies with the combined company's group provided that the principle of legal separation of network and retail activities is respected. After five years, these commitments may be reviewed by the European Commission, at the request of the combined company, to determine whether they should be withdrawn or modified in the event that the competition concerns identified in the European Commission's decision in relation to such commitments are no longer present and the commitments are hampering the combined company's ability to compete on an equal footing with its major European competitors, having regard, for example, to developments in the competitive and/or regulatory environment.

The combined company has committed to make available the combined company's wholesale fixed and mobile network products and services in Sweden and Finland, which are already subject to cost-oriented regulation, to third party telecommunication operators on a non-discriminatory basis compared to the terms on which they are offered internally within the combined company. Third party operators entitled to benefit from the non-discrimination obligation shall be: (1) operators active in a market in Finland, where Sonera was present prior to the merger and where Telia is present at the relevant time following the merger, that request access to regulated products in what was Telia's Swedish network; and (2) operators active in a market in Sweden, where Telia was present prior to the merger and where Telia is still present at the relevant time following the merger, that request access to regulated products in what was Sonera's Finnish network.

The combined company has committed to make available international GSM-wholesale roaming in Sweden and Finland to third party mobile network operators in Sweden and Finland on a non-discriminatory basis compared to the terms on which they are offered internally within the combined company. The combined company may require a reciprocal improvement of tariffs, quality and other conditions from requesting third parties.

The obligation to provide services on a non-discriminatory basis, as specified above, shall be subject to a fast-track dispute resolution procedure in accordance with the rules of the Stockholm/Helsinki Chamber of Commerce in Stockholm or Helsinki, as applicable. Such obligations shall expire after three years.

In relation to the agreed dispositions, Telia has agreed to appoint a trustee who shall, on behalf of the European Commission, ensure that Telia and Sonera will comply with the obligations and conditions set forth above. The trustee as well as Telia shall submit regular reports to the European Commission on the progress and the current status of their compliance with such obligations and conditions.

Telia and Sonera do not believe that giving effect to these commitments will have a material effect on the results of operations, financial condition or cash flows of the combined company.

A third party or a member state of the European Union may still challenge the clearance decision of the European Commission within two months of the publication of the decision. The outcome of such challenge, if it were to be made, cannot be predicted.

***Other Jurisdictions***

Telia and Sonera conduct operations in a number of countries where regulatory filings are required or advisable in connection with the completion of the exchange offer and the consummation of the merger. Telia

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and Sonera have made filings with national competition authorities in the following countries: Estonia, Latvia, Lithuania and Russia.

On September 25, 2002, the Estonian Competition Board approved the merger without conditions.

On August 13, 2002, the Latvian Competition Council approved the merger subject to the condition that beginning January 1, 2003 until December 31, 2005, SIA Lattelekom and SIA Datatel will meet all reasonable third-party requests for access to their international telecommunications infrastructure between Latvia and other countries on an open and non-discriminatory basis for the purposes of allowing third parties to provide telecommunications services in Latvia, subject to the availability of network capacity and technical feasibility. Lattelekom and Datatel will be under an obligation through December 31, 2005 to inform the Latvian Competition Council of all such requests within one month after conclusion of a contract or refusal to conclude a deal. Lattelekom and Datatel will also provide to the Latvian Competition Council any necessary additional information related to such third party requests. In addition, the Latvian Competition Council has indicated that it will request the Latvian Public Utilities Commission to include a condition in the license of SIA Latvijas Mobilais Telefons requiring it to conclude a national roaming agreement, upon request, with the third mobile communications operator, as soon as the third operator begins its operations.

On July 18, 2002, the Lithuanian authorities approved the merger, subject to an undertaking that Telia will not increase its control over UAB Omnitel and UAB Omnitel will not be reorganized by way of a merger with AB Lietuvos Telekomas or any other companies directly or indirectly controlled by Telia, without the prior approval of the Lithuanian Competition Council.

On June 28 and July 12, 2002, the Russian authorities gave their unconditional approval of the merger.

Telia and Sonera do not believe that giving effect to the foregoing commitments will have a material effect on the results of operation, financial condition or cash flows of the combined company. A third party may still challenge the clearance decisions. The outcome of such a challenge, were it to be made, cannot be predicted.

In addition, Telia and Sonera or its associated companies have filed or will file certain non-merger control notifications in connection with the proposed merger in a number of countries, including Moldova, Germany, the United Kingdom, Spain and Italy. The consent of the U.S. Federal Communications Commission to the Telia-Sonera transfer of control was deemed granted on June 14, 2002. Despite Telia and Sonera's efforts, (i) approvals in these countries may not be obtained or (ii) authorities in such countries may impose conditions which will have a material adverse effect on the business of the combined company in these countries. Telia and Sonera are not aware of any other foreign governmental approvals or actions that are required to complete the exchange offer.

### **Certain Consequences of the Offer**

#### ***Reduced Liquidity; Delisting***

The exchange of Sonera securities pursuant to the exchange offer will reduce the number of Sonera securityholders and the number of Sonera shares and Sonera ADSs that might otherwise trade publicly and, depending upon the number of Sonera securities so exchanged, could adversely affect the liquidity and market value of the remaining Sonera shares and Sonera ADSs held by the public. Furthermore, Telia and Sonera intend to cause the delisting of Sonera ADSs from NASDAQ following the completion of the exchange offer. While it is possible that the Sonera ADSs would continue to be traded in the over-the-counter market and that price quotations would be reported, there can be no assurance that such an over-the-counter market would develop. The extent of the public market for the Sonera ADSs and the availability of such quotations would depend upon such factors as the number of holders remaining at such time, the interest on the part of securities firms in maintaining a market in Sonera ADSs, the intended termination of the deposit agreement for the Sonera ADSs and the resulting cancellation of Sonera ADSs in accordance with the termination

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provisions of that deposit agreement as described below and the possible termination of registration under the Exchange Act as described below.

It is the intention of Telia and Sonera to delist the Sonera shares from the Helsinki Exchanges once all of the outstanding Sonera shares have been exchanged for Telia shares or otherwise redeemed by Telia in accordance with the rules of the Helsinki Exchanges and applicable Finnish laws and regulations.

### ***Termination of the Sonera Deposit Agreement***

At or before the completion of the mandatory redemption offer, Sonera intends to terminate the Sonera deposit agreement in accordance with the provisions of the Sonera deposit agreement. Sonera has the right to direct the depository bank to terminate the deposit agreement upon giving holders of Sonera ADSs at least 30 calendar days notice prior to termination. Upon termination, the following will occur under the deposit agreement:

For a period of six months after termination, holders of Sonera ADSs will be able to request the cancellation of their ADSs and the withdrawal of the Sonera shares represented by their ADSs and the delivery of all other property held by the depository bank in respect of those shares on the same terms as prior to the termination. During such six month period, the depository bank will continue to collect all distributions received on the shares on deposit (i.e., dividends) but will not distribute any such property to holders of Sonera ADSs until such holders request the cancellation of their ADSs.

After the expiration of such six month period, the depository bank may sell the securities held on deposit. The depository bank will hold the proceeds from such sale and any other funds then held for the holders of ADSs in a non-interest-bearing account. At that point, the depository bank will have no further obligation to holders other than to account for the funds then held for the holders of ADSs still outstanding.

### ***Deregistration under the Exchange Act; Public Availability of Information***

Sonera shares in the form of Sonera ADSs currently are registered under the Securities Exchange Act of 1934, as amended (the Exchange Act). Registration of such Sonera shares may be terminated upon application of Sonera to the SEC if Sonera ADSs are neither listed on a U.S. national securities exchange or quotation system nor held by 300 or more holders of record in the United States. Termination of registration of the Sonera shares under the Exchange Act would substantially reduce the information required to be furnished by Sonera to Sonera securityholders and to the SEC and would make certain provisions of the Exchange Act, such as the requirement in Rule 13e-3 thereunder with respect to going private transactions, no longer applicable to Sonera. Further, affiliates of Sonera and persons holding restricted securities of Sonera, if any, may be deprived of the ability to dispose of such securities pursuant to Rule 144 promulgated under the Securities Act. If, as a result of the exchange of Sonera securities, pursuant to the exchange offer or otherwise and prior to the compulsory acquisition or mandatory redemption proceeding, if any, Sonera is no longer required to maintain registration of the Sonera shares evidenced by the Sonera ADSs under the Exchange Act, Sonera intends to apply for termination of such registration.

Following the exchange of Sonera securities pursuant to the exchange offer, Sonera shareholders who have not tendered their Sonera shares pursuant to the exchange offer will continue to receive the same financial and other information from Sonera that Sonera is presently required by the rules of the Helsinki Exchanges or by Finnish law to send to Sonera securityholders.

### ***Sonera Securities May Cease Being Margin Securities***

Sonera ADSs currently are margin securities under the regulations of the Board of Governors of the U.S. Federal Reserve System, which status has the effect, among other things, of allowing U.S. brokers to extend credit on the collateral of Sonera ADSs for purposes of buying, carrying and trading in securities. With the delisting of Sonera's ADSs from NASDAQ, Sonera ADSs might no longer constitute margin securities and, therefore, could no longer be used as collateral for purpose of loans made by U.S. brokers.



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In addition, if registration of the Sonera shares represented by Sonera ADSs under the Exchange Act were terminated, Sonera ADSs would not longer constitute margin securities.

### **Accounting Treatment**

The merger will be accounted for as an acquisition under IAS by use of the purchase method of accounting and as a business combination for purposes of U.S. GAAP by use of the purchase method of accounting. For accounting purposes, Telia will be the acquirer and Sonera will be the acquired entity.

### **Dealer Manager and Related Fees and Expenses**

Telia has retained Merrill Lynch to act as dealer manager in the United States in connection with the exchange offer. Merrill Lynch will perform certain services in connection with the exchange offer, including soliciting tenders pursuant to the exchange offer and communicating generally with brokers, dealers, commercial banks and trust companies and other persons. Merrill Lynch will receive approximately \$500,000 for providing these services and will be reimbursed for its reasonable out-of-pocket expenses, including reasonable attorneys' fees, incurred in connection with performing such function. Telia has agreed to indemnify Merrill Lynch and related persons against certain liabilities and expenses in connection with their services, including liabilities and expenses under the Securities Act and the Exchange Act, or contribute to payments that the dealer manager may be required to make in that respect. Merrill Lynch is currently engaged by Telia and has in the past provided, and may in the future provide, financial advisory or financing services to Telia and has received, and may receive, fees for rendering these services. In the ordinary course of Merrill Lynch's business, Merrill Lynch and its affiliates may actively trade securities of Telia and Sonera for their own account and for the accounts of their customers and, accordingly, may at any time hold a long or short position in these securities.

### **Other Fees and Expenses**

Telia has retained Georgeson Shareholder Communications Inc. as information agent in connection with the exchange offer. The information agent may contact holders of Sonera shares, Sonera ADSs and Sonera warrants by mail, telephone, telex, telegraph and personal interview and may request brokers, dealers and other nominee stockholders to forward material relating to the offer to beneficial owners of Sonera shares and Sonera ADSs. Telia will pay the information agent reasonable and customary compensation for these services in addition to reimbursing the information agent for its reasonable out-of-pocket expenses. Telia has agreed to indemnify the information agent against certain liabilities and expenses in connection with the offer, including certain liabilities under the U.S. federal securities laws.

In addition, Telia has retained Citibank, N.A. to act as the U.S. exchange agent to receive Sonera ADSs validly tendered in the exchange offer and Nordea Bank Finland Plc to act as the Finnish share agent in connection with the exchange offer for Sonera shares and warrants. Telia will pay these agents reasonable and customary compensation for their services in connection with the offer, will reimburse them for their reasonable out-of-pocket expenses and will indemnify them against certain liabilities and expenses, including, in the case of Citibank, N.A., certain liabilities under the U.S. federal securities laws.

The cash expenses to be incurred in connection with the exchange offer to be paid by Telia and Sonera are estimated in the aggregate to be approximately 135 million (approximately SEK 1.2 billion). Such expenses include fees paid to financial advisors, transaction-related accounting and legal fees, printing costs, registration fees and Finnish transfer tax, among others. If the exchange of Telia shares for Sonera shares is not deemed to represent a public sale, as defined in the Finnish Transfer Tax Act and the Finnish Securities Market Act, Finnish transfer tax may be payable in connection with such exchange. The costs due to possible Finnish transfer tax have been estimated to be 52 million (SEK 472 million), when calculated using the Telia closing price of SEK 23.30 per Telia share ( 2.55 per Telia share) as of September 30, 2002, and assuming that 100 percent of Sonera shares held by Finnish shareholders are exchanged for Telia shares.

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Except as set forth above, Telia will not pay any fees or commissions to any broker, dealer or other person for soliciting tenders of Sonera shares, Sonera ADSs or Sonera warrants pursuant to the exchange offer. Telia will reimburse brokers, dealers, commercial banks and trust companies and other nominees, upon request, for customary clerical and mailing expenses incurred by them in forwarding offering materials to their customers.

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**SUMMARY OF THE COMBINATION AGREEMENT**

*Telia believes that this summary describes all material terms of the combination agreement, as amended. However, the following description is only a summary, and Telia recommends that you read carefully the complete text of the combination agreement, which is included as Annex A to this prospectus, and the amendment to the combination agreement, which is included as Annex B to this prospectus, and are incorporated herein by reference.*

**The Exchange Offer**

The combination agreement provides that Telia must commence the exchange offer as promptly as practicable, and, in any event, no later than two business days following the later of (1) the approval by the Finnish Financial Supervision Authority of the combined tender offer document/ listing particulars to be issued in relation to the exchange offer and (2) the effectiveness of the registration statement of which this prospectus forms a part.

Subject to the conditions described below under Conditions to the Exchange Offer, Telia is required to make an offer:

to the holders of Sonera shares, to exchange 1.51440 Telia shares for each Sonera share held;

to the holders of Sonera ADSs, to exchange 0.30288 Telia ADSs for each Sonera ADS held, each Telia ADS representing five Telia shares; and

to the holders of Sonera warrants issued under the Sonera 1999 and 2000 stock option programs, to exchange one new warrant to be issued by Telia for each Sonera warrant. The Telia warrants will be exercisable for Telia shares and will, to the extent possible, reflect the terms and conditions of the Sonera warrants adjusted by the exchange offer ratio referred to above.

Telia will issue only whole Telia securities in the exchange offer. To the extent that holders of Sonera securities are entitled to fractions of Telia shares, Telia ADSs or Telia warrants in exchange for their securities, those fractional entitlements will be sold, in the case of fractional entitlements to Telia shares, on the Stockholm Exchange or the Helsinki Exchanges (or, in the case of the Telia warrants, in the over-the-counter market) or, in the case of fractional entitlements to Telia ADSs, on NASDAQ, and the cash consideration will be distributed to the holders in lieu of the fractional securities.

**Conditions to the Exchange Offer**

Telia's obligation to accept for payment and pay for Sonera securities tendered pursuant to the exchange offer is subject to the satisfaction or, if permitted by applicable law, prior waiver by both parties of the conditions set forth under the heading THE EXCHANGE OFFER Conditions to Completion of the Exchange Offer.

Telia and Sonera agreed to use their reasonable best efforts to assist and cooperate with each other in doing all things necessary or advisable to cause the conditions to the combination agreement to be satisfied in the most expeditious manner reasonably possible.

**Expiration of the Offer; Lapse of the Offer**

The combination agreement provides that the initial expiration date of the exchange offer will be the date which is not later than 20 U.S. business days after the date on which the exchange offer commences and, provided that the combination agreement shall not have been terminated in accordance with its terms, will be extended by Telia from time to time after that date until such time as all of the exchange offer conditions described above under Conditions to the Exchange Offer have been satisfied. Subject only to those conditions, Telia will accept for exchange and will exchange all Sonera securities that have been validly tendered and not withdrawn pursuant to the terms of the exchange offer at the earliest practicable time following the expiration date (which is referred to as the closing date).

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The combination agreement provides that the exchange offer will lapse:

unless the exchange offer conditions have been and continue to be satisfied or, where appropriate, have been waived by both parties by 4:00 p.m. (Helsinki time) on the expiration date; or

if the combination agreement is terminated in accordance with its terms (described below under "Termination").

In the event that the exchange offer lapses, Telia will release all Sonera securities tendered pursuant to the exchange offer as soon as reasonably possible.

### **Mandatory Redemption Offer and Compulsory Acquisition**

As soon as reasonably practicable after the completion of the exchange offer, and subject only to the condition that the minimum condition has been satisfied, Telia shall take all actions necessary and proper under the Finnish Securities Market Act and the Finnish Companies Act of 1978, as amended (the "Finnish Companies Act"), to complete a mandatory redemption offer under Chapter 6, Section 6 of the Finnish Securities Market Act and a compulsory acquisition under Chapter 14, Section 19 of the Finnish Companies Act to acquire all the remaining issued and outstanding Sonera shares, whether in the form of Sonera shares or Sonera ADSs.

### **Approval by Telia Shareholders**

Telia has agreed that it will, as promptly as reasonably practicable, call an extraordinary general meeting of its shareholders at which its shareholders will be asked, conditional on the closing of the transactions contemplated by the combination agreement:

to approve the capital increase necessary to complete the exchange offer by the issuance of up to 1,706,304,914 new Telia shares, in the form of Telia shares or Telia ADSs, entitled to the same rights, as of the date of their issuance, as the existing ordinary shares of Telia and Telia ADSs, as the case may be, and the issuance of up to 35,000,000 Telia warrants; and

to elect as directors of Telia, effective as of the closing date, the persons nominated pursuant to the shareholders' agreement.

### **Representations and Warranties**

In the combination agreement, Telia and Sonera each made representations and warranties with respect to, among other things:

corporate matters, including due organization, power and authority;

capital structure and securities;

authorization, execution, delivery and enforceability of the combination agreement;

absence of conflicts under organizational documents, violations of laws and regulations and breaches of or defaults under contracts as a result of the transactions contemplated by the combination agreement;

required consents and approvals by governmental entities;

compliance with laws and contracts;

accuracy of financial statements and documents submitted to the Stockholm Exchange, in the case of Telia, and to the SEC and the Helsinki Exchanges, in the case of Sonera;

the absence of any material adverse effect or other specified changes or events;

litigation; and

taxes.

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### **Covenants**

#### ***Interim Conduct of Business***

Telia and Sonera each agreed that, unless the other party otherwise agreed, its business would be conducted in the ordinary course of business consistent with past practice. The parties agreed that the following actions would be deemed to be outside the ordinary course of business:

issuing or agreeing to issue any shares or securities that may be converted into or exercised for shares, other than in accordance with existing option programs;

recommending, declaring or paying any shareholder bonus, dividend or distribution (other than, in the case of Telia, a dividend of no more than SEK 0.20 per share with respect to the year 2001);

purchasing, redeeming or repaying any of its shares or securities or proposing the reduction of or any changes to its share capital; and

entering into any contract, transaction or arrangement (1) regarding any material acquisition, disposition or incurrence of material indebtedness, (2) that could materially restrict the business operations of the company or (3) that is of an onerous or unusual nature or magnitude.

#### ***Approvals and Waivers***

Each of Telia and Sonera agreed to use its reasonable best efforts to complete in the most expeditious manner reasonably possible the transactions contemplated by the combination agreement, including obtaining all necessary approvals and waivers from governmental entities and third parties and making all necessary registrations and filings. Telia and Sonera each agreed to take all steps necessary to obtain approvals or waivers from governmental entities, including disposing or altering any operations of Telia and Sonera in a manner that would not have a material adverse effect on Telia or Sonera, as the case may be.

#### ***Board Recommendations***

Telia agreed that its board of directors would unanimously and unconditionally recommend to the Telia shareholders that they approve the matters described above under *Approval by Telia Shareholders*, provided, however, that the Telia board may amend, modify, withdraw, condition or qualify its recommendation if the board determines in its good faith judgment, after taking advice from independent legal counsel and after consulting with Sonera, that failure to do so would cause the board to breach its fiduciary duties to Telia or the Telia shareholders.

Sonera agreed that its board of directors would unanimously and unconditionally recommend to the Sonera shareholders that they accept the exchange offer, provided, however, that the Sonera board may amend, modify, withdraw, condition or qualify its recommendation if the board determines in its good faith judgment, after taking advice from independent legal counsel and after consulting with Telia, that failure to do so would cause the board to breach its fiduciary duties to Sonera or the Sonera shareholders.

#### ***Information Documents and Stock Exchange Listing***

Telia and Sonera agreed that they would jointly prepare the documents to be used for the exchange offer, the listing of Telia shares on the Stockholm Exchange and the Helsinki Exchanges, the approval of Telia ADSs for quotation on Nasdaq National Market and the meeting of Telia shareholders.

#### ***Solicitation of Transactions***

The combination agreement contains an agreement by each of Telia and Sonera that it will not solicit any inquiries or facilitate or solicit any proposal or offer that could lead to a competing transaction or otherwise hinder the completion of the transactions contemplated by the combination agreement, and that it will notify the other party if any proposal or offer, or any inquiry or contact with any person regarding such a proposal, is made.



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***Other Covenants***

The combination agreement contains other covenants relating to:

cooperation between the parties in connection with the preparation of documents, filings with governmental entities and other actions required to effect the transactions contemplated by the combination agreement;

mutual notification of specified events;

confidentiality;

public announcements regarding any transactions contemplated by the combination agreement; and

stock exchange listings and de-listings.

**Termination**

The combination agreement may be terminated and the exchange offer may be abandoned at any time prior to the completion of the exchange offer as follows:

by mutual written consent of each of Telia and Sonera;

by either Telia or Sonera, if:

- (1) the exchange offer has not closed by December 31, 2002;
- (2) any court or governmental entity has entered a final and nonappealable order preventing the consummation of the transactions contemplated by the combination agreement;
- (3) the proposals described above under *Approval by Telia Shareholders* are not adopted by the Telia shareholders; or
- (4) the other party breaches any representation, warranty, covenant or agreement in the combination agreement, except if the breach would not reasonably be expected to result in a material adverse effect (provided that a change in the general economic or market conditions or in the general conditions prevailing in the industry of the parties or a change resulting from the announcement of the transactions contemplated by the combination agreement will not be deemed to be a material adverse effect).



**Table of Contents****SUMMARY OF THE SHAREHOLDERS AGREEMENT**

*Telia believes that this summary describes all material terms of the shareholders agreement. However, the following description is only a summary, and Telia recommends that you read carefully the complete text of the shareholders agreement, which is included as Annex C to this prospectus and is incorporated herein by reference.*

**Undertakings by the Parties**

The Republic of Finland has agreed with the Kingdom of Sweden that it will irrevocably undertake to Telia to tender all of its Sonera shares in connection with the exchange offer, unless the combination agreement has been terminated by either party in accordance with its terms. An undertaking to such effect was delivered by the Republic of Finland to Telia on March 26, 2002.

The Kingdom of Sweden has agreed that it will vote all of its Telia shares in favor of the resolutions to be proposed by the Telia board of directors to the shareholders of Telia in connection with the exchange offer, unless the combination agreement has been terminated by either party in accordance with its terms.

**Board of Directors**

In the shareholders agreement, the Republic of Finland and the Kingdom of Sweden agreed that the board of directors of TeliaSonera will consist of nine non-executive board members to be elected based only on their competence and ability. The parties agreed that the board of directors of TeliaSonera will consist of the following members after the completion of the exchange offer, for the minimum period specified below:

| <b>Identity</b>   | <b>Current Relationship with Telia or Sonera</b>                      | <b>Position on TeliaSonera Board</b> | <b>Minimum Period of Service<sup>(1)</sup></b> |
|---|---|--------------------------------------|--|
| Tapio Hintikka  | Chairman of Sonera board of directors                                 | Chairman                             | 2005   |
| Lars-Eric Petersson   | Chairman of Telia board of directors                                  | Deputy Chairman                      | 2005   |
| Three persons to be nominated by the nomination committee of the board of directors of Sonera | Members of Sonera board of directors                                  | Director                             | 2004(2)  |
| Three persons to be nominated by the nomination committee of Telia                            | Members of Telia board of directors                                   | Director                             | 2004(2)  |
| One independent member to be nominated by Messrs. Hintikka and Petersson                      | Not a member of Telia board of directors or Sonera board of directors | Director                             | 2004   |

(1) Until the closing of the annual general meeting of Telia shareholders to be held in the year indicated.

(2) In 2003, one of the three members who are nominated by the nomination committee of the board of directors of Sonera and one of the three members who are nominated by the nomination committee of Telia will be replaced with two new independent members who will serve at least until the closing of the annual general meeting of TeliaSonera to be held in 2004.

At the annual general meeting of the shareholders of TeliaSonera to be held in 2004, the two remaining members who are nominated by the nomination committee of the Sonera board of directors and the nomination committee of Telia, respectively, the one independent member who is nominated by Messrs. Hintikka and Petersson and two new independent members to be elected at the annual general meeting of the shareholders of TeliaSonera to be held in 2003, as described above, will be re-elected in the



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event that they will continue to fulfill the competence and ability requirements and that they are not civil servants or any politicians active in the national politics of either Finland or Sweden.

In addition, the board of directors of TeliaSonera will include up to three employee representatives.

## **Corporate Governance**

The parties have agreed that they will use their respective voting power at general meetings of TeliaSonera in a manner which is consistent with TeliaSonera exercising the highest standards of corporate governance principles.

In addition, the parties agreed that they will, in advance of any shareholders meeting of TeliaSonera, consult with each other on any matter to be resolved by the general meeting of TeliaSonera shareholders.

## **Agreements on Shareholding**

### ***Reduction of Shareholdings***

The parties have agreed that they will support TeliaSonera's participation in further industry consolidation if this is consistent with enhancing shareholder value. Subject to market conditions, each party intends to reduce its shareholding in TeliaSonera during the five-year period following the consummation of the exchange offer.

In the event that either party decides to sell any or all of its shares in TeliaSonera otherwise than pursuant to an accelerated equity offering, block trade or other non-marketed offering, the other party will have the right to participate in such sale.

### ***Prior Written Approval***

The parties have agreed that they will not dispose of any of their respective shares of Telia or Sonera during the period of the exchange offer. However, the Republic of Finland will have the right and obligation to tender its shares of Sonera in exchange for shares of Telia in accordance with the terms and conditions of the exchange offer and its irrevocable undertaking to Telia.

Moreover, the parties have agreed that they will not, without the prior written approval of the other party, purchase any new shares of Telia, after March 26, 2002, except pursuant to a rights offering undertaken by Telia or pursuant to a similar transaction recommended by the Telia board of directors.

## **Term of the Agreement**

Provided that the combination agreement has not terminated, the shareholders' agreement will remain in force until the shareholdings of the parties fall below certain thresholds or, in any case, not later than five years from the consummation of the exchange offer.

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**TAXATION**

The following description is based on the tax laws of Finland, Sweden and the United States and the relevant tax treaties between these countries as in effect on the date of this prospectus, and is subject to changes in Finnish, Swedish and U.S. law or the above mentioned treaties, possibly with retroactive effect. You should consult a professional advisor as to the tax consequences of the exchange offer and the ownership, purchase and disposition of Telia shares ADSs or warrants, including, in particular, the effect of tax laws of any other jurisdiction. Holders of shares, ADSs and warrants who are tax residents outside of Finland and the United States are urged to consult their own tax advisor as to the consequences resulting from the exchange offer. This advice applies especially for employees holding and exchanging warrants.

**Finnish Tax Considerations**

The following is a description of the material Finnish income and net wealth tax consequences that may be relevant with respect to the exchange offer of Sonera shares, ADSs or warrants and the ownership or disposition of Telia shares or ADSs. The description below only addresses Finnish tax legislation and does not take into account the tax laws of any other countries.

The description below is only applicable to residents in Finland for the purposes of Finnish internal tax legislation. This description does not address tax considerations applicable to holders of shares or warrants that may be subject to special tax rules, including among others business carrying entities, tax-exempt entities or general or limited partnerships. Furthermore this description addresses neither Finnish inheritance nor gift tax consequences.

This description is based on:

The Income Tax Act (*Tuloverolaki 30.12.1992/1535*);

The Net Wealth Tax Act (*Varallisuusverolaki 30.12.1992/1537*);

The Business Income Tax Act (*Laki elinkeinotulon verottamisesta 24.6.1968/360*); and

The Transfer Tax Act (*Varainsiirtoverolaki 29.11.1996/931*).

In addition, relevant case law, decisions and statements made by the tax authorities in effect and available on the date of the Prospectus have also been taken into account.

All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

You are advised to consult your own tax advisors as to the Finnish tax consequences resulting from the exchange offer as well as with regard to any redemption or option rights.

***Tax Consequences related to the Exchange Offer***

Under Finnish tax law, a share exchange made pursuant to an exchange offer is generally not considered to be a disposal of shares for tax purposes so long as the transaction falls under the definition of a share exchange provided by the Finnish Business Income Tax Act. Under the Finnish Business Income Tax Act, a share exchange offer is defined as a transaction where a company acquires a portion of a target company's shares which entitles it to more than half of the votes of all shares in the target company and, in exchange, the acquiring company issues its own new shares to the shareholders of the target company. Under the Finnish Business Income Tax Act, the consideration for the acquired company's shares may also be paid in cash. However, such cash payment must not exceed ten percent of the nominal value of the shares or, if the acquired shares do not have a nominal value, of the accounting par value of the shares, in order for the transaction to qualify as a share exchange. Under Finnish tax law, as a share exchange is not considered to be a disposal of shares for tax purposes, the shares offered in exchange will have the same acquisition cost and date as the original shares held by the shareholder in the acquired company. However, if a shareholder of the target company receives a cash payment, Finnish tax law will treat the transaction as a realization event and such shareholder will be liable for taxes on possible capital gains.



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If the conditions included in Section 52(f) of the Finnish Business Income Tax Act are met, the exchange of Sonera shares for Telia shares pursuant to the exchange offer will not give rise to any immediate Finnish capital gains tax consequences. The acquisition cost of the shares received by a shareholder in exchange for shares in the target company is deemed to be the acquisition cost of the target shares transferred. Any capital gains taxes or losses on the exchanged shares are deferred until the shares are further transferred. If a Finnish resident who has received shares in a share exchange ceases to be a resident of Finland within three years of the end of the tax year in which the exchange of shares was carried out, the non-taxed capital gain which would have been subject to tax in the absence of the share exchange provisions will be taxed in the year in which the person ceases to be a resident of Finland.

As fractional Telia shares will not be delivered to holders of Sonera securities in connection with the exchange offer, holders of Sonera shares will receive consideration to the extent of their entitlement to fractions of Telia shares. (See THE EXCHANGE OFFER Fractional Shares and ADSs ). Any cash payment that holders of Sonera shares may receive in connection with the exchange offer for fractional entitlements may be subject to Finnish capital gains taxes. In addition, any subsequent disposal of Telia shares received pursuant to the exchange offer may be subject to Finnish capital gains taxes.

In determining the taxation in relation to capital gains or losses under Finnish tax law, an individual investor has an option to deduct from the sales proceeds either the actual acquisition cost of the shares, calculated on a pro rata basis on the shares and their fractions received and other costs related to the exchange of shares. Alternatively, a natural person taxed according to the Income Tax Act can deduct from the sales proceeds a presumptive cost equal to 20 percent, or if the shares have been held for at least ten years, 50 percent of the sales proceeds. The capital gains from the disposal of shares by non-residents of Finland are not considered taxable income in Finland unless the shares are connected with a permanent establishment or a fixed base in Finland. As of the date of this prospectus, the Finnish capital gains tax rate is 29 percent. According to the Income Tax Act, a possible capital loss is deductible from other capital gains received by the taxpayer during the sales year and the three following years. See also Swedish Tax Considerations Taxation of Capital Gains.

### ***Taxation of Dividend Income***

Dividend income received on Telia shares, which are received in connection with the exchange offer, will not qualify for a tax credit under the Finnish imputation system. Therefore, any dividend income, which a Finnish resident shareholder receives on Telia shares, will generally be subject to Finnish tax.

Dividends received from a company listed on a foreign stock exchange are taxed in Finland as investment income. Therefore, the dividend distributed by Telia to a Finnish resident is taxable at a rate of 29 percent in Finland. However, dividend income received by a company, which is resident of Finland and which directly owns ten percent or more of Telia's voting shares, will be exempt from Finnish income taxes.

As discussed under the caption Swedish Tax Considerations below, a withholding tax is generally imposed under Swedish tax law on dividends paid by a Swedish company to a non-resident shareholder. Swedish withholding tax imposed may, under Finnish tax law and the Nordic tax treaty, be credited against taxes levied in Finland. This tax credit is not received automatically and has to be claimed specifically. A Finnish resident association of public utility or an association for the public good may upon application get an exemption from the tax in Sweden.

### ***Transfer Tax***

If a Sonera shareholder having accepted the exchange offer is a Finnish resident, a Finnish branch office of a foreign credit institution or a Finnish branch of a foreign investment service institution, then a transfer tax may be levied in Finland on the resulting transfer of Sonera shares. Telia has, pursuant to the terms of the exchange offer, undertaken to pay such a transfer tax, if any. Generally, transfer tax is not payable in respect of a public sale as defined in the Finnish Transfer Tax Act and the Finnish Securities Market Act.

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### ***Wealth Tax***

The listed Telia shares and Sonera shares, which are held by Finnish residents, are valued at 70 percent of their fair market value for Finnish wealth tax purposes. Net wealth tax is levied on property owned by a Finnish taxpayer on December 31 of a given tax year. As of the date of this prospectus, the wealth tax in Finland amounted to 80 on net wealth of 185,000 and an additional 0.9 percent on any net wealth in excess of this amount. Most Finnish corporations are exempt from the net wealth tax.

### ***Taxation of Stock Warrants***

Under the Finnish Income Tax Act, any benefit derived from employee stock warrants is taxed as employment income at the time the employee stock warrants are exercised. Employment income is taxed at a progressive rate. The exercise of an employee stock warrant is deemed to take place when the warrants are exchanged for the shares to which they are entitled to or when the warrants are disposed of. Taxable employment income will be calculated using the fair market value of the shares at the exercise date less the price paid for the shares and/or stock warrants.

As stock warrants are not specifically mentioned in the share exchange provision contained in the Finnish Business Income Tax Act, Finnish tax treatment in connection with a share exchange is unclear. Following an advance ruling application made by an individual warrant holder regarding the exchange of Sonera stock warrants for Telia stock warrants, the Finnish Central Tax Board has stated that this exchange is not regarded to be an exercise of the employee stock warrant.

Although in light of this recent decision stating that the exchange of Sonera stock warrants for Telia stock warrants should not result in taxation of employment income for the concerned Sonera employees, it should be noted, that the decision is not yet legally binding and may be revised by the Finnish Supreme Administrative Court due to the appeal made by the representative of the state.

### ***Mandatory Redemption of Sonera Shares and Sonera Warrants or Compulsory Acquisition of Sonera Shares***

If the exchange offer is completed, holders of Sonera shares or Sonera warrants who do not participate in the exchange offer may choose to receive cash consideration, in accordance with a possible mandatory redemption offer under the Finnish Securities Markets Act or, in the case of Sonera shares, under the compulsory acquisition provisions of the Finnish Companies Act.

Amounts received for Sonera shares or Sonera warrants by shareholders or warrant holders in a mandatory redemption offer or, in the case of Sonera shares, a compulsory acquisition will be subject to regular Finnish capital gains taxation. However, the exercise of an employee stock warrant is deemed to take place when the warrant is redeemed. Therefore, amounts received for employee stock warrants in mandatory redemption, deducted with any amounts paid for them, are taxed as employment income.

Any compensation payable to holders of Sonera shares or Sonera warrants that have accepted the exchange offer due to any difference between the fair price paid for Sonera shares or Sonera warrants purchased pursuant to a mandatory redemption offer and the value of the consideration received pursuant to the exchange offer by the Sonera shareholders would likewise be subject to regular Finnish capital gains taxation. In case of employment stock warrants, the value of the consideration received pursuant to the exchange offer will be taxed as employment income.

The effect of a mandatory redemption offer or compulsory acquisition on a tax neutral share exchange has not been addressed in Finnish tax legislation and is partly open to interpretation. Following an advance ruling application made by an individual shareholder regarding mandatory redemption offer or compulsory acquisition of Sonera shares, the Finnish Central Tax Board has stated that cash amounts received by shareholders or warrant holders due to a mandatory redemption, due to a compulsory acquisition or due to the difference between the fair price as determined in connection with a mandatory redemption offer and the value of the consideration received pursuant to the exchange offer should not be regarded as cash consideration for the purposes of calculating whether the exchange offer transaction qualifies as a tax neutral

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share exchange, i.e., whether such cash consideration exceeds 10 percent of the nominal value (or, in the absence of nominal value, accounting par value) of the shares subject to the exchange offer. It should be noted that the decision is not yet legally binding and may be revised by the Finnish Supreme Administrative Court upon appeal. We recommend that shareholders and warrant holders participating in the exchange offer seek advice from their tax advisors in order to acquire more exact information on such tax consequences.

### **Swedish Tax Considerations**

The following is a description of the material Swedish income and net wealth tax consequences with respect to the exchange offer for holders of Sonera shares, Sonera ADSs or Sonera warrants that are non-residents of Sweden. This section applies only to holders of portfolio investments representing less than 10 percent of the capital and votes and is not applicable if the Sonera shares, Sonera ADSs or Sonera warrants pertain to a permanent establishment or fixed base of business in Sweden. Holders of shares, ADSs or warrants should consult their own tax advisors regarding the Swedish and other tax consequences of acquiring, owning and disposing of shares, ADSs or warrants.

The description below is based on the Income Tax Act (*Inkomstskattelag* (1999:1229)), the Net Wealth Tax Act (*Lag om statlig förmögenhetsskatt* (1997:323)) and relevant tax treaties as currently in effect.

#### ***Taxation of Capital Gains***

Generally, the exchange offer may be accepted by non-residents of Sweden and corporations not domiciled in Sweden without any Swedish tax consequences.

Non-residents of Sweden are generally not liable for Swedish capital gains taxation with respect to the sale of shares, ADSs or warrants. However, under Swedish tax law, capital gains from the sale of certain Swedish securities, such as the Telia shares, Telia ADSs or Telia warrants, by private individuals may be taxed in Sweden if such individuals have been residents of Sweden or have lived permanently in Sweden at any time during the year of the sale or the ten calendar years preceding the year of the sale, absent applicable treaty provisions to the contrary, at a rate of 30 percent. This provision may, however, be limited by tax treaties which Sweden has concluded with other countries. The Nordic tax treaty currently in force reduces this period to the five years following the year when the individual became a non-resident of Sweden. The tax treaty currently in force between Sweden and the United States limits this time period to ten years from the date the individual became a non-resident of Sweden.

#### ***Taxation of Dividends***

A Swedish dividend withholding tax at a rate of 30 percent is imposed on dividends paid by a Swedish company, such as Telia, to non-residents of Sweden. The same withholding tax applies to certain other payments made by a Swedish company, including payments as a result of redemption of shares and repurchase of stock through an offer directed to its shareholders. Exemption from the withholding tax or a lower tax rate may apply by virtue of a tax treaty. Under both the current Nordic tax treaty and the tax treaty currently in force between Sweden and the United States, the withholding tax on dividends paid on portfolio investments to eligible U.S. holders or Finnish holders, as the case may be, is capped at 15 percent.

Under all Swedish tax treaties, with the exception of the tax treaty currently in force between Sweden and Switzerland, the withholding tax at the applicable treaty rate should be withheld by the payer of the dividends. With regard to dividends paid from shares in companies registered with the VPC (such as Telia shares), a reduced rate of dividend withholding tax under a tax treaty is generally applied at the source by VPC or, if the shares are registered with a nominee, the nominee, so long as the person entitled to the dividend is registered as a non-resident and sufficient information regarding the tax residency of the beneficial owner is available to VPC or the nominee.

In those cases where Swedish tax is withheld at the rate of 30 percent and the person that received the dividends is entitled to a reduced rate of withholding tax under an applicable tax treaty, a refund may be



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claimed from the Swedish tax authorities not later than at the end of the fifth calendar year after the distribution.

The Swedish withholding tax provisions are currently under review, and new or amended provisions may be introduced as a result of this review.

It should be noted that due to technical issues, a Swedish withholding tax of 30 percent will also be withheld for dividends and similar payments to Swedish tax residents on Telia shares that are registered at the Finnish Central Securities Depository, or the FCSD.

### ***Net Wealth Taxation***

The Telia shares, Telia ADSs or Telia warrants are not subject to Swedish net wealth taxation in the hands of a holder that is not a resident in Sweden.

### **United States Federal Income Tax Considerations**

The following is a description of the material U.S. federal income tax consequences that may be relevant with respect to the exchange offer and the ownership and disposition of Telia shares or Telia ADSs, which are evidenced by Telia ADRs. Subject to the qualifications and limitations set forth below, the following description of the material U.S. federal income tax consequences is the opinion of White & Case LLP. This description addresses only the U.S. federal income tax considerations of holders that hold Sonera shares, Sonera ADSs or Sonera warrants or that will hold Telia shares or Telia ADSs, as capital assets. Except as set forth below, this description does not address tax considerations applicable to holders that may be subject to special tax rules, including:

banks, financial institutions or insurance companies;

real estate investment trusts, regulated investment companies or grantor trusts;

dealers or traders in securities or currencies;

tax-exempt entities;

persons that received Sonera shares, Sonera ADSs or Sonera warrants or that will receive Telia shares or Telia ADSs as compensation for the performance of services;

persons that held Sonera shares, Sonera ADSs or Sonera warrants or that will hold Telia shares or Telia ADSs as part of a hedging or conversion transaction or as a position in a straddle for United States federal income tax purposes;

persons that have a functional currency other than the U.S. dollar; or

holders that own or are deemed to own ten percent or more, by voting power or value, of Sonera shares, including Sonera shares held in the form of Sonera ADSs.

Moreover, this description does not address the U.S. federal estate and gift or alternative minimum tax consequences of the exchange offer and the ownership and disposition of Telia shares or Telia ADSs.

This description is based

on the Internal Revenue Code of 1986, as amended (the Code), existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof; and

in part, on the representations of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.



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For purposes of this description, a U.S. Holder is a beneficial owner of Telia shares or Telia ADSs or Sonera shares or Sonera ADSs that, for U.S. federal income tax purposes, is:

a citizen or resident of the United States;

a partnership or corporation created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

A Non-U.S. Holder is a beneficial owner of Telia shares or Telia ADSs or Sonera shares or Sonera ADSs that is not a U.S. Holder.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Sonera shares, Sonera ADSs or Sonera warrants or Telia shares or Telia ADSs, the tax treatment of the partnership or a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. A partnership or a partner in a partnership that holds Sonera shares or Sonera ADSs or Telia shares or Telia ADSs should consult its own tax advisor.

**You should consult your own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of the exchange offer and owning or disposing of Telia shares or Telia ADSs.**

***Exchange Offer***

Your exchange of Sonera shares or Telia ADSs for Telia shares or Telia ADSs, respectively, will likely be a taxable exchange for U.S. federal income tax purposes due to the potential cash to be paid by Telia pursuant to the mandatory redemption or compulsory acquisition. The Internal Revenue Service provides that, in order to receive a ruling to the effect that the exchange offer will be treated as a tax-free reorganization for U.S. federal income tax purposes, no exchange offer expenses may be paid by Telia and you may not receive any cash in connection with the exchange offer. With respect to the exchange offer, however, expenses incurred in connection with the offer will be paid by Telia and the possibility exists that you would receive cash as a result of the mandatory redemption and compulsory acquisition proceeding. Thus, although there is no direct authority, the payment by Telia of exchange offer expenses and the possible cash payment to you pursuant to the mandatory redemption and compulsory acquisition will likely cause the exchange offer to be taxable for U.S. federal income tax purposes. The remainder of the description assumes that such exchange will be a taxable exchange for U.S. federal income tax purposes because such description assumes that some cash will be paid by Telia pursuant to the mandatory redemption or compulsory acquisition.

Subject to the discussion below under Sonera Passive Foreign Investment Company Considerations, if you are a U.S. Holder:

you will recognize gain or loss on the exchange of your Sonera shares or Sonera ADSs for Telia shares or Telia ADSs, respectively, equal to the difference between the sum of (1) the fair market value, as of the date of distribution, of any Telia shares or Telia ADSs and (2) any cash you receive in either the exchange offer or the mandatory redemption or compulsory acquisition and your adjusted tax basis in Sonera shares or Sonera ADSs,

your tax basis in the Telia shares or Telia ADSs that you receive will be the sum of (1) the fair market value, as of the date of distribution, of the Telia shares or Telia ADSs you receive and (2) any cash you receive in connection with the exchange offer or mandatory redemption or compulsory acquisition,

your holding period in the Telia shares or Telia ADSs that you receive will begin from the date of distribution of the Telia shares or Telia ADSs, and

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your gain or loss will be a capital gain or loss. If you are a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if your holding period for such Sonera shares or Sonera ADSs exceeds one year and will be further reduced if your holding period exceeds five years. The deductibility of capital losses is subject to limitations.

Subject to the discussion below under Ownership of Telia Shares or Telia ADSs Backup Withholding Tax and Information Reporting Requirements, if you are a Non-U.S. Holder, you generally will not be subject to U.S. federal income or withholding tax on any gain realized on the exchange of Sonera shares or Sonera ADSs for Telia shares or Telia ADSs, respectively, unless:

such gain is effectively connected with your conduct of a trade or business in the United States; or

you are an individual and have been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

***Treatment of the Receipt of Telia Warrants in Exchange for Sonera Warrants***

The U.S. federal income tax treatment of the exchange of Sonera warrants by employees of Sonera for Telia warrants will depend on the series of Telia warrants you receive. An exchange of Sonera warrants for Telia 2002/2005:A warrants should be a taxable exchange for U.S. federal income tax purposes.

Any employee who:

is subject to U.S. federal income taxation on his or her compensation from Sonera;

receives Telia 2002/2005:A warrants for Sonera warrants that were issued to such employee as compensation for services rendered; and

has not previously included as ordinary income the value of Sonera warrants will recognize taxable ordinary income in an amount equal to the excess of:

(1) the fair market value of the Telia warrants received over

(2) the amount paid, if any, by such employee, for the Sonera warrants. Any income recognized on the exchange of Sonera warrants for Telia 2002/2005:A warrants will be subject to United States employment taxes.

Any employee who is subject to U.S. federal income taxation on his or her compensation from Sonera and who has previously included as ordinary income the value of Sonera warrants will recognize capital gain or loss on the exchange of Sonera warrants for Telia 2002/2005:A warrants equal to the difference between:

(1) the fair market value, as of the date of distribution, of the Telia 2002/2005:A warrants and

(2) the adjusted tax basis in the Sonera warrants.

Your tax basis in the Telia 2002/2005:A warrants you receive will be equal to the fair market value, as of the date of distribution, of the Telia 2002/2005:A warrants. Your holding period for the Telia 2002/2005:A warrants will begin from the date of distribution of the Telia 2002/2005:A warrants.

If you sell or exchange Telia 2002/2005:A warrants after the completion of the exchange offer you will recognize gain or loss equal to the difference between the amount realized on the sale or exchange and your adjusted tax basis in the Telia 2002/2005:A warrants. Such gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, the maximum marginal United States federal income tax rate applicable to such gain will be lower than the maximum marginal United States federal income tax rate applicable to ordinary income if your holding period for such Telia 2002/2005:A warrants exceeds one year. The deductibility of capital losses is subject to limitations.

The exchange of Sonera warrants for Telia warrants other than the Telia 2002/2005:A warrants should not be taxable exchange for U.S. federal income tax purposes. If you are subject to U.S. federal income

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taxation on your compensation from Sonera, you should recognize taxable ordinary income when you exercise your Telia warrants other than Telia 2002/2005:A warrants in an amount equal to the excess of:

- (1) the fair market value of the Telia purchased on the exercise date over;
- (2) the amount paid, if any, for the Telia shares.

If you sell or exchange Telia warrants other than Telia 2002/2005:A warrants after the completion of the exchange offer you will recognize taxable ordinary income equal to the excess of:

- (1) the amount realized on the sale or exchange over;
- (2) your adjusted tax basis, if any, in the Telia warrants other than the Telia 2002/2005:A warrants.

If you are subject to U.S. federal income taxation on your compensation from Sonera, any income you realize on the exercise, sale or exchange of Telia warrants other than Telia 2002/2005:A warrants will be subject to U.S. employment taxes. Your tax basis in the Telia shares purchased under the Telia warrants other than the Telia 2002/2005:A warrants will be equal to the amount paid for the Telia shares upon exercise of the warrant plus the amount of income taxable upon exercise. Your holding period for the Telia shares purchased under the Telia warrants other than the Telia 2002/2005:A warrants will begin on the date you exercise the Telia warrants other than the Telia 2002/2005:A warrants.

If you are a holder of Sonera warrants you should note, however, that the U.S. federal income tax consequences of the exchange of compensatory stock warrants are complicated and are not free from doubt. Therefore, if you are a holder of Sonera warrants, we urge you to consult your own tax advisor regarding the exchange of Sonera warrants for Telia warrants.

***Sonera Passive Foreign Investment Company Considerations.***

A Non-U.S. corporation will be classified as a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either:

at least 75 percent of its gross income is passive income, or

at least 50 percent of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Based on certain estimates of its gross income and gross assets and the nature of its business, Sonera believes that it will not be classified as a PFIC for its current taxable year. Sonera has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC, but because the market price of Sonera shares and Sonera ADSs and the market prices of the shares of technology-related companies have been especially volatile, there can be no assurance that it will not be considered a PFIC for any taxable year. If Sonera were a PFIC, and you are a U.S. Holder, you generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, your shares or ADSs.

If Sonera were a PFIC, you could make a variety of elections that may alleviate the tax consequences referred to above, and one of these elections may be made retroactively. However, it is expected that the conditions necessary for making certain of such elections will not apply in the case of Sonera shares or Sonera ADSs. You should consult your own tax advisor regarding the tax consequences that would arise if Sonera were treated as a PFIC.

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### **Ownership of Telia Shares or Telia ADSs**

#### ***Ownership of ADSs in General***

For U.S. federal income tax purposes, if you are a holder of Telia ADSs, you generally will be treated as the owner of Telia shares represented by such Telia ADSs.

#### ***Distributions on Telia Shares or ADSs***

Subject to the discussion below under **Telia Passive Foreign Investment Company Considerations**, if you are a U.S. Holder, for U.S. federal income tax purposes, the gross amount of any distribution made to you of cash or property, other than certain distributions, if any, of Telia shares distributed pro rata to all of its shareholders, including holders of Telia ADSs, with respect to your Telia shares or Telia ADSs, before reduction for any Swedish taxes withheld therefrom, will be includible in your income as dividend income to the extent such distributions are paid out of Telia's current or accumulated earnings and profits as determined under U.S. federal income tax principles. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. To the extent, if any, that the amount of any distribution by Telia exceeds Telia's current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of your adjusted tax basis in your Telia shares or Telia ADSs and thereafter as capital gain. Telia does not maintain calculations of its earnings and profits under U.S. federal income tax principles.

If you are a U.S. Holder, and Telia pays a dividend in Swedish kronor, any such dividend will be included in your gross income in an amount equal to the U.S. dollar value of Swedish krona amount on the date of receipt, which, in the case of Telia ADSs, is the date they are received by the depository. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

If you are a U.S. Holder, dividends paid to you with respect to your Telia shares or Telia ADSs will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. Subject to certain conditions and limitations, Swedish tax withheld on dividends may be deducted from your taxable income or credited against your U.S. federal income tax liability. See **Swedish Tax Considerations Taxation of Dividends**. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that Telia distributes generally will constitute **passive income**, or, in the case of certain U.S. Holders, **financial services income**.

Subject to the discussion below under **Backup Withholding Tax and Information Reporting Requirements**, if you are a Non-U.S. Holder, you generally will not be subject to U.S. federal income or withholding tax on dividends received by you on your Telia shares or ADSs, unless you conduct a trade or business in the United States and such income is effectively connected with that trade or business.

#### ***Sale or Other Exchange of Telia Shares or ADSs***

Subject to the discussion below under **Telia Passive Foreign Investment Company Considerations**, if you are a U.S. Holder, you generally will recognize gain or loss on the sale or exchange of your Telia shares or Telia ADSs equal to the difference between the amount realized on such sale or exchange and your adjusted tax basis in your Telia shares or Telia ADSs. Such gain or loss will be a capital gain or loss. If you are a noncorporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if your holding period for such Telia shares or Telia ADSs exceeds one year and will be further reduced if you acquired such Telia shares or Telia ADSs on or after January 1, 2001 and your holding period exceeds five years. Gain or loss, if any, recognized by you generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

With respect to the sale or exchange of Telia shares or Telia ADSs, the amount realized generally will be the U.S. dollar value of the payment received determined on (1) the date of receipt of payment in the case

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of a cash basis U.S. Holder and (2) the date of disposition in the case of an accrual basis U.S. Holder. If the Telia shares or Telia ADSs are treated as traded on an established securities market, a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Subject to the discussion below under Backup Withholding Tax and Information Reporting Requirements, if you are a Non-U.S. Holder, you generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of such Telia shares or Telia ADSs unless:

such gain is effectively connected with your conduct of a trade or business in the United States; or

you are an individual and have been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

See also Swedish Tax Considerations Taxation of Capital Gains.

### ***Telia Passive Foreign Investment Company Considerations***

Based on certain estimates of its gross income and gross assets and the nature of its business, Telia believes that it will not be classified as a PFIC for its current taxable year. Telia's status in future years will depend on its assets and activities in those years. Telia has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC, but there can be no assurance that Telia will not be considered a PFIC for any taxable year. If Telia were a PFIC, and you are a U.S. Holder, you generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, your Telia shares or Telia ADSs.

If Telia were a PFIC, you could make a variety of elections that may alleviate the tax consequences referred to above, and one of these elections may be made retroactively. However, it is expected that the conditions necessary for making certain of such elections will not apply in the case of Telia shares or Telia ADSs. You should consult your own tax advisor regarding the tax consequences that would arise if Telia were treated as a PFIC.

### ***Backup Withholding Tax and Information Reporting Requirements***

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, Telia shares or Telia ADSs made within the United States to a holder of Telia shares or Telia ADSs, other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons. Information reporting also generally will apply to any payments of cash within the United States to a holder of Sonera shares or Telia ADSs pursuant to the exchange offer. A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, Telia shares or Telia ADSs to a holder or any payments of cash to a holder of Sonera shares or Telia ADSs pursuant to the exchange offer within the United States, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 30 percent for years 2002 and 2003, 29 percent for years 2004 and 2005, and 28 percent for 2006 through 2010.

In the case of such payments made within the United States to a foreign simple trust, a foreign grantor trust or a foreign partnership, other than payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that qualifies as a withholding foreign trust or a withholding foreign partnership within the meaning of the applicable U.S. Treasury Regulations and payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of a trade or business in the United States, the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements. Moreover, a payor may rely on a certification provided by a payee that is

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not a U.S. person only if such payor does not have actual knowledge or a reason to know that any information or certification stated in such certificate is incorrect.

**The above description is not intended to constitute a complete analysis of all tax consequences relating to exchange offer and ownership and disposition of Telia shares or Telia ADSs. You should consult your own tax advisor concerning the tax consequences of your particular situation.**



**Table of Contents****CURRENCY AND EXCHANGE RATES INFORMATION**

Telia presents its financial statements in Swedish kronor. A substantial portion of Telia's revenues and expenses is denominated in Swedish kronor and a portion is denominated in currencies other than the Swedish krona. Sonera presents its financial statements in euros. A substantial majority of Sonera's revenues and expenses are denominated in euros and a portion is denominated in currencies other than the euro. The first table below sets forth, for the periods and dates indicated, the average, high, low and period-end noon buying rates for the krona expressed in kronor per U.S. dollar. The second table below sets forth, for the periods and dates indicated, the average, high, low and period-end noon buying rates for the euro expressed in euros per U.S. dollar.

On January 1, 1999, the 11 member states of the European Union initially participating in the Economic and Monetary Union (known as the EMU) introduced a single European currency known as the euro. Following the adoption by Greece of the euro as its national currency as of January 1, 2001, the following 12 member states of the European Union participate in the EMU and have adopted the euro as their national currency: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. The irrevocable conversion rate between the Finnish markka and the euro was fixed on January 1, 1999 at 1.00 = FIM 5.94573. On January 1, 2002, the euro was introduced as a commercial currency in the EMU member states. Before January 1, 1999, there was no exchange rate between the euro and U.S. dollar. For any time or period before January 1, 1999, the noon buying rates for the euro have been derived from the noon buying rates for the Finnish markka converted into euros at the irrevocable conversion rate between the Finnish markka and the euro.

Other than for the monthly information, the average noon buying rates have been calculated based on the noon buying rate for the last business day of each month or portion of a month during the relevant period. This information is being provided to you for your convenience. These are not necessarily the rates that were used in the preparation of Telia's or Sonera's financial statements and neither Telia nor Sonera make any representation that the Swedish kronor, Finnish markka or euros could have been converted into U.S. dollars at the rates shown or at any other rate for such periods or at such dates.

Solely for the convenience of the reader, certain krona amounts in this prospectus have been translated into U.S. dollars at the noon buying rate on June 28, 2002, which was \$1.00 = SEK 9.2070. Further euro amounts in this prospectus have been translated into U.S. dollars at the noon buying rate on June 28, 2002, which was \$1.00 = 1.0146.

**Swedish Krona Exchange Rate**

| <b>Year</b>                             | <b>Average</b> | <b>High</b> | <b>Low</b> | <b>Period End</b> |
|---|----------------|-------------|------------|-------------------|
| <b>(Swedish Kronor per U.S. Dollar)</b> |                |             |            |                   |
| 1997                                    | 7.6843         | 8.0825      | 6.8749     | 7.9400            |
| 1998                                    | 7.9658         | 8.3350      | 7.5800     | 8.1030            |
| 1999                                    | 8.3007         | 8.6500      | 7.7060     | 8.5050            |
| 2000                                    | 9.1735         | 10.3600     | 8.3530     | 9.4440            |
| 2001                                    | 10.3425        | 11.0270     | 9.3250     | 10.4571           |
| 2002                                    |                |             |            |                   |
| First Quarter                           | 10.5017        | 10.7290     | 10.1975    | 10.3630           |
| Second Quarter                          | 9.7438         | 10.3820     | 9.2070     | 9.2070            |
| Third Quarter                           | 9.3829         | 9.6855      | 9.1930     | 9.2740            |
| April                                   | 10.3070        | 10.3820     | 10.2200    | 10.2800           |
| May                                     | 10.0368        | 10.2950     | 9.7210     | 9.7445            |
| June                                    | 9.5376         | 9.7560      | 9.2070     | 9.2070            |
| July                                    | 9.3474         | 9.5685      | 9.1990     | 9.5150            |
| August                                  | 9.4610         | 9.6855      | 9.2875     | 9.4000            |
| September                               | 9.3429         | 9.4520      | 9.1930     | 9.2740            |

**Table of Contents****Euro Exchange Rate**

| <b>Year</b>                    | <b>Average</b> | <b>High</b> | <b>Low</b> | <b>Period End</b> |
|--------------------------------|----------------|-------------|------------|-------------------|
| <b>(Euros per U.S. Dollar)</b> |                |             |            |                   |
| 1997                           | 0.8774         | 0.9419      | 0.7759     | 0.9171            |
| 1998                           | 0.8989         | 0.9466      | 0.8240     | 0.8518            |
| 1999                           | 0.9455         | 0.9984      | 0.8466     | 0.9930            |
| 2000                           | 1.0864         | 1.2092      | 0.9676     | 1.0652            |
| 2001                           | 1.1180         | 1.1947      | 1.0488     | 1.1235            |
| 2002                           |                |             |            |                   |
| First Quarter                  | 1.1553         | 1.1636      | 1.1073     | 1.1472            |
| Second Quarter                 | 1.0654         | 1.1429      | 1.0146     | 1.0146            |
| Third Quarter                  | 1.0162         | 1.0373      | 0.9846     | 1.0122            |
| April                          | 1.1628         | 1.1429      | 1.1077     | 1.1109            |
| May                            | 1.0905         | 1.1084      | 1.0669     | 1.0708            |
| June                           | 1.0460         | 1.0650      | 1.0116     | 1.0146            |
| July                           | 0.9963         | 1.0277      | 0.9846     | 1.0208            |
| August                         | 1.0224         | 1.0373      | 1.0119     | 1.0198            |
| September                      | 1.0198         | 1.0325      | 1.0019     | 1.0122            |

**Table of Contents****MARKET PRICE AND DIVIDEND INFORMATION****Market Prices**

The principal trading market for Telia's shares is the Stockholm Exchange. The table below sets forth, for the periods indicated, the reported high and low market quotations for the Telia shares on the Stockholm Exchange.

|  | Price Per Share     |       |
|--|---------------------|-------|
|  | Low                 | High  |
|  | (in Swedish kronor) |       |
| <b>2000</b>                              |                     |       |
| Second Quarter (beginning June 13, 2000) | 82.00               | 94.00 |
| Third Quarter                            | 59.00               | 89.00 |
| Fourth Quarter                           | 49.60               | 66.00 |
| <b>2001</b>                              |                     |       |
| First Quarter                            | 45.50               | 64.50 |
| Second Quarter                           | 49.50               | 71.00 |
| Third Quarter                            | 36.00               | 57.00 |
| Fourth Quarter                           | 44.10               | 54.00 |
| <b>2002</b>                              |                     |       |
| First Quarter                            | 33.30               | 48.60 |
| Second Quarter                           | 21.20               | 36.80 |
| Third Quarter                            | 21.10               | 32.20 |
| April                                    | 30.40               | 36.80 |
| May                                      | 24.70               | 32.00 |
| June                                     | 21.20               | 26.50 |
| July                                     | 21.10               | 28.50 |
| August                                   | 24.00               | 32.20 |
| September                                | 22.80               | 29.80 |

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The principal trading market for the Sonera shares is the Helsinki Exchanges. The table below sets forth, for the periods indicated, the reported high and low market quotations for the Sonera shares (as adjusted for Sonera's rights offering in December 2001) on the Helsinki Exchanges based on its Daily Official List.

|                                      | Price Per Share |       |
|--------------------------------------|-----------------|-------|
|                                      | Low             | High  |
|                                      | (in €)          |       |
| <b>1998</b> (from November 10, 1998) | 8.13            | 13.79 |
| <b>1999</b>                          | 10.16           | 58.30 |
| <b>2000</b>                          |                 |       |
| First Quarter                        | 38.95           | 79.54 |
| Second Quarter                       | 32.55           | 58.22 |
| Third Quarter                        | 21.73           | 46.58 |
| Fourth Quarter                       | 14.06           | 25.34 |
| <b>2001</b>                          |                 |       |
| First Quarter                        | 6.67            | 20.38 |
| Second Quarter                       | 5.82            | 10.65 |
| Third Quarter                        | 2.23            | 7.79  |
| Fourth Quarter                       | 2.48            | 6.50  |
| <b>2002</b>                          |                 |       |
| First Quarter                        | 4.50            | 6.35  |
| Second Quarter                       | 3.26            | 5.72  |
| Third Quarter                        | 3.19            | 4.91  |
| April                                | 4.80            | 5.72  |
| May                                  | 3.90            | 5.03  |
| June                                 | 3.26            | 4.08  |
| July                                 | 3.19            | 4.46  |
| August                               | 3.67            | 4.91  |
| September                            | 3.57            | 4.56  |

Effective as of January 1, 1999, shares of companies listed on the Helsinki Exchanges have traded in euros. The share price information set forth above for 1998 represents the euro equivalent of such share prices in Finnish markkas at the conversion rate of FIM 5.94573 to one euro.

The average trading price of Sonera shares weighted by the trading volume on the Helsinki Exchanges for the 12 months through September 30, 2002 was 4.91 per Sonera share.

The average trading price of Sonera 1999A warrants issued pursuant to Sonera's 1999 stock option program weighted by the trading volume on the Helsinki Exchanges for the 12 months through September 30, 2002 was 1.18 per Sonera 1999A warrant.

Neither Telia nor any of its affiliates as defined in Chapter 6, Section 6 of the Finnish Securities Market Act own any Sonera securities and, consequently, has not purchased any Sonera securities at a price higher than the 12-month volume-weighted average price of Sonera securities.

To the best knowledge of Telia, Sonera does not own any Telia shares or any securities entitling Sonera to receive Telia shares.

Sonera 1999B warrants issued pursuant to Sonera's 1999 stock option program and the Sonera warrants issued pursuant to Sonera's 2000 stock option program are not traded on the Helsinki Exchanges.

Since October 13, 1999, Sonera's shares have been traded in the United States on the Nasdaq National Market under the symbol "SNRA" in the form of ADSs, which are evidenced by ADRs. Each Sonera ADS represents one Sonera share. The depositary for the Sonera ADSs is Citibank, N.A.



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The table below sets forth, for the periods indicated, the reported high and low sales prices for the Sonera ADSs (as adjusted for Sonera's rights offering in December 2001) on the Nasdaq National Market.

|                                     | <b>Low</b>                        | <b>High</b> |
|-------------------------------------|-----------------------------------|-------------|
|                                     | <b>(U.S. dollars<br/>per ADS)</b> |             |
| <b>1999</b> (from October 13, 1999) | 20.65                             | 59.96       |
| <b>2000</b>                         |                                   |             |
| First Quarter                       | 43.87                             | 76.36       |
| Second Quarter                      | 29.74                             | 58.22       |
| Third Quarter                       | 20.29                             | 43.77       |
| Fourth Quarter                      | 13.12                             | 22.04       |
| <b>2001</b>                         |                                   |             |
| First Quarter                       | 5.94                              | 18.96       |
| Second Quarter                      | 5.05                              | 9.28        |
| Third Quarter                       | 1.99                              | 6.62        |
| Fourth Quarter                      | 2.26                              | 5.75        |
| <b>2002</b>                         |                                   |             |
| First Quarter                       | 3.99                              | 5.72        |
| Second Quarter                      | 3.10                              | 5.02        |
| Third Quarter                       | 3.15                              | 4.61        |
| April                               | 4.16                              | 5.02        |
| May                                 | 3.35                              | 4.49        |
| June                                | 3.10                              | 3.85        |
| July                                | 3.15                              | 4.30        |
| August                              | 3.56                              | 4.61        |
| September                           | 3.40                              | 4.60        |

**Dividend Data*****Telia***

The Telia shares and Telia ADSs to be issued in connection with the exchange offer will have the same dividend rights as the other currently outstanding Telia shares with respect to the fiscal year 2002 and subsequent years. With respect to the fiscal year ended December 31, 2001, the annual general meeting of shareholders of Telia approved a dividend payment of SEK 0.10 per Telia share and an extra dividend of SEK 0.10 per Telia share, totaling SEK 0.20 per Telia share.

At an annual general meeting of shareholders of Telia, shareholders may declare dividends upon the recommendation of the Telia board of directors. The amount of dividends may not exceed the amount proposed or approved by the Telia board of directors and is limited by Swedish law.

According to Swedish law, equity is divided into funds available for distribution, which are called non-restricted funds, and funds not available for distribution, which are called restricted funds. Telia's shareholders can receive as a distribution only the non-restricted funds in the parent company or the group, whichever is lower. Restricted equity is made up of the share capital, share premium reserve and statutory or legal reserve. Telia's non-restricted equity in the consolidated accounts includes only that part of a subsidiary's non-restricted equity that can be assigned to the parent company without having to write down the value of the shares in the subsidiary.

Telia's balance sheet also shows the equity component of untaxed reserves as restricted equity. Earnings in associated companies that have not been distributed are reported in Telia's equity as an equity reserve in restricted reserves. The equity effect of reporting financial instruments at fair value is attributed to a fair value reserve in restricted reserves. Likewise, the difference in equity effect between Telia's principles for accounting for pensions and relevant Swedish standards is reported in restricted reserves.



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On a long-term basis, Telia intends to distribute as dividends the equivalent of 15 to 25 percent of its annual net income after taxes, unless commercial circumstances at such time dictate another level. Telia will also take into account the dividend payment practices of other major Swedish companies and other European telecommunications operators. Although Telia currently intends to pay annual dividends on Telia's shares, Telia cannot assure you that dividends will be paid or of the amount of any dividends. Future dividends will depend on a number of factors, including:

the then-existing general business conditions;

current and expected future financial performance;

funding and investment requirements; and

other factors that the Telia board of directors considers to be relevant.

As of December 31, 2001, the total distributable funds of Telia AB amounted to SEK 9,814 million and, for Telia on a consolidated basis, to SEK 14,020 million.

The Telia board of directors has proposed that Telia's shareholders shall vote upon a resolution at the extraordinary general meeting of shareholders to reduce Telia's share premium reserve by a maximum amount of SEK 11,957 million. If such resolution is passed, this amount will be added to Telia's non-restricted reserves.

The following table sets forth the annual dividends paid per share with respect to each of the fiscal years indicated.

| Year | Dividend paid per Telia share |      |       |
|------|-------------------------------|------|-------|
|      | SEK                           | (1)  | \$(2) |
| 1997 | 0.42                          | 0.05 | 0.05  |
| 1998 | 0.49                          | 0.05 | 0.06  |
| 1999 | 0.52                          | 0.06 | 0.06  |
| 2000 | 0.50                          | 0.06 | 0.05  |
| 2001 | 0.20                          | 0.02 | 0.02  |

(1) Dividend amounts have been translated into euros at the exchange rate published by the European Central Bank for the relevant dividend payment date, from 1998 and onwards. Dividends from prior years have been translated into ECU (European Currency Unit), the forerunner of the euro.

(2) Dividend amounts have been translated into U.S. dollars at the noon buying rate for the relevant dividend payment date. See DESCRIPTION OF SHARES AND SHARE CAPITAL OF TELIA Payment of Dividends.

Because Telia will pay dividends in Swedish kronor, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of Telia ADSs.

**Sonera**

Under the Finnish Companies Act, the amount of any dividend is limited to the profits and other distributable funds available at the end of the preceding fiscal year for Sonera Corporation or for Sonera on a consolidated basis, whichever is lower.

Future dividends, and the amount of those dividends, will depend upon, among other things, the following:

Sonera's earnings;



Sonera's financial condition;

Sonera's net debt levels;

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debt service obligations;

Sonera's capital requirements;

development requirements;

cash provided by operating activities;

applicable restrictions on the payment of dividends under the Finnish Companies Act; and

other factors as the Sonera board of directors may deem relevant.

Subject to the foregoing constraints, the objective of the Sonera board of directors is to recommend to Sonera's shareholders the payment of an aggregate dividend representing approximately 25 percent of its annual free cash flow, equal to cash provided by operating activities less capital expenditures on fixed assets, for any particular year.

As of December 31, 2001, the total distributable funds of Sonera Corporation amounted to 2,587.3 million and, for Sonera on a consolidated basis, to 3,069.2 million.

The following table sets forth the annual dividends per share, as adjusted for Sonera's rights offering in December 2001, paid by Sonera during each of the financial years indicated:

| Year | Dividend paid per<br>Sonera share <sup>(1)</sup> |      |
|------|--|------|
|      |  | \$   |
| 1997 | 0.04   | 0.05 |
| 1998 | 0.15   | 0.16 |
| 1999 | 0.07   | 0.07 |
| 2000 | 0.10   | 0.09 |
| 2001 | 0.07   | 0.06 |

- (1) Dividend amounts before January 1, 1999 have been restated in euros using the irrevocable conversion rate of 1.00 = FIM 5.94573. Dividend amounts have been translated into U.S. dollars at the noon buying rate for the relevant dividend payment date.

**Table of Contents****OWNERSHIP OF SECURITIES OF TELIA AND SONERA****Ownership of Telia**

As of August 31, 2002, Telia's issued and outstanding share capital was SEK 9,603,840,000 consisting of 3,001,200,000 Telia shares, with a par value of SEK 3.20 each. The calculation of percentages in the Percentage of outstanding shares column in the table below is based upon the number of Telia shares issued and outstanding on August 31, 2002, plus Telia shares subject to options held by the respective persons or entities on August 31, 2002 and exercisable within 60 days of that date. As of August 31, 2002, the principal shareholders of Telia and their respective holdings were as follows:

| Shareholder   | Number of shares | Percent of outstanding shares |
|---|------------------|-------------------------------|
|   |                  | (%)                           |
| Swedish State <sup>(1)</sup>  | 2,118,278,261    | 70.6                          |
| Robur-Fonder  | 81,621,200       | 2.7                           |
| Alecta  | 77,727,342       | 2.6                           |
| Fjärde AP-Fonden  | 40,085,400       | 1.3                           |
| SEB-Fonder  | 39,833,567       | 1.3                           |
| Nordea Fonder   | 38,771,670       | 1.3                           |
| Livförsäkrings AB Skandia   | 34,874,533       | 1.2                           |
| AFA Försäkring  | 27,359,700       | 0.9                           |
| Andra AP-Fonden   | 25,305,655       | 0.8                           |
| SEB-Trygg Försäkringar  | 23,376,500       | 0.8                           |
| Tredje AP-Fonden  | 18,609,311       | 0.6                           |
| SHB/SPP Fonder  | 14,081,079       | 0.5                           |
| Första AP-Fonden  | 13,225,095       | 0.4                           |
| KP Pension & Försäkring   | 9,267,200        | 0.3                           |
| AMF Pension   | 7,700,000        | 0.3                           |
| Länsförsäkringar  | 6,226,497        | 0.2                           |
| Euroclear Bank S.a/n.v lmy  | 6,159,690        | 0.2                           |
| AMF Pension Fonder  | 6,095,000        | 0.2                           |
| Nordea Bank Finland Plc   | 5,756,884        | 0.2                           |
| Skandia Carlson Fonder  | 2,329,142        | 0.2                           |
| Praktikertjänst Pensionsstiftelser  | 4,800,000        | 0.2                           |
| Folksam Fonder  | 4,719,334        | 0.2                           |
| Folksam Försäkringar  | 4,559,729        | 0.2                           |
| Försäkringsföreningen FSO   | 4,500,000        | 0.1                           |
| Boston Safe Deposit and Trust Co.   | 4,264,643        | 0.1                           |
|   | <hr/>            | <hr/>                         |
| Total   | 2,622,527,432    | 87.4                          |
|   | <hr/>            | <hr/>                         |
| Members of the Telia board of directors and managers (as a group) <sup>(2)(3)</sup> | 75,001,033       | 2.5                           |

(1) The business address and telephone number of the Swedish State is c/o The Swedish Ministry of Industry, Employment and Communications, Jacobsgatan 26, SE-103 33 Stockholm, Sweden, +46-8-4051000.

(2) Includes 40,085,400 Telia shares beneficially owned by Fjärde AP-Fonden. Marianne Nivert, Telia's former President and Chief Executive Officer and a current member of the Telia board of directors, is a member of the board of directors of Fjärde AP-Fonden boards of directors. Ms. Nivert may be deemed to have an interest in the Telia shares beneficially owned by Fjärde AP-Fonden within the meaning of Rule 13d-3 under the Exchange Act; however, Ms. Nivert believes that she does not possess the power to direct the voting of these

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shares and disclaims beneficial ownership of the Telia shares held by Fjärde AP-Fonden.

- (3) Includes 34,874,533 Telia shares beneficially owned by Livförsäkrings AB Skandia, a wholly owned subsidiary of Försäkringsaktiebolaget Skandia. Lars-Eric Petersson, Chairman of the Telia board of

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directors is also President, Chief Executive Officer and director of Försäkringsaktiebolaget Skandia. Mr. Petersson may be deemed to have an interest in the Telia shares beneficially owned by Livförsäkrings AB Skandia within the meaning of Rule 13d-3 under the Exchange Act; however, Mr. Petersson believes that he does not possess the power to direct the voting of these shares and disclaims beneficial ownership of the Telia shares held by Livförsäkrings AB Skandia.

VPC has advised Telia that as of August 31, 2002 Telia had 563 shareholders in the United States, representing approximately 0.4 percent of the total number of issued and outstanding Telia shares.

**Interest of Telia's Management**

As of August 31, 2002, members of the Telia board of directors and managers as a group held an aggregate of 75,001,033 shares of Telia AB, including 74,959,933 shares held by affiliated companies and as to which members of Telia's board of directors disclaim beneficial ownership, which represents approximately 2.5 percent of the outstanding shares of Telia AB. See DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES OF TELIA Compensation for a discussion of stock options held by Telia's board of directors and management.

**Ownership of Sonera in Telia**

To the best knowledge of Telia, neither Sonera, members of the Sonera board of directors or management, any associated company of Sonera or the Republic of Finland owns any Telia shares or securities.

**Ownership of Sonera**

As of August 31, 2002, Sonera's issued and outstanding share capital was 479,579,743.47, consisting of 1,115,301,729 Sonera shares, without nominal value. Each Sonera share entitles the holder to one vote at general meetings of shareholders. The Finnish State, Sonera's largest shareholder, does not have different voting rights from Sonera's other shareholders. The calculation of percentages in the Percentage of outstanding shares column in the table below is based upon the number of Sonera shares issued and outstanding on August 31, 2002, plus Sonera shares subject to Sonera warrants held by the respective persons or entities on August 31, 2002 and exercisable within 60 days of that date.

The principal shareholders of Sonera and their respective holdings were as follows:

| Shareholder   | Number of shares | Percent outstanding shares |
|---|------------------|----------------------------|
| Finnish State <sup>(1)</sup>  | 588,880,237      | 52.8                       |
| Ilmarinen Mutual Pension Insurance Company  | 8,597,552        | 0.8                        |
| The Local Government Pensions Institution   | 5,304,183        | 0.5                        |
| State's Pension Institution   | 4,800,000        | 0.4                        |
| Varma-Sampo Mutual Pension Insurance Company                                      | 4,342,675        | 0.4                        |
| LEL Employment Pension Fund   | 3,473,240        | 0.3                        |
| Mutual Insurance Company Eläke-Fennia   | 2,784,675        | 0.2                        |
| Suomi Mutual Life Insurance Company   | 2,270,000        | 0.2                        |
| Kuningas H.& Co   | 2,125,000        | 0.2                        |
| Suomi Insurance Company   | 2,000,000        | 0.2                        |
| Members of the Sonera board of directors and managers (as a group) <sup>(2)</sup> | 43,104           | (3)                        |

(1) The business address and telephone number of the Finnish State is c/o The Finnish Ministry of Transport and Communications, Eteläesplanadi 16-18, FIN-00131 Helsinki, Finland, +358-9-16002.

(2) Members of the Sonera board of directors and managers also hold warrants exercisable for 3,660,004 Sonera shares, which represent approximately 0.3 percent of the total number of Sonera shares.

(3) Less than 0.1 percent.

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Sonera currently holds 550,000 of its own shares, equal to approximately 0.05 percent of Sonera's outstanding shares.

The depository has advised Sonera that, as of September 27, 2002, approximately 0.7 percent of outstanding Sonera shares were held in the United States in the form of ADSs by 92 record holders. A significant number of Sonera ADSs are held of record by broker nominees. The number of beneficial owners of Sonera ADSs is unknown but Sonera estimates that the number of beneficial owners of Sonera ADSs was approximately 11,800 as of June 30, 2002.

***Interests of Sonera's Management***

As of September 27, 2002, members of the Sonera board of directors and the members of the executive management team of Sonera held an aggregate of 43,104 Sonera shares, which represented less than one percent of the outstanding shares of Sonera Corporation. In addition, the warrants held by the members and the executive management team, as of September 27, 2002, will, upon their exercise, entitle them to subscribe for an aggregate of 3,660,004 additional shares of Sonera Corporation, which would represent less than one percent of the then outstanding Sonera shares, including the Sonera shares to be subscribed for through exercise of Sonera warrants. See DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES OF SONERA Employee Option Rights, for a discussion of the warrants held by members of the Sonera board of directors and executive management team.

***Ownership of Telia in Sonera***

Neither Telia nor any of its affiliates, as defined in Chapter 6, Section 6 of the Finnish Securities Market Act, owns any Sonera securities or possess any voting rights in Sonera and, consequently, has not purchased any Sonera securities at a price higher than the 12-month volume-weighted average price of Sonera securities.

**Ownership of the Combined Company**

Assuming full acceptance of the exchange offer:

former Sonera shareholders will own in the aggregate approximately 36 percent and current Telia shareholders will own in the aggregate approximately 64 percent of the issued and outstanding shares of the combined company after the exchange offer is completed; and

the Kingdom of Sweden will own approximately 45 percent and the Republic of Finland will own approximately 19 percent of the issued and outstanding shares of the combined company after the exchange offer is completed. The Kingdom of Sweden and Republic of Finland have entered into a shareholders' agreement regarding, among other things, the voting of their shares in Telia in certain matters. See SUMMARY OF THE SHAREHOLDERS' AGREEMENT.

**Table of Contents****UNAUDITED CONDENSED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

The following unaudited condensed pro forma consolidated financial statements give effect to the merger of Telia and Sonera and the related issuance of Telia shares and Telia warrants assuming that 100 percent of the outstanding shares and warrants of Sonera will be exchanged, no warrants are exercised, and that no cash consideration will be paid. For accounting purposes, the merger will be accounted for as Telia's acquisition of Sonera using the purchase method of accounting. The final combination of Telia and Sonera will, under IAS, be calculated based on the transaction value and the fair values of Sonera's identifiable assets and liabilities at the date of exchange of control. Therefore, the actual goodwill amount, as well as other balance sheet items, could differ from the preliminary unaudited condensed pro forma consolidated financial statements presented herein, and in turn affect items in the preliminary condensed pro forma consolidated income statement, such as goodwill amortization, income from associated companies and income taxes. The unaudited condensed pro forma consolidated income statements for the year ended December 31, 2001 and for the six months ended June 30, 2002 give effect to the merger as if the transaction had occurred on January 1, 2001. The unaudited condensed pro forma consolidated balance sheet as of June 30, 2002 gives effect to the merger as if the transaction had occurred on June 30, 2002.

Telia has presented these unaudited condensed pro forma consolidated financial statements for illustrative purposes only. The unaudited condensed pro forma consolidated financial statements are not necessarily indicative of the actual results of operations or financial position that would have occurred had the merger occurred on the dates indicated, nor are they necessarily indicative of future operating results or financial position. No account has been taken within the unaudited condensed pro forma consolidated financial statements to any synergy or any severance and restructuring costs that may, or may be expected to, occur following the exchange offer.

The European Commission has conditioned its consent to the merger of Telia and Sonera on Telia's disposal of its Finnish operations and its Swedish cable TV company Com Hem (the EU conditions). We have included these disposals in the unaudited condensed pro forma consolidated financial statements based on historical financial statements, as if they had taken place on January 1, 2001. Other applicable competition or regulatory authorities may also condition their approval of the merger on the disposal of certain operations. No account has been taken within the unaudited condensed pro forma consolidated financial statements to any such additional condition of approval.

The unaudited condensed pro forma consolidated financial statements are based on the historical financial statements of Telia and Sonera, which are prepared in accordance with IAS and Finnish GAAP, respectively. Finnish GAAP differs in some respects from IAS. Accordingly, the historical financial statements of Sonera have been adjusted to IAS for all periods presented in these unaudited condensed pro forma consolidated financial statements.

Telia and Sonera each have ownership interests in three entities in Latvia and Lithuania (the Baltic entities). Telia and Sonera each account for their investments in those entities under the equity method. After the merger has been completed, these Baltic entities will become controlled subsidiaries of the combined entity. We have included the Baltic entities in the unaudited condensed pro forma consolidated financial statements based on their historical financial statements, as if these entities had been controlled by the combined entity since January 1, 2001.

Telia has presented the unaudited condensed pro forma consolidated financial statements in accordance with IAS, and have also presented additional information in accordance with U.S. GAAP, for the year ended December 31, 2001, and as of June 30, 2002 and for the six-month period then ended in order to fulfill regulatory requirements in the United States. IAS differs in some respects from U.S. GAAP. We have presented in the notes to the unaudited condensed pro forma consolidated financial statements a reconciliation of the unaudited pro forma consolidated net income and shareholders' equity under IAS to net income and shareholders' equity under U.S. GAAP, together with a description of the principal differences. The combined entity will continue to prepare its consolidated financial statements in accordance with IAS, and will also provide additional information in accordance with U.S. GAAP in order to fulfill regulatory requirements in the United States.



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These unaudited condensed pro forma consolidated financial statements are only a summary and should be read in conjunction with the historical consolidated financial statements and related notes of Telia and Sonera and other information included or incorporated by reference in this document.

**Table of Contents****UNAUDITED CONDENSED PRO FORMA CONSOLIDATED INCOME STATEMENT**

for the year ended December 31, 2001  
(in millions, except shares and per share data)

|  | Sonera              |                        |                           |            | Baltic<br>entities | EU<br>conditions | Pro forma<br>adjustments | Pro forma consolidated<br>TeliaSonera |           |           |
|--|---------------------|------------------------|---------------------------|------------|--------------------|------------------|--------------------------|---------------------------------------|-----------|-----------|
|  | Telia<br>IAS<br>SEK | Finnish<br>GAAP<br>SEK | IAS<br>adjustments<br>SEK | IAS<br>SEK |                    |                  |                          | SEK                                   | IAS       | \$        |
|  | Note 1              | Note 2                 | Note 3                    |            | Note 4             | Note 5           | Note 6                   |                                       | Note 7    | Note 8    |
| <b>INCOME STATEMENT DATA</b>   |                     |                        |                           |            |                    |                  |                          |                                       |           |           |
| Net sales  | 57,196              | 20,245                 |                           | 20,245     | 5,744              | (1,275)          | (986)(b)                 | 80,924                                | 8,891.3   | 8,789.5   |
| Cost of sales  | (40,435)            | (9,598)                | (818)(a,c,g)              | (10,416)   | (2,743)            | 1,437            | (288)(a,b,c)             | (52,445)                              | (5,762.1) | (5,696.1) |
| Gross income   | 16,761              | 10,647                 | (818)                     | 9,829      | 3,001              | 162              | (1,274)                  | 28,479                                | 3,129.2   | 3,093.4   |
| Sales,<br>administrative<br>and research and<br>development<br>expenses  | (17,943)            | (8,798)                | 53 (b,g,k)                | (8,745)    | (1,607)            | 1,136            | (831)(a,c)               | (27,990)                              | (3,075.3) | (3,040.1) |
| Other operating<br>revenues and<br>expenses                              | 506                 | 6,949                  | 69 (d,k)                  | 7,018      | 17                 | 13               |                          | 7,554                                 | 830.0     | 820.5     |
| Income from<br>associated<br>companies                                   | 6,136               | (1,872)                | (1,615)(e,k)              | (3,487)    |                    |                  | (518)(a,c)               | 2,131                                 | 234.1     | 231.4     |
| Operating<br>income  | 5,460               | 6,926                  | (2,311)                   | 4,615      | 1,411              | 1,311            | (2,623)                  | 10,174                                | 1,118.0   | 1,105.2   |
| Financial<br>revenues and<br>expenses                                    | (652)               | (2,811)                | (833)(d,f,h)              | (3,644)    | (116)              | 79               |                          | (4,333)                               | (476.1)   | (470.6)   |
| Income before<br>taxes and<br>minority<br>interests                      | 4,808               | 4,115                  | (3,144)                   | 971        | 1,295              | 1,390            | (2,623)                  | 5,841                                 | 641.9     | 634.6     |
| Income taxes   | (2,917)             | (321)                  | 795 (j)                   | 474        | (42)               | (387)            | 320(a,c)                 | (2,552)                               | (280.5)   | (277.3)   |
| Minority<br>interests  | (22)                | (6)                    |                           | (6)        |                    |                  | (570)(c)                 | (598)                                 | (65.7)    | (65.0)    |
| Net income   | 1,869               | 3,788                  | (2,349)                   | 1,439      | 1,253              | 1,003            | (2,873)                  | 2,691                                 | 295.7     | 292.3     |
| Earnings per<br>share:   |                     |                        |                           |            |                    |                  |                          |                                       |           |           |
| Basic  | 0.62                |                        |                           | 1.56       |                    |                  |                          | 0.57                                  | 0.06      | 0.06      |
| Diluted  | 0.62                |                        |                           | 1.56       |                    |                  |                          | 0.57                                  | 0.06      | 0.06      |
| Weighted<br>average number<br>of shares<br>outstanding (in<br>thousands) |                     |                        |                           |            |                    |                  |                          |                                       |           |           |
| Basic  | 3,001,200           |                        |                           | 924,346    |                    |                  |                          | 4,689,380                             | 4,689,380 | 4,689,380 |
| Diluted  | 3,001,200           |                        |                           | 924,346    |                    |                  |                          | 4,689,380                             | 4,689,380 | 4,689,380 |

The accompanying notes are an integral part of the unaudited condensed pro forma  
consolidated financial statements.

**Table of Contents****UNAUDITED CONDENSED PRO FORMA CONSOLIDATED INCOME STATEMENT**

**for the six-month period ended June 30, 2002**  
**(in millions, except shares and per share data)**

|  | Sonera              |                        |                           | Baltic<br>entities<br>IAS<br>SEK | EU<br>conditions<br>IAS<br>SEK | Pro forma<br>adjustments<br>IAS<br>SEK | Pro forma consolidated<br>TeliaSonera |           |           |           |
|--|---------------------|------------------------|---------------------------|----------------------------------|--------------------------------|--|---------------------------------------|-----------|-----------|-----------|
|  | Telia<br>IAS<br>SEK | Finnish<br>GAAP<br>SEK | IAS<br>adjustments<br>SEK |                                  |                                |  | IAS<br>SEK                            | IAS       | \$        |           |
|  | Note 1              | Note 2                 | Note 3                    | Note 4                           | Note 5                         | Note 6                                 | Note 7                                | Note 8    |           |           |
| Net sales  | 28,231              | 9,923                  |                           | 9,923                            | 3,048                          | (856)                                  | (414)(b)                              | 39,932    | 4,387.4   | 4,337.1   |
| Cost of sales  | (18,344)            | (4,704)                | (103)(a,c,g)              | (4,807)                          | (1,469)                        | 847                                    | (220)(a,b,c)                          | (23,993)  | (2,636.3) | (2,606.0) |
| Gross income   | 9,887               | 5,219                  | (103)                     | 5,116                            | 1,579                          | (9)                                    | (634)                                 | 15,939    | 1,751.1   | 1,731.1   |
| Sales,<br>administrative<br>and research and<br>development<br>expenses  | (9,004)             | (3,271)                | (42)(b,g)                 | (3,313)                          | (885)                          | 516                                    | (413)(a,c)                            | (13,099)  | (1,439.1) | (1,422.7) |
| Other operating<br>revenues and<br>expenses                              | (430)               | (1,024)                | (3,932)(d,g,k)            | (4,956)                          | 19                             | (9)                                    |                                       | (5,376)   | (590.7)   | (583.8)   |
| Income from<br>associated<br>companies                                   | 375                 | (36,443)               | 5,906(c,e,k)              | (30,537)                         |                                |  | (228)(a,c)                            | (30,390)  | (3,339.0) | (3,300.8) |
| Operating<br>income  | 828                 | (35,519)               | 1,829                     | (33,690)                         | 713                            | 498                                    | (1,275)                               | (32,926)  | (3,617.7) | (3,576.2) |
| Financial<br>revenues and<br>expenses                                    | (371)               | (279)                  | 430 (d,f,h)               | 151                              | (54)                           | 38                                     |                                       | (236)     | (25.9)    | (25.6)    |
| Income before<br>taxes and<br>minority<br>interests                      | 457                 | (35,798)               | 2,259                     | (33,539)                         | 659                            | 536                                    | (1,275)                               | (33,162)  | (3,643.6) | (3,601.8) |
| Income taxes   | (308)               | 11,415                 | (776)(j)                  | 10,639                           | (131)                          | (154)                                  | 147(a,c)                              | 10,193    | 1,119.9   | 1,107.1   |
| Minority<br>interests  | 8                   |                        |                           |                                  |                                |  | (248)(c)                              | (240)     | (26.3)    | (26.1)    |
| Net income   | 157                 | (24,383)               | 1,483                     | (22,900)                         | 528                            | 382                                    | (1,376)                               | (23,209)  | (2,550.0) | (2,520.8) |
| Earnings per<br>share:   |                     |                        |                           |                                  |                                |  |                                       |           |           |           |
| Basic  | 0.05                |                        |                           | (20.54)                          |                                |  |                                       | (4.95)    | (0.54)    | (0.54)    |
| Diluted  | 0.05                |                        |                           | (20.54)                          |                                |  |                                       | (4.95)    | (0.54)    | (0.54)    |
| Weighted<br>average number<br>of shares<br>outstanding<br>(in thousands) |                     |                        |                           |                                  |                                |  |                                       |           |           |           |
| Basic  | 3,001,200           |                        |                           | 1,114,752                        |                                |  |                                       | 4,689,380 | 4,689,380 | 4,689,380 |
| Diluted  | 3,001,200           |                        |                           | 1,114,752                        |                                |  |                                       | 4,689,380 | 4,689,380 | 4,689,380 |

The accompanying notes are an integral part of the unaudited condensed pro forma

consolidated financial statements.

**Table of Contents****UNAUDITED CONDENSED PRO FORMA CONSOLIDATED BALANCE SHEET**

as of June 30, 2002  
(in millions)

|   | Sonera              |                        |                           |               |                                  |                                | Pro forma consolidated<br>TeliaSonera  |                |                 |                 |
|---|---------------------|------------------------|---------------------------|---------------|----------------------------------|--------------------------------|--|----------------|-----------------|-----------------|
|   | Telia<br>IAS<br>SEK | Finnish<br>GAAP<br>SEK | IAS<br>adjustments<br>SEK | IAS<br>SEK    | Baltic<br>entities<br>IAS<br>SEK | EU<br>conditions<br>IAS<br>SEK | Pro forma<br>adjustments<br>IAS<br>SEK | SEK            | IAS             | \$              |
|   | Note 1              | Note 2                 | Note 3                    |               | Note 4                           | Note 5                         | Note 6                                 |                | Note 7          | Note 8          |
| <b>ASSETS</b>   |                     |                        |                           |               |                                  |                                |  |                |                 |                 |
| Intangible fixed assets   | 27,233              | 823                    | 172 (g)                   | 995           | 630                              | (44)                           | 28,611 (a,c)                           | 57,425         | 6,309.4         | 6,237.1         |
| Tangible fixed assets   | 45,700              | 10,904                 | 88 (a,c)                  | 10,992        | 6,259                            | (1,726)                        |  | 61,225         | 6,727.0         | 6,649.9         |
| Interest-bearing financial<br>fixed assets                        | 7,869               | 1,633                  | (129)(d)                  | 1,504         | 2                                | 142                            |  | 9,517          | 1,045.6         | 1,033.6         |
| Deferred tax benefit  | 1,814               | 10,604                 | (142)(j)                  | 10,462        |                                  | (9)                            |  | 12,267         | 1,347.9         | 1,332.4         |
| Other<br>non-interest-bearing<br>financial fixed assets           | 10,012              | 12,889                 | 1,814 (b,c,e,             | f) 14,703     | 13                               |                                | (2,690)(c)                             | 22,038         | 2,421.4         | 2,393.7         |
| <b>Total fixed assets</b>   | <b>92,628</b>       | <b>36,853</b>          | <b>1,803</b>              | <b>38,656</b> | <b>6,904</b>                     | <b>(1,637)</b>                 | <b>25,921</b>                          | <b>162,472</b> | <b>17,851.3</b> | <b>17,646.7</b> |
| Interest-bearing current<br>receivables                           | 4,119               | 280                    |                           | 280           |                                  | (2)                            |  | 4,397          | 483.1           | 477.6           |
| Inventories, other<br>non-interest-bearing<br>current receivables | 19,209              | 4,973                  | 74 (h,i)                  | 5,047         | 1,129                            | (503)                          | (300)(b)                               | 24,582         | 2,700.8         | 2,669.8         |
| Short-term investments  | 226                 | 8,751                  |                           | 8,751         |                                  |                                |  | 8,977          | 986.3           | 975.0           |
| Cash and cash<br>equivalents                                      | 3,027               | 747                    |                           | 747           | 609                              | (4)                            |  | 4,379          | 481.1           | 475.6           |
| <b>Total current assets</b>                                       | <b>26,581</b>       | <b>14,751</b>          | <b>74</b>                 | <b>14,825</b> | <b>1,738</b>                     | <b>(509)</b>                   | <b>(300)</b>                           | <b>42,335</b>  | <b>4,651.3</b>  | <b>4,598.0</b>  |
| <b>TOTAL ASSETS</b>   | <b>119,209</b>      | <b>51,604</b>          | <b>1,877</b>              | <b>53,481</b> | <b>8,642</b>                     | <b>(2,146)</b>                 | <b>25,621</b>                          | <b>204,807</b> | <b>22,502.6</b> | <b>22,244.7</b> |
| <b>SHAREHOLDERS<br/>EQUITY AND<br/>LIABILITIES</b>                |                     |                        |                           |               |                                  |                                |  |                |                 |                 |
| Shareholders' equity  | 59,728              | 16,894                 | 1,802                     | 18,696        | 5,582                            |                                | 19,180 (a,c)                           | 103,186        | 11,337.3        | 11,207.3        |
| Minority interests  | 245                 | 7                      |                           | 7             | 2                                |                                | 2,409 (c)                              | 2,663          | 292.6           | 289.2           |
| Provisions for pensions   | 1,794               |                        |                           |               |                                  | (35)                           |  | 1,759          | 193.3           | 191.1           |
| Deferred tax liability  | 7,270               | 288                    | 181 (j)                   | 469           | 1,081                            | (7)                            | 3,148 (a,c)                            | 11,961         | 1,314.1         | 1,299.1         |
| Other provisions  | 3,411               |                        |                           |               |                                  | (9)                            |  | 3,402          | 373.8           | 369.5           |
| <b>Total provisions</b>   | <b>12,475</b>       | <b>288</b>             | <b>181</b>                | <b>469</b>    | <b>1,081</b>                     | <b>(51)</b>                    | <b>3,148</b>                           | <b>17,122</b>  | <b>1,881.2</b>  | <b>1,859.7</b>  |
| Long-term loans   | 20,933              | 20,352                 | (154)(h)                  | 20,198        | 364                              | (401)                          | 1,184 (a)                              | 42,278         | 4,645.2         | 4,591.9         |
| Short-term loans  | 2,850               | 8,643                  |                           | 8,643         | 531                              | (1,126)                        |  | 10,898         | 1,197.4         | 1,183.7         |
| Non-interest-bearing<br>liabilities                               | 22,978              | 5,420                  | 48 (h)                    | 5,468         | 1,082                            | (568)                          | (300)(b)                               | 28,660         | 3,148.9         | 3,112.9         |
| <b>Total liabilities</b>  | <b>46,761</b>       | <b>34,415</b>          | <b>(106)</b>              | <b>34,309</b> | <b>1,977</b>                     | <b>(2,095)</b>                 | <b>884</b>                             | <b>81,836</b>  | <b>8,991.5</b>  | <b>8,888.5</b>  |
| <b>TOTAL<br/>SHAREHOLDERS<br/>EQUITY AND<br/>LIABILITIES</b>      | <b>119,209</b>      | <b>51,604</b>          | <b>1,877</b>              | <b>53,481</b> | <b>8,642</b>                     | <b>(2,146)</b>                 | <b>25,621</b>                          | <b>204,807</b> | <b>22,502.6</b> | <b>22,244.7</b> |

The accompanying notes are an integral part of the unaudited condensed pro forma



**Table of Contents****NOTES TO THE UNAUDITED CONDENSED PRO FORMA CONSOLIDATED****FINANCIAL STATEMENTS****Note 1: Historical financial statements of Telia**

These columns reflect Telia's historical consolidated income statements for the year ended December 31, 2001 and for the six months ended June 30, 2002 and balance sheet as of June 30, 2002, prepared and presented in accordance with IAS.

**Note 2: Historical financial statements of Sonera**

These columns reflect Sonera's historical consolidated income statements for the year ended December 31, 2001 and for the six months ended June 30, 2002 and balance sheet as of June 30, 2002, prepared and presented in accordance with Finnish GAAP.

Certain reclassifications have been made to Sonera's income statement to conform to the presentation format in these unaudited condensed pro forma consolidated financial statements. Such reclassifications have no impact on income before income taxes and minority interests or net income.

Certain reclassifications have also been made to Sonera's balance sheet to conform to the presentation format in these unaudited condensed pro forma consolidated financial statements. Such reclassifications have no impact on shareholders' equity or total assets.

Sonera presents its financial statements in euros. For the purposes of these unaudited condensed pro forma consolidated financial statements, Sonera's income statements and balance sheet have been translated into SEK at the following exchange rates:

|  | <u>SEK/EUR</u> |
|--|----------------|
| Income statement for the year ended December 31, 2001:   |                |
| average exchange rate for the year                       | 9.2551         |
| Income statement for the six months ended June 30, 2002: |                |
| average exchange rate for the six months                 | 9.1579         |
| Balance sheet as of June 30, 2002:                       |                |
| exchange rate as of June 28, 2002                        | 9.1015         |

Certain of Sonera's long-term debt agreements contain provisions that could require Sonera to repay the debt upon a change in control. The unaudited condensed pro forma consolidated balance sheet assumes that the change in control will not result in the repayment of the debt outstanding under these agreements, and therefore, outstanding long-term debt amounts have not been reclassified as current.

**Note 3: Sonera IAS adjustments**

Sonera prepares its consolidated financial statements in accordance with Finnish GAAP, which differs in certain material respects from IAS. For purposes of preparing the unaudited condensed pro forma consolidated financial statements, Sonera's historical financial statements have been restated to conform to IAS. Many of the adjustments are the same or substantially the same as the adjustments to conform to U.S. GAAP. See Note 24 to Sonera's consolidated financial statements as of and for the years ended December 1999, 2000 and 2001 and Note 12 to Sonera's unaudited condensed consolidated interim financial statements as of and for the six-month period ended June 30, 2002, each included elsewhere in this document.

Those adjustments that have a material effect are as follows. The euro-denominated adjustments that Sonera has made to restate its historical financial statements to IAS, have been converted into Swedish kronor using the exchange rates in Note 2 above.

**Table of Contents****NOTES TO THE UNAUDITED CONDENSED PRO FORMA CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)****(a) Depreciation method**

Under Finnish GAAP, as of January 1, 1997, Sonera changed its depreciation method for telecommunications networks from the declining-balance method to the straight-line method. Under IAS, Sonera has followed the straight-line method also for all periods prior to 1997, and has adjusted the depreciation expense accordingly.

For the year ended December 31, 2001, this adjustment resulted in cost of sales increasing by SEK 120 million ( 13 million). As of and for the six months ended June 30, 2002, tangible fixed assets were increased by SEK 45 million ( 5 million) and cost of sales increased by SEK 30 million ( 3 million).

**(b) Pensions and other post-retirement benefits**

Under Finnish GAAP, pension expense consists of the contributions paid to the Sonera Pension Fund or to insurance companies. As with U.S. GAAP, Sonera has concluded that its pension plan for services provided up to the age of 55 is a defined benefit plan under IAS and has determined its pension expense and liability using the same assumptions as in its U.S. GAAP reconciliation. Sonera has concluded that the pension obligation for services provided from age 55 to 65 are multi-employer plans accounted for as defined contribution plans under IAS and U.S. GAAP, and there is no difference from the Finnish GAAP expenses recorded. As Sonera shares disability expense with the Finnish state for a majority of its employees, based on years of service, Sonera accounts for its disability plan liability and expense as a defined benefit plan as service is rendered.

For the year ended December 31, 2001, this adjustment resulted in sales, administration and research and development expenses being reduced by SEK 68 million ( 7 million). As of and for the six months ended June 30, 2002, other non-interest-bearing financial fixed assets were increased by SEK 417 million ( 46 million) and sales, administration and research and development expenses were increased by SEK 41 million ( 5 million).

**(c) Write-downs**

Under Finnish GAAP, Sonera recorded a write-down on certain assets related to its analog NMT network in 1998. Some of these assets are commonly used by several operations. Under IAS, it is not allowed to record an impairment loss on the commonly used assets. Instead, the useful lives of these assets were accelerated under IAS.

For the year ended December 31, 2001, this adjustment increased cost of sales by SEK 88 million ( 9 million). As of and for the six months ended June 30, 2002, the carrying value of tangible fixed assets was increased by SEK 43 million ( 5 million) and cost of sales increased by SEK 43 million ( 5 million).

As of June 30, 2002, under Finnish GAAP, Sonera recorded write-downs on its UMTS investments in Group 3G UMTS Holding GmbH of Germany and Ipse 2000 S.p.A. of Italy, totaling 4,280 million before deferred tax benefit. Under IAS, the write-downs amounted to SEK 36,609 million ( 3,998 million), of which SEK 3,997 million ( 437 million) increased other expenses. The carrying value of Sonera's investment in Group 3G under IAS before the write-down was different from Finnish GAAP due to differences in interest capitalization. See Note 3(f). Additionally, under IAS, the carrying value of SEK 1,820 million ( 200 million) after the write-down reflects the weighted average of expected option value in these investments.

For the six months ended June 30, 2002, this adjustment decreased the loss from associated companies by SEK 2,588 million ( 283 million).

**Table of Contents****NOTES TO THE UNAUDITED CONDENSED PRO FORMA CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)****(d) Marketable securities**

Under Finnish GAAP, Sonera accounts for its investments in marketable securities at the lower of cost or market value and the unrealized changes are recorded in the income statement as write-downs or reversals of write-downs. Under IAS, Sonera reports all marketable securities classified as available-for-sale at fair value, and records the unrealized gains and losses as a separate component of shareholders' equity, unless there is an impairment, in which case a write-down is recorded in the income statement. A reversal of impairment is recognized only if a subsequent increase in value can be related objectively to an event occurring after the loss was recognized. Sonera has not recognized any impairment reversals under IAS.

For the year ended December 31, 2001, adjusting to IAS resulted in other operating expenses and financial expenses net increasing by SEK 62 million ( 7 million) and SEK 586 million ( 63 million), respectively. For the six months ended June 30, 2002, the adjustment resulted in other operating expenses decreasing by SEK 16 million ( 2 million) and financial expenses net decreasing by SEK 525 million ( 57 million). As of June 30, 2002, interest-bearing financial fixed assets decreased by SEK 129 million ( 14 million).

**(e) Associated companies**

Under Finnish GAAP, Sonera uses financial statements reported by its associated companies that are materially consistent with either IAS or U.S. GAAP.

*Accounting for hyperinflationary economies*

Turkcell İletişim Hizmetleri A.S., a company in which Sonera currently has a 37.1 percent direct and indirect interest and Fintur Holdings B.V., a company in which Sonera had a 35.31 percent interest during the periods presented, report their consolidated financial statements under U.S. GAAP in U.S. dollars, in accordance with SFAS No. 52 Foreign Currency Translation as applied to entities in hyper inflationary economies and therefore remeasure their transactions into U.S. dollars. IAS has a different technique to restate the financial statements of entities in hyper inflationary economies. IAS 21 The Effects of Changes in Foreign Exchange Rates would require Turkcell and Fintur to prepare Turkish lira financial statements and to restate those financial statements for the impact of inflation, based on the general price index. After restating for inflation, the financial statements would be translated into euros for inclusion in Sonera's financial statements using the equity method of accounting.

For the year ended December 31, 2001, adjusting to IAS 21 would entail an estimated reduction in income from associated companies by SEK 1,441 million ( 156 million). As of and for the six months ended June 30, 2002, the adjustment would entail an estimated reduction of other non-interest-bearing financial fixed assets by SEK 369 million ( 41 million) and an estimated increase in income from associated companies by SEK 1,295 million ( 141 million).

*Other adjustments*

Other adjustments that Sonera has made to adjust to IAS in relation to its associated companies reduced income from associated companies by SEK 30 million ( 3 million) for the year ended December 31, 2001, and by SEK 12 million ( 1 million) for the six months ended June 30, 2002. As of June 30, 2002, these adjustments reduced other non-interest-bearing financial fixed assets by SEK 55 million ( 6 million).

**(f) Capitalization of interest**

Under Finnish GAAP, Sonera capitalizes interest cost on all assets that require a period of time to get them ready for their intended use. The accounting principle used by Sonera is the same as would be required under U.S. GAAP. Under IAS, interest cost can not be capitalized in the consolidated financial statements



**Table of Contents****NOTES TO THE UNAUDITED CONDENSED PRO FORMA CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)**

when the construction activities are undertaken by an associated company. Accordingly, the interest capitalization related to Sonera's investments in associated companies has been reversed for IAS purposes.

For the year ended December 31, 2001, reversing the interest capitalization resulted in financial expenses being increased by SEK 415 million ( 45 million). As of and for the six months period ended June 30, 2002, the adjustment resulted in the carrying value of other non-interest-bearing financial fixed assets being reduced by SEK 751 million ( 83 million) and financial expenses being increased by SEK 191 million ( 21 million).

**(g) Business combinations**

Sonera's acquisitions in 2000 of Across Holding AB and iD2 Holding AB are accounted for under the purchase method of accounting under IAS. Under IAS, an impairment loss of 704 million (SEK 6,407 million) was recorded for the year ended December 31, 2000, to reduce the carrying value of goodwill and identified intangible assets down to their estimated recoverable amount. Under Finnish GAAP, Sonera did not record goodwill on these two acquisitions in accordance with the interpretation No. 1591/ 1999 by the Finnish Accounting Board.

For the year ended December 31, 2001, applying the purchase method led to an increase in cost of sales and in sales, administration and research and development expenses by SEK 610 million ( 66 million) and SEK 28 million ( 3 million), respectively. As of June 30, 2002, adjusting led to an increase of the carrying value of intangible fixed assets by SEK 171 million ( 19 million). For the six months ended June 30, 2002, cost of sales and sales, administration and research and development expenses increased by SEK 30 million ( 3 million) and SEK 1 million ( 0.1 million), respectively.

Under IAS, Sonera has performed an impairment test for all assets of Sonera SmartTrust, including goodwill paid for the Across and iD2 acquisitions, as of June 30, 2002. The outcome of the impairment test did not support the remaining carrying value of goodwill and identified intangible assets and Sonera recorded an impairment loss of SEK 1,913 million ( 209 million) on those assets for the six months ended June 30, 2002. The carrying values of goodwill and identified intangible assets after recording the impairment loss as of June 30, 2002 were reduced by SEK 163 million ( 18 million) and by SEK 9 million ( 1 million), respectively.

**(h) Derivative financial instruments**

Under Finnish GAAP, Sonera does not record interest rate derivatives at fair value. Under IAS, all derivatives are recorded in the balance sheet at fair value. The changes in the fair value of derivatives are recorded either in earnings or in a separate component of shareholders' equity, depending on the intended use and designation of the derivative at its inception.

For the year ended December 31, 2001, adjusting to IAS resulted in net financial expenses being reduced by SEK 168 million ( 18 million). As of June 30, 2002, the carrying value of inventories and other non-interest-bearing current receivables were increased by SEK 99 million ( 11 million), while long-term loans decreased by SEK 154 million ( 17 million) and non-interest-bearing liabilities were increased by SEK 48 million ( 5 million). For the six months ended June 30, 2002 net financial expenses were reduced by SEK 96 million ( 11 million).

**(i) Allowance for doubtful accounts**

Under Finnish GAAP, Sonera uses the direct write-off method for bad debt. Amounts are generally written off directly after 90 days after the due date. Under IAS, an allowance for doubtful accounts is established for estimated bad debt included in accounts receivable. Sonera continuously evaluates the collectibility of accounts receivable, and has established a valuation allowance for IAS based on its past experience.

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For the year ended December 31, 2001 and for the six months ended June 30, 2002, the adjustment did not affect the income statement. As of June 30, 2002, adjusting entailed reducing the carrying value of inventories and other non-interest-bearing current receivables by SEK 25 million ( 3 million).

**(j) Income taxes**

This item includes the deferred tax effects of the adjustments to conform to IAS. For the year ended December 31, 2001, the above-mentioned adjustment items in total entailed a net reduction of income tax expense by SEK 250 million ( 27 million). As of June 30, 2002, the adjustment in total entailed increasing the deferred tax liability by SEK 181 million ( 20 million) and decreasing the deferred tax benefit by SEK 491 million ( 54 million). For the six months ended June 30, 2002, income tax expense net increased by SEK 588 million ( 64 million).

Additionally, under Finnish GAAP, Sonera is allowed to choose not to record a deferred tax asset in certain circumstances. As of December 31, 2001 and as of June 30, 2002, Sonera has chosen not to record a deferred tax benefit for the excess of the tax basis over the amount for financial reporting purposes of an investment in a consolidated subsidiary. Under IAS, Sonera has recognized a deferred tax benefit for this temporary difference to the extent it is probable that the temporary difference will be realized.

For the year ended December 31, 2001, adjusting to IAS in this respect resulted in a reduction in income tax expense by SEK 545 million ( 59 million). As of and for the six months ended June 30, 2002, the adjustment resulted in an increase of the deferred tax benefit by SEK 349 million ( 38 million) and an increase in income tax expense by SEK 188 million ( 21 million).

**(k) Reclassifications**

Two items in Sonera's application of IAS have been reclassified to comply with Telia's application of IAS.

In its historical financial statements adjusted for IAS, Sonera reports capital gains and losses from sale of shares in associated companies in other income statement line items than Telia, which classifies them as income from associated companies. For the year ended December 31, 2001, these reclassifications reduced sales, administration and research and development expenses and other operating expenses by SEK 13 million ( 2 million) and SEK 131 million ( 14 million), respectively, and reduced income from associated companies by SEK 144 million ( 16 million). For the six months ended June 30, 2002, reclassifying increased other operating expenses net by SEK 2,035 million ( 222 million) and increased income from associated companies by the same amount.

In its historical financial statements adjusted for IAS, Sonera includes in Trade accounts receivable amounts due by customers, which have not yet been invoiced. Such items are reclassified to Prepaid expenses and accrued income to conform to Telia's presentation.

**Note 4: Jointly controlled Baltic entities**

These columns reflect the historical financial statements of the following companies that will become controlled subsidiaries of the combined company:

*AB Lietuvos Telekomas.* Together Telia and Sonera hold a 60 percent interest in the company, which is the largest provider of fixed-line telecommunications services in Lithuania. In 2001, Lietuvos Telekomas reported under IAS revenues of SEK 2,735 million ( 300 million) and net income of SEK 469 million ( 51 million). For the six months ended June 30, 2002, Lietuvos Telekomas reported revenues of SEK 1,298 million ( 143 million), net income of SEK 102 million ( 11 million). Total assets were SEK 5,234 million ( 575 million) as of June 30, 2002.

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**NOTES TO THE UNAUDITED CONDENSED PRO FORMA CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)**

*UAB Omnitel.* Together Telia and Sonera hold a 55 percent interest in the company, which is the largest GSM operator in Lithuania. In 2001, Omnitel reported under U.S. GAAP revenues of SEK 1,270 million ( 140 million) and net income of SEK 292 million ( 32 million). For the six months ended June 30, 2002, Sonera and Telia used preliminary results which showed Omnitel's revenues to be SEK 859 million ( 94 million), net income to be SEK 164 million ( 18 million), and total assets as of June 30, 2002 to be SEK 1,665 million ( 183 million). These amounts are not expected to differ significantly when finalized.

*Latvijas Mobilais Telefons SIA (LMT).* Together Telia and Sonera hold a 49 percent interest in the company, which is the largest GSM operator in Latvia. Additionally, Lattelekom SIA, in which Sonera has a 49 percent interest, holds a 23 percent interest in Latvijas Mobilais Telefons. In 2001, Latvijas Mobilais Telefons reported under IAS revenues of SEK 1,739 million ( 191 million) and net income of SEK 492 million ( 54 million). For the six months ended June 30, 2002, Sonera and Telia used preliminary results which showed LMT's revenues to be SEK 890 million ( 98 million), net income to be SEK 262 million ( 29 million), and total assets as of June 30, 2002 to be SEK 1,518 million ( 167 million). These amounts are not expected to differ significantly when finalized. Together Telia and Sonera have the power to nominate four members to the board of directors of LMT consisting of seven members. For purposes of preparing the unaudited condensed pro forma consolidated financial statements, Telia and Sonera have determined that the power to nominate a majority of the members of the board of directors of LMT will give the combined company control in LMT.

Telia and Sonera have determined that there are currently no such terms or conditions in the shareholders' agreements or the company statutes related to these companies, which would prevent the combined company from exercising its control in these companies.

The Baltic entities have been included in the unaudited condensed pro forma consolidated financial statements based on their historical financial statements. Certain reclassifications have been made to the income statements and balance sheets of these companies to conform to the presentation format in these unaudited condensed pro forma consolidated financial statements. Such reclassifications do not impact the results of operations and shareholders' equity of these companies.

For purposes of these unaudited condensed pro forma consolidated financial statements, the income statements of the Baltic entities have been translated into Swedish kronor using the average exchange rate for the applicable period. The balance sheets have been translated into Swedish kronor using the exchange rate as of the balance sheet date.

**Note 5: Complying with EU conditions for the merger**

These columns reflect the fact that the European Commission, among other things, conditioned its consent to the TeliaSonera merger on Telia's disposal of its Finnish operations and its Swedish cable TV company Com Hem. Telia's Finnish operations comprise mobile telephony operations, a dealership chain and a wireless LAN business.

The disposals of these operations have been included in the unaudited condensed pro forma consolidated financial statements based on historical financial statements as included in Telia's consolidated financial statements under IAS and as if they had taken place on January 1, 2001.

For purposes of these unaudited condensed pro forma consolidated financial statements, we have anticipated the proceeds from the disposals to equal the value of the net assets in the operations to be divested.

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**NOTES TO THE UNAUDITED CONDENSED PRO FORMA CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)**

**Note 6: Pro forma adjustments**

**(a) Accounting acquirer and application of the purchase method of accounting**

Telia has concluded that it is the accounting acquirer under IAS based on an analysis of the terms of the merger and related agreements and the requirements of IAS 22. Among the factors considered were:

The fair value (based on market capitalization) of Telia and Sonera was SEK 76.8 billion ( 8.4 billion) and SEK 39.1 billion ( 4.3 billion), respectively, as of June 28, 2002.

Under IAS, Telia's total assets were SEK 119.2 billion ( 13.1 billion) and Sonera's total assets were SEK 53.5 billion ( 5.9 billion) as of June 30, 2002. For the year ended December 31, 2001, revenues and net income were SEK 57.2 billion ( 6.3 billion) and SEK 1.9 billion ( 200 million), respectively, for Telia and SEK 20.2 billion ( 2.2 billion) and SEK 1.4 billion ( 200 million), respectively, for Sonera. For the six months ended June 30, 2002, revenues and net income were SEK 28.2 billion ( 3.1 billion) and SEK 0.2 billion ( 20 million), respectively, for Telia and SEK 9.9 billion ( 1.1 billion) and SEK (22.9) billion ( (2.5) billion), respectively, for Sonera.

After the TeliaSonera merger, the voting interest in Telia of the current Telia shareholders and former Sonera shareholders will be approximately 64 percent and approximately 36 percent, respectively, assuming that all Sonera shares are exchanged for Telia shares.

After the TeliaSonera merger, the minority interests of Telia's and Sonera's two principal shareholders, the Kingdom of Sweden and the Republic of Finland, will be 45 percent and 19 percent, respectively, assuming that all Sonera shares are exchanged for Telia shares.

Telia will pay a premium of 10.4 percent for Sonera shares in the exchange offer based upon the average of the market price of both companies' shares during the period from March 22 to March 28, 2002, a few trading days before and after the announcement of the transaction.

Pursuant to the shareholders' agreement between the Kingdom of Sweden and the Republic of Finland, the board of directors of the combined company will consist of nine members, including Tapio Hintikka, the current chairman of the board of Sonera, Lars-Eric Petersson, the current chairman of the board of Telia, three members to be nominated by the nominating committee of the Sonera board of directors, three members to be nominated by the nominating committee of the shareholders of Telia and one independent director, who is currently not a member of the board of directors of either Telia or Sonera, to be nominated by the current chairmen of the boards of directors of Telia and Sonera.

After considering all these factors, we have concluded that the preponderance of evidence supports Telia as the accounting acquirer.

Under the purchase method of accounting, Telia will allocate the total purchase price to Sonera's assets and liabilities based on their relative fair values. The allocation reflected herein is subject to completion of valuations as of the date of the consummation of the acquisition. Consequently, the actual allocation of the purchase price could differ from that presented herein.

Some of the assets of Sonera that may affect the amount of goodwill at the completion of the exchange offer are as follows:

*Intangible assets other than goodwill.* Sonera has licenses in Finland to provide NMT, GSM, UMTS and fixed network telephony services. All licenses have been granted either free of charge or against a nominal payment. Accordingly, Sonera's licenses in Finland have a zero book value. As of June 30, 2002, the number of Sonera mobile customers in Finland was approximately 2.5 million and the number of fixed network access lines was approximately 0.7 million.

**Table of Contents****NOTES TO THE UNAUDITED CONDENSED PRO FORMA CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)**

*Tangible assets.* Sonera has a nationwide GSM 900 network in Finland, complemented by an integrated GSM 1800 network in densely populated areas. For its fixed network operations, Sonera has a digital local network in its service areas, digital regional and trunk networks in Finland, and an international network. The book value of Sonera's telecommunications networks was 860 million (SEK 7,831 million) under IAS as of June 30, 2002.

*Investments.* Sonera has significant investments in associated companies and other minority shareholdings. As of June 30, 2002, under IAS, the carrying value of Sonera's investments and shareholder loans receivable in associated companies totaled 1,551 million (SEK 14,120 million) and the carrying value of investments in other minority shareholdings totaled 132 million (SEK 1,200 million). As of June 30, 2002, the largest individual carrying values of investments (investments in shares and loans receivable) in associated companies were 467 million (SEK 4,250 million) in Turkcell Iletisim Hizmetleri A.S., 306 million (SEK 2,785 million) in Lattelekom SIA, and 210 million (SEK 1,910 million) in AB Lietuvos Telekomas. The largest individual carrying value of investments (investments in shares and loans receivable) in other minority shareholdings was 72 million (SEK 654 million) in Xfera Móviles, S.A.

The above list is not exhaustive, and there may be other assets and liabilities which may have to be adjusted for fair value when the actual and final valuations and allocations are made after completing the exchange offer.

Telia will complete the determination of fair values and the allocation of purchase price after the completion of the exchange offer. The determination of fair values will be based on an independent appraisal. Given the information available when preparing these unaudited condensed pro forma consolidated financial statements, management does not anticipate the final purchase price allocation to differ materially from the one presented herein.

These unaudited condensed pro forma consolidated financial statements have been prepared and presented using an assumption that 100 percent of the outstanding Sonera shares and Sonera warrants will be exchanged into Telia shares and Telia warrants, respectively, that no Sonera warrants are exercised and that no cash consideration will be paid.

Under IAS, the aggregate purchase price was calculated as follows:

|                                   |               |
|-----------------------------------|---------------|
| Sonera shares outstanding         | 1,114,751,729 |
| Exchange ratio into Telia shares  | 1.51440       |
| Equivalent number of Telia shares | 1,688,180,018 |
| Telia share price <sup>(1)</sup>  | SEK 25.60     |

|  | SEK million | million <sup>(2)</sup> |
|--|-------------|------------------------|
| Estimated fair value of Telia shares issued                  | 43,217      | 4,749                  |
| Estimated fair value of Telia warrants issued <sup>(3)</sup> | 248         | 27                     |
| Estimated transaction related expenses <sup>(4)</sup>        | 1,184       | 130                    |
| Total estimated purchase price consideration <sup>(5)</sup>  | 44,649      | 4,906                  |

- (1) Telia shares issued to Sonera shareholders in consideration for the merger would be valued based on the quoted market price as of the completion date of the transaction. The share price used herein is based on the closing price of Telia share on June 28, 2002. For each SEK 1.00 increase or decrease in Telia share price, the merger consideration amount would increase or decrease by approximately SEK 1,688 million (approximately 185 million) and annual amortization would increase or decrease by approximately SEK 84 million (approximately 9 million).

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**NOTES TO THE UNAUDITED CONDENSED PRO FORMA CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)**

- (2) The unaudited condensed pro forma consolidated Swedish krona amounts have been converted into euros solely for the convenience of the reader at the June 28, 2002 exchange rate, which was SEK 1.00 = 0.1099 ( 1.00 = SEK 9.1015).
- (3) This amount represents the estimated fair value, based on a Black-Scholes valuation, of the Telia warrants expected to be issued in exchange for outstanding Sonera warrants upon completion of the Telia/ Sonera merger. The calculation is based on the number of Sonera warrants outstanding and the closing market price of Telia, calculated as a weighted average price, and assuming an exchange ratio of one Telia warrant for each Sonera warrant. Assumptions were also made based on the current information or plans for the exercise prices and other terms and conditions of the Telia warrants, expected volatility of the share of the combined company, expected dividend rate of the combined company, expected average life of options, and the discount rate. Actual and final valuations may differ from those reflected herein. There was no intrinsic value for the outstanding unvested warrants.
- (4) Anticipated transaction related expenses to be capitalized by the combined company as a result of the TeliaSonera merger represent bankers fees, the possible 1.6 percent Finnish share transfer tax payable by Telia for all shares acquired from Sonera shareholders residing in Finland, and the transaction related legal, accounting and other fees and expenses.
- (5) As discussed under the RISK FACTORS Risks Related to the Exchange Offer The exchange offer may result in the combined company being obliged to make a tender offer for all of the issued and outstanding shares of Turkcell, elsewhere in this prospectus, the TeliaSonera merger could under certain circumstances trigger a requirement for the combined company to make an offer to purchase all of the remaining issued and outstanding shares of Turkcell, a Turkish mobile operator in which Sonera currently, directly and indirectly, holds an approximately 37.1 percent interest. While the Turkish Capital Markets Board officials have indicated to Telia and Sonera that the Turkish Capital Markets Board may be willing to grant an exemption, there can be no assurance that such an exemption will ultimately be granted. In the event an exemption were not granted, TeliaSonera could be required after the completion of the TeliaSonera merger to make an offer to purchase all the outstanding shares of Turkcell not held by Sonera at the then prevailing market price.

On June 28, 2002, the closing price of the Turkcell shares on the Istanbul Stock Exchange was 7,000 Turkish lira, giving the issued and outstanding shares of Turkcell not currently held by Sonera an estimated aggregate market value of approximately SEK 13,209 million ( 1,451 million), based on the Turkish lira to Swedish kronor exchange rate on June 28, 2002. An acquisition by the combined company would under this assumption, if paid in cash, mean an increase in interest-bearing debt of the combined company by the same amount. Furthermore, an acquisition would result in additional goodwill of approximately SEK 5,915 million ( 650 million), after valuing the trade name to approximately SEK 921 million ( 101 million) resulting in a deferred tax liability of SEK 304 million ( 33 million). Assuming an amortization period of 20 years for the trade name and for the additional goodwill, the annual amortization would increase by approximately SEK 342 million ( 38 million) and the deferred tax would decrease by approximately SEK 15 million ( 1.6 million).

For each 10 percent increase or decrease in Turkcell share price, with other things constant, the purchase price and interest-bearing debt would increase or decrease by approximately SEK 1,321 million ( 145 million) and annual amortization would increase or decrease by approximately SEK 66 million ( 7 million), while deferred tax would not change. For each 10 percent increase or decrease in the Turkish lira to Swedish krona exchange rate, with other things constant, the purchase price and interest-bearing debt would increase or decrease by approximately SEK 1,321 million (approximately 145 million) and annual amortization would increase or decrease by approximately SEK 34 million ( 4 million) and the deferred tax would decrease or increase by approximately SEK 2 million ( 0.2 million).

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FINANCIAL STATEMENTS (Continued)**

The estimated excess of purchase price consideration over the approximate value of Sonera's net assets, the estimated fair value adjustments and the estimated goodwill are as follows:

|  | SEK million | million <sup>(1)</sup> |
|--|-------------|------------------------|
| Total estimated purchase price consideration   | 44,649      | 4,906                  |
| Less: approximate value of Sonera's net assets under IAS   | (18,696)    | (2,054)                |
| Estimated excess of purchase price consideration over approximate value of Sonera's net assets under IAS | 25,953      | 2,852                  |
| Less: Estimated fair value of trade names  | (1,638)     | (180)                  |
| Less: Estimated fair value of licenses and contractual agreements  | (5,735)     | (630)                  |
| Less: Estimated fair value adjustment of investments in associated companies and other equity holdings   | (3,622)     | (398)                  |
| Deferred tax   | 3,189       | 350                    |
| Estimated goodwill   | 18,147      | 1,994                  |

(1) The unaudited condensed pro forma consolidated Swedish krona amounts have been converted into euros solely for the convenience of the reader at the June 28, 2002 exchange rate, which was SEK 1.00 = 0.1099 (1.00 = SEK 9.1015).

Remaining useful economic lives have been estimated to be five years for trade names and leased lines, 15 years for GSM licenses in Finland, and 20 years for mobile roaming and interconnection agreements and the UMTS license in Finland. The preliminary estimated amortization on fair value adjustments of these other intangible assets would be 74 million per year, recorded as operating expenses by function as follows:

|  | Year ended<br>December 31, 2001 |         | Six months ended<br>June 30, 2002 |         |
|--|---------------------------------|---------|-----------------------------------|---------|
|  | SEK million                     | million | SEK million                       | million |
| Cost of sales                                      | 352                             | 38      | 174                               | 19      |
| Sales, administration and research and development | 333                             | 36      | 165                               | 18      |
| Total effect on operating income                   | 685                             | 74      | 339                               | 37      |

Amortization on other intangible assets reduces deferred tax expenses by SEK 199 million (21 million) for the year ended December 31, 2001 and by SEK 98 million (11 million) for the six months ended June 30, 2002.

Remaining useful economic lives for fair value adjustments to the book values of investments in associated companies have been estimated to be ten years. The preliminary estimated amortization on these fair value adjustments would be 40 million per year (SEK 368 million for the year ended December 31, 2001 and SEK 182 million for the six months ended June 30, 2002), recorded under income from associated companies. Amortization reduces deferred tax expenses by 12 million per year (SEK 107 million for the year ended December 31, 2001 and SEK 53 million for the six months ended June 30, 2002).





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It has further been estimated that the combined company will amortize goodwill arising from the merger over an economic useful life of 20 years under IAS. The estimated adjustment necessary to record the amortization on the resulting goodwill would be 100 million per year, recorded as operating expenses by function as follows:

|  | Year ended<br>December 31, 2001 |         | Six months ended<br>June 30, 2002 |         |
|--|---------------------------------|---------|-----------------------------------|---------|
|  | SEK million                     | million | SEK million                       | million |
| Cost of sales                                      | 549                             | 60      | 271                               | 30      |
| Sales, administration and research and development | 374                             | 40      | 185                               | 20      |
| Total  | 923                             | 100     | 456                               | 50      |

After the completion of the exchange offer and the allocation of the purchase price to assets and liabilities of Sonera, the actual and final amount of goodwill and the resulting annual amortization may be lower or higher than the amount presented in these unaudited condensed pro forma consolidated financial statements. However, given the information available when preparing these unaudited condensed pro forma consolidated financial statements, management does not anticipate the final purchase price allocation to differ materially from the one presented herein.

**(b) Intercompany transactions**

All estimated intercompany receivables, payables, income and expenses have been eliminated. These amounts consist of intercompany transactions between Telia and Sonera, between Telia and the Baltic entities included in this pro forma consolidation, between Sonera and the Baltic entities, and among the Baltic entities.

The amount of intercompany sales and purchases totaled SEK 986 million ( 107 million) for the year ended December 31, 2001 and SEK 414 million ( 45 million) for the six months ended June 30, 2002. As the intercompany purchases are network-related, like interconnect, roaming and international settlements, they were classified as cost of sales. The amount of intercompany receivables and payables totaled SEK 300 million ( 33 million) as of June 30, 2002.

**(c) Consolidation of Baltic entities**

As discussed in Note 4 above, three Baltic entities in Latvia and Lithuania will become controlled subsidiaries of the combined entity, and have been included in the unaudited condensed pro forma consolidated financial statements as subsidiaries. Telia and Sonera each have accounted for their investments in the Baltic entities under the equity method in their historical financial statements.

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The pro forma adjustments related to these entities are as follows:

Reversal of income from associated companies, including goodwill amortization, totaling SEK 150 million ( 16 million) for the year ended December 31, 2001 and SEK 46 million ( 5 million) for the six months ended June 30, 2002, that Telia and Sonera have recorded in respect of these entities in their historical financial statements. The goodwill amortization, annually amounting to Lithuanian litas 192 million (SEK 497 million), is reclassified as operating expenses to functional line items, as follows:

|  | Year ended<br>December 31, 2001 |           | Six months ended<br>June 30, 2002 |           |
|--|---------------------------------|-----------|-----------------------------------|-----------|
|  | SEK million                     | million   | SEK million                       | million   |
| Cost of sales                                      | 373                             | 41        | 189                               | 20        |
| Sales, administration and research and development | 124                             | 14        | 63                                | 7         |
| <b>Total</b>                                       | <b>497</b>                      | <b>55</b> | <b>251</b>                        | <b>27</b> |

As of June 30, 2002 the total investment, including goodwill, by Telia and Sonera in the Baltic entities was SEK 6,313 million ( 694 million), of which SEK 3,221 million ( 354 million) was eliminated. The goodwill amount of SEK 3,092 million ( 340 million) was reclassified from investments in associated companies to goodwill.

Reversal of a deferred tax liability, as of June 30, 2002 amounting to SEK 41 million ( 4 million), on undistributed retained earnings that Sonera has recorded related to these entities in its historical financial statements. The effect on net income for the year ended December 31, 2001 was SEK 14 million ( 1.5 million) and for the six-month period ended June 30, 2002, SEK (4) million ( (0.4) million).

Recording minority interest in income for these entities amounting to SEK 570 million ( 62 million) for the year ended December 31, 2001 and to SEK 248 million ( 27 million) for the six months ended June 30, 2002. Minority interest in equity as of June 30, 2002 amounted to SEK 2,409 million ( 265 million).

The pro forma adjustments have been based on the Baltic entities' audited financial statements as of and for the year ended December 31, 2001. As of and for the six months ended June 30, 2002 the pro forma adjustments have been based on Lietuvos Telekomas' published unaudited financial statements and preliminary financial statements for Omnitel and LMT. When preparing their own financial statements, Telia and Sonera had to make estimates as to the net income and shareholders' equity of all the three Baltic entities. The difference between the actual financial statements and these estimates has been reflected in the accompanying pro forma financial statements and has affected pro forma adjusted net income by SEK 65 million ( 7 million) for the year ended December 31, 2001 and by SEK (21) million ( (2) million) for the six months ended June 30, 2002. Pro forma shareholders' equity was affected by SEK (7) million ( (1) million) as of June 30, 2002.

**Note 7: Convenience translation into euros**

The unaudited condensed pro forma consolidated Swedish krona amounts have been translated into euros solely for the convenience of the reader at the June 28, 2002 exchange rate, which was SEK 1.00 = 0.1099 ( 1.00 = SEK 9.1015).

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FINANCIAL STATEMENTS (Continued)****Note 8: Convenience translation into U.S. dollars**

The unaudited condensed pro forma consolidated Swedish krona amounts have been translated into U.S. dollars solely for the convenience of the reader at the June 28, 2002 noon buying rate, which was SEK 1.00 = \$0.1086 (\$1.00 = SEK 9.2070).

**Note 9: U.S. GAAP information**

The following summarizes the principal adjustments to reconcile the unaudited pro forma consolidated net income and shareholders' equity under IAS to the amounts that would have been reported had U.S. GAAP been applied.

Telia adjustment items are discussed in Note 39 to Telia's consolidated financial statements as of and for the years ended December 31, 2001, 2000 and 1999, and in Note 23 to Telia's unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2002, each included elsewhere in this document. Note 24 to Sonera's consolidated financial statements as of and for the years ended December 31, 1999, 2000 and 2001, and Note 12 to Sonera's unaudited condensed consolidated interim financial statements as of and for the six months ended June 30, 2002, each included elsewhere in this document, discuss adjustment items related to Sonera's consolidated financial statements that are prepared under Finnish GAAP. As disclosed in Note 3, Sonera IAS adjustments, a number of these adjustments are the same or substantially the same as the adjustments to conform to IAS. The remaining adjustment items are presented below.

|   | Year ended December 31, 2001                        |         |         | Six months ended June 30, 2002 |           |           |
|---|---|---------|---------|--------------------------------|-----------|-----------|
|   | SEK   | (a)     | \$(b)   | SEK                            | (a)       | \$(b)     |
|   | (in millions, except for shares and per share data) |         |         |                                |           |           |
| <b>Unaudited pro forma net income under IAS</b>             | 2,691   | 295.7   | 292.3   | (23,209)                       | (2,550.0) | (2,520.8) |
| Adjustments to reconcile to U.S. GAAP:                      |   |         |         |                                |           |           |
| <i>Telia</i>  |   |         |         |                                |           |           |
| Revenue recognition   | (239)   | (26.2)  | (26.0)  | (78)                           | (8.6)     | (8.5)     |
| Impairment charge   | 3,027   | 332.6   | 328.8   | (59)                           | (6.5)     | (6.4)     |
| Sale and leaseback  | (274)   | (30.1)  | (29.8)  | 228                            | 25.1      | 24.8      |
| Alecta/SPP funds  | 138   | 15.2    | 15.0    | 92                             | 10.1      | 10.0      |
| Share of earnings in associated companies                   | 29  | 3.2     | 3.1     | 0                              | 0.0       | 0.0       |
| Financing associated companies                              | (15)  | (1.6)   | (1.6)   | 0                              | 0.0       | 0.0       |
| Goodwill amortization                                       | 2   | 0.2     | 0.2     | 915                            | 100.5     | 99.4      |
| Changes in accounting principles                            | 4   | 0.4     | 0.4     |                                |           |           |
| Deferred tax  | (7)   | (0.8)   | (0.8)   | (68)                           | (7.5)     | (7.4)     |
| <i>Sonera</i>   |   |         |         |                                |           |           |
| (c) Associated companies in hyper inflationary economies    | 1,441   | 158.3   | 156.5   | (1,295)                        | (142.3)   | (140.6)   |
| (d) Capitalization of interest on equity method investments | 415   | 45.6    | 45.1    | (565)                          | (62.1)    | (61.4)    |
| (e) Share of earnings in associated companies               |   |         |         | 13                             | 1.4       | 1.4       |
| (f) Goodwill amortization                                   |   |         |         | 308                            | 33.9      | 33.4      |
| (g) Changes in accounting principles                        | (56)  | (6.1)   | (6.0)   |                                |           |           |
| (h) Deferred tax  | (174)   | (19.0)  | (18.8)  | 58                             | 6.4       | 6.3       |
| <i>Combination</i>  |   |         |         |                                |           |           |
| (i) Goodwill amortization                                   | 1,291   | 141.8   | 140.2   | 639                            | 70.2      | 69.4      |
| (j) Amortization of other intangible assets                 | (1,006)   | (110.5) | (109.3) | (498)                          | (54.7)    | (54.1)    |
| (k) Deferred tax  | 186   | 20.4    | 20.2    | 91                             | 10.0      | 9.9       |
| <b>Unaudited pro forma net income under U.S. GAAP</b>       | 7,453   | 818.9   | 809.5   | (23,428)                       | (2,574.1) | (2,544.6) |
| <b>Pro forma earnings per share under U.S. GAAP:</b>        |   |         |         |                                |           |           |
| Basic   | 1.59  | 0.17    | 0.17    | (5.00)                         | (0.55)    | (0.54)    |

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|         |      |      |      |        |        |        |
|---------|------|------|------|--------|--------|--------|
| Diluted | 1.59 | 0.17 | 0.17 | (5.00) | (0.55) | (0.54) |
|---------|------|------|------|--------|--------|--------|

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|  | Year ended December 31, 2001 |           |           | Six months ended June 30, 2002 |           |           |
|--|------------------------------|-----------|-----------|--------------------------------|-----------|-----------|
|  | SEK                          | (a)       | \$(b)     | SEK                            | (a)       | \$(b)     |
| (in millions, except for shares and per share data)  |                              |           |           |                                |           |           |
| <b>Average number of shares outstanding:</b>   |                              |           |           |                                |           |           |
| Basic  | 4,689,380                    | 4,689,380 | 4,689,380 | 4,689,380                      | 4,689,380 | 4,689,380 |
| Diluted  | 4,689,380                    | 4,689,380 | 4,689,380 | 4,689,380                      | 4,689,380 | 4,689,380 |
| With respect to goodwill and intangible assets acquired prior to July 1, 2001, Telia and Sonera began applying the amortization provisions of SFAS No. 142 Goodwill and Other Intangible Assets, beginning January 1, 2002. The effects on pro forma goodwill amortization, and consolidated pro forma net income and earnings per share, had SFAS 142 been applied as of January 1, 2001, are as follows. |                              |           |           |                                |           |           |
| <b>Reported pro forma net income under U.S. GAAP</b>   |                              |           |           |                                |           |           |
|  | 7,453                        | 818.9     | 809.5     | (23,428)                       | (2,574.1) | (2,544.6) |
| Add-back: Pro forma goodwill amortization, net of tax, on  |                              |           |           |                                |           |           |
| Telia subsidiaries   | 1,375                        | 151.1     | 149.3     |                                |           |           |
| Telia associated companies   | 902                          | 99.1      | 98.0      |                                |           |           |
| Sonera subsidiaries  | 693                          | 76.1      | 75.3      |                                |           |           |
| Sonera associated companies  | 534                          | 58.6      | 58.0      |                                |           |           |
| <b>Adjusted pro forma net income under U.S. GAAP</b>   |                              |           |           |                                |           |           |
|  | 10,957                       | 1,203.8   | 1,190.1   | (23,428)                       | (2,574.1) | (2,544.6) |
| <b>Adjusted pro forma earnings per share under U.S. GAAP:</b>  |                              |           |           |                                |           |           |
| Basic  | 2.34                         | 0.26      | 0.25      | (5.00)                         | (0.55)    | (0.54)    |
| Diluted  | 2.34                         | 0.26      | 0.25      | (5.00)                         | (0.55)    | (0.54)    |

**As of June 30, 2002**

|  | SEK     | (a)      | \$(b)    |
|--|---------|----------|----------|
| (in millions)  |         |          |          |
| <b>Unaudited pro forma shareholders equity under IAS</b>       | 103,186 | 11,337.3 | 11,207.3 |
| Adjustments to reconcile to U.S. GAAP:                         |         |          |          |
| <i>Telia</i>   |         |          |          |
| Revenue recognition  | (4,034) | (443.2)  | (438.1)  |
| Impairment charge  | 2,968   | 326.1    | 322.4    |
| Sale and leaseback   | (1,416) | (155.6)  | (153.8)  |
| Alecta/SPP funds   | (157)   | (17.2)   | (17.1)   |
| Financial associated companies                                 | 3       | 0.3      | 0.3      |
| Goodwill amortization  | 926     | 101.7    | 100.6    |
| Deferred tax   | 1,454   | 159.8    | 157.9    |
| <i>Combination</i>   |         |          |          |
| (h) Calculation of purchase price                              | 18,824  | 2,068.2  | 2,044.5  |
| <b>Unaudited pro forma shareholders equity under U.S. GAAP</b> | 121,754 | 13,377.4 | 13,224.0 |

*(a) Convenience translation into euros*

The unaudited condensed pro forma consolidated Swedish krona amounts have been converted into euros solely for the convenience of the reader at the June 28, 2002 exchange rate, which was SEK 1.00 = 0.1099 ( 1.00 = SEK 9.1015).

*(b) Convenience translation into U.S. dollars*

The unaudited condensed pro forma consolidated Swedish krona amounts have been converted into U.S. dollars solely for the convenience of the reader at the June 28, 2002 noon buying rate, which was SEK 1.00 = \$0.1086 (\$1.00 = SEK 9.2070).

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***(c) Associated companies in hyper inflationary economies***

This item refers to Sonera's associated companies in Turkey and Eurasia as set forth in Note 3(e). The technique used when restating financial statements of entities in hyper inflationary economies differs between IAS and the rules set out in SFAS No. 52 Foreign Currency Translation.

***(d) Capitalization of interest on equity method investments***

Under IAS, interest cost can not be capitalized in the consolidated financial statements when an associated company undertakes the construction activities.

U.S. GAAP requires that interest cost be capitalized on all assets that require a period of time to get them ready for their intended use, including investments in associated companies when such associated companies use the invested funds in the construction of qualified assets.

***(e) Share of earnings in associated companies***

Sonera's share of net income of its associated companies is determined using the equity method of accounting and is based on the net income of the investees prepared in accordance with IAS. This reconciliation item reflects adjustments for the differences between IAS and U.S. GAAP relating to the associated companies.

***(f) Goodwill amortization***

This item represents Sonera's adoption of SFAS No. 142 Goodwill and Other Intangible Assets.

***(g) Changes in accounting principles***

This item represents Sonera's adoption of SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 138 Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133.

***(h) Calculation of purchase price***

Telia has concluded that it is the accounting acquirer under U.S. GAAP as well as under IAS. This has been based on a careful analysis and consideration of the terms of the merger and related agreements and the requirements of SFAS No. 141 Business Combinations. A number of factors considered are discussed in the beginning of Note 6 (a). After considering all these factors, we have concluded that the preponderance of evidence supports Telia as the accounting acquirer.

Under IAS, the Telia shares issued in consideration for the TeliaSonera merger to Sonera shareholders will be valued based on the quoted market price as of the closing date of the transaction. For the purposes of these unaudited condensed pro forma consolidated financial statements, the purchase price consideration under IAS has been estimated using the closing share price of Telia on June 28, 2002. The actual and final valuation under IAS may differ from that reflected herein.

Under U.S. GAAP, the market price for a reasonable period before and after the date the terms of the transaction are agreed to and announced shall be considered in determining the fair value of securities issued. Accordingly, under U.S. GAAP, the Telia shares issued in consideration for the TeliaSonera merger to Sonera shareholders are valued based on a weighted average for the five consecutive trading days between March 22 and 28, 2002, which was SEK 36.75 per share. Under U.S. GAAP, the fair value of Telia shares issued is SEK 62,041 million ( 6,817 million), as compared to an estimate of SEK 43,217 million ( 4,749 million) under IAS, creating a difference of SEK 18,824 million ( 2,068 million).

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The estimated excess of purchase price consideration over the approximate value of Sonera's net assets, the estimated fair value adjustments and the estimated goodwill under U.S. GAAP are as follows:

|  | SEK million   | million <sup>(1)</sup> |
|--|---------------|------------------------|
| Fair value of Telia shares issued  | 62,041        | 6,817                  |
| Fair value of Telia warrants issued  | 248           | 27                     |
| Estimated transaction related expenses   | 1,184         | 130                    |
|  | <u>63,473</u> | <u>6,974</u>           |
| Total estimated purchase price consideration <sup>(4)</sup>  | 63,473        | 6,974                  |
| Less: approximate value of Sonera's net assets under U.S. GAAP <sup>(2)</sup>                                  | (19,369)      | (2,128)                |
|  | <u>44,104</u> | <u>4,846</u>           |
| Estimated excess of purchase price consideration over approximate value of Sonera's net assets under U.S. GAAP | 44,104        | 4,846                  |
| Less: Estimated fair value of trade names  | (1,638)       | (180)                  |
| Less: Estimated fair value of licenses and contractual agreements  | (5,735)       | (630)                  |
| Less: Estimated fair value adjustment of investments in associated companies and other equity holdings         | (2,831)       | (311)                  |
| Less: Estimated fair value of customer list <sup>(3)</sup>   | (10,331)      | (1,135)                |
| Deferred tax   | 5,956         | 654                    |
|  | <u>29,525</u> | <u>3,244</u>           |
| Estimated goodwill   | 29,525        | 3,244                  |

- (1) The unaudited condensed pro forma consolidated Swedish krona amounts have been converted into euros solely for the convenience of the reader at the June 28, 2002 exchange rate, which was SEK 1.00 = 0.1099 (1.00 = SEK 9.1015).
- (2) Based on Sonera's U.S. GAAP reconciliation as of June 30, 2002.
- (3) In addition to the fair value adjustments determined for IAS purposes, U.S. GAAP also requires that fair value be assigned to the customer base acquired.
- (4) As discussed under **RISK FACTORS** Risks Related to the Exchange Offer The exchange offer may result in the combined company being obliged to make a tender offer for all of the issued and outstanding shares of Turkcell, elsewhere in this prospectus, the TeliaSonera merger could under certain circumstances trigger a requirement for the combined company to make an offer to purchase all of the remaining issued and outstanding shares of Turkcell, a Turkish mobile operator in which Sonera currently, directly and indirectly, holds an approximately 37.1 percent interest. While the Turkish Capital Markets Board officials have indicated to Telia and Sonera that the Turkish Capital Markets Board may be willing to grant an exemption, there can be no assurance that such an exemption will ultimately be granted. In the event an exemption were not granted, TeliaSonera could be required after the completion of the TeliaSonera merger to make an offer to purchase all the outstanding shares of Turkcell not held by Sonera at the then prevailing market price.

On June 28, 2002, the closing price of the Turkcell shares on the Istanbul Stock Exchange was 7,000 Turkish lira, giving the issued and outstanding shares of Turkcell not currently held by Sonera an estimated aggregate market value of approximately SEK 13,209 million (1,451 million), based on the Turkish lira to Swedish krona exchange rate on June 28, 2002. An acquisition by the combined company would under this assumption, if paid in cash, mean an increase in interest-bearing debt of the combined company by the same amount. Furthermore, an acquisition would result in additional goodwill of approximately SEK 3,604 million (396 million), after valuing other intangibles (trade name and customer list) to approximately SEK 3,223 million (354 million) resulting in a deferred tax liability of SEK 1,063 million (117 million) under U.S. GAAP. Assuming an amortization period of 20 years for trade name and seven years for customer list, the annual amortization would increase by approximately SEK 375 million (41 million) and the deferred tax would decrease by approximately SEK 124 million (14 million) under U.S. GAAP.





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**NOTES TO THE UNAUDITED CONDENSED PRO FORMA CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)**

For each 10 percent increase or decrease in Turkcell share price, with other things constant, the purchase price and interest-bearing debt would increase or decrease by approximately SEK 1,321 million ( 145 million), while annual amortization and deferred tax would not change. For each 10 percent increase or decrease in the Turkish lira to Swedish krona exchange rate, with other things constant, the purchase price and interest-bearing debt would increase or decrease by approximately SEK 1,321 million ( 145 million) and annual amortization would increase or decrease by approximately SEK 37 million ( 4 million) and the deferred tax would decrease or increase by approximately SEK 12 million ( 1.3 million).

After the completion of the exchange offer, management will finalize the allocation of the purchase price to assets and liabilities of Sonera, based on independent appraisal of fair values. The valuation of Sonera's intangible assets will include in-process research and development, if any. As a result of the final purchase price allocation the actual amount of goodwill may be lower or higher than the amount presented herein. However, given the information available when preparing this unaudited condensed pro forma consolidated financial information under U.S. GAAP, management does not anticipate the final purchase price allocation to differ materially from the one presented herein.

**(i) Goodwill amortization**

The difference in the method of calculating the fair value of Telia shares issued affects the amount of pro forma goodwill from the transaction under U.S. GAAP.

Under IAS, the purchase price allocated to identifiable assets and liabilities is amortized based on the estimated useful life of the identifiable assets and liabilities. The excess purchase price after this allocation is described as goodwill and recognized as a separate asset. It has been estimated that the combined entity will amortize goodwill arising from the merger over an economic useful life of 20 years under IAS.

Under U.S. GAAP, goodwill arising in a business combination for which the transaction date is after June 30, 2001 shall not be amortized. Accordingly, amortization of goodwill from the transaction has been reversed in the unaudited pro forma net income under U.S. GAAP for the year ended December 31, 2001 and the six months ended June 30, 2002.

**(j) Amortization of other intangible assets**

The customer list ( portfolio of customers ) includes mobile and fixed-line residential and corporate customers. Under IAS, the customer list is not deemed to meet the definition of intangible assets. Therefore, Telia has not assigned any value to Sonera's customer list under IAS.

Under U.S. GAAP, the estimated fair value of the customer list is recorded as an intangible asset and amortized over its economic useful life. The remaining useful lives have been estimated to be 11 years for mobile residential, nine years for mobile corporate, 15 years for fixed-line residential, and 11 years for fixed-line corporate customers.

**(k) Deferred tax**

This item represents the deferred tax effects of the adjustments to reconcile to U.S. GAAP.

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**THE TELECOMMUNICATIONS INDUSTRY IN THE NORDIC COUNTRIES**

**Overview**

The Nordic telecommunications industry is one of the most developed in the world and is characterized by its innovation and ability to rapidly identify and adopt new trends and technologies. The Nordic telecommunications industry has been strongly influenced by the digitalization of its networks and the radical progress in transmission and access technology. In addition, the price of mobile services has steadily decreased while mobility and the number of applications and services available to mobile users has greatly increased. The Nordic market has demonstrated its ability to adopt new technologies and services at an early stage. In addition, there has been strong growth in the demand for broadband services by both business and residential customers.

Telia and Sonera believe that the continued growth of the Internet as a communications tool will result in the telecommunication industry shifting its focus towards technologies based on IP (Internet Protocol). IP is the protocol used in the Internet for communication among multiple networks. IP-based networks have been developed to carry all types of services including voice, audio, text, data, images and video services. In addition, the move towards an information-based economy, increased PC ownership and improved access technology is expected to lead to a dramatic increase in the volume of global data traffic. The Nordic region has one of the highest penetration rates for PCs and for the number of computers linked to the Internet in the world. Telia and Sonera believe that, as a result, the Nordic market is at the forefront of this shift and is leading the way in the development and use of innovative IP-based technologies and services.

The Nordic region has a high density of technology companies. Historically, national telecommunications operators have enjoyed a close relationship with equipment manufacturers, such as Ericsson and Nokia, which has encouraged project-based cooperation in the region and produced pioneering technological developments, particularly in wireless communications.

The Nordic region is characterized by high mobile penetration rates. As of December 31, 2001, the mobile penetration rate was approximately 80 percent in Sweden, 75 percent in Norway, 68 percent in Denmark and 77 percent in Finland. Telia expects growth in the Nordic mobile communications market to continue through the introduction of UMTS-based products and services as well as through other new data transmission and Internet-based services.

**Sweden**

The mobile communications market in Sweden has been competitive since its inception in 1981 and all segments of the Swedish telecommunications market enjoy active competition. As a result, Telia has been operating in a competitive environment for a longer period than most European telecommunications operators.

Prior to 1993, there had been little regulation of the telecommunication sector in Sweden and few legal barriers to competition. In 1993, the Swedish Parliament enacted the Swedish Telecommunications Act (*Telelagen 1993:597*) with the goal of establishing a liberal, open regulatory regime for the Swedish telecommunications market, five years ahead of the European Commission's 1998 deadline for the implementation of its liberalization directives.

**Finland**

The historical development of a local telephone service market in Finland and the early liberalization of the Finnish domestic long distance, international, mobile and data service markets has resulted in Finland having one of the most liberalized and competitive telecommunications markets in Europe. Due to a tradition of local telephone companies in Finland owning and operating their own telecommunications networks and benefiting from a base of local subscribers, they were able to assume substantial market shares in the areas of domestic long distance, international and mobile voice services and other telecommunications services when these areas were opened to competition in the 1980s and the 1990s.

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In 1994, local, domestic long distance and international voice services were opened to competition. In 1990, the provision of mobile communications was opened to competition in Finland. Finland's liberal telecommunications environment has resulted in low tariffs and contributed to high rates of consumption of telecommunications services and products.

**Denmark**

In 1996, the Danish government fully liberalized the Danish telecommunications infrastructure and services and further abolished all exclusive and special rights for companies providing fixed line telephone services. Between 1998 and 1999, local loop unbundling and carrier pre-selection were introduced in the Danish telecommunications market. As a result of these reforms, the market for fixed and mobile telephone services as well as Internet services have been increasingly competitive.

**Norway**

The Norwegian telecommunications industry was only recently deregulated. Prior to 1998, the Norwegian telecommunications market was gradually liberalized and, on January 1, 1998, the market was fully opened to competition. The Norwegian regulatory regime currently poses few barriers to entry for new competitors and, as a result, there is significant competition between telecommunications services providers in Norway. This increased competition has placed a downward pressure on market prices and has contributed to high rates of consumption of telecommunications services and products in Norway.

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**INFORMATION ABOUT TELIA**

**Overview**

Telia is the leading telecommunications company in the Nordic region and a market leader in a number of growth areas, including mobile communications, broadband Internet services and IP-based network services. Telia has a long tradition of innovation in the telecommunications sector. This tradition extends from the earliest developments in fixed line telecommunications to Telia's central role in the development of the digital mobile telecommunications standard, GSM, in the early 1990s and its recent launch of GPRS (General Packet Radio Service) in Sweden, Finland and Norway. At June 30, 2002, Telia provided mobile telecommunications services to approximately 5.1 million subscribers in the Nordic region and had approximately 6.5 million equivalent fixed telephone access lines in Sweden. Telia also offers advanced data transmission services and, with approximately 1.2 million residential and business subscribers, Telia is the leading dial-up and broadband Internet service provider in the Nordic region. Telia also has extensive international carrier operations located primarily in Europe. In 2001, Telia had consolidated net sales of SEK 57,196 million and net income of SEK 1,869 million. For the six months ended June 30, 2002, Telia had consolidated net sales of SEK 28,231 million, and net income of SEK 157 million. At June 30, 2002, Telia had consolidated total assets of SEK 119,209 million and a total net interest-bearing liability of SEK 10,336 million.

**History**

Telia was originally managed directly by the Swedish State as a public service corporation (*affärsverk*), Televerket. Televerket was the successor to the state-owned Telegraph Administration which acquired virtually all privately owned telephone networks in Sweden between 1890 and 1920. Although Telia has never operated under a statutorily sanctioned monopoly, Televerket was virtually the sole provider of public voice telecommunications services in Sweden. In 1993, the Swedish State decided to transform Televerket into a state-owned public company through the transfer of Televerket's assets to TeleInvest AB, a limited liability company (*aktiebolag*) previously incorporated in 1966 that was subsequently renamed Telia AB. Telia AB became a public limited company (*publikt aktiebolag*) in 1994. During the 1980s and 1990s, Telia developed from a near monopoly to a competitor in an open market for telecommunications.

Prior to June 2000, all of the shares of Telia were owned by the Swedish State. In June 2000, the Swedish State sold 733 million shares and Telia issued 150 million shares each at a price of SEK 85 per share in an initial public offering carried out in reliance on Regulation S and Rule 144A under the Securities Act to institutional and retail investors in Sweden and abroad. Telia received net proceeds of SEK 12,429 million from the offering. Telia's shares were quoted on the A-list of the Stockholm Exchange in connection with the offering.

**Table of Contents****Parent Company and Significant Subsidiaries**

Telia AB is the ultimate parent company of the Telia group and is primarily responsible for carrying out the group's fixed network operations. Telia carries out the remainder of its operations through subsidiaries, the most significant of which are listed below:

| Name of company                   | Domicile                        | Ownership | External net sales<br>for the year ended<br>December 31, 2001 |
|-----------------------------------|---------------------------------|-----------|---|
|                                   |                                 | (%)       | (SEK in millions)   |
| <i>Parent Company:</i>            |                                 |           |   |
| Telia AB                          | Stockholm, Sweden               |           | 4,167   |
| <i>Significant Subsidiaries:</i>  |                                 |           |   |
| Telia Mobile AB                   | Nacka, Sweden                   | 100.0     | 10,903  |
| Telia e-bolaget AB                | Stockholm, Sweden               | 100.0     | 1,233   |
| Com Hem AB <sup>(1)</sup>         | Stockholm, Sweden               | 100.0     | 877   |
| Telia Sverige AB                  | Gothenburg, Sweden              | 100.0     | 14,924  |
| Telia Partner AB                  | Stockholm, Sweden               | 100.0     | 8,117   |
| Telia Online AB                   | Stockholm, Sweden               | 100.0     | 2,298   |
| Telia Handel AB                   | Stockholm, Sweden               | 100.0     | 571   |
| Telia Telecom A/S                 | Glostrup, Denmark               | 100.0     | 794   |
| NetCom AS                         | Oslo, Norway                    | 100.0     | 4,287   |
| Telia International Carrier AB    | Stockholm, Sweden               | 100.0     | 1,407   |
| Telia International Carrier GmbH  | Frankfurt am Main, Germany      | 100.0     | 409   |
| Telia International Carrier, Inc. | Reston, Virginia, United States | 100.0     | 380   |
| Telia UK Ltd.                     | London, England                 | 100.0     | 892   |

(1) To obtain clearance from the European Commission for the merger, Telia has agreed to dispose of its Com Hem AB cable TV business in Sweden.

**Competitive Strengths**

Telia has a number of competitive strengths that management believes position Telia to build upon its role as the leading telecommunications company in the Nordic region.

*Market leader in mobile communications in the Nordic region.*

*Leading dial-up and broadband Internet service provider in Sweden.*

*Market leader in wholesale and retail fixed network services in Sweden.*

*High quality international backbone network supporting the offering of services in Europe.*

*Group-wide adoption of IP-based services.*

*Large, sophisticated customer base.*

**Strategy**

Telia's principal goal is to strengthen its position as the leading telecommunications company in the Nordic region by further developing each of its four business areas. Telia intends to achieve this goal by pursuing the following strategies:

**Focus on the Nordic Countries and the Baltic States**

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Telia is presently focusing its efforts and resources on developing and rationalizing its four business areas: Telia Mobile, Telia Internet Services, Telia International Carrier and Telia Networks. Telia believes

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these businesses are growth areas in which Telia is well-placed to compete and generate profit as a result of the strong market positions that they have already achieved.

During 2001, Telia completed its refine and focus initiative in which operations outside of Telia's core businesses, as well as certain areas within its core businesses, were divested. Non-core businesses that were divested include directory operations, directory assistance, call center operations, international consulting operations and certain operations outside of Telia's principal geographical focus in Brazil, Spain, the United States, Ireland and Finland. The areas supporting Telia's core businesses that were divested include network construction and maintenance, installation and servicing of accesses and customer equipment and certain administrative functions. Since the fall of 2000, Telia has reduced the number of its employees as part of its refine and focus initiative by approximately 13,000, from 30,000 employees to 17,000 employees. At the same time as Telia has refined its core operations, Telia has also concentrated the geographical focus of its business activities on the Nordic countries and the Baltic States, which have generally similar cultural backgrounds and a large, continuous flow of information, goods and services among them. Telia believes that a sharper geographic focus will create effective synergies and lead to economies of scale, reduced costs and greater revenue potential.

As a result of the increased focus on its core business areas, divestitures and other measures that Telia has carried out as part of its refine and focus initiative, Telia believes it has created new opportunities to increase shareholder value.

### ***Secure and Strengthen Market Leading Positions in its Mobile, Internet Services and Fixed Network Business Areas***

#### *Telia Mobile*

Telia aims to secure its position as the leading mobile operator in the Nordic region while continuing to strengthen its market position in the Baltic States and Russia. Telia believes that the continuing evolution of the mobile data service market is an important business opportunity for the company. Among other initiatives, Telia is concentrating on the development of new premium rated SMS services as well as Multimedia Messaging Services (MMS), which allow for the transmission of images and video over wireless devices. As the only mobile operator with GPRS networks and access to UMTS licenses in all of the Nordic countries, Telia has plans to enhance its pan-Nordic service offerings to include a variety of wireless data services. Telia also aims to take advantage of the continuing migration of voice and other telecommunications traffic from fixed line to mobile devices by enhancing its fixed-mobile communications services for its business customers, such as fixed-wireless Private Branch Exchanges (PBXs) and private computerized telephone switching systems for businesses and organizations, and by encouraging fixed line residential subscribers to switch to mobile services through creative pricing strategies and combined services. Telia seeks to gain subscribers, stimulate usage and maintain customer loyalty by providing more highly segmented product and service offerings. Telia also seeks to expand its residential subscriber base through a mix of organic growth, business combinations or other strategic relationships. In addition, Telia aims to continue developing its mobile portals as natural points of service to allow its subscribers to utilize and customize existing services as well as to acquire new services. Telia also seeks to support the efforts of its associated companies operating in the Baltic States and Russia to achieve subscriber growth in their relatively less developed mobile markets.

As a market leader in the Nordic region, Telia expects to realize benefits of scale and reduced costs from its common platform and pan-Nordic service capabilities. Telia will also endeavor to achieve cost reductions by sharing resources through joint ventures or other partnership arrangements, such as Telia's UMTS joint venture in Sweden, Svenska UMTS-nät AB.

#### *Telia Internet Services*

In the Internet services market, Telia believes that the roll-out of broadband service combined with the rapidly increasing demand for high speed Internet access has opened a market window creating a potential for long-term revenue growth and market leadership. Telia's aim is to capitalize on this opportunity by leveraging



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its market leading position in Sweden's dial-up and broadband Internet services markets to increase its sales of access services, Telia offers access-related services designed to attract and retain residential subscribers, and Telia is pursuing partnerships with content providers for Telia's portal business. At the same time, Telia aims to secure its market position by implementing creative pricing strategies and combining its services to provide a tailored portfolio of access and access-related services to its subscribers.

### *Telia Networks*

Telia intends to strengthen its market leading position in the wholesale and retail markets for fixed network services in Sweden. Although faced with increasing competition and significant price reductions, Telia aims to secure its market share in its fixed network business and to generate increased revenue growth by developing its wholesale broadband network capabilities to meet the expected future increase in market demand. Telia also seeks to sell additional value-added services, such as conference calling and calling services, which are generally not subject to price regulation, to its corporate customers, both as a means of generating additional revenue and as a means of differentiating itself in the market. With its strong market position in Sweden, Telia's fixed network strategy also includes the pursuit of business opportunities throughout the Nordic region and the Baltic States. In particular, following the acquisition of the Denmark-based infrastructure provider Powercom A/S in 2001, Telia has substantially enlarged its fixed network wholesale operations in Denmark and is presently the second largest owner of infrastructure in Denmark. Telia believes that it will also be able to improve the overall efficiency of its fixed network operations by refining its product portfolio, reducing its sales costs and enhancing the quality of its services. Telia believes it will continue to derive a substantial share of its total revenue from its traditional fixed line telecommunications operations in Sweden.

### *Transform the International Carrier Business into a Financially Viable Operation*

In September 2002, Telia completed a comprehensive review of its international carrier operations and decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. As part of Telia International Carrier's new strategy, it will focus on offering wholesale capacity and IP services to large customers over the profitable parts of its wholly owned European and trans-Atlantic networks. As part of the restructuring program, Telia has decided to close down Telia International Carrier's Asian operations as well as its national voice reseller business in the United Kingdom and Germany, discontinue offering domestic capacity services in the United States and terminate its co-location business. Telia will also significantly reduce the number of commercial points of presence of Telia International Carrier. Telia will also centralize the sales, finance, administration and customer care resources of Telia International Carrier to Sweden. Telia estimates that, as part of the restructuring, Telia International Carrier will reduce its current workforce of approximately 800 persons by more than 50 percent. The strategic refocusing and restructuring will enable Telia International Carrier to substantially scale down the number of offices and technical facilities it maintains, as well as reduce the number of its operation and maintenance contracts and leased lines.

In light of the continued growth in demand from end users, Telia believes that the current turbulence and uncertainty in the international carrier market present a number of possibilities for Telia International Carrier. In the near term, Telia will focus on creating profitability by limiting production costs and working to increase its sales of carrier services, as well as through targeted sales activities aimed at capturing revenues from carriers with struggling operations. Telia International Carrier will also maintain a selective investment policy.

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### **Telia's Business Structure**

Telia's business activities are organized into four business areas: Telia Mobile, Telia Internet Services, Telia Networks and Telia International Carrier.

**Telia Mobile** offers a comprehensive range of mobile services for residential and business customers in the Nordic region. Telia has also established a market presence in the Baltic States and Russia through its strategic investments in leading mobile operators in these areas.

**Telia Networks** provides a wide range of fixed line services to residential and business subscribers in Sweden and Denmark as well as to wholesale customers in Sweden and Denmark. Telia has also established a market presence in Estonia and Lithuania through its strategic investments in leading fixed line operators in these countries.

**Telia Internet Services** offers dial-up and broadband Internet access services, value-added communications related services and cable and digital television services principally in Sweden and Denmark.

**Telia International Carrier** focuses on offering international wholesale capacity and IP telecommunications services to large customers, which are primarily other carriers, mobile and fixed line operators, incumbents and service providers, over the profitable parts of its wholly owned European and trans-Atlantic networks.

Until April 2002, Telia treated Telia Equity, which was responsible for managing Telia's non-core ownership interests and business operations outside of its core business, as a separate business area. Following the recent completion of Telia's refine and focus initiative in 2001, in which a substantial portion of Telia's non-core assets were divested, Telia Equity is no longer treated as a separate business area and has been renamed Telia Holding. Telia Holding is a business unit that is responsible for managing Telia's ownership interests in companies outside of Telia's core operations and, as of April 2002, its results are reported as part of group-wide operations.

### **Telia Mobile**

Telia is the leading mobile communications operator in the Nordic region in terms of aggregate number of subscribers, market share and sales. Telia has also established a strong market presence in the Baltic States and Russia through its strategic investments in leading mobile operators in these regions. In 2001, Telia Mobile generated external net sales of SEK 17,857 million, representing approximately 31.2 percent of Telia's total consolidated net sales for the period. Approximately 66.8 percent of Telia Mobile's sales revenues in 2001 were derived from Telia's operations in Sweden.

Telia currently offers the following mobile telecommunications services in the Nordic countries:

GSM 900, GSM 1800, GPRS and NMT 450 services in Sweden through Telia Mobile AB;

GSM 900, GSM 1800 and GPRS services in Norway through its wholly owned subsidiary NetCom ASA;

GSM 900 and GSM 1800 services and a GPRS network in Denmark through its Telia Mobile Denmark unit; and

GSM 1800 and GPRS services in Finland through its Telia Mobile Finland unit. To obtain clearance for the Telia-Sonera merger from the European Commission, Telia has agreed to dispose of its mobile business in Finland.

Telia is the only mobile operator with GSM and GPRS networks and access to UMTS licenses in all of the Nordic countries. In 2001, Telia launched GPRS services in Sweden, Norway and Finland and expects to commercially launch GPRS services in Denmark during the second half of 2002. In the first quarter of 2002, Telia introduced GPRS roaming in the Nordic region. Telia also offers Telia HomeRun, a service that offers a mobile broadband connection in locations such as airports, hotels, conference halls, roadside inns, and cafés.

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Telia and Tele2 (Comviq) have been the only providers of analog mobile telecommunications services in Sweden since the launch of their respective NMT (Nordic Mobile Telephony) 450 networks in 1981. NMT is an analog mobile communications system originally developed in the Nordic countries. Telia's NMT 900 service, which was launched in 1986, was phased out in December 2000 following the NPTA's re-allocation of certain portions of the 900 MHz (Megahertz) frequency band entirely to GSM networks. Telia's NMT 450 service provides superior coverage in remote areas and thus remains attractive within certain subscriber segments, such as within the transportation sector. Telia has modernized its analog NMT 450 network to complement its digital GSM services.

***Telia's Nordic Mobile Concept***

Telia Mobile's primary focus is on the Nordic market where it maintains a leading market position in mobile communications. With Telia's existing GSM and GPRS networks and roaming agreements in Finland and Denmark, as of June 30, 2002, Telia had access to more than five million mobile users in one of the world's most sophisticated and advanced mobile telecommunications markets. During 2001, Telia launched the first pan-Nordic mobile service in order to capitalize on its position as the only mobile operator with GPRS networks and access to UMTS licenses in all of the Nordic countries. Telia aims to implement a shared Nordic network architecture and shared billing platforms, as well as a Nordic segmentation model for its range of services, as part of its strategy of strengthening its position in the Nordic mobile telecommunications market.

***Sweden***

Telia offers digital mobile services through its dual band GSM 900/ 1800 network and analog mobile services through its NMT 450 network. As of June 30, 2002, Telia had 3.3 million direct subscribers in its digital GSM network, as well as an additional 87,000 subscribers via service providers which offer their own services using Telia's network. In its analog NMT 450 network, Telia had 140,000 subscribers. In 2001, Telia's Swedish mobile business recorded external net sales of SEK 10,047 million. Telia has achieved this market position despite an intensely competitive environment in which penetration rates for mobile communications services are among the highest in the world.

Telia is one of three licensed providers of GSM digital mobile telecommunications services in Sweden and, as of December 31, 2001, Telia's GSM network covered over 99 percent of its population. Telia also holds one of three GSM 1800 licenses in Sweden. Telia launched its GSM 1800 network in December 1997 in order to provide a dual band service and to increase the capacity of its GSM network in urban areas, which tend to have the highest mobile traffic volumes. Telia's principal competitors in the GSM market in Sweden are Europolitan (Vodafone) and Tele2 (Comviq).

***Norway***

In 2000, Telia acquired NetCom ASA, the second largest mobile operator in Norway. As of June 30, 2002, NetCom had 996,000 direct subscribers as well as an additional 92,000 subscribers via service providers which offer their own service packages and billing operations but utilize NetCom's network. In 2001, Telia's Norwegian mobile business recorded external net sales of SEK 4,287 million.

NetCom offers both GSM 900 and GSM 1800 services and launched a GPRS service in 2001. NetCom is one of two GSM operators in Norway, the other being Telenor, the incumbent operator. NetCom was one of four operators to receive a UMTS license in Norway in 2000 together with Telenor AS, Tele2 Norge AS and Broadband Mobile ASA. In September 2001, the Norwegian regulatory authorities withdrew Broadband Mobile's license due to its insolvency.

***Denmark***

Telia offers mobile telecommunication services in Denmark through its Telia Mobile Denmark unit. Telia began offering GSM 1800 services in Denmark in 1997 and as of June 30, 2002, Telia had 413,000 subscribers. In 2001, Telia's Danish mobile business recorded external net sales of SEK 633 million.

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Telia offers both GSM 900 and GSM 1800 services in Denmark and expects to launch GPRS services on a commercial basis during the second half of 2002. Telia has a national roaming agreement with Sonofon A/S regarding its GSM 900 service. Telia was one of four operators to receive a UMTS license in Denmark, together with the incumbent mobile operator TDC A/ S, Orange A/ S and Hi3G Denmark ApS.

*Finland*

Telia offers mobile telecommunication services in Finland through its Telia Mobile Finland unit. Telia began offering GSM 1800 services in Finland in 1998. In 1999, Telia entered into a service provider agreement with Radiolinja, which expanded Telia's coverage in Finland nationwide. Telia has also signed a national roaming agreement with Suomen 2G Oy, allowing Telia's mobile subscribers in Finland to use Suomen's national network beginning May 2002. As of June 30, 2002, Telia had 235,000 subscribers. In 2001, Telia's Finnish mobile business recorded external net sales of SEK 648 million.

Telia offers both GSM 1800 and GPRS services in Finland. Telia was also one of four operators to receive a UMTS license in Finland, together with Sonera, Radiolinja and Finnish 3G Ltd.

To obtain clearance for the Telia-Sonera merger from the European Commission, Telia has agreed to dispose of its mobile business in Finland.

**Table of Contents****Subscriptions**

The table below shows selected subscription data for Telia's digital GSM and analog NMT systems in the Nordic market as of the dates specified:

|                        | As of December 31, |       |       | As of June 30, |       |
|------------------------|--------------------|-------|-------|----------------|-------|
|                        | 1999               | 2000  | 2001  | 2001           | 2002  |
| (in thousands)         |                    |       |       |                |       |
| <b>Sweden:</b>         |                    |       |       |                |       |
| By type of network:    |                    |       |       |                |       |
| GSM                    | 2,348              | 3,076 | 3,295 | 3,175          | 3,344 |
| of which, prepaid      | 923                | 1,321 | 1,536 | 1,425          | 1,643 |
| NMT 450                | 160                | 154   | 144   | 148            | 140   |
| NMT 900                | 130                | 27    |       |                |       |
|                        |                    |       |       |                |       |
| Total subscribers      | 2,638              | 3,257 | 3,439 | 3,323          | 3,484 |
|                        |                    |       |       |                |       |
| By type of subscriber: |                    |       |       |                |       |
| Business               | 1,081              | 1,215 | 1,083 | 1,073          | 1,089 |
| Residential            | 1,557              | 2,042 | 2,356 | 2,250          | 2,395 |
|                        |                    |       |       |                |       |
| Total subscribers      | 2,638              | 3,257 | 3,439 | 3,323          | 3,484 |
|                        |                    |       |       |                |       |
| <b>Norway:</b>         |                    |       |       |                |       |
| By type of network:    |                    |       |       |                |       |
| GSM                    |                    | 850   | 970   | 884            | 996   |
| of which, prepaid      |                    | 433   | 501   | 453            | 495   |
| NMT 450                |                    |       |       |                |       |
| NMT 900                |                    |       |       |                |       |
|                        |                    |       |       |                |       |
| Total subscribers      |                    | 850   | 970   | 884            | 996   |
|                        |                    |       |       |                |       |
| By type of subscriber: |                    |       |       |                |       |
| Business               |                    | 143   | 176   | 159            | 187   |
| Residential            |                    | 707   | 794   | 725            | 809   |
|                        |                    |       |       |                |       |
| Total subscribers      |                    | 850   | 970   | 884            | 996   |
|                        |                    |       |       |                |       |
| <b>Denmark:</b>        |                    |       |       |                |       |
| By type of network:    |                    |       |       |                |       |
| GSM                    | 170                | 263   | 288   | 295            | 413   |
| of which, prepaid      | 115                | 151   | 154   | 153            | 143   |
| NMT 450                |                    |       |       |                |       |
| NMT 900                |                    |       |       |                |       |
|                        |                    |       |       |                |       |
| Total subscribers      | 170                | 263   | 288   | 295            | 413   |
|                        |                    |       |       |                |       |
| By type of subscriber: |                    |       |       |                |       |
| Business               | 32                 | 39    | 38    | 41             | 56    |
| Residential            | 138                | 224   | 250   | 254            | 357   |
|                        |                    |       |       |                |       |

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|                        |             |             |             |             |             |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Total subscribers      | 170         | 263         | 288         | 295         | 413         |
|                        | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> |
| <b>Finland:</b>        |             |             |             |             |             |
| By type of network:    |             |             |             |             |             |
| GSM                    | 33          | 149         | 239         | 167         | 235         |
| of which, prepaid      |             | 2           | 40          | 9           | 59          |
| NMT 450                |             |             |             |             |             |
| NMT 900                |             |             |             |             |             |
|                        | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> |
| Total subscribers      | 33          | 149         | 239         | 167         | 235         |
|                        | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> |
| By type of subscriber: |             |             |             |             |             |
| Business               | 3           | 13          | 15          | 14          | 15          |
| Residential            | 30          | 136         | 224         | 153         | 220         |
|                        | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> |
| Total subscribers      | 33          | 149         | 239         | 167         | 235         |
|                        | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> | <u>    </u> |

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Telia has experienced continued growth in its mobile subscriber base in Sweden as mobile penetration rates have increased. Telia estimates that, as at June 30, 2002, there were approximately 7.6 million mobile subscribers (including service provider customers) in Sweden, representing a mobile penetration rate of approximately 84 percent.

In the other Nordic markets, Telia has strengthened its presence significantly since 2000. NetCom, Telia's wholly owned Norwegian subsidiary, has the second largest subscriber base in Norway. In Denmark and Telia is continuing to build its customer base. As of June 30, 2002, Telia's total Nordic subscriber base outside of Sweden exceeded 1.6 million subscribers.

Telia believes that the increase in its GSM subscriber base is attributable to several factors, including:

- the rapid uptake of its pre-paid GSM services;
- declining mobile tariffs;
- increased marketing and special promotion efforts;
- the growing availability of mobile data services;
- increased demand for new value-added services;
- wider distribution channels;
- improvements in mobile communications networks and technology;
- high quality networks and extensive network coverage; and
- high quality customer service through a personal or fully-automated interface.

Telia expects that the number of traditional mobile telecommunications subscribers will continue to grow in the future, although at a slower rate. Telia believes that growth in the Nordic mobile telecommunications market, in terms of its subscriber base and traffic volume, will depend upon continuing improvements in mobile handset technology, developments in wireless Internet applications and wireless transaction-based services and the level of demand for GPRS and, eventually, UMTS services. Telia expects growth in traffic volumes to accelerate as new applications using SMS/MMS services, GPRS services and other new services become available. Telia also anticipates that its home market in Sweden will provide a wireless communications environment in which many users have more than one mobile connection.

### ***Customer Churn***

Like other mobile operators, Telia experiences subscriber turnover, commonly referred to as customer churn. Telia computes its customer churn rate based on the total number of disconnections from its network during a year as a percentage of the average number of subscribers for the year (which number does not include Telia subscribers who migrate to different subscription packages offered by Telia). Disconnections can be either voluntary, as when a subscriber terminates mobile service or switches to a competing service, or involuntary, as when Telia terminates service due to non-payment. For purposes of calculating customer churn, Telia generally treats pre-paid subscribers as disconnections 12 months following their last account top-up, which is the point at which they are physically disconnected from Telia's network.

Telia's annualized customer churn rate for Sweden was eight percent as at December 31, 2001. Telia's annualized customer churn rate was 11 percent for the three months ended June 30, 2002, as compared to 7 percent for the same period in 2001. The level of customer churn in Telia's other Nordic mobile operations is higher primarily because Telia is establishing new mobile operations in markets characterized by high penetration rates for mobile services.

Telia believes its customer churn rate in the Swedish market is lower than the average for mobile operators in Western Europe. Telia aims to retain its market share in its home market and, in particular, to minimize the churn of high value subscribers. Telia seeks to control customer churn by managing its





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customer relations, increasing its marketing and special promotion efforts, introducing value-added services, broadening its distribution channels and improving its mobile communications networks and technology.

**Traffic**

The following table sets forth selected traffic data for Telia's GSM and NMT services in the Nordic region for the periods indicated excluding service provider traffic. Information with respect to traffic relates to both contract and pre-paid subscribers in both the NMT 450, NMT 900 (for 1999 and 2000), GSM 900 and the GSM 1800 networks:

|  | Year ended<br>December 31, |       |       | Three Months<br>ended March 31, |       | Three Months<br>ended June 30, |       |
|--|----------------------------|-------|-------|---------------------------------|-------|--------------------------------|-------|
|  | 1999                       | 2000  | 2001  | 2001                            | 2002  | 2001                           | 2002  |
| <b>Sweden:</b>   |                            |       |       |                                 |       |                                |       |
| Total traffic (in millions of minutes)                       | 3,505                      | 4,357 | 5,083 | 1,163                           | 1,255 | 1,279                          | 1,451 |
| Average subscriber usage (minutes per month)                 | 121                        | 123   | 127   | 119                             | 121   | 130                            | 139   |
| Average revenue per user (SEK per month)                     | 332                        | 308   | 285   | 273                             | 262   | 280                            | 283   |
| Mobile generated SMS messages sent (in millions of messages) | 46                         | 185   | 389   | 79                              | 109   | 92                             | 114   |
| Average monthly SMS messages sent per subscriber (messages)  | 2                          | 5     | 10    | 8                               | 11    | 9                              | 11    |
| <b>Norway:</b>   |                            |       |       |                                 |       |                                |       |
| Total traffic (in millions of minutes)                       |                            | 1,245 | 1,450 | 326                             | 412   | 354                            | 469   |
| Average subscriber usage (minutes per month)                 |                            | 139   | 136   | 131                             | 144   | 141                            | 162   |
| Average revenue per user (NOK per month)                     |                            | 308   | 310   | 292                             | 326   | 317                            | 338   |
| Mobile generated SMS messages sent (in millions of messages) |                            | 302   | 501   | 106                             | 166   | 114                            | 176   |
| Average monthly SMS messages sent per subscriber (messages)  |                            | 32    | 46    | 42                              | 57    | 44                             | 59    |
| <b>Denmark:</b>  |                            |       |       |                                 |       |                                |       |
| Total traffic (in millions of minutes)                       | 216                        | 259   | 314   | 77                              | 79    | 84                             | 118   |
| Average subscriber usage (minutes per month)                 | 128                        | 100   | 95    | 93                              | 87    | 97                             | 107   |
| Average revenue per user (DKK per month)                     | 178                        | 171   | 178   | 185                             | 172   | 173                            | 186   |
| Mobile generated SMS messages sent (in millions of messages) | 23                         | 39    | 61    | 15                              | 21    | 16                             | 41    |
| Average monthly SMS messages sent per subscriber (messages)  | 13                         | 15    | 19    | 18                              | 23    | 18                             | 37    |
| <b>Finland:</b>  |                            |       |       |                                 |       |                                |       |
| Total traffic (in millions of minutes)                       | 56                         | 242   | 386   | 82                              | 128   | 93                             | 148   |
| Average subscriber usage (minutes per month)                 | 232                        | 223   | 166   | 181                             | 176   | 193                            | 206   |
| Average revenue per user ( per month)                        | 33                         | 38    | 31    | 35                              | 32    | 35                             | 36    |
| Mobile generated SMS messages sent (in millions of messages) | 4                          | 28    | 57    | 12                              | 20    | 12                             | 21    |
| Average monthly SMS messages send per subscriber (messages)  | 16                         | 26    | 24    | 26                              | 27    | 26                             | 29    |

Telia's total traffic in its Swedish operations increased by 16.7 percent in 2001 as compared to 2000, largely as a result of continued growth in its GSM subscriber base. The increase in Telia's Swedish GSM subscriber base was due to growth in the pre-paid subscriber market segment, increased use of basic and advanced services by Telia's contract subscribers, and the migration of NMT 900 subscribers to Telia's GSM network as a result of the phase out of Telia's NMT 900 services in Sweden in December 2000. Continued

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traffic volume growth in Telia's GSM network will depend on a number of factors, including pricing, the availability of new services and competition.

### ***Tariffs***

Telia charges subscribers an initial connection fee, monthly subscription charges, a call initiation fee and traffic charges for outgoing calls and SMS messages. Charges for outgoing calls are based on minutes of use and charges for outgoing SMS messages are based on the number of messages sent. Telia bills airtime in per second intervals under all of its pricing plans in Sweden, Denmark and Finland. In Norway, billing is made in intervals of 15 seconds for some subscription plans. During the second half of 2002, Telia plans to introduce billing based on per-second intervals for all of its Norwegian subscribers. Telia does not charge subscribers for domestically originated incoming calls which, in accordance with standard GSM and NMT practices, are billed to the caller. Telia also derives voice revenues by providing interconnection to its mobile communications network to and from competing domestic operators.

Telia's overall strategy is to reduce the number of available tariff plans, while increasing its focus on segment oriented services. Telia also intends to introduce new tariff packages as it rolls out new service offerings which it believes will be attractive in the market.

Although mobile tariffs in Sweden have historically been relatively high in comparison to European averages, there has been an overall decline in tariffs in recent years. In 2001, overall tariff levels declined by approximately six percent. In 2001, traffic revenues, including interconnection and roaming revenues, accounted for approximately 87 percent of Telia's mobile telecommunications revenues. Sweden's telecommunications law imposes cost-based pricing requirements for traffic terminating on the mobile networks of operators with significant market power in the national market for interconnection. In a ruling on February 21, 2002, the NPTA held that Telia and its principal competitors in the Swedish GSM market, Vodafone and Tele2, all have significant market power in the national market for interconnection. Vodafone and Tele2 have appealed this ruling and the Swedish Administrative Court has granted injunctive relief relating to the effectiveness of the NPTA's ruling pending the conclusion of the court appeals process. On January 30, 2002, the NPTA ruled that Telia must reduce its mobile interconnection tariffs to SEK 0.92 per minute, effective March 1, 2002. In May 2002, the Administrative Court rejected Telia's appeal to reverse the NPTA's ruling. See Regulation Interconnection Access and Pricing. Effective October 1, 2002, Telia will lower its mobile interconnection tariff to SEK 0.88 per minute.

Tariffs for international calls generally vary by country and not by tariff plan. Rates for roaming outside of Sweden vary depending on the terms of Telia's various roaming agreements and the relevant foreign mobile operators.

### ***Mobile Services***

#### ***Service Packages***

Telia offers a wide range of mobile service packages in the Nordic market designed to appeal to different categories of subscribers, including packages offering different types of subscription plans, pre-paid cards, portal access, corporate service packages and several innovative value-added services, including location-based services, transactional services, entertainment services and information services.

*Service packages for consumers.* Telia offers post-paid and pre-paid subscriptions to private subscribers in all of the Nordic countries. The diverse selection of tariff plans offered by Telia allows subscribers to choose the tariff plan best suited to their individual preferences. Normally, SMS and voice mail are included in all service packages offered to the consumer market. International roaming is not offered to pre-paid subscribers unless they separately register for this service. In 2001, NetCom introduced a new subscription plan called TALK that offers a fixed tariff for all domestic calls regardless of the destination of the call or the time when the call is made. This subscription plan also offers a choice between a fixed fee or per minute pricing to suit the individual subscriber's usage patterns. Subscribers using GSM networks who have a WAP (Wireless Application Protocol) enabled phone can also use WAP-based services. WAP services allow

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subscribers to access Internet-based services through their mobile handsets. In order to use GPRS based services, subscribers are required to sign up for GPRS subscriptions to complement their ordinary subscriptions.

*Service packages for businesses.* Telia believes that the business segment, which includes both business-to-business and business-to-consumer segments, is crucial to the further development of its wireless data market. Management believes that the needs of business customers are similar among the Nordic countries. Business users mainly require services which simplify their daily work and make them more effective. In addition, business users seek services that allow them to work irrespective of where they are located and what type of telecommunication access is available.

The business segment represents an important part of Telia's mobile sales revenue. Recent market surveys indicated that Nordic business end users generate three times more average monthly revenue per user than private end users.

Telia has identified two areas of special importance in developing service packages for the business segment:

FMC (Fixed Mobile Convergence). Telia is developing communications services that combine fixed and mobile telecommunications services, including PBXs and Centrex (network-based switchboard functions).

Efficient access and synchronization of corporate information systems to cellular phones. Telia is, for example, developing services utilizing GPRS, UMTS and/or WLAN systems for Personal Digital Assistants (or PDAs, which are small computing devices that have their own software operating system allowing the user to run software processing applications) and portable PCs.

### *Value-added Services*

Telia offers a broad range of value-added services to its contract and pre-paid subscribers, including voice-mail, caller display, call forwarding, itemized invoicing and call waiting. Telia also offers SMS and related services. SMS permits users to send messages with up to 160 characters to other mobile handsets and other communications devices. The importance of value-added services has increased in recent years. For example, subscribers have become increasingly familiar with SMS messaging, which provides the basis for many of Telia's value-added services. The number of messages sent by Telia's Swedish GSM users increased by more than 110 percent between 2000 and 2001. Since May 2000 Telia has billed SMS messages at a fixed rate of SEK 1.2, excluding value-added tax.

Telia's range of value-added services which utilize SMS messaging technology also include SMS messaging to fax machines or e-mail addresses. E-mail messages can also be forwarded from personal computers to mobile handsets in the form of SMS messages. Telia also launched a variety of new SMS services in 2001, including Premium SMS, InfoBrain, QuickDeal, MobilQuiz and Botfighter, all of which have contributed to the strong growth in SMS use by Telia's subscribers. Telia is currently working to develop its SMS services to make use of new technology as Telia moves towards the introduction of Multimedia Messaging Service (MMS), which allows for the transmission of images and video over wireless devices.

Telia intends to continue to introduce new value-added services in order to enhance subscriber loyalty, promote increased mobile traffic and generate additional sources of revenue. Telia expects that its latest services will focus on mobile data and Internet services.

### *Business to Business (B2B) Services*

Telia has established a B2B unit for the Nordic region, to develop its services and network access businesses with third parties, primarily service and content providers. Telia's B2B unit focuses mainly on two areas. The first area is Telia's third party content business, which involves the selling of service applications to third parties who re-package them and sell them under their own brand name. The second area is Telia's

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service provider business, which involves the sale of access to Telia's mobile network to companies who use Telia's GSM network infrastructure to sell their own services. As a part of its third party content business, Telia currently offers a number of mobile products and services to other service providers, and is continuously seeking new partnerships to develop new and innovative services. In developing its service provider business, Telia offers a variety of traffic products, from pure bulk network capacity to more sophisticated bundled products and services.

**Arrangements with Third Party Service Providers**

Management believes that Telia has an advantage over its Nordic competitors in providing third party content and traffic services because it is the only Nordic mobile operator that is able to offer its customers pan-Nordic coverage. Telia's third party service customers include Song Networks (in Sweden), Wireless Maingate (in Sweden and Norway), Sense (in Sweden and Norway), Spinbox (in Sweden), Ventelo (in Sweden and Norway) ABBLA Mobile S.A. (in Sweden), Combitel (in Norway), Vattenfall (in Sweden), TDC A/S (in Denmark) and You (in Norway).

The table below sets forth the number of customers utilizing Telia's services through other service providers in Sweden and Norway:

|                                       | As of December 31, |      |      | As of June 30, |      |
|---------------------------------------|--------------------|------|------|----------------|------|
|                                       | 1999               | 2000 | 2001 | 2001           | 2002 |
|                                       | (in thousands)     |      |      |                |      |
| Number of Service Provider Customers: |                    |      |      |                |      |
| Sweden <sup>(1)</sup>                 | 4                  | 48   | 74   | 71             | 87   |
| Norway                                |                    | 50   | 112  | 110            | 92   |

(1) Figures as of June 30, 2002, include 23,000 customers of Halebop Mobil.

**Mobile Portals**

Telia operates a number of mobile portals allowing end users to access the Internet through their mobile handsets. As the Internet increasingly becomes mobile through the development of new mobile handset technology and the introduction of GPRS and UMTS, Telia expects its mobile portal product offerings to increase in importance as a service point.

The following is a brief description of Telia's main mobile portal product offerings:

**Halebop:** Halebop is Telia's wholly owned mobile portal that operates in Sweden under its own brand name. Halebop's services are accessible to all mobile subscribers on a worldwide basis, regardless of nationality, mobile operator or mobile device. Halebop's total number of registered users reached approximately 700,000 as of June 2002. Halebop primarily targets mobile users under the age of 25 through innovative mobile services and a mobile prepaid subscription called Halebop Mobil. Halebop Mobil was launched in December 2001 and had 23,000 subscribers as of June 2002. One key feature of the Halebop Mobil subscription is that it allows subscribers to send an unlimited amount of SMS messages for a fixed weekly charge of SEK 49. Halebop Mobil operates as a service provider on Telia's GSM network.

**Teliamobile.se:** Teliamobile.se is Telia's customer website and offers information relating to Telia's mobile services in Sweden.

**DOF.se:** DOF.se (Department of the Future) is Telia's advanced GSM service for the Swedish market that is fully integrated with the Internet. DOF.se was launched in 1998 with advanced mobile services such as unified messaging and features a personal mailbox on the Internet where mobile phone messages, faxes and e-mail messages are collected. DOF.se also permits subscribers to pay their bills using their mobile phone.

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*MyDOF:* MyDOF was the world's first mobile portal and uses WAP technology. MyDOF was launched in September 1999 and allows Telia's customers to, among other things, purchase airline tickets and reserve hotels, buy stocks, order goods and access the news. MyDOF was voted the number one WAP portal in Sweden in 2000, 2001 and 2002.

*Norwegian Mobile Portals:* NetCom operates three portals in Norway: netcom.no, a corporate site, PlanIt.no and mother.no. PlanIt.no was launched together with a WAP portal which can be personalized both via PlanIt.no and mother.no. Mother.no is Telia's main web service in Norway targeted to mobile users under the age of 25. The average user of Mother.no is 21 years old. Mother.no is a personalized service and includes services such as the ability to send an SMS message from the Internet to a single person or groups, calendars, contact list, email and content services, including logos, ringing tones, news, jokes and others. Mother.no is open to non-NetCom users, but NetCom users receive discounts and enhanced functionality. Telia is planning to re-launch some of these service offerings during the second half of 2002.

*Danish Mobile Portals:* In Denmark, Telia has two mobile portal offerings: Composer and Sinray. Composer is a mobile portal aimed at the business segment and Sinray is aimed at mobile users under the age of 25.

*Pocket Mode:* Pocket Mode is an open marketplace that offers a wide selection of goods and mobile content services. In November 2001, Telia launched open interfaces for content providers, based on a business model designed to generate profitability for both Telia and content providers. Pocket Mode offers subscribers icons, ring tones, SMS-games, web-SMS and other SMS based services. Pocket Mode also enables Telia's subscribers to access additional mobile services while third party content providers are provided with a larger subscriber base and greater revenue generating opportunities. Telia derives revenue from Pocket Mode through charging additional fees for the additional traffic and by charging the third party content providers a fee of 20 percent of the price charged to the end user for the service provided through Pocket Mode.

In 2001, Telia rationalized its mobile portal business by closing its former mobile portal Speedy Tomato in the United Kingdom and Italy and concentrated its portal activities in the Nordic market by acquiring the remaining shares of its previously partially owned Nordic portal Halebop.

During the first quarter 2002, Telia started to transfer all of its mobile portals to the Excalibur platform in an effort to create synergies among its different mobile portal product offerings.

### *Other Telia Mobile Operations*

Telia offers Telia HomeRun, a service that offers a mobile broadband connection in locations such as airports, hotels, conference halls, roadside inns, and cafés. In addition, Telia HomeRun allows users to connect to the Internet or to their corporate intranet (an internal network based on Internet technology) using a W LAN card and a computer. Telia HomeRun offers transmission speeds of up to 11 Mbps (Megabits per second) which is faster than most Internet services currently available. Telia HomeRun offers subscribers the ability to work more efficiently, without cables or modems, and is currently installed at more than 450 locations throughout the Nordic region, as well as at a number of SAS Airline's international business lounges in Europe and the United States.

### *GPRS Services*

Telia commercially launched GPRS services in Norway in January 2001, in Sweden in September 2001 and in Finland in October 2001. In January 2002, GPRS services were made available on a limited basis to a number of corporate customers in Denmark. GPRS allows Telia to provide improved Internet services with greater content and capabilities due to GPRS high bandwidth capabilities. All of Telia's GPRS service offerings allows subscribers to transmit a specified amount of data per month for a fixed monthly fee. Once the monthly allowance has been used, the customer is charged per kilobyte for any additional data transmissions.

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Telia was also the first operator in the Nordic region to offer GPRS-roaming on its GPRS networks for subscribers traveling to other Nordic countries. Roaming is an important step towards allowing subscribers continuous access to mobile data services when traveling abroad.

### *UMTS Services*

Telia has access to UMTS licenses in all of the Nordic countries. Telia was awarded a UMTS license in Denmark in October 2001, in Norway in November 2000 and in Finland in January 2000. Telia has access to a UMTS license in Sweden through its network sharing agreement with Tele2 which was established in March 2001. The network sharing agreement gives Telia access to the UMTS license of the Swedish joint venture, Svenska UMTS-nät AB. The UMTS license is held by a wholly owned subsidiary of Svenska UMTS-nät. The cooperation between Telia and Tele2 has been reviewed by the Swedish Competition Authority and, in March 2002, the cooperation was given a five-year exemption from the anti-competitive agreements prohibition in the Swedish Competition Act. The exemption ends in February 2007, at which time the cooperation has to be reviewed by the Competition Authority. The roll out of UMTS services is progressing according to the terms of the UMTS license in each market. For a further discussion of Telia's UMTS joint venture in Sweden, see Material Contracts.

The terms of the UMTS licenses in Sweden are presently the subject of an appeal by Orange SA, a holder of one of four UMTS licenses granted in Sweden. In August 2002, Orange announced that it would request that Swedish regulators relax the timetable for building out third generation mobile networks in Sweden. Instead of the current 2003 deadline for establishing UMTS coverage for almost all of Sweden's population, Orange has requested that the deadline be postponed to 2006, and that they only be required to provide coverage for 8.3 million people in Sweden rather than the 8.8 million currently required. Another UMTS license holder in Sweden, Vodafone Sweden AB, stated in May that it did not expect its third generation telecommunications network to cover 99 percent of the population of Sweden by 2003, as is required by the UMTS license. Coupled with the comments from Vodafone Sweden in May, the outcome of the Orange appeal may have an impact on Telia's UMTS strategy. Telia is carefully monitoring these developments.

### *Telia's Non-core Wireless Operations*

In addition to its core GSM and NMT mobile telecommunications services, Telia also offers a number of other wireless communications services, such as radio services, which Telia does not consider to be a core business.

Telia offers several radio services including Mobitex, which is a packet-switched data communications network used to transmit and receive voice, messaging and data communications on land. Typical Mobitex users include transportation companies, taxis, forestry companies and emergency response services. Telia also provides radio services to SOS Alarm, the Swedish Board of Civil Aviation and the Swedish police. Telia operates Stockholm Radio, a coastal radio communications network responsible for sea-rescue operations in much of Sweden's territorial waters. Telia also provides marine VHF (Very High Frequency) services and Inmarsat (International Maritime Satellite) services for ship-to-shore communications. Telia is a partner in Inmarsat which has four satellites orbiting the Earth and provides advanced global voice, data and messaging communication services via satellite.

### *Interconnection*

Under existing regulations, Telia is required to provide interconnection to its mobile networks for calls to and from competing domestic operators. Under various interconnection agreements with other operators whose networks interconnect with Telia's, Telia receives fees for terminating incoming calls that originate from other operators' networks. In 2001, Telia's total Nordic operations recorded interconnection revenue of approximately SEK 4,000 million (in Sweden SEK 2,700 million), which was offset by payments to other operators of approximately SEK 3,400 million (in Sweden SEK 2,100 million). On January 30, 2002, the NPTA ruled that Telia Mobile Sweden must reduce its mobile interconnection tariffs to SEK 0.92 per minute,

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effective March 1, 2002. Telia filed an appeal with a Swedish lower administrative court seeking to reverse the ruling and, in the interim, injunctive relief. On February 26, 2002, the Administrative Court denied Telia injunctive relief and, as a consequence, Telia lowered its interconnection tariffs on March 1, 2002 to SEK 0.92 per minute. In May 2002, the Administrative Court rejected Telia's appeal to reverse the NPTA's ruling. Telia has filed an appeal with the Swedish Administrative Court of Appeal. The NPTA has also stated that it will continue its review of Telia's mobile interconnection tariffs. Effective October 1, 2002, Telia will lower its mobile interconnection tariff to SEK 0.88 per minute.

### ***Network/ Technology/ Expanding Services***

As of December 31, 2001, Telia's mobile telecommunications network, including coverage based on service provider agreements in Finland and Denmark, had a coverage in the range of 94 to 99 percent of the population in Sweden, Norway, Denmark and Finland. Both the basic components and the service supporting functions of Telia's network are based on reliable and state-of-the-art technology.

Telia launched its high speed circuit switched data enhanced networks in February 2000, which increased the transmission speed capacity of Telia's mobile networks and supports a greater number of mobile applications.

During 2001, Telia completed the enhancement of its GSM network with GPRS capability. Telia is now the only mobile operator to have GPRS enhanced networks and GPRS roaming capability in all of the Nordic countries. Telia launched GPRS services on a commercial basis in Sweden, Finland and Norway in 2001. The benefits of GPRS are, among others, the possibility for a user or service to utilize higher data transmission speeds, the possibility to offer data volume-based tariffs and a more efficient usage of network resources. GPRS also works efficiently with IP-based services such as Internet access and mobile Internet applications.

In 2001, Telia also became the only mobile operator with access to UMTS licenses in all of the Nordic countries. UMTS, the third-generation mobile telecommunications standard for GSM operators in Europe, Japan, and North America, is expected to enable mobile communications networks and terminals to transfer data with the speed and capacity necessary to handle advanced multimedia transmissions.

Telia expects GPRS and UMTS technologies to allow for the transfer of data at speeds high enough to support a broad range of mobile data and media applications. Telia is currently participating in the standardization process for these new technologies and is actively evaluating possible applications and services.

### ***Infrastructure***

The infrastructure of a mobile communications network, whether analog or digital, includes the following components:

*radio access network* comprising base stations, which communicate by radio signal with the mobile handset and controller nodes (base station controllers or radio network controllers) that manage the base stations and their resources;

*radio sites*, at which the base stations are located, as well as antenna systems and masts;

*core network* comprising mobile switching centers, which controls the traffic flow; home location registers, which not only contain information regarding subscribers using the network but also authorize their network usage;

*transmission network* comprising cabling and other transmission devices to connect different components of the network; and

*service network* comprising a set of nodes designated for specific service purposes, such as SMS and voice mail.

*Radio access network.* Telia's Nordic mobile radio access networks, consisting of more than 12,000 base stations and approximately 130 controller nodes, have been procured mainly from Ericsson, Nokia and

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Siemens. By relying on more than one supplier, Telia is able to spread its technology risk and retain some influence over the development of new technology-related features. Telia's base stations are connected to the fixed network via leased landlines or radio relay and are normally equipped with emergency back-up power. Telia's radio access networks are designed to provide high levels of service and reliability.

*Radio sites.* Telia has more than 6,500 radio sites in the Nordic countries. Most of the costs associated with mobile communication networks relate to base station infrastructure. Most of Telia's sites are used for multiple purposes, including its own mobile services, competitors networks and public mobile radio services.

*Core network.* Telia's Nordic mobile core networks have been designed to provide high levels of service, quality and reliability. Telia has approximately 30 switching nodes in its core networks. All of its switching nodes are situated in secure buildings with limited physical access. Telia has redundant central systems and performs most of its operational and maintenance activities remotely. Telia's switching network and radio networks are monitored 24 hours a day at a central operation and maintenance center. Telia also has full internal and external specialist support and backup 24 hours a day, all year round.

*Service network.* Telia's Nordic mobile service network consists of nodes supporting a wide range of services, such as positioning, messaging, voice mail and email. The service network is built with state-of-the-art technology that is able to provide Telia and its mobile subscribers with reliable services and products.

### *Operation monitoring centers*

All of Telia's mobile networks are continuously monitored for faults and errors. The two main centers for network monitoring are situated in Sundsvall and Trondheim which provide around the clock surveillance of all components in the networks 24 hours a day, all year round.

As fault reports are received, they are immediately analyzed and the fault handling routines are invoked, which enables Telia to provide a continuous network presence to its customers in the Nordic countries.

*Outsourced Network Planning and Maintenance.* Some of Telia's planning and maintenance activities relating to its network are outsourced to other companies. Telia sets the relevant requirements relating to quality and coverage which are required to be fulfilled by the company performing the out-sourced activities. Currently the following network planning and maintenance activities are outsourced to other companies:

planning and maintenance of the Swedish part of the network;

spare part handling in the Swedish part of the network; and

field maintenance of the Finnish part of network.

In the Danish and Norwegian parts of Telia's network, planning and maintenance is carried out by in-house personnel.

*Quality monitoring.* To assess the competitive quality of its networks, Telia performs three types of quality monitoring.

*Analysis of measurement data:* Telia continuously measures data from its networks and analyzes such data with a view to detecting and correcting quality problems.

*Specific network measurements:* Telia also continuously performs measurements in specific parts of the networks. Using a tool developed by TEMS, Telia is able to maintain higher quality in its networks.

*Subscriber experienced quality measurements:* Telia also regularly performs subscriber-focused quality measurements. For example, a system called Qvoice is used on a quarterly basis in selected regions. By simulating calls from mobile phones traveling in Telia's own and its competitors' GSM networks, Telia collects systemized data to assess the quality of its own as well as its competitors' service. The data is processed and used as an important management tool for the operation of Telia's networks.



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### ***International Roaming***

Telia has entered into roaming agreements with other telecommunications operators outside of Sweden which enable subscribers to make and receive calls while traveling abroad. These agreements also enable foreign network users to make and receive calls through Telia's networks when in Sweden.

As of December 31, 2001, Telia had roaming agreements with GSM operators in 104 countries and territories, including most of the GSM operators in Europe. Telia has also entered into roaming agreements with PCS (Personal Communications Service) 1900 providers in North and South America. PCS 1900 is a GSM-based communications service used in North and South America. These roaming agreements allow Telia's subscribers to access foreign networks by using satellite or PCS 1900 compatible handsets with their own SIM cards. A SIM card is an electronic card inserted into a mobile handset that contains a subscriber's personal identification number and identifies his or her network. SIM cards are a key element in GSM networks because of the important subscriber information that they provide.

Telia's analog NMT 450 system offers international roaming in countries that have adopted the NMT standard. These countries include the Nordic countries, the Baltic States, Eastern Europe and Russia.

### ***Operations in the Baltic States and Russia***

Telia Mobile manages a network of mobile operators in the Baltic States and Russia through its strategic investments in leading mobile operators in these areas. These operators include:

*UAB Omnitel*, the largest of three GSM operators in Lithuania in terms of number of subscribers;

*Latvijas Mobilais Telefons SIA*, the largest GSM operator in Latvia in terms of number of subscribers;

*AS EMT*, the largest of three GSM operators in Estonia in terms of number of subscribers; and

*OAO MegaFon*, the largest GSM operator in St. Petersburg and the northwest region of Russia. MegaFon, formerly ZAO North-West GSM, has merged with ZAO Sonic Duo, a GSM operator in the Moscow region, and several other regional Russian GSM providers wholly or partly owned by Telecominvest, to form the first nationwide Russian GSM operator which will operate under the brand name

MegaFon. Telia has a 17.8 percent interest in MegaFon, which is the largest GSM operator in Russia in terms of geographic coverage and the third largest operator in terms of subscribers.

For a further discussion of Telia's interest in UAB Omnitel, Latvijas Mobilais Telefons SIA, AS EMT and OAO MegaFon, see [International and Other Significant Investments](#).

### **Telia Networks**

Telia is the leading provider of fixed network communications services in Sweden in terms of customers and has established a strong market presence in Denmark and the Baltic States. Including access networks, Telia's fixed networks reach virtually every household and business in Sweden. Fixed network operations are Telia's original core business and are the foundation of Sweden's telecommunications infrastructure. In 2001, Telia Networks generated external net sales of SEK 29,159 million, representing approximately 51.0 percent of Telia's total consolidated net sales for the period.

Telia's fixed networks are comprised of a nationwide fiber optic backbone network and logical networks for telecommunications, data communications and IP. Telia offers a wide range of telecommunications services, including basic telecommunications services, value-added telecommunications services, wireless services and data communication services. Telia's fixed networks operations are divided between the retail and wholesale markets, which, together, form the foundation for all of the services that Telia develops for end customers, operators and service providers. In Sweden, Telia is the largest supplier of network products in the wholesale market, which are provided under the brand Skanova. In Denmark, Telia is the second largest infrastructure owner and the second largest network wholesaler behind TDC A/S. By operating in both the

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retail and wholesale markets, Telia believes that it is able to penetrate the largest portion of the total market for fixed network products and services in the Nordic countries.

As of December 31, 2001, Telia held a 70 percent market share in Sweden for fixed voice and had a 58 percent market share in data communications, including ATM (also known as Asynchronous Transfer Mode, a system which allows high-speed digital communications permitting the transmission of different types of data, such as voice and text, simultaneously), ADSL, LAN (Local Area Network) interconnect (a short distance data transmission network designed to interconnect personal computers, workstations, printers and various other devices), VPN (also known as Virtual Private Networks, secure private communication paths through one or more data networks that is dedicated between two points allowing data to safely and privately pass over public networks such as the Internet), Frame Relay (a system based on packet-switching technology providing high data transmission), and X.25 (a worldwide protocol for communications services using packet-switched networks). Telia also has strong positions in rapidly growing areas such as wholesale broadband services, new IP services, teleconferencing as well as various advanced wholesale services.

### ***Retail Customers and Markets***

In the retail market for fixed networks, Telia has an extensive customer base and is the market leader in fixed line telecommunications in Sweden. In Sweden, Telia has approximately 3.9 million residential customers and nearly 600,000 business customers. As of December 31, 2001, approximately 1.2 million customers subscribed to Telia's voice-mail service and more than 2.2 million, or approximately 30 percent of Telia's residential customers in Sweden, subscribed to Telia's caller identification service.

Of Telia's business customers, as of December 31, 2001 approximately one percent were large corporations, which generated 29 percent of Telia Networks' total revenue from corporate customers in 2001; four percent were public organizations, which generated 18 percent of Telia Networks' total revenue from corporate customers in 2001, and 95 percent were small- or medium-sized companies, which generated 53 percent of Telia Networks' total revenue from corporate customers. Telia provides retail services to nearly 2,500 large organizations with more than 60,000 offices, including overseas operations; approximately 16,900 public organizations and institutions; and approximately 440,000 small- and medium-sized companies in Sweden. As of December 31, 2001, Telia held 69 percent of the Swedish market for telecommunications services for businesses, measured in terms of aggregate customer expenditure, and 40 percent of the same market in the Nordic region.

In Denmark, Telia has a market share of approximately five percent of domestic fixed line traffic and seven percent of international fixed line traffic. The market for domestic and international traffic in Denmark is dominated by the incumbent operator, TDC A/S, which holds nearly 64 percent of the domestic fixed line market and 53 percent of the international fixed line market.

Telia also has fixed network retail operations outside of the Nordic countries through its indirect interest in the incumbent fixed line operators in Lithuania and Estonia. For a further discussion of Telia's fixed network operations outside of the Nordic countries, see [International and Other Significant Investments](#).

With the continued integration of information technology and telecommunications and the emerging communications and information technology market, Telia believes that the Nordic market will continue to grow in the near future. Telia believes that its solid customer base will enable it to take advantage of the potential growth opportunities in the Nordic countries and the Baltic States.

### ***Fixed Network Voice Services***

Telia offers both business and residential customers a full range of communications products and services, from basic fixed line telecommunications to complex, tailored solutions designed to meet the specific needs of individual customers. Telia's fixed network voice services offer access to local calling, domestic long distance calling and international calling.

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The following table sets forth the minutes of use by subscribers of Telia's fixed telecommunications service (in millions of minutes) and estimated market share (based on revenues) for its business and residential subscribers in Sweden for the periods indicated:

|                         | Year Ended December 31, |     |        |     |        |     | Six months ended June 30, |     |        |     |
|-------------------------|-------------------------|-----|--------|-----|--------|-----|---------------------------|-----|--------|-----|
|                         | 1999                    |     | 2000   |     | 2001   |     | 2001                      |     | 2002   |     |
| National traffic        | 35,200                  | 87% | 31,360 | 82% | 26,533 | 67% | 14,217                    | 70% | 10,619 | 56% |
| Fixed to mobile traffic | 1,490                   | 80% | 1,590  | 72% | 1,744  | 57% | 857                       | 67% | 884    | 51% |
| International traffic   | 560                     | 59% | 520    | 59% | 503    | 43% | 257                       | 44% | 239    | 39% |

Telia also offers multi-conference voice and video meeting services, such as automatic and manual teleconferencing, web-based scheduling, ISDN (Integrated Services Digital Network)-based conferencing. ISDN is a transmission system with the capacity to transmit two streams of information (including voice, text, data or graphics) simultaneously on a single telephone line. Telia's conferencing traffic increased by 30 percent in 2001 as compared to 2000. Other services include intelligent network services and server-hosting.

**Fixed Access Lines**

Through its PSTN (public switched telephone network) access service, Telia provides connections between its customers' premises and its analog network for basic telecommunications and dial-up Internet services. Each PSTN access line provides a single telecommunications channel. Telia also offers both basic ISDN lines with two channels and primary ISDN access lines with 30 channels.

The following table sets forth selected information regarding Telia's total access lines and share of the PSTN and ISDN access market in Sweden as of the dates indicated:

|   | As at December 31, |              |              | As at June 30, |              |
|---|--------------------|--------------|--------------|----------------|--------------|
|   | 1999               | 2000         | 2001         | 2001           | 2002         |
| <b>PSTN (in thousands, except percentages):</b> |                    |              |              |                |              |
| Number of residential lines                     | 3,919              | 3,868        | 3,841        | 3,843          | 3,850        |
| Number of business lines                        | 1,970              | 1,915        | 1,822        | 1,878          | 1,755        |
| <b>Total</b>                                    | <b>5,889</b>       | <b>5,783</b> | <b>5,663</b> | <b>5,721</b>   | <b>5,605</b> |
| Share of residential market                     | 100%               | 99%          | 95%          | 96%            | 95%          |
| Share of business market                        | 99%                | 95%          | 95%          | 95%            | 90%          |
| <b>ISDN (in thousands, except percentages):</b> |                    |              |              |                |              |
| Number of basic residential access lines        | 27                 | 50           | 61           | 60             | 57           |
| Number of basic residential channels provided   | 53                 | 99           | 121          | 119            | 115          |
| Number of basic business access lines           | 160                | 208          | 209          | 205            | 208          |
| Number of basic business channels provided      | 320                | 417          | 419          | 411            | 415          |
| Number of primary business access lines         | 9                  | 11           | 13           | 12             | 13           |
| Number of primary business channels provided    | 257                | 322          | 382          | 356            | 375          |
| Total basic lines                               | 187                | 258          | 270          | 265            | 265          |
| Total primary lines                             | 9                  | 11           | 13           | 12             | 13           |
| Share of residential market                     | 100%               | 100%         | 99%          | 99%            | 99%          |
| Share of business market                        | 100%               | 95%          | 95%          | 95%            | 95%          |
| <b>2 Mbps lines (in thousands):</b>             |                    |              |              |                |              |
| Total number of business lines                  | 119                | 103          | 94           | 99             | 89           |



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Although analog-based PSTN services are expected to remain an important part of Telia's business in the future, competition from other technologies for voice and data transmission will increase as they become more readily available. In certain customer segments, customers are substituting mobile telecommunication services for fixed line services. Telia also expects broadband mobile networks to compete with its PSTN lines for data communications and, eventually, voice telecommunications. Telia also expects customers to migrate from PSTN services to broadband and mobile networks for data communications and, eventually, voice telecommunications.

Under the Telecommunications Act and its license conditions, Telia must provide universal fixed line service in Sweden. This means Telia must provide connections for fixed telecommunications to permanent residences and permanent businesses throughout Sweden. Number portability, allowing end-users to change local exchange or mobile carriers while retaining the same telephone number, and free carrier pre-selection have made it possible for customers to switch operators easily, which has eroded Telia's market share. In addition, carrier pre-selection covering local calls was introduced on February 2, 2002.

Number portability has not yet had a significant impact on the fixed line telecommunications market but is expected to have an increasingly greater impact in the future as a result of local loop unbundling.

In Sweden, Telia's principal competitors in the fixed access lines markets are Tele2, Telenordia, WorldCom, Song and Utfors among others. In Denmark, Telia's major wholesale competitors are TDC A/S, Global Connect, Song, Colt and Global Crossing. Telia's major retail competitors in Denmark are TDC A/S, Debitel, and Sonofon.

Historically, Telia's fixed telecommunications business has experienced a high customer retention rate. Telia expects, however, that increased competition will have a negative effect on its customer retention rates. Telia also expects pre-selection and local loop unbundling to result in increased reselling of fixed telecommunications services by service providers and operators.

### ***Tariffs and Pricing***

Telia's prices are based on both fixed fees and volume charges, depending on the service or product purchased. Connections carry an installation fee when access is first installed or moved. After a connection is installed, a quarterly fee is assessed that includes basic maintenance and customer support. Telia owns the network only up to the first phone outlet in the customer's premises; the customer typically owns the rest of the equipment. Telia charges market prices for servicing the part of the network that it does not own. Usage is priced based on a call initiation fee and a time-based traffic fee which is billed in one-second increments. Some of Telia's value-added services, such as caller identification, have a monthly fee. Others, such as call-forwarding, are provided free of charge but lead to increased revenue through traffic charges.

Telia's national traffic charges in Sweden are based on actual cost (as required by the Telecommunications Act) and the competitive environment. In February 2000, Telia announced a new pricing structure under which it eliminated national long distance rates, and as a result, since February 15, 2000, all calls within Sweden are billed as local calls.

Telia's traditional telecommunications services are currently experiencing increased price pressure along with increased demand for more advanced communication services. The market is moving toward value-based pricing as well as customer-driven communications product and service offerings. Factors that affect Telia's tariff levels also include market competition, internal costs associated with purchasing network capacity from Skanova and interconnection fees.

**Table of Contents*****Tariff Structure for Residential Subscribers***

The following table sets forth selected information concerning Telia's tariff structure for residential subscribers in Sweden, excluding value-added tax:

|  | Residential Subscribers <sup>(1)</sup>                            |                         |                                     |                         |
|--|---|-------------------------|-------------------------------------|-------------------------|
|  | Basic price   |                         | TeleBonus Total plan <sup>(2)</sup> |                         |
|  | Peak <sup>(3)</sup>   | Off-peak <sup>(3)</sup> | Peak <sup>(3)</sup>                 | Off-peak <sup>(3)</sup> |
|  | (SEK per minute, except call initiation fees and value-added tax) |                         |                                     |                         |
| Local calls/ National calls                                  | 0.184   | 0.092                   | 0.168                               | 0.084                   |
| Fixed to Mobile:   |   |                         |                                     |                         |
| Calls to Telia mobile network                                | 2.00  | 1.20                    | 1.80                                | 1.08                    |
| Calls to external mobile networks                            | 2.36  | 1.80                    | 1.80                                | 1.08                    |
| Telia Internet 020 access:                                   |   |                         |                                     |                         |
| From PSTN, ISDN and DuoCom (ISDN and Internet) subscriptions | 0.36  | 0.36                    | 0.30                                | 0.30                    |
| Call initiation fees:  |   |                         |                                     |                         |
| Local  | 0.36  | 0.36                    | 0.30                                | 0.30                    |
| Fixed to Mobile  | 0.36  | 0.36                    | 0.30                                | 0.30                    |
| From PSTN subscription                                       | 0.36  | 0.36                    | 0.30                                | 0.30                    |
| From ISDN and DuoCom subscription                            | 0.36  | 0.36                    | 0.30                                | 0.30                    |
| International:   |   |                         |                                     |                         |
| Call initiation fee  | 0.36  | 0.36                    | 0.30                                | 0.30                    |
| Price per minute   | (4)   | (4)                     | (4)                                 | (4)                     |

- (1) Mobile tariffs are described under the discussion of the operations of Telia Mobile.
- (2) TeleBonus Total is Telia's bonus plan, under which customers pay a monthly fee of SEK 12, excluding value-added tax, reduced charges for local calls, calls to Telia mobile telephones and international calls.
- (3) Peak rates apply to calls made on weekdays between the hours of 8:00 and 18:00; off-peak rates apply to calls made at all other times.
- (4) Price per minute varies with call destination. Examples of international tariffs include (with prices under the TeleBonus plan following in parenthesis): U.S., SEK 0.792 (SEK 0.72) and no separate price to mobile destinations; U.K., SEK 0.792 (SEK 0.68) and a separate price to mobile destinations of SEK 2.80 (SEK 2.60); Denmark, SEK 0.76 (SEK 0.68) and a separate price to mobile destinations of SEK 1.56 (SEK 1.44); Finland, SEK 0.76 (SEK 0.68) and a separate price to mobile destinations of SEK 1.56 (SEK 1.44); France, SEK 0.96 (SEK 0.84) and a separate price to mobile destinations of SEK 2.80 (SEK 2.60); Norway, SEK 0.76 (0.68) and a separate price to mobile destinations of SEK 2.20 (SEK 2.00); Germany, SEK 0.792 (SEK 0.72) and a separate price to mobile destinations of SEK 2.80 (SEK 2.20); and Japan, SEK 2.80 (SEK 2.60) and no separate price to mobile destinations.

Telia offers a customer reward program, *Telia Fördel* (Advantage), which rewards customers with product offerings and other benefits based on levels of usage. Due to the success of *Telia Fördel*, Telia plans to refine and expand its reward program to create targeted programs for different customer segments.

***Tariff Structure for Business Subscribers***

The price levels for business subscribers are the same as those offered to Telia's residential subscribers with volume discounts available under Telia's TeleBonus plans for high volume customers. TeleBonus subscribers account for over 70 percent of Telia's telecommunications traffic revenues from fixed business subscribers.



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The following table sets forth selected information concerning Telia's tariff structure for business subscribers in Sweden, excluding value-added tax:

|   | Business Subscribers <sup>(1)</sup> |                         |                                 |                                 |
|---|-------------------------------------|-------------------------|---------------------------------|---------------------------------|
|   | Basic <sup>(2)</sup>                |                         | Contract                        |                                 |
|   | Peak <sup>(3)</sup>                 | Off-peak <sup>(3)</sup> | Small Businesses <sup>(4)</sup> | Large Businesses <sup>(4)</sup> |
| (SEK, except as indicated)              |                                     |                         |                                 |                                 |
| National calls:                         |                                     |                         |                                 |                                 |
| Call initiation fee                     | 0.36                                | 0.36                    | 0.30                            | (4)                             |
| Price per minute local (all of Sweden)  | 0.184                               | 0.092                   | 0.155                           | (4)                             |
| Fixed to Telia Mobile                   | 2.00                                | 1.20                    | 1.80                            | (4)                             |
| Fixed to external mobile <sup>(5)</sup> | 2.36                                | 1.80                    | 2.25                            | (4)                             |
| International:                          |                                     |                         |                                 |                                 |
| Call initiation fee                     | 0.36                                | 0.36                    | 0.30                            | (4)                             |
| Price per minute                        | (5)                                 | (5)                     | (5)                             | (4)                             |

- (1) Mobile tariffs are described under the discussion of the operations of Telia Mobile.
- (2) Does not include contract business customers.
- (3) Peak rates apply to calls made on weekdays between the hours of 8:00 and 18:00; off-peak rates apply to calls made at all other times.
- (4) Tariffs for contract business customers, at any time; the tariffs for national calls for large business enterprises vary depending on the traffic volume and geographical location. For international calls, the discount varies depending on the traffic volume.
- (5) Price per minute varies with call destination. Examples of international tariffs, not including a ten percent discount available to small businesses: United States, SEK 0.79; United Kingdom, SEK 0.79; Denmark, SEK 0.76; Finland, SEK 0.76; France, SEK 0.96; Norway, SEK 0.76; Germany, SEK 0.79; and Japan, SEK 2.80.

**Data Services**

Telia is the largest provider of data communications services in Sweden with a 58 percent market share. Telia's data services unit focuses on network-based high value-added data communication and multimedia services. Although its network-based services are based mainly on traditional technologies, Telia is developing products based on other technologies, such as IP.

Telia provides customized corporate data network solutions, such as private networks, virtual private networks and IP-based virtual private networks, including design, service level agreements, technical advice and support. Telia offers standardized data communication services, such as managed leased lines, LAN interconnect, frame relay and ATM and packaged products. Telia also sells data services from other operators, such as its associated company Infonet, individually and packaged with other Telia products.

See [Telia Internet Services](#) for a discussion of Telia's dial-up and broadband Internet access services.

**New Services**

To meet the challenges of increased competition, Telia is continuously introducing new products and services. During 2001, Telia launched several services that aim to facilitate teleworking, simplify network connections for small offices and enable companies to analyze and control the traffic on their networks. Telia's other related initiative is to offer wireless broadband access to corporate networks and IP telecommunications, a service on which Telia expects to increase its focus in 2002. Telia's aim is to offer large and small businesses services that can support and make internal business processes more effective and also provide services supporting and developing marketing and sales.



Integrated corporate networks for

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telecommunications as well as Internet and data communication for businesses operating in only one or in many geographic locations is an important business service and is one of the bases for further integration between information and communication services. During 2001, Telia introduced Planet, an integrated corporate network VPN solution which Telia believes will enable it to meet the expected increase in demand for leased and outsourced corporate networks and applications. During 2001, Telia also launched City Connect, a metropolitan network-solution for communities operating their own local communication service. Telia is also able to provide value-added services to networks and offers connectivity to national and international communication. During 2001, Telia also tested several new services for the residential market, such as electronic bill payment, IP-based telephony services (using the Internet for routing voice traffic), known as Budgetcall and Microcall, and voice-activated calling, known as Rösttringing.

***Wholesale Network Operations***

In 2001, Telia's wholesale network operations represented 15 percent of its total revenues from Telia Networks and Telia believes that its wholesale operations will have significant revenue generating potential in the future. Net sales from Telia's wholesale business increased by 53 percent in 2001 to SEK 4,357 million.

With approximately 200 wholesale customers, Telia has established business relationship with nearly all of the principal service providers in Sweden and Denmark. In Sweden, Telia's wholesale operations are conducted under the brand Skanova, which offers a variety of services, including dark fiber, leased lines, network capacity and interconnect traffic, broadband access and telecommunications services. Among these services, broadband access was in particularly high demand during 2001 and the first half of 2002. Skanova administered 351,000 broadband access accounts as of June 30, 2002, including 70,000 to operators and service providers outside of the Telia group.

***Domestic Wholesale Network Operations***

In Sweden, Telia provides a range of domestic wholesale network services to internal and external service providers and operators, with a growing proportion of sales to third-party operators and service providers. Telia offers traditional and broadband connections, traffic, IP transit and network capacity, IP and Internet-based network services and services to Telia's service provider business areas as well as to third-party service providers and operators.

*Services.* In addition to network services and infrastructure, Telia also provides the following services on a wholesale basis:

*Access Products:* Telia offers a range of PSTN and ISDN access services as well as a range of other access products including high speed Internet and telecommunications services, broadband access (based on Ethernet and on ADSL) and wholesale IP and ADSL access.

*Voice Services:* Telia provides voice transit and interconnect services for voice traffic to other operators. Telia also has an advanced wholesale service that enables service providers to market and sell voice services to end customers by using Telia's existing telecommunications switches. This service enables Telia to retain the majority of the revenue generated by the use of its network assets despite intense competition for voice services.

*Capacity:* Telia offers telecommunications carriers and value-added resellers leased broadband lines capacities from 2 Mbps to 155 Mbps.

*IP Transit:* Telia also offers bandwidth capacity at transmission speeds between 2 Mbps and 155 Mbps to Internet service providers and Internet content providers.

*Infrastructure:* Telia offers ducts, dark fiber, optical channels, copper access and co-location services to other carriers. Dark fiber refers to a part of a fiber optic cable that is not connected to transmission electronics. In a dark fiber sale, another communications provider purchases rights to one or more of Telia's fibers for its own use, and is responsible for providing its own transmission electronics to enable the fiber to carry traffic. Telia's co-location services permit carriers to extend

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and expand their networks by housing their own computing and telecommunications equipment, such as routers and servers, inside Telia's secure premises.

Telia also provides network management services including remote supervision and terminal-based operational troubleshooting and error analysis. Traffic routing and rerouting provide information on the operational status of the network to customers. Other network management services are provided to secure the network functions. In March 2000, Telia opened its domestic network to competing third-party operators and Skanova began providing access to copper and bit-stream access lines, as well as co-location to competing service providers in Sweden. The implementation of local loop unbundling is expected to increase competition at the service provider level.

*Customers.* Telia began marketing its copper-based access networks on a wholesale basis in March 2000. Since this time, Telia has offered providers a broad spectrum of available products which they may purchase in order to distribute their services to end customers. Telia's most advanced wholesale service, TeleHost, enables different companies with their own brand to add fixed telecommunications to their regular product range. Skanova produces the service and provides billing data while the customer-client manages the relationship with end customers.

The following table sets forth certain information relating to Telia's wholesale customers and typical product offerings relevant to each customer segment.

| Categories of Customers              | Typical Products  |
|--------------------------------------|---|
| Telecommunications service providers | Access products: PSTN/ISDN, IP access and Broadband<br>Voice services                           |
| Internet service providers           | Capacity<br>Access products: PSTN/ISDN, IP access and Broadband<br>IP transit                   |
| Telecommunications operators         | Access products: PSTN/ISDN, IP access and Broadband<br>Voice services<br>Capacity<br>IP transit |
| Power utilities                      | IP transit  |
| Property owners                      | Access products: PSTN/ISDN, IP access and Broadband   |
| System integrators                   | Access products: PSTN/ISDN, IP access and Broadband<br>Voice services                           |

To date, the substantial majority of Telia's wholesale domestic network revenues have been generated from sales within the Telia group, although sales to third parties have begun to grow.

*Nordic Wholesale Network Business*

Telia also provides wholesale network services in Denmark, where it provides a range of services to entities within the Telia group and to external service providers and operators. Telia believes that there is revenue potential in the wholesale market in Denmark, and its acquisition of Powercom, a Danish-based infrastructure company, positions Telia to take advantage of that potential. As a result of the Powercom acquisition, Telia has become the second largest owner of infrastructure in Denmark, where Telia has a nationwide 7,000 kilometer long fiber optic backbone network, an IP network covering Denmark's six largest cities, a nationwide telecommunications network and fiber rings in 55 locations throughout Denmark, including Copenhagen.

*Wholesale Pricing*

Voice charges consist of a per-call fee for calls successfully connected and a per-minute fee which varies according to the distance of the call and the time of day.

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Telia charges an initial fee and an additional quarterly fee for leased line services. Telia's leased line pricing is based on the type of service, the distance and type of geographical area (for example, urban or rural), the contract period and the number of circuits. Customers are offered discounted pricing for longer contract periods and high-volume orders.

For IP connection/transit pricing, Telia offers two pricing options: a flat rate for a defined access or a variable rate based on the actual volumes transferred.

### ***Infrastructure***

Telia believes that its domestic network is one of the most technologically advanced fixed line networks in the world. Telia's network features:

all-digital local, trunk and international switching;

all-digital transmission, with regional and trunk transmission based mostly on fiber optic cable infrastructure, which features Synchronous Digital Hierarchy (also known as SDH, the European standard for high-speed digital transmission using fiber optic cables) transmission systems;

wide access to ISDN; and

broadband access.

Telia's nationwide fixed network functions as the backbone for its operations, supporting not only its local, long distance and international traffic, but also mobile and data communications trunk traffic. Telia's network in Sweden consists of 50,000 kilometers of cable and two million kilometers of fiber.

*Local Network:* Telia's existing local network is one of the most highly digitalized in the world. Digitalization of the network was completed in October 1998. As of June 30, 2002, Telia had the capability to provide 90 percent of end users in Sweden with ISDN access. The number of ADSL accesses increased by 208,000 in 2001 and by 143,000 in the first six months of 2002. Telia has approximately 7,000 nodes with installed equipment as interconnect points for local access.

*Regional and National Trunk Network:* Telia's regional and trunk networks are fully digitalized and mainly utilize fiber optic cable capable of operating at transmission speeds of up to  $40 \times 10$  Gbps in 2001. As of June 30, 2002, Telia's trunk network consisted of 45,000 kilometers of fiber optic cable. SDH is the basic technology in Telia's trunk network.

SDH allows for enhanced reliability. Through the use of a stand-by national network and self-healing local rings, the synchronous digital hierarchy optical network is protected against single cable failures. The synchronous digital hierarchy modernization is expected to reduce Telia's operating and capital costs.

Telia also operates a number of switched digital networks used principally for the provision of X.25, frame relay and asynchronous transfer mode (ATM) data services. ATM permits data, text, voice and multimedia signals to be transmitted simultaneously between network access points at speeds of up to 155 Mbps. By utilizing ATM technology, Telia is able to provide superior local access network interconnections, data transmission and flexible bandwidth delivery.

Telia operates one of the largest and fastest IP backbone networks in the world. Connectivity between super core and core nodes is from 2.4 Gbps to 10 Gbps. The total amount of traffic reaches 10 Gbps during peak hours. There are 800,000 narrowband access users and 400,000 broadband access users connected to Telia's domestic network.

Telia intends to employ IP-based technology over its entire network, using packet switching systems.

Initiatives are underway to develop technology to address the disadvantages of the current generation of packet-switch based systems. Telia believes that the evolving IP standard will remain a primary focus of these development efforts. Telia expects the benefits of these efforts to include improved communications, reduced latency and declining network hardware costs.

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### ***Network Development***

During 2001, Telia endeavored to satisfy the growing demand for interactive broadband services by refining its fixed network in terms of capacity, functionality and traffic control. Three dimensions of this effort include:

*Increased capacity in the fiber optic backbone network:* Telia is installing additional fiber in its network to meet the growing demand for capacity. During 2001, Telia added substantial capacity to its network in southern Sweden and also laid fiber optic cable between Stockholm and Haparanda, Sweden.

*Increased capacity in access networks nearest the subscriber:* Telia expanded its fiber optic networks in larger Swedish cities, including Stockholm, Gothenburg and Malmö. Telia is also expanding its ADSL access, which reached 70 percent of Sweden's households at the end of 2001. Telia also obtained a license during 2001 to build broadband access networks in Sweden based on fixed radio.

*Technology shift to IP:* To address the growing demand for IP-based fixed networks, Telia equipped its IP network in Sweden with new functions during 2001, such as Quality of Service, which will enable Telia's subscribers to select their level of service quality and performance, and Multicast, which allows the IP network to be used for telecommunications and other real-time solutions, such as radio and television broadcasts. In 2001, Telia also began implementation of Ipv6, a protocol that Telia believes will resolve the current shortage of IP addresses in the IP network.

### ***Operations in Lithuania and Estonia***

Telia Networks has strategic investments in the leading fixed line operators in each of Estonia and Lithuania. These operators include:

*AS Eesti Telefon*, the leading provider of fixed line telecommunications services in Estonia in terms of number of subscribers and;

*Lietuvos Telekomas*, the leading provider of fixed line telecommunications services in Lithuania in terms of number of subscribers.

For a further discussion of Telia's interest in AS Eesti Telefon and Lietuvos Telekomas, see International and Other Significant Investments.

### **Telia Internet Services**

Telia is the leading provider of Internet services and cable television in Sweden and is the second largest provider of broadband services in Denmark in terms of number of subscriptions. Telia is also the leading provider of access-related services designed to support and facilitate Internet use to the residential and business markets in Sweden in terms of number of subscriptions. As of December 31, 2001, Telia had approximately 992,000 Internet access customers in Sweden, which represented approximately 50 percent of the Internet services market in Sweden, and a more than 60 percent increase in the number of subscribers compared to December 31, 1999. In 2001, Telia Internet Services generated external sales of SEK 3,288 million, representing 5.7 percent of Telia's total consolidated net sales for the period. As of June 30, 2002, Telia had approximately 1,044,000 Internet access customers in Sweden.

Telia is working to leverage its leading position and large customer base in the fixed telecommunications and Internet access markets to build an Internet-based, customer-oriented business and to expand its broadband access and content offerings. Telia believes that an integrated focus between traditional telecommunications products and its broadband network and portal will create significant revenue generating potential in the future.

To obtain clearance for the Telia-Sonera merger from the European Commission, Telia has agreed to dispose of its Com Hem AB cable business, including its cable broadband services in Sweden.

**Table of Contents***Access Services*

As of December 31, 2001, Sweden had the highest penetration rate of Internet access and broadband among EU countries. Approximately 64 percent of the households in Sweden currently have Internet access, primarily through dial-up connections, and surveys indicate that approximately one-half of the households in Sweden with dial-up connections plan to switch to broadband access within the next three years. Telia has been working to develop its accesses on its existing technical platform on a continuous basis and currently offers a wide range of Internet connections in various bandwidths to both residential and business subscribers, including:

*Dial-up Internet access*, Telia's simplest connection which provides speeds of up to 56 Kbps depending on the user's modem;

*ISDN*, which is available at speeds of 64 Kbps or 128 Kbps;

*ADSL*, with broadband communication over copper wire, available at three speeds: 500 Kbps for residential customers and 1 Mbps or 2 Mbps for business customers;

*Ethernet*, which provides communication over a fiber network to residential customers at speeds of up to 10 Mbps;

*Cable broadband*, which provides access available at 500 Kbps, 1 Mbps and 2 Mbps; and

*ProLane*, a dedicated access service for large businesses which provides nearly unlimited capacity.

Telia believes that its array of Internet access services will continue to provide Telia with revenue-generating potential by offering its subscribers high speed Internet access at competitive prices. In 2001, net sales from Telia's access services increased 31 percent to SEK 1,959 million and Telia's access services were the fastest growing area within Telia Internet Services.

The table below sets forth the approximate number and change in Telia's Internet access accounts for the periods specified:

|                        | As at or for year ended December 31, |           |         | As at or for<br>Six months ended June 30, |           |         |
|------------------------|--------------------------------------|-----------|---------|---|-----------|---------|
|                        | 2000                                 | 2001      | Change  | 2001                                      | 2002      | Change  |
| Sweden:                |                                      |           |         |   |           |         |
| Dial-up                | 687,000                              | 747,000   | 60,000  | 724,000                                   | 722,000   | (2,000) |
| Broadband:             |                                      |           |         |   |           |         |
| ADSL/LAN               | 27,000                               | 194,000   | 167,000 | 92,000                                    | 264,000   | 172,000 |
| ProLane                | 2,000                                | 3,000     | 1,000   | 3,000                                     | 3,000     | 0       |
| Internet cable         | 22,000                               | 48,000    | 26,000  | 38,000                                    | 55,000    | 17,000  |
| Total broadband        | 51,000                               | 245,000   | 194,000 | 133,000                                   | 322,000   | 189,000 |
| Denmark:               |                                      |           |         |   |           |         |
| Dial-up                | 78,000                               | 89,000    | 11,000  | 88,000                                    | 94,000    | 6,000   |
| Broadband:             |                                      |           |         |   |           |         |
| Internet cable         | 30,000                               | 58,000    | 28,000  | 43,000                                    | 70,000    | 27,000  |
| Total dial-up access   | 765,000                              | 836,000   | 71,000  | 812,000                                   | 816,000   | 4,000   |
| Total broadband access | 81,000                               | 303,000   | 222,000 | 176,000                                   | 392,000   | 216,000 |
| Total accesses         | 846,000                              | 1,139,000 | 293,000 | 988,000                                   | 1,208,000 | 220,000 |

*Dial-up Access Services*

Telia's PSTN access service provides connections to a subscriber's premises and access for basic telecommunications and dial-up Internet services. PSTN access customers are charged fixed network charges based on minutes of use. Telia also offers ISDN access services which allows a single access line to be used simultaneously for multiple purposes, provides higher quality connections and increases the bandwidth



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capacity of the access market. Telia offers both basic ISDN access lines, which offer two channels and are suited for residential and small business customers, and primary ISDN access lines, which offer 30 channels and are suited for medium- to large-sized businesses.

In 2001, PSTN and ISDN access remained the most common means of Internet access in Sweden. With 747,000 residential and small business subscribers as of December 31, 2001, Telia remains the leading provider of dial-up access services in Sweden, where it has a 44 percent market share. While Telia's customer base in Sweden grew by nine percent during 2001, Telia expects future growth rates to decrease as the dial-up market matures and subscribers migrate to broadband services. Nevertheless, Telia believes revenue-generating potential remains strong in the dial-up market as a complementary form of Internet access. Telia also offers dial-up and ADSL Internet access in Denmark.

### *Broadband Access Services Residential*

Telia remains a market leader in serving Sweden's growing demand for high speed Internet access. Since 1999, Telia has offered group connection services for multi-family dwellings in Sweden. Telia provides residential broadband access to the Internet using one of the following techniques:

*Internet cable*, which provides a cable broadband connection;

*individual access*, using an ADSL connection to a subscriber's home;

*group access*, using local area network (LAN) technology; and

*group schemes*, using individual ADSL connections to apartment blocks.

For both group access and group schemes, Telia enters into frame agreements with the owners of apartment blocks. Telia estimates that over 1.5 million households in Sweden are capable of receiving Internet access using this method through approximately 300 property companies. The number of households covered by a frame agreement provides an indication of the potential subscriber base, but in practice Telia will not be able to convert all of these households to subscribers.

For group access, subscribers within an apartment block are connected to a local access network (LAN), which is connected to a server located on site. The server is connected to the Internet by the most appropriate broadband local access service, which may be either ADSL, fiber or a microwave link. As an example of this type of access, in June 2002, Telia signed a framework agreement with the housing association HSB Sverige to provide ADSL-based broadband Internet access for the residential properties of HSB Sverige.

For group schemes, Telia's typical frame agreement covers all households in an apartment block and requires a penetration rate of 20 percent of the households within one year. Typical agreements also provide for a discounted individual ADSL connection fee against a guaranteed minimum aggregate number of connections within an apartment block. The discount reflects the reduced work required to install ADSL modems at the local exchange and on the subscriber's premises.

In each case, the monthly fee includes unlimited, always-on access to the Internet. Users pay extra charges for additional services, such as video on demand.

Telia's early broadband launch enabled it to capture a large share of the residential market in Sweden and, as of December 31, 2001, Telia has signed frame agreements covering approximately 1,165,000 potential ADSL connections and 520,500 potential cable connections in Sweden. Telia has recently been shifting its focus from group connections to individual ADSL connections.

Telia also offers broadband Internet access in Denmark, where it is presently the second largest provider of broadband services through its wholly owned cable television subsidiary, Telia Stofa. As of June 30, 2002, Telia Stofa had 70,000 Internet access customers. Telia Stofa provides broadband Internet access through a cable connection and Telia launched ADSL services in Denmark in the second quarter of 2002.



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### *Broadband Access Services Business*

During 2001, Telia launched Telia Bredband Företag, an ADSL service for business customers, which has attracted strong demand from small- and medium-sized businesses. During 2000, Telia launched ProLane, a dedicated access service which offers high capacity connections and superior reliability. ProLane also enables subscribers to select their desired level of capacity, providing guaranteed availability. Large businesses whose operations are geographically dispersed may select the Telia ProLane VPN solution, launched in 2001, in order to build their own intranet and extranet (an extranet is an intranet that is extended to include certain outside businesses, organizations or individuals).

While demand for ADSL access was previously strongest among consumers, demand from businesses rose steadily after Telia launched its broadband business service in mid-2001. Total residential and business demand for broadband access was strong in 2001 and Telia estimates that its share of Sweden's broadband market increased to 55 percent in 2001. Telia enters into contracts with businesses relating to Internet access which vary according to the specifications and nature of the subscriber. Pricing is also dependent on the nature of the contract entered into with the subscriber.

### *Access-related Services*

Telia is also developing access-related services that are designed to support and facilitate Internet use. Sales of access-related services rose from SEK 35 million in 2000 to SEK 139 million in 2001. For the residential market, Telia's access-related services focus on entertainment, leisure and security services, such as virus protection software and firewalls. Together with its content partners, Telia has entered into agreements with suppliers of games, sports, news and entertainment. Access-related services are available for residential subscribers at Telia's Internet portal: [www.comhem.se](http://www.comhem.se), where an increasing number of its services are broadband-based services.

For businesses, Telia has developed services for streaming media, e-mail, hosting and security services. Telia has experienced a growing demand for its Internet-based streaming, sound and animation services, as more businesses are using their web sites for live news broadcasts, press conferences and similar events. Telia also provides live broadcasts of all debates in the Swedish Riksdag (Parliament) over the Internet for viewing anywhere in the world. Web hosting also emerged as a growth area for Telia during 2001, as Internet use has increased in trade and industry sectors. Demand for e-mail services also increased significantly during 2001. In addition, demand for electronic commerce (e-commerce) services demonstrated strong growth during 2001, although at a slower pace than Telia had anticipated.

Another access-related service provided by Telia is its security services, based on PKI (Public Key Infrastructure) which uses electronic signatures for personal identification. Telia has developed these security services in collaboration with the U.S.-based company, Verisign. Telia also uses the Sonera SmartTrust platform for its PKI services. Telia's range of security services include Säker epost (secure e-mail), Säker webbaccess (secure web access), Elektroniska ID-kort (electronic ID cards) and Servercertifikat (server certificates). Telia has also developed new services that enable its subscribers to send and receive payments over the Internet through a secure connection. Subscribers are also able to download and update Telia's payment and security services, as well as support services, over the Internet.

### *Portals*

Telia is currently working to integrate its Internet operations through the coordination of its technical platform, content, marketing and sales activities. One significant result of Telia's integration effort is its [www.comhem.se](http://www.comhem.se) and [www.comhjem.dk](http://www.comhjem.dk) portals, which are now the main portal for all of Telia's Internet customers in Sweden and Denmark, respectively. In Sweden, the [www.comhem.se](http://www.comhem.se) portal offers a variety of content with a focus on broadband entertainment, including on-line games, live soccer games, music videos and funniest home videos. In addition, through its [www.comhem.se](http://www.comhem.se) portal, Telia is able to offer services such as an advanced mail and SMS platform, customer account management, customer service as well as both broadband and ISP-content and services in alliance with key content providers in the marketplace. The services and content at [www.comhem.se](http://www.comhem.se) are accessible over both broadband and dial-up infrastructures and

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with billing system capability. The *www.comhem.se* portal had approximately 964,000 unique visitors in February 2002.

Alliances are integral to Telia's content and service capabilities. Several broadband entertainment services have been launched during the past two years. In March 2000, Telia launched the first Games on Demand service. This was possible due to Telia's close cooperation with Microsoft and other content providers such as Electronic Arts. Telia's *www.comhem.se* portal is also the only European portal to offer MTV Live which provides streaming music, entertainment news and other information featured by MTV Europe. In April 2002, *www.comhem.se* also began offering Swedish premier league football live over the Internet. This service is provided to Telia and Com Hem broadband customers on an exclusive basis.

### *IP-centric Services*

Telia offers integrated services for the Internet, including web site applications, web hosting, e-mail, server and web design related consulting services. Telia develops communications services for the corporate market based on an IP platform. In particular, Telia is developing a business-to-business website that can be customized to meet the particular needs of subscribers. Telia is also focusing on integrated communications and information services and applications to provide seamless access regardless of the communications medium or device (for example, broadband, wireless or Internet). Telia currently offers businesses IP services via ATM and frame relay and expects to introduce an IP infrastructure for businesses that includes intranet and extranet services and Internet access for voice, image and information applications.

Small- and medium-sized businesses are increasingly addressing their wide area communications needs through the Internet. Telia's IP virtual private network uses the Internet and provides security and other features included in traditional WAN data communication at competitive costs. Telia's ProLane virtual private network provides solutions comparable to frame relay, ATM and LAN-Interconnect.

### *Analog Cable and Digital Television Services*

Telia offers both analog cable and digital television to its subscribers. Digital television is interactive and provides higher quality audio and video and more channels than analog cable. Telia offers analog cable television through its subsidiary Com Hem AB in Sweden and through Telia Stofa in Denmark. Telia is currently the leading cable television provider in Sweden with approximately 1.4 million residential subscribers as of June 30, 2002. Telia Stofa had 186,000 cable television subscribers as of June 30, 2002. To obtain clearance for the TeliaSonera merger from the European Commission, Telia has agreed to dispose of its Com Hem AB cable TV business in Sweden.

The Swedish television market is largely digitized, with digital television currently available to 1.2 million of Telia's cable subscribers. For a fixed monthly fee, Telia provides its subscribers with a digital box which offers approximately 70 channels, including pay-per-view broadcasts of sports, films and music. Swedish professional soccer and hockey games are made available on a pay-per-view basis which has contributed to a substantial increase in demand for digital boxes. Digital television subscribers also have access to interactive services, such as sports, games and news. Telia expects demand for digital television to increase in 2002, with as many as 20 percent of Swedish households expected to subscribe during the year, according to recent surveys.

Telia also offers property owners with two-way cable networks for interactive property management services, enabling residents to monitor and control functions, such as heating and lighting.

### **Telia International Carrier**

Telia has established a high quality international fiber optic backbone network, the Viking Network, based on fiber optics and wavelength technology. Concentrated primarily in Europe, the Viking Network is suited to all types of network traffic, from basic voice transmission to advanced interactive broadband services. The Viking Network is based on a fully operational 19,800 kilometer long duct/cable network with repeater stations in Europe. The Viking Network is connected to New York via the transatlantic cable system, TAT 14, of which Telia International Carrier owns a 6.25 percent interest.

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In September 2002, Telia completed a comprehensive review of its international carrier operations, and decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. As part of Telia International Carrier's new strategy, it will focus on offering wholesale capacity and IP services to large customers over the profitable parts of its wholly owned European and trans-Atlantic networks. As part of the restructuring program, Telia has decided to close down Telia International Carrier's Asian operations as well as its national voice reseller business in the United Kingdom and Germany, discontinue offering domestic capacity services in the United States and terminate its co-location business. Telia will also significantly reduce the number of commercial points of presence of Telia International Carrier. Telia will also centralize the sales, finance, administration and customer care resources of Telia International Carrier to Sweden. Telia also estimates that, as part of the restructuring, Telia International Carrier will reduce its current workforce of approximately 800 persons by more than 50 percent. The strategic refocusing and restructuring will also enable Telia International Carrier to substantially scale down the number of offices and technical facilities it maintains, as well as reduce the number of its operation and maintenance contracts and leased lines. Adjusted for the estimated restructuring charges, Telia expects its refocused international carrier operations to achieve positive cash flow during 2003.

### ***Products and Services***

Through Telia International Carrier, Telia offers competitive international telecommunication services in Europe and the United States to its customers, who are primarily service providers, incumbents, other carriers and mobile and fixed line operators. Telia's international carrier business includes three major product areas:

#### *Capacity*

#### *Voice*

#### *IP Services.*

#### *Capacity*

Telia offers wavelength services, providing up to 10 Gbps of capacity. Wavelength services are designed for customers who require very large transport capacities between cities, but who prefer not to purchase dark fiber, which would require an investment in and the maintenance of transmission equipment in order to transport traffic.

Telia's SDH service provides an international capacity service of between 2 Mbps and 2.5 Gbps which is produced by Telia on its Viking Network and provides high levels of flexibility and quality. This service ensures that the traffic of Telia's customers flows seamlessly across the Viking Network from the east coast of the United States to Eastern Europe. Should any problems occur, Telia's meshed and diversified SDH network allows for automatic protection or rapid re-routing of traffic.

#### *Voice*

Telia offers traditional voice services, including call termination and transit services to fixed and mobile operators and carriers. These services enable Telia's customers to offer worldwide reach to their end users. Through its own Nordic base and over 100 bilateral agreements with other telecommunication companies, Telia is able to terminate traffic in all countries worldwide.

#### *IP Services*

Telia is one of the largest European Internet carriers and provides services on a wholesale basis to its customers, including services such as IP-Transit, at speeds of 2 Mbps and up to 2.5 Gbps. Telia's IP Network, called TeliaNet, is a global network with multiple high speed links as well as extensive interconnections to other Internet carriers across Europe and the United States.

**Table of Contents****Sales and Customers**

Telia International Carrier has a fully operational network and operates in the international wholesale network services markets to provide services from its product portfolio to other carriers, fixed and mobile operators and service providers.

Telia International Carrier's sales organization is supported by a Product and Network division with global responsibilities. Telia International Carrier currently has approximately 800 employees, of which 550 are located outside Sweden in over 20 countries. As part of Telia International Carrier's proposed refocusing, including the centralization of its sales, finance, administration and customer care resources in Sweden, Telia estimates that Telia International Carrier will reduce its current workforce of approximately 800 persons by more than 50 percent.

Telia's customers generally use a number of telecommunications providers and shift traffic among them based on price and service levels. Currently, the majority of Telia's international carrier customers have pan-European operations. By targeting the wholesale sector of telecommunications providers, Telia is able to work with its network customers without simultaneously competing with them for their end users business.

Telia International Carrier focuses on the following customer segments:

**Customer Segments**

|                      | <b>Incumbents</b>                        | <b>Fixed line Operators</b>                 | <b>Mobile Operators</b> | <b>Service Providers</b> |
|----------------------|--|---|-------------------------|--------------------------|
| <b>Key Customers</b> | BT, FT, TP SA,<br>Rostelekom,<br>Telenor | Sprint, WorldCom,<br>Wind, Cable & Wireless | Vodafone, D2,<br>Comviq | Tiscali                  |

Due to the current turbulence in the carrier market, some of Telia's customers that previously elected to purchase unrefined products, such as fiber, are instead demanding capacity, while at the same time many former capacity customers are now purchasing IP and voice transport. Since most of the Viking Network is operational on a commercial basis, Telia believes that it is well positioned to adapt to changes in market conditions and customer demands. See *Telia International Carrier Market and Industry Outlook* for a discussion of the current trends in the carrier market.

In 2001, approximately one-quarter of the revenue generated by Telia International Carrier was derived from sales to other business areas within the Telia group. Telia believes that the proportion of its revenues derived from external customers will comprise an increasingly greater share of the total revenues of Telia International Carrier in the future.

**Infrastructure and Backbone Network: The Viking Network**

In 2001, most of the European portion of the Viking Network became operational, consisting of a meshed network with an underlying ring structure that extends approximately 16,000 kilometers across 21 countries and 70 cities in Europe. The Viking Network as a whole has 200 points of presence in 100 cities in Europe and North America. The points of presence consist of floor space for Telia's technical equipment or the equipment of its customers, known as co-location. As part of Telia International Carrier's proposed refocusing, Telia will terminate its co-location business and will significantly reduce the number of commercial points of presence of Telia International Carrier.

The Viking Network is designed as a multi-duct network in which each duct can be equipped with sufficient fiber cables to meet varying levels of demand. The Viking Network is equipped with fiber meeting the ITU's G.652 or G.655 specification and also with electronics, including dense wavelength division multiplexing technology (known as DWDM), which allow for the division of each fiber into at least 40 channels, each operating at speeds of up to 10 Gbps.

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The backbone of the Viking Network has been designed with a self-healing loop configuration to prevent interruption of service to Telia's customers by instantaneously re-routing traffic in the opposite direction around the ring in the event of a network component failure.

Telia has used its completed infrastructure as currency to swap duct, fibers and capacity with other network operators both in Europe and in North America through various forms of sale or leasing arrangements.

### ***Market and Industry Outlook***

Since the late 1990s, competition in the global data and voice communications services area has increased substantially. The entry of a considerable number of competitors has created overcapacity and has resulted in a rapid decline in the price of wholesale bandwidth capacity in the markets where Telia International Carrier operates. As a consequence, the profitability among the pan-European players is low. The industry is presently in a strong consolidation phase with many players leaving the area. Telia expects the consolidation to continue together with intense competition and continued price pressure in at least the near future.

Telia expects the demand for its capacity and IP Services to be driven by the need to accommodate the growing range of bandwidth-intensive business and entertainment applications, such as e-commerce, corporate intranets, virtual private networks, video conferencing and other IP services. Telia also believes that demand for broadband transport will increase when the development of fixed broadband services is well underway and UMTS networks are operational. Telia believes these developments will create and sustain long-term revenue generating potential for Telia International Carrier in due course.

Despite these positive developments, Telia continues to believe that volumes and earnings trends for Telia International Carrier have been and continue to be unsatisfactory. In September 2002, Telia completed a comprehensive review of its international carrier operations, and decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. As part of Telia International Carrier's new strategy, it will focus on offering wholesale capacity and IP services to large customers over the profitable parts of its wholly owned European and trans-Atlantic networks. As part of the restructuring program, Telia has decided to close down Telia International Carrier's Asian operations as well as its national voice reseller business in the United Kingdom and Germany, discontinue to offer domestic capacity services in the United States and terminate its co-location business. Telia will also significantly reduce the number of commercial points of presence of Telia International Carrier. Telia will also centralize Telia International Carrier's sales, finance, administration and customer care resources in Sweden. Telia also estimates that, as part of the restructuring, Telia International Carrier will reduce its current workforce of approximately 800 persons by more than 50 percent. The strategic refocusing and restructuring will also enable Telia International Carrier to substantially scale down the number of offices and technical facilities it maintains, as well as reduce the number of its operation and maintenance contracts and leased lines.

The restructuring of Telia International Carrier will result in provisions of an estimated SEK 3.5 billion, most of which are expected to be recorded in the third quarter of 2002. In addition, due to the adverse market developments in the international carrier operations and the significant downscaling of Telia International Carrier, Telia will write down the value fixed assets relating to its international carrier operations by approximately SEK 6.0 billion in the third quarter of 2002. Adjusted for the estimated restructuring charges, Telia expects its international carrier operations to achieve positive cash flow during 2003.

### ***Pricing***

Fees charged for Telia's capacity services are mainly comprised of an installation fee and a monthly fee. The fees vary by bandwidth and the destination country. Telia also offers discounts based on contract period and value.

Voice traffic is priced per minute at a rate that depends on the destination country.

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For IP connectivity and transit pricing, Telia offers two pricing options: a flat rate for a defined access speed, and a variable rate based on the actual volume transferred.

### **Telia Holding**

Following the completion of Telia's refine and focus initiative in 2001, in which a substantial portion of Telia's non-core assets were divested, Telia Equity was no longer treated as a separate business area and was renamed Telia Holding in April 2002. Telia Holding currently operates as an independent business unit under Telia AB and has responsibility for the management and rationalization of Telia's interest in companies outside of Telia's core business areas, as well as for the possible divestment of companies within the Telia Holding group. From time to time Telia may restructure, wind up, liquidate or sell all or a portion of its interest in some of the businesses managed by Telia Holding. In addition, Telia may also from time to time acquire other non-core businesses to be managed by Telia Holding.

The companies subject to Telia Holding's management and oversight operate in a variety of industries in Sweden, including pay phone services, credit services and debt collection, cable television, venture capital, telecommunications security services, home electronics, computer software, human resource management and other areas. Some of the companies managed by Telia Holding have a significant proportion of external customers that are outside of the Telia group. Other companies provide products and services to Telia's business areas or to customers served by Telia's business areas. The most significant companies managed by Telia Holding, in terms of annual revenues and customers, are the following:

*Sergel Kreditjänster AB* offers credit and debt collection services through secured tools for customer selection and claims services. In 2001, Sergel Kreditjänster had revenues of SEK 244 million, of which 45 percent were derived from external sales. Sergel Kreditjänster is a wholly owned subsidiary of Telia.

*Telia Finans AB* offers financing, packaging and invoicing services for telecommunications, data communications and office equipment to hardware and software suppliers, manufacturers and wholesale and retail dealers within the telecommunications and information technology sector. In 2001, Telia Finans had net interest income of SEK 287 million. In addition, as of the end of 2001, Telia Finans had 38,000 customers, the majority of which were external to the Telia group. Telia Finans is a wholly owned subsidiary of Telia.

*Unite AB* develops and maintains security services, including risk management, information security, fire protection and admission protection. In 2001, Unite had revenues of SEK 169 million and 80 customers, the majority of which were external to the Telia group. Telia represents approximately 90 percent of Unite's annual revenue. Unite is a wholly owned subsidiary of Telia.

*Telia Promotor AB* is a leading supplier of customer relationship management and contact center services in the Nordic countries. Promotor offers services that integrate telecommunications, voice and web services designed to assist customer service departments to work more efficiently. In 2001 Promotor had revenues of SEK 297 million. Promotor is a wholly owned subsidiary of Telia.

*Slottsbacken Venture Capital KB* is a venture capital fund that invests in companies operating in the information and communications market. Telia has a 50 percent interest in the fund. As of June 30, 2002, Telia's share of funds under management was SEK 85.1 million.

*Slottsbacken Fund Two KB* is a venture capital fund that invests in companies operating in the information and communications market. Telia has a nine percent interest in the fund. As of June 30, 2002, Telia's share of funds under management was SEK 7.4 million.

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In addition, during 2001 Telia sold 51 percent of the share capital of the Telefon Group to Industri Kapital 2000 Ltd. Telia retains a 49 percent interest in the Telefon Group. The Telefon Group is a holding company for the following companies:

*Swedia Networks AB*, with approximately 2,500 employees, is a telecommunications construction company specializing in design, construction and field service for electronic telecommunications infrastructure;

*KI Consulting AB*, with approximately 1,150 employees, is a company providing businesses IP, Internet, intranet Broadband, fixed and mobile software solutions;

*Response AB*, with approximately 1,000 employees, is Sweden's largest directory inquiries business;

*Validation AB*, with approximately 500 employees, is a company specializing in the testing and integration of products and product support systems including customer data, networks, IT-architecture and technical and management procedures;

*Comcarta AB* (formerly Telia Dokumentation AB), with approximately 380 employees, is a business supplying network operators and other network owners with geographical information services;

*Telia Teleaddress Information AB*, with approximately 70 employees, is a company that collects, arranges and improves information about both private and business subscribers;

*Swedtel AB*, with approximately 45 employees, is a business specializing in providing consulting services and project management to telecom operators and service providers seeking to launch new service or build new networks; and

*Multicom Security AB*, with approximately 30 employees, develops, markets and sells services for the supervised transmission of alarms and other information between technical systems for protection and security.

In 2001, Telia also sold 91 percent of the share capital of the Orbiant Group to Flextronics Network Services Sweden AB. Flextronics acquired Telia's remaining nine percent interest in the Orbiant Group in July 2002 for a purchase price of SEK 106 million. The Orbiant Group consisted of companies engaged in businesses including the design, construction and operation of public networks, the installation of local access equipment, the integration, implementation and operation of business systems and the provision of services to mobile access networks.

Telia presently maintains significant and continuing commercial and financial relationships with some of the companies held by the Telefon Group and the Orbiant Group. See **INFORMATION ABOUT TELIA** Related Party Transactions.

Under the terms of the sale of its partial interest in Telefon and its entire interest in Orbiant, Telia has entered into commitments to purchase pre-determined levels of products and services from Telefon and Orbiant, respectively. As is customary in negotiated sales, Telia gave representations and warranties relating to both Telefon and Orbiant to the purchasers.

In addition, in September 2001, KF, Skandia and Telia signed an agreement to jointly form Coop Bank, whose main channel for services will be the Internet, with services offered via fixed and mobile telecommunications. Telia has a 20 percent ownership interest in Coop Bank, and has committed make to capital contributions to Coop Bank amounting to SEK 140 million, of which Telia has paid SEK 93 million.

## **International and Other Significant Investments**

Telia has investments in a variety of fixed network and mobile operators and international data communications companies located outside of Sweden which are held and managed through Telia's respective business areas and Telia Holding.

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The following table sets forth Telia's principal international investments, its percentage ownership and the total actual cost and carrying value of its shares in these companies as of December 31, 2001:

| As of December 31, 2001                    |                      |                                      |                          |         |
|--|----------------------|--------------------------------------|--------------------------|---------|
| Country                                    | Percent of ownership | Actual cost of shares <sup>(1)</sup> | Carrying value of shares |         |
|  |                      | (in SEK millions)                    | (in SEK millions)        |         |
| <b>GSM mobile operators<sup>(2):</sup></b> |                      |                                      |                          |         |
| UAB Omnitel <sup>(3)</sup>                 | Lithuania            | 27.5                                 | 730.3                    | 824.5   |
| Latvijas Mobilais Telefons SIA             | Latvia               | 24.5                                 | 1.6                      | 315.2   |
| AS EMT <sup>(4)</sup>                      | Estonia              | 24.5                                 | 85.3                     | 211.4   |
| OAO MegaFon <sup>(5)</sup>                 | Russia               | 37.3                                 | 434.9                    | 581.5   |
| <b>Fixed network operators:</b>            |                      |                                      |                          |         |
| AS Eesti Telefon <sup>(4)</sup>            | Estonia              | 24.5                                 | 98.0                     | 331.4   |
| AB Lietuvos Telekomas <sup>(6)</sup>       | Lithuania            | 30.0                                 | 2,052.7                  | 2,366.2 |
| Netia Holdings S.A.                        | Poland               | 48.06                                | 2,896.7                  | 0       |
| <b>Other significant investments:</b>      |                      |                                      |                          |         |
| OAO Telecominvest                          | Russia               | 26.1                                 | 700.2                    | 877.8   |
| Infonet Services Corporation               | United States        | 20.0                                 | 2,088.4                  | 2,908.6 |

- (1) Includes Telia's total actual cost of shares resulting from the investment in the share capital of the relevant company.
- (2) Telia also holds a majority voting interest in the Brazilian mobile operator Tess SA, although it sold all of its economic interest in Tess in April 2001.
- (3) Held through Amber Mobile Teleholding AB.
- (4) Held through its parent company AS Eesti Telekom, which in turn is partly held by Baltic Tele AB.
- (5) MegaFon (formerly ZAO North-West GSM) reorganized into an open joint-stock company (OAO) from a closed joint-stock company (ZAO) in May 2002. Telia holds its shares in MegaFon both directly and indirectly through OAO Telecominvest. As of September 25, 2002, Telia holds a 17.8 percent ownership interest in MegaFon.
- (6) Held through Amber Teleholding A/S.

**UAB Omnitel**

In September 1998, Telia and Sonera acquired a combined 55 percent interest in UAB Omnitel, the largest of three GSM operators in Lithuania, through their jointly owned company, Amber Mobile Teleholding AB. Through its 50 percent interest in Amber Mobile Teleholding, Telia holds a 27.5 percent interest in Omnitel. Omnitel's other shareholders are Motorola Lithuania Telecom, a Lithuanian subsidiary of Motorola Corporation, with a 35 percent interest in Omnitel, and the Kazickas family, with a ten percent interest. For further information concerning the business and financial operations of Omnitel, see INFORMATION ABOUT SONERA Other Operations International and Other Significant Investments and Mobile Telecommunications Operations Omnitel.

**Latvijas Mobilais Telefons SIA**

In 1991, Telia, Sonera and three Latvian parties established Latvijas Mobilais Telefons SIA, currently the largest GSM operator in Latvia. Telia holds directly a 24.5 percent interest in Latvijas Mobilais Telefons. Latvijas Mobilais Telefons' other shareholders are Sonera, with a 24.5 percent interest, Digital Latvia Radio and TV Centre, which is a wholly owned subsidiary of the Latvia Radio and Television Centre, with a 23 percent interest, Lattelekom, with a 23 percent interest, and the Republic of Latvia, which has a five percent interest. For further information concerning the business and financial operations of Latvijas Mobilais Telefons, see INFORMATION ABOUT SONERA Other Operations International and Other Significant Investments Mobile Telecommunications Operations Latvijas Mobilais Telefons SIA.





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Through its shareholding in Eesti Telekom, a publicly listed Estonian corporation, Telia has an indirect 24.5 percent interest in AS EMT, formerly known as Eesti Mobiiltelefon. EMT, a wholly owned subsidiary of Eesti Telekom, is the largest of three GSM operators in Estonia. In 1990, Telia, Sonera and the Republic of Estonia formed EMT. The other indirect shareholders of EMT are Sonera, which holds an indirect 24.5 percent interest in EMT through its shareholding in Eesti Telekom, and the Republic of Estonia, which holds a 27.3 percent interest in Eesti Telekom. The remaining 23.7 percent of Eesti Telekom is publicly held. For further information concerning the business and financial operations of EMT, see INFORMATION ABOUT SONERA Other Operations International and Other Significant Investments Mobile Telecommunications Operations AS EMT.

***AS Eesti Telefon***

Through Telia's holding in AS Eesti Telekom, a publicly listed Estonian corporation, Telia has an indirect 24.5 percent interest in Eesti Telefon. Eesti Telefon, a wholly owned subsidiary of Eesti Telekom, is the dominant provider of fixed line telecommunications services in Estonia. The other shareholders of Eesti Telefon are Sonera, which holds an indirect 24.5 percent interest in Eesti Telefon through its shareholding in Eesti Telekom, and the Republic of Estonia, which holds a 27.3 percent interest. The remaining 23.7 percent of Eesti Telekom is publicly held. For further information concerning the business and financial operations of Eesti Telefon, see INFORMATION ABOUT SONERA Other Operations International and Other Significant Investments Fixed line Operations AS Eesti Telefon.

***AB Lietuvos Telekomas***

In July 1998, Telia and Sonera acquired a 60 percent interest in AB Lietuvos Telekomas, the leading provider of fixed line telecommunications services in Lithuania, through the jointly owned company Amber Teleholding A/S. Through its 50 percent interest in Amber Teleholding, Telia holds a 30 percent interest in Lietuvos Telekomas. For further information concerning the business and financial operations of Lietuvos Telekomas, see INFORMATION ABOUT SONERA Other Operations International and Other Significant Investments Fixed line Operations Lietuvos Telekomas.

***OAO Telecominvest***

Telia has a 26.1 percent interest in the open joint-stock company OAO Telecominvest. Telecominvest is a holding company located in St. Petersburg, Russia and operates more than 30 businesses covering nearly all segments of the Russian telecommunications industry, including mobile telecommunications, fixed telecommunications, Internet services and media production.

Telecominvest was founded in 1994 by the two leading telecommunications businesses in St. Petersburg OAO St. Petersburg Telephone Network and OAO St. Petersburg National and International Telephone, for the purpose of managing their respective subsidiaries. In 1996, Telecominvest entered into an agreement with Commerzbank, one of the largest banks in Germany, to become a shareholder in Telecominvest through its subsidiary First National Holding S.A. Telia became a shareholder in First National Holding in February 2000. In June 2002, Telia exchanged its shareholding in First National Holding for a 26.1 percent direct holding in Telecominvest.

Currently, Telecominvest's largest project involves the development of the MegaFon group. Telecominvest, together with Telia, Sonera and OOO CT-Mobile, was a key participant in the planning and development of the MegaFon merger, which will create the first pan-Russian GSM operator. For a further discussion of Telia's interest in MegaFon, see International and Other Significant Investments OAO MegaFon.

Telecominvest's other holdings include a 29 percent interest in Peter Star, which installs and maintains high quality local and international telephone lines and high-speed data transmission channels, and a 100 percent interest in Peterburg Transit Telecom (PTT), a provider of capacity for both fixed and mobile

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telecommunications operators in St. Petersburg. Peter Star and PTT had revenues of \$26.9 million and \$18.7 million, respectively, in the first half of 2002.

In 2001, Telecominvest continued to develop its presence in all segments of the telecommunications market in the northwest region of Russia and also expanded its presence in other regions in Russia. Telecominvest's total revenue amounted to \$76.0 million in 2001, which represents over a 400 percent increase as compared to 2000. Telecominvest's total net income amounted to \$45.8 million in 2001, which represents an increase of more than 300 percent as compared to 2000.

**OAo MegaFon**

As of September 25, 2002, Telia holds a 17.8 percent interest in OAo MegaFon (formerly, ZAO North-West GSM), of which a 9.6 percent interest is held directly and an 8.2 percent interest is held indirectly through Telia's interest in Telecominvest. MegaFon is a GSM service provider in the northwestern part of Russia, including St. Petersburg, Leningrad oblast, Archangelsk, Murmansk, Karelia, Vologda, Pskov, Kaliningrad and Novgorod. In August 2001, the shareholders of North-West GSM announced that the operations of North-West GSM would be merged with the operations of ZAO Sonic Duo, a GSM operator in the Moscow region, and several other regional Russian GSM operators wholly or partly owned by Telecominvest to form the first nationwide Russian GSM operator which will operate under the brand name

MegaFon. MegaFon is the parent company of the new MegaFon group. In conjunction with the formation of the MegaFon group, North-West GSM changed its name to MegaFon in May 2002 and reorganized into an open joint-stock company (OAo) from a closed joint-stock company (ZAO).

For the year ended December 31, 2001, MegaFon's revenues amounted to \$197 million, as compared to revenues of \$121 million for the year ended December 31, 2000.

The following table sets forth certain information regarding MegaFon and its Russian mobile telecommunications operations:

|   | As of or for the<br>year ended December 31, <sup>(1)</sup> |      |      |
|---|--|------|------|
|   | 1999   | 2000 | 2001 |
|   | (\$ in millions,<br>except percentages)                    |      |      |
| Net sales   | 86   | 121  | 197  |
| Operating profit  | 21   | 38   | 83   |
| Net income  | 6  | 21   | 60   |
| Telia's share of net income (%) <sup>(2)</sup>              |  | 24.5 | 37.3 |
| Equity income consolidated to Telia                         |  | 5    | 15   |
| Total assets  | 112  | 123  | 195  |
| Shareholders' equity  | 43   | 63   | 123  |
| Net (receivable) <sup>(3)</sup>                             | (2)  | (19) | (25) |
| Penetration rate of mobile telephone services in Russia (%) | 0.9  | 2    | 5    |

(1) The selected financial data set forth above is derived from audited financial statements prepared by MegaFon (formerly, ZAO North-West GSM). The calculation of equity income to be reflected in Telia's consolidated financial statements was based on preliminary financial reports available to and estimates made by Telia and may therefore differ from the data included in MegaFon's audited financial statements for the relevant years. Consequently, the equity income consolidated to Telia for a certain period is likely to include corrections from the previous year. Furthermore, equity income consolidated to Telia includes goodwill amortization.

(2) Direct and indirect holdings.

(3) Net debt consists of interest-bearing debt less cash and short-term investments.

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MegaFon commercially launched its GSM service in the St. Petersburg area in December 1994 and in most of its other service areas in 1997. MegaFon's licenses in its current five principal service areas are valid until 2008. In December 1999, MegaFon acquired 100 percent of the equity of North-West DCS ZAO, a holder of a GSM 1800 license, and, in March 2000, by decision of the Russian Ministry of Telecommunications, the North-West DCS ZAO license was transferred to MegaFon. This acquisition permits MegaFon to provide dual band service and adds Kaliningrad, Novgorod and Pskov to the regions in which it is licensed. In the second half of 2001, MegaFon established a new 75 percent held subsidiary ZAO TTMobile, a cellular telecommunications network in Tajikistan. TTMobile started its commercial operations in October 2001 and had approximately 1,200 subscribers as of June 30, 2002. TTMobile holds a license for GSM 900/1800 services in Tajikistan that is valid until 2007.

As of December 31, 2001, MegaFon had approximately 70 percent of the market for mobile telecommunication services in St. Petersburg and Leningrad oblast and approximately a 50 percent market share in its other service areas. The main competitors of MegaFon in the Russian GSM market are Mobile TeleSystem and Vimpelcom.

The first step of the MegaFon merger was completed in March 2002, when Sonic Duo, a Russian company which acquired a license to provide GSM services in the Moscow area in May 2000 and began construction of its GSM network in 2001, became a wholly owned subsidiary of MegaFon and the Russian regional operators in which Telecominvest had interests became subsidiaries or associated companies of MegaFon. Prior to the merger, Sonera held a 35 percent interest and OOO CT-Mobile held a 65 percent interest in Sonic Duo. In March 2002, Sonera and OOO CT-Mobile exchanged their interests in Sonic Duo for a new issuance of shares in MegaFon, pursuant to which Sonic Duo became a wholly owned subsidiary of MegaFon. Sonic Duo and MegaFon are currently in the process of merging their operations.

As of June 30, 2002, the GSM operators comprising the MegaFon group had approximately 1,680,000 subscribers. Measured by the geographic region covered by its operating license, MegaFon will be the largest GSM operator in Russia and the third largest in terms of subscribers after the reorganization of the MegaFon group. The MegaFon group will offer GSM services in both GSM 900 and GSM 1800 networks. In addition, the MegaFon group is also expected to provide HSCSD and GPRS services in major cities in Russia. The GSM operators comprising the MegaFon group have roaming agreements with approximately 259 mobile communications operators in approximately 116 countries, and provide national roaming pursuant to agreements with 28 other GSM operators operating in Russia. The MegaFon group's licenses entitle it to operate in all 89 regions of Russia in a territory covering approximately 149 million people.

Telia holds a 17.8 percent interest in MegaFon, of which 9.6 percent is held directly and 8.2 percent is held indirectly through its holding in Telecominvest. The other shareholders of the newly merged MegaFon group include Sonera with a 26 percent holding, OAO Telecominvest with a 31.3 percent holding, OOO CT-Mobile with a 25.1 percent holding, ZAO WestLink with a 1.5 percent holding and the IPOC International Growth Fund Limited with a 6.5 percent holding. Telia expects the new MegaFon group to realize significant benefits as a result of the mergers, including a larger customer base in Russia, the strengthening of MegaFon's market position and significant synergies within a number of areas of operation as a result of the elimination of overlapping mobile operations in Russia.

Currently, Sonera has the joint right together with OOO CT-Mobile to approve the general director of MegaFon, whose nomination is to be made by OAO Telecominvest. Additionally, Sonera has the right to nominate two of the seven members of the board of MegaFon, while OOO CT-Mobile and Telecominvest have the right to nominate two and three board members, respectively. One of Telecominvest's board members of MegaFon will be nominated by Telia.

The European Bank for Reconstruction and Development (EBRD) agreed in 1996 to lend MegaFon up to \$40 million to finance the development of its GSM network. To secure MegaFon's obligations thereunder, each shareholder, including Telia, agreed to pledge up to 50 percent of its respective shares to the EBRD. The loan agreement also restricts MegaFon's ability to pay dividends, incur additional indebtedness and make certain expenditures without the permission of the EBRD. MegaFon repaid all amounts drawn under the EBRD loan agreement in January 2001, but the pledge remains in effect to secure future borrowings.

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MegaFon received the undrawn portion of the loan in April 2002. Telia and the EBRD are in the process of renegotiating the existing security structure with respect to this loan.

In February 2002, Sonic Duo obtained financing from the EBRD, the International Finance Corporation (IFC) and other bank lenders in the aggregate amount of \$126 million. The first disbursement of the loan in the aggregate amount of \$62 million was made in February 2002. In connection with the financing, Sonic Duo's shareholders initially pledged their shares in Sonic Duo to the EBRD, the IFC and the other bank lenders involved, and Sonera also provided a limited guarantee covering Sonic Duo's payment obligations. The Sonic Duo shareholders' pledge has been replaced by a pledge of Sonic Duo shares by MegaFon. On April 5, 2002, the lenders notified Sonic Duo that it was in technical default under the loan agreements because it was, among other things, not in compliance with its base station roll-out program. In May 2002, after a series of negotiations between Sonic Duo and the lenders, the lenders agreed to waive the default, subject to Sonic Duo's meeting certain conditions, including the delivery of an updated business plan. In response to a request from Sonic Duo's lenders that the shareholders of MegaFon, including Telia and Sonera, guarantee Sonic Duo's loan, MegaFon has guaranteed up to \$18 million of the loan and a majority of MegaFon's shareholders, including Telia and Sonera, have in turn jointly and severally counter-guaranteed MegaFon's guarantee up to \$14 million. In August 2002, the lenders made the second disbursement of the loan in the principal amount of \$31 million.

MegaFon is actively seeking vendor and additional debt financing and is also reviewing other financing opportunities.

In August 1998, Russia experienced a severe economic and political crisis. Although the crisis negatively affected MegaFon's results, the company was able to maintain profitability and to distribute profits to its shareholders during 1998 and 1999. In 2000, MegaFon experienced a sharp increase in revenues partly due to improvements in the Russian economy. Russia, however, remains an emerging market and does not possess the well-developed business and regulatory infrastructure that generally exist in more mature market economies. Furthermore, the Russian government has not fully implemented the reforms necessary to create banking, judicial, tax and regulatory systems that usually exist in more developed markets. In the event a new economic or political crisis should occur in Russia, it could have a material adverse effect upon the value and prospects of MegaFon.

***Netia Holdings S.A.***

Telia currently has a 48.06 percent shareholding in Netia Holdings S.A., an independent fixed line telecommunications operator in Poland. As discussed below, however, Telia's ownership interest will be significantly reduced at the conclusion of an ongoing restructuring of Netia's outstanding debt. As of December 31, 2001, Netia had 343,802 active subscriber lines, including 97,994 business lines. As of June 30, 2002, Netia had 342,145 active subscriber lines and 101,997 business customer lines. For the year ended December 31, 2001, Netia's revenues amounted to Polish zloty 539 million (\$133 million), as compared to revenues of Polish zloty 443 million (\$110 million) for the year ended December 31, 2000. For the six months ended June 30, 2002, Netia's revenues amounted to Polish zloty 298 million (\$74 million), as compared to Polish zloty 257 million (\$64 million) for the six months ended June 30, 2001.

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The following table sets forth certain information regarding Netia Holdings S.A.:

|                                     | As of or for the year ended December 31, <sup>(1)</sup> |           |             |
|-------------------------------------|---|-----------|-------------|
|                                     | 1999  | 2000      | 2001        |
|                                     | (in PLN thousands, except percentages and market data)  |           |             |
| Revenues                            | 249,097   | 442,747   | 538,851     |
| Operating (loss)                    | (134,542)   | (156,531) | (528,899)   |
| Net (loss)                          | (418,931)   | (362,046) | (1,149,217) |
| Telia's share of net (loss) (%)     | 29.72   | 48.06     | 48.06       |
| Equity (loss) consolidated to Telia | (156,579)   | (195,244) | (976,529)   |
| Total assets                        | 3,961,196   | 5,033,304 | 3,904,347   |
| Shareholders' equity (deficit)      | 677,092   | 780,411   | (343,248)   |
| Net debt <sup>(2)</sup>             | 1,648,370   | 2,366,775 | 2,909,923   |

- (1) The selected financial data set forth above is derived from audited financial statements prepared by Netia Holdings. The calculation of equity income (loss) to be reflected in Telia's consolidated financial statements was based on preliminary financial reports available to and estimates made by Telia and may therefore differ from the data included in Netia's audited financial statements for the relevant years. Consequently, the equity income (loss) consolidated to Telia for a certain period is likely to include corrections from the previous year. Furthermore, equity income (loss) consolidated to Telia includes amortization and write-down of goodwill and effects of changes in Telia's ownership of Netia group companies.
- (2) Net debt consists of interest-bearing debt less cash. For the purposes of this table, information has been extracted from Netia Holdings annual report on Form 20-F for the fiscal year ended December 31, 2001, as filed with the SEC on March 28, 2002, which defines cash as not including restricted investments set aside for the payment of interest. Net debt thus does not reflect any potential assets defined as restricted investments.

Netia is the largest alternative fixed line telecommunications provider in Poland and currently holds licenses to provide fixed voice telecommunications services in 24 regions in Poland, including the City of Warsaw. Since 1999, Netia has also had a license to provide Internet access as well as other Internet services and data transmission services in Poland. In 2000, Netia received a license to provide long distance voice telecommunications services throughout Poland.

On January 1, 2001, new telecommunications legislation came into force in Poland, which provides a new regulatory framework for the telecommunications industry and is expected to be accompanied by additional regulations to be passed by the Ministry of Infrastructure. Many of these regulations have not yet come into effect and, accordingly, it is not possible to predict the possible impact of such regulations on Netia's business.

Netia suffered serious financial setbacks in 2001. As of December 31, 2001, it had an accumulated deficit of PLN 2.3 billion and a working capital deficit of PLN 3.5 billion. In December 2001, one of its wholly owned subsidiaries failed to make interest payments on its outstanding notes. In March 2002, Netia negotiated a restructuring plan with its principal noteholders and financial creditors, which subsequently received the requisite approval of 90 percent of the holders of its existing notes. At an extraordinary shareholder's meeting on April 4, 2002, Netia's shareholders approved a capital increase necessary to implement the restructuring. When the restructuring is completed and the warrant granted by Telia to Warburg Pincus to purchase a portion of Telia's interest in Netia is exercised, Telia's ownership interest in Netia will be diluted from 48.06 percent to approximately 2.1 percent on a fully diluted basis. Telia will also have the right to purchase an additional 4.3 percent interest in Netia upon the exercise of warrants to subscribe for Netia shares to be granted in connection with the restructuring. The restructuring is expected to be completed by the end of 2002.

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Telia recorded a substantial impairment charge relating to its investment in Netia in 2001 and, subsequently, wrote down its investment in Netia to zero as a result of a loss in earnings from associated companies attributable to Netia. In 2001, Telia recorded a loss in earnings from associated companies of SEK 2,464 million with respect to its investment in Netia. Telia records the carrying value of its investment in Netia at zero, and does not expect to be required to make any further impairment charges with respect to its investment in Netia.

### ***Infonet Services Corporation***

As of June 30, 2002, Telia owns a 20.1 percent shareholding in Infonet, a leading provider of cross-border managed data communications. For the fiscal year ended March 31, 2002, Infonet provided more than 2,600 companies worldwide with data communication services. For the fiscal year ended March 31, 2002, Infonet's revenues amounted to \$645,779,000. Infonet Services' B-shares are listed on the New York Stock Exchange. Telia's share of net income from Infonet was \$4,498,000 for the fiscal year ended December 31, 2000, compared to \$2,956,000 for the fiscal year ended December 31, 2001.

Infonet is a global provider of international telecommunication services and serves a large number of customers throughout the world. The provision of data communications services is performed through the Infonet owned World Network, which constitutes one of the world's largest data communication networks in terms of geographic coverage. As of December 31, 2001, Infonet's network was capable of being accessed from more than 3,000 cities and 180 countries throughout the world. Infonet's network is ATM-enabled and contains more than 23 Gbps data transmission circuits. Capacity is sold through both sales representatives employed by Infonet as well as through contracted representatives. Infonet's current agreements with its customers are usually entered into on a one to three year basis.

Infonet faces competition from existing telecommunications providers, satellite operators and other corporations operating in the global telecommunications industry. Infonet may also have to compete with new entrants due to the expected future growth of the global telecommunications market. Present competitors include AT&T, British Telecom, France Telecom and WorldCom. Due to uncertainty in the global telecommunications market, growth and profitability for Infonet are difficult to estimate.

Telia's ownership in Infonet is subject to a shareholder's agreement between Telia and Infonet's five other largest Class A shareholders. The agreement provides Telia and certain of the other Class A shareholders with the right to appoint one director to Infonet's board of directors. The Class A shareholders own approximately 78 percent of the Class B shares and control approximately 96 percent of Infonet's total voting shares.

In July 2002, Telia was named as one of several defendants in a securities law class action suit relating to Infonet's initial public offering. See Legal and Regulatory Proceedings.

### ***Tess S.A.***

In April 2001, Telia and its majority owned subsidiary Telia Overseas AB sold all of their economic interest in the Brazilian mobile operator Tess S.A. for cash and notes to Telecom Americas Ltd., a consortium owned by America Moviles, Bell Canada International and SBC Communications. To meet the requirements of the telecommunications regulatory authority in Brazil, Agencia Nacional de Telecomunicacoes, or Anatel, under Tess's concession, Telia was required to maintain voting control in Tess until December 2003. Telia and Telia Overseas have, accordingly, retained a majority of the voting shares in Tess. As part of the transaction, however, Telia and Telia Overseas granted a call option to Telecom Americas to purchase Telia's and Telia Overseas' voting interest in Tess, which may be exercised in the event all Brazilian laws and regulations applicable to the transfer of the voting interest are satisfied. At the same time, Telecom Americas granted Telia and Telia Overseas a put option granting Telia and Telia Overseas the right to put their voting interest in Tess to Telecom Americas under substantially the same conditions. As part of the transaction, Telecom Americas has released Telia and its subsidiaries from all liabilities which may arise in relation to its ownership of Tess SA, apart from certain legal claims brought by former minority shareholders of Tess, and subject to representations and warranties relating to the businesses sold.

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The total face value of the consideration for the sale of Telia's and Telia Overseas' interest in Tess was \$681.9 million, of which 66 percent was paid in cash upon signing, with the remaining 34 percent was paid in the form of promissory notes issued by Telecom Americas and guaranteed by America Moviles, Bell Canada International and SBC, respectively. As agreed among the parties, Telia and Telia Overseas resold their notes during 2001. As a result, Telia and Telia Overseas have received an aggregate of \$625.9 million in cash proceeds from the sale of their Tess interests.

**International Portfolio of Telia Overseas AB**

Telia Overseas AB, a subsidiary in which Telia holds a 65 percent interest and three Nordic institutional investors hold the remaining 35 percent, holds interests in several mobile and/or fixed line operators with businesses outside of the Nordic region. Telia Overseas currently holds interests in Brazil, Hong Kong, India, Namibia, Sri Lanka and Uganda. As noted above under Tess S.A., Telia Overseas's economic interest in Tess was sold in April 2001. Telia Overseas's ownership stake in Bharti Mobile (India) is in the process of being sold in a transaction that is expected to be completed during the second half of 2002. Telia expects that Telia Overseas will seek to sell its remaining holdings depending on market conditions in an effort to maximize its return on these holdings.

**Geographic Breakdown of Operations**

Telia primarily generates its revenues in Sweden. The second most important market for Telia in terms of external sales, or sales outside of the Telia group, is the rest of the Nordic region, which consists of Denmark, Finland and Norway. Of Telia's external sales in 2001, approximately 81 percent were earned in Sweden and approximately 14 percent represented sales in the Nordic region other than Sweden. The following table sets forth Telia's external net sales by geographic segment for each of the last three financial years and for the six months ended June 30, 2002:

| Geographic segment           | External Net Sales              |        |        |                                   |
|------------------------------|---------------------------------|--------|--------|-----------------------------------|
|                              | For the year ended December 31, |        |        | For the six months ended June 30, |
|                              | 1999                            | 2000   | 2001   | 2002                              |
|                              | (SEK in millions)               |        |        |                                   |
| Sweden                       | 46,760                          | 46,469 | 46,348 | 22,285                            |
| Norway                       | 659                             | 1,778  | 4,420  | 2,544                             |
| Denmark                      | 2,118                           | 2,082  | 2,437  | 1,338                             |
| Finland                      | 888                             | 1,234  | 1,256  | 587                               |
| Baltic region <sup>(1)</sup> | 164                             | 137    | 133    | 110                               |
| Rest of Europe               | 874                             | 1,292  | 1,667  | 931                               |
| Rest of world                | 658                             | 1,072  | 935    | 436                               |
| Total                        | 52,121                          | 54,064 | 57,196 | 28,231                            |

(1) The Baltic region is Estonia, Latvia, Lithuania, Poland and northwestern Russia.

**Competition**

Telia operates in an increasingly competitive environment, which has resulted in strong price pressure on many of its products and services. Telia's major competitors for mobile telecommunications services in Sweden are Tele2 (Comviq), Hi3G and Vodafone-Europolitan. In the future, Telia expects to face competition from Orange and Hi3G, each of which has a UMTS license in Sweden, and mobile service providers such as Sense Communications and Song Networks. In Denmark, Telia's major competitors are TDC A/S, Tele 2 Danmark, Sonofon and Orange and, in Finland, Telia's major competitors are Sonera, Radiolinja and DNA Finland. In Norway, Telia's major competitors are Telenor and Tele2 as well as a number of service





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providers. Competition in Telia Mobile's business is currently based primarily on service quality, including factors such as availability of new services and network coverage.

Telia's major competitors in fixed line telecommunications service in Sweden in the retail sector are Tele2, Telenordia, MCI/WorldCom, Utfors, Global One, RSLCom, Rix Telecom, Abonnera.com, Supertel, Stjärn TV-UPC, Song Networks, Facicom/Tele8 International Sweden, TeliTel, CallMedia Telecom CMT, NetNet International, Hem-El and Glocalnet and, in the wholesale sector, Telia's competitors are Tele2, Song Networks, Utfors, Telenordia Glocalnet, Rix Telecom and Bredbandsbolaget. Telia believes that competition for fixed telecommunications services will increasingly be based on price. In Denmark, Telia Networks's major wholesale competitors are TDC A/S, Orange, Global Connect, Song Networks, COLT and Global Crossing, and its major retail competitors are TDC A/S, Tele2, Debitel, Orange and Sonofon.

Telia Internet Services faces competition in Sweden from Tele2, Telenordia, Utfors, Bredbandsbolaget, Chello, Microsoft Network, Bonniers, MTG, Everyday and Spray. Of these companies, Telia's primary competitors for broadband access are Bredbandsbolaget, Chello and Utfors. In Denmark, Telia faces competition from TDC A/S, Tele 2 Danmark, Sonofon and Mobilix. Mobilix also competes with Telia in the area of data communications.

Telia International Carrier faces competition in Europe and the United States from competitors such as France Telecom, British Telecom, Colt, Global Crossing, C&W and Level 3. Competition in Telia International Carrier is currently based primarily on price, although Telia expects that as the carrier business matures, competition will increasingly be based on quality of service.

## **Marketing**

### ***Overview***

Each of Telia's core business areas is responsible for the marketing and sales of its products and services in all geographic markets. Telia Mobile markets its services in the Nordic countries, the Baltic States and Russia. Telia Internet Services provides Internet access and services in Sweden and Denmark. Telia International Carrier provides international wholesale network services principally in the Nordic countries, certain cities in Europe and New York. Telia Networks provides fixed network services in Sweden and Denmark.

### ***Telia Sverige***

In April 2001, Telia established a common marketing unit, Telia Sverige AB, to carry out the sales and marketing and customer service activities for Telia's business areas within Sweden, except for Skanova and Telia International Carrier, which manage their sales and customer relations activities internally. For a further discussion of the sales and customer services activities for these operations, see "Telia International Carrier Sales and Customers." For Telia Mobile, Telia Internet Services and Telia Networks, Telia Sverige carries out a variety of customer service and sales related activities within Sweden, including managing customer contacts from sales, billing, after-marketing functions and day-to-day customer service activities. These activities involve contacts with businesses, organizations and private individuals through Telia Sverige's own sales channels as well as through Telia Sverige's network of external resellers located throughout Sweden. In 2001, Telia also launched [www.telia.se](http://www.telia.se), a self-service website for consumers and business customers which Telia intends to operate as the main gateway to its entire range of services in Sweden.

During 2001, Telia Sverige managed contacts with 950 major organizations, 58,000 medium-sized companies, 325,000 small businesses and 4.5 million individuals through its own sales channels and network of resellers.

Telia Sverige had 4,556 employees as of June 30, 2002.

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### ***Marketing and Distribution***

Telia tailors its customer contacts and marketing activities on the basis of the size of the customer and the nature of its operations. For instance, Telia is typically in contact with its large, high-value business customers on a frequent basis, whereas Telia targets smaller businesses and residential customers through more limited contacts, such as through large scale advertising campaigns, telemarketing and direct mailings. Telia believes that, by segmenting its customer base in this manner, it is able to address the specific needs of its diverse customer base efficiently and at lower costs.

In Sweden, Telia markets its mobile, Internet and other services to residential and business subscribers through sales agents, independent distributors, the Internet via its *www.telia.se* site and through Telia *Butiker*, Telia's retail stores. Telia's network of retail stores in Sweden have an important role by providing a showcase for Telia's products and services as well as by contributing to the creation of Telia's *Butiker* strong brand presence. As of June 30, 2002, Telia's services were available through approximately 77 Telia stores and 8,000 external resellers in Sweden.

To its network of sales agents located in Sweden, Denmark and Norway, Telia offers commissions based on sales as well as for marketing and promotional campaigns. Telia enters into contracts with selling agents governing the competency and training of their sales personnel, the space and prominence of Telia's products in retail stores and the means of promoting Telia's products. Telia also offers handset subsidies through its distributors to its contract subscribers but generally not to its prepaid subscribers.

Through *www.telia.se*, Telia is also able to offer personalized product offerings to its on-line customers based on their prior on-line use. The *www.telia.se* portal also provides a convenient means for new customers to subscribe to additional services provided by Telia. Telia believes *www.telia.se* will become one of its major distribution channels for the purchase and use of its services, as *www.telia.se* already received more than 8 million visits during 2001. Telia also believes that the use of this self-service channel will lead to lower operating costs than are typically associated with more traditional distribution and service channels.

In addition to Telia Sverige, Skanova, a part of Telia Networks, and Telia International Carrier are each active in the Swedish market and offer national and international network services to operators and service providers. Skanova uses a differentiated distribution channel that enables specific units within Telia Networks to focus on large companies, public organizations and small- and medium-sized companies. In Denmark, fixed, mobile and Internet services, including digital cable television access, are mainly sold through Telia's Danish subsidiary, Telia Stofa, as well as through antenna associations. As in Sweden, Telia manages its own sales of network capacity and network services to operators and service providers in Denmark. In Norway, sales of mobile services are carried out through a network of external resellers.

### ***Customer Service***

Through Telia Sverige, Telia is working to provide quality customer service and to build its relationship with subscribers from the initial point of contact. Telia believes that customer service and customer relationship management is a distinguishing feature among operators and will become increasingly important as competition continues to intensify in Telia's markets. Telia formerly outsourced many of its subscriber related activities, such as billing and customer service.

Telia Sverige serves both Telia's subscribers and its dealers by maintaining a subscriber database, answering billing inquiries, responding to customer complaints, checking customer credit, opening new subscriptions and selling additional value-added services to existing subscribers.

The majority of Telia Sverige's customer service facilities are open 24 hours a day, 365 days per year and provide information about all of Telia's services, mobile handsets, coverage, tariffs and prices. During 2001, Telia Sverige had between 13 to 14 million contacts with Telia's subscribers, primarily through its customer service facilities, and also through Telia stores located throughout Sweden, which are designed to give Telia's subscribers personalized service. In order to provide high-quality customer service efficiently, Telia Sverige has also established an automatic customer care service, available by telephone or via the Internet. Through this service, subscribers may activate new subscriptions, order new value-added services and

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check account balances. During 2001, Telia Sverige averaged more than three million customer contacts per month through its automatic customer care service and more than one million contacts through manual customer service channels.

During 2001, TIM, or Telia's Integrated Measuring Tool, was upgraded to enhance TIM's Satisfied-Customer Index component. Telia plans to begin applying this enhanced measuring system in 2002 in order to assess the level of satisfaction among Telia's residential subscribers. For its business customers, Telia uses both internal customer satisfaction measures and independent customer satisfaction surveys to compare its customer service with its competitors. To date, these steps have led to enhanced customer service and satisfaction and improved employee training programs.

Telia Sverige also endeavors to protect Telia's subscribers against fraud and other criminal activities. In 2001, Telia became the first company in Sweden to introduce the CERT function. CERT's main purpose is to investigate security infringements aimed either at Telia or its subscribers.

### ***Subscriber Management and Billing***

Before activating a subscription, Telia Sverige verifies credit information and performs a credit check through an automated system which may be accessed by internal staff and authorized distributors. Credit checks are completed on-line and, unless manual processing is required, activation is completed or denied within a few minutes. Applicants who are not authorized in the initial credit check are generally provided with either a pre-paid service or a normal subscription service, with an appropriate deposit, third-party guarantee or limitation on use.

Since 2001, Telia Sverige has also been working to provide simpler payment systems for its subscribers by steadily improving its invoicing procedures. Telia's subscribers are billed quarterly or monthly and may choose to receive detailed account statements. Subscribers may also obtain a real-time follow-up service via either the Internet or telephone. During 2001, Telia Sverige also introduced the option for private subscribers to receive their bills electronically. Telia's contract subscribers are able to pay their bills over the Internet and Telia's Refill pre-paid subscribers may refill their accounts over the Internet. Payments are due 30 days after the date of the bill. For delinquent accounts, Telia Sverige sends a reminder ten days after the payment due date followed by a demand 20 days after the payment due date. Outgoing calls are blocked approximately 50 days after the payment due date and service is disconnected approximately 80 days after the payment due date.

Through Telia Reflex, Telia offers customers a web-based statistical tool for analyzing telecommunications traffic and invoicing data. Customers can specify how they want to be invoiced in order to allocate costs within their organization. Telia Reflex is offered at no cost to Telia's larger TeleBonus customers.

### **Properties**

Telia's principal executive offices are located in Farsta, Sweden, where Telia leases 100,000 square meters of office space.

As of January 1, 2002, fixed assets in Telia's property operations, including plant and equipment, had a total book value of SEK 1,630 million. During 1998, Telia sold most of its real property holdings (amounting to approximately 1.3 million square meters for a total consideration of SEK 6,184 million, including repayment of loans), so that most of the Telia group offices are leased rather than owned. The total area of Telia's properties amounts to 680,000 square meters. Substantially all of these properties are used for telecommunications installations, computer installations, research centers, service outlets and offices.

Telia also leases offices and space in a number of locations throughout Sweden. Telia leases approximately 750,000 square meters in over 400 facilities.

Telia believes that Telia's present facilities are adequate for its current operations and that similar space may be readily obtained to meet Telia's development and expansion needs in existing and projected markets for the foreseeable future.

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### **Environmental Matters**

In 1997, Telia completed the environmental remediation and decontamination of an impregnation plant in Sweden where its operations were conducted until the mid-1980s. Before the remediation and decontamination, the soil was contaminated with waste from Televerket's operations and leakage from an underground tank. Telia has conducted inventories of the plant on a continuous basis since the remediation and has not detected any material residual exposure in the area. Telia's management believes that Telia does not presently have responsibility for the decontamination of sites formerly used by Televerket for impregnating poles.

As mobile phone use has increased, an active debate has emerged on the possible health risks posed by electromagnetic fields from mobile phones or base stations. Telia is carefully monitoring developments in this field. In 1999, Telia organized a scientific council to study the possible health risks associated with electromagnetic fields. The council monitors the research in this area and serves as a reference group. See **RISK FACTORS** for a discussion of the possible health risks associated with mobile phone use.

Telia does not currently conduct any business operations that require a permit in accordance with Chapter 9, Section 6 of the Swedish Environmental Code (*Miljöbalken*), which regulates the need for permission and notification when conducting environmentally hazardous operations. Since 1996, Telia performed a number of life cycle assessments on its services and infrastructure to analyze the environmental effects of its telecommunication services and to identify areas for environmental improvement. Telia has also investigated the possible environmental effect of lead cables and impregnated poles used in its operations. These investigations have demonstrated that any spread of substances from lead cables or impregnated poles is essentially negligible and indicated that no environmental problems were present at the time of the investigation.

The principal environmental impact of Telia's operations arises from vehicle use, travel, transports, energy use and the consumption and use of materials. During 2001, Telia allocated approximately SEK 38.6 million of its general operating expenses to environmental expenses, excluding the cost of personnel. In 2001, carbon dioxide emissions from Telia's operations were 93.4 kton and total energy consumption was 886 GWh.

All of Telia's waste materials and residue products are handled by environmentally certified contractors and source-sorting is applied in all larger office buildings.

The Ordinance on Producer Responsibility for Electronic Products came into force on July 1, 2001. The Ordinance stipulates that Telia and all other companies in the telecommunications industry have a responsibility to reclaim their products when their useful life is over. To comply with the Ordinance, Telia has become a member of a joint system known as Elretur, which works to ensure that waste materials and residual products are handled in an environmentally efficient system.

During 2001, Telia's environmental actions included the following:

the environmental office of a Swedish municipality requested that Telia take action regarding a creosote-impregnated telephone pole located in the garden of a private house, whose owner expressed concern about the leaking of preservatives. Telia is currently in discussions with the parties regarding the matter; and

tests at a reserve power generation plant detected soot emissions and led to complaints from nearby residents through the environmental office of a Swedish municipality. Telia has been working with the municipality to complete the remediation of the power plant and Telia is presently in discussion with the municipality to determine whether Telia's actions are sufficient.

### **Legal and Regulatory Proceedings**

In the normal course of Telia's business, Telia is involved in a number of incidental conciliation proceedings with the Swedish NPTA, and is periodically involved in claims before the Swedish Competition Authority (*konkurrensverket*) and the Swedish Consumer Authority (*konsumentverket*). In addition, Telia is involved from time to time in various legal proceedings in Sweden and other jurisdictions in which it

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operates, including appeals from certain NPTA decisions, which Telia's management believes are incidental to the normal conduct of its business. Except for the proceedings described below, Telia is currently not aware of any legal, arbitration or regulatory proceedings that it believes is likely to have, individually or in the aggregate, a material adverse effect on Telia's business, financial condition or results of operations.

The following is a brief summary of certain regulatory proceedings to which Telia is a party:

The NPTA has upheld a claim brought by Tele2 that Telia must reimburse Tele2 for all mobile traffic transferred by Telia to Tele2's mobile network. The NPTA also ruled that Telia is entitled to be reimbursed from Tele2 and the other Swedish operators who have transferred mobile traffic on to Telia's network. After prevailing in the lower administrative court in this matter, Tele2 brought an action in the Swedish civil courts seeking SEK 514 million, excluding VAT, in reimbursement. Telia has subsequently paid to Tele2 amounts aggregating SEK 224 million for the mobile traffic transfers at issue in this matter. Telia has appealed the decision of the NPTA and the case is currently under review by the Swedish Administrative Court of Appeal. Tele2's civil action in this matter has been stayed pending the decision of the Swedish Administrative Court of Appeal. In Telia's view, the type of transfer in question does not constitute an interconnection between Telia and Tele2 and consequently, is not subject to the reimbursement provisions under the Telecommunications Act. Should the ruling of the NPTA stand, Telia would be required to reimburse Tele2 for the full amounts of its claim as well as for other such traffic transferred by Telia onto the networks of other mobile operators in Sweden. Telia would in turn be entitled to claim corresponding amounts from other operators.

The Swedish Competition Authority has, upon receipt of complaints from other operators during the second half of 2001, initiated an investigation of Telia's pricing of ADSL services. The complaints suggest that the difference between Telia's wholesale prices and retail prices is too low to effectively enable competition in the retail market. The investigation of the Swedish Competition Authority is at an early stage and Telia is not able to predict the manner in which this proceeding will be resolved at this time. Telia's position is that it has not engaged in any prohibited pricing activities.

During 1999, the European Commission initiated an investigation of Telia's actions in the market for group high speed Internet access. The investigation was initiated upon complaints from Bredbandsbolaget, a Swedish provider of broadband services. On July 6, 2002, the European Commission formally requested Telia to submit information in connection with this matter. Telia's position is that it has not undertaken any prohibited measures with respect to the matter.

In July 2002, Telia was named as one of several defendants in a securities law class action suit relating to the initial public offering of Infonet Services Corp., in which Telia holds a 20 percent interest, in the form of Class A and Class B shares. The suit was originally filed in the U.S. District Court for the Central District of California in early December 2001, and did not name Telia as a defendant. The complaint was amended in July 2002 and, named as defendants, in addition to Infonet, certain officers and directors of Infonet, the underwriters of Infonet's initial public offering, and each of the Class A shareholders of Infonet, including Telia. The suit alleges, among other things, that the prospectus used in connection with Infonet's initial public offering contained material misstatements or omissions relating to the AUCS business, a part of which was transferred by Unisource, a company in which Telia had a minority interest, to Infonet in 1999. The plaintiffs assert counts against the alleged controlling shareholders of Infonet, including Telia, for violations of Sections 11, 12 and 15 of the Securities Act and violations of Section 20(a) and 10(b) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder. The complaint seeks, among other things, compensatory damages and/or rescission, requesting, in particular, that the selling shareholders, including Telia, be required to disgorge profits allegedly gained through the sale of Infonet common stock in the offering, which resulted in aggregate proceeds to the selling shareholders of over \$400 million, including total proceeds of \$53.8 million to Telia as a selling shareholder. Telia denies the allegations contained in the suit and intends to contest the suit vigorously.

In July 2002, arbitration proceedings were initiated between Telia and Telia's landlord concerning real property in the Docklands area of London, England, leased by the landlord to Telia. The landlord of the

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property has claimed that Telia breached the 35-year lease agreement by failing to construct a building on the property as allegedly required under the lease. The parties have selected an arbitrator to preside, but the arbitrator has not yet been officially appointed. Neither Telia nor the landlord have filed any papers in the proceeding. No specific amounts have yet been claimed by the landlord, and Telia is not currently in a position to predict the outcome of this proceeding. Telia intends to vigorously defend its rights in connection with this matter.

On August 22, 2002, Radiolinja initiated an arbitration proceeding against Telia Mobile's branch in Finland, claiming damages for an alleged breach of contract on the part of Telia Mobile with regards to the service operator agreement between Radiolinja and Telia Mobile. The proceeding is still in the early stages. Telia denies Radiolinja claims and intends to vigorously contest such claims.

Telia is also engaged in disputes relating to its divested or partially divested businesses. One of Telia's majority owned subsidiaries is currently involved in litigation with one of the former shareholders of Tess S.A. related to such shareholders' disposal of its investment in Tess as well as certain subscription rights in Tess. The litigation, which was initiated in 1998, is still in the procedural stage. In addition, Industri Kapital, which purchased a 51 percent interest in Telefos from Telia in 2001, has notified Telia that it is reserving the right to make certain claims in the aggregate amount of approximately SEK 500 million under the Telefos share purchase agreement. This aggregate amount of the potential claims by Industri Kapital regarding Telefos is exclusive of any set-offs, counterclaims or other defenses available. Telia believes that Industri Kapital's claims are unfounded and intends to vigorously defend against such claims.

## **Material Contracts**

On March 15, 2001, Telia entered into a joint venture agreement with Tele2, the holder of a UMTS license in Sweden, to build and operate a UMTS network in Sweden. Under the joint venture agreement, the parties have organized a Swedish limited liability company, Svenska UMTS-nät AB, to carry out the building and operations relating to the UMTS network in Sweden. The joint venture is owned on an equal basis by the parties. The UMTS license is held by a wholly owned subsidiary of Svenska UMTS-nät. The cooperation between Telia and Tele2 has been reviewed by the Swedish Competition Authority and, in March 2002, the cooperation was given a five year exemption from the anti-competitive agreements prohibition in the Swedish Competition Act. The exemption ends in February 2007, at which time the cooperation is required to be reviewed by the Competition Authority. Telia and Tele2 will, on a pro rata basis, finance the construction of the UMTS network through capital contributions and the issuance of guarantees that are necessary in order for Svenska UMTS-nät to obtain third party financing to build a UMTS network in accordance with the license conditions. Telia has made an aggregate capital contribution of SEK 500 million to Svenska UMTS-nät.

On September 19, 2002, Svenska UMTS-nät signed a SEK 11 billion term loan and revolving credit facility for the construction of its UMTS network infrastructure in Sweden. Telia and Tele2 have each severally but not jointly guaranteed up to a maximum of SEK 5.5 billion ( \$ 0.6 billion) of the principal amount borrowed by Svenska UMTS-nät under the credit facility and have pledged their shares in Svenska UMTS-nät as security for such amount. The indebtedness under the credit facility may become due on an accelerated basis, under certain circumstances, including if either Telia or Tele2 ceases to hold, directly or indirectly, 50 percent of Svenska UMTS-nät, unless the lenders provide their advance consent. Telia is not contractually required to provide any further capital contributions to or guarantees in favor of Svenska UMTS-nät.

In June and September 2002, Telia entered into agreements with each of the Kingdom of Sweden and the Republic of Finland granting them identical registration rights with respect to their shares of Telia. Pursuant to these agreements, the Kingdom of Sweden and the Republic of Finland have the right to severally require Telia to file a registration statement with the SEC covering offers and sales of their shares in a public offering in the United States. Under the agreements, the Kingdom of Sweden and the Republic of Finland have the right to demand one registration of at least 2.5 percent of their respective shares of Telia in any six month period up to a maximum of two registrations. In addition to the demand registration rights and subject

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to certain conditions, the Kingdom of Sweden and the Republic of Finland were also granted piggy-back registration rights that entitle them to sell their shares as part of any registered offering in the United States either by Telia or by Telia on behalf of another party. Telia has agreed to pay, subject to certain exceptions, all expenses reasonably incurred by the Kingdom of Sweden, the Republic of Finland or both parties in connection with any demand registration or piggy-back registration.

## **Regulation**

### ***Overview***

Historically, there has been little regulation of the telecommunications sector in Sweden and few legal barriers to competition. Until 1993, there was no telecommunications-specific legislation and no separate licenses were necessary to provide either public fixed telecommunications services or public mobile telecommunications services.

In 1991, a review was conducted of the telecommunications sector in Sweden under the supervision of the Commission on Telecommunications Regulation. In 1993, legislation was enacted governing the telecommunications sector in Sweden. The principal legislation governing the new regulatory framework is the Telecommunications Act and the Radio Communications Act (*lag 1993:599 om radiokommunikation*). This legislation was intended to comply with European Union legislation in the field of telecommunications.

As a result, Sweden was among the first countries in Europe to have liberalized and deregulated telecommunications markets. Currently, there is an almost unlimited right to provide telecommunications services in Sweden. A number of non-Swedish controlled entities provide telecommunications services in Sweden.

The main objective of the Telecommunications Act is to provide the Swedish Government with the means to manage and regulate telecommunications activities in order to fulfill the government's telecommunications policy objectives which include providing to the general public and the authorities effective telecommunications services at the lowest possible cost to the national economy and the provision of telephone services within a public network at an affordable price to the general public. The Telecommunications Act strives to achieve these policy goals by creating and promoting efficient competition within all areas of the telecommunications sector. Important features of the regulatory framework include:

*Open Competition Subject to Licensing and Notification Requirements.* A basic principle of the Telecommunications Act is to further open the telecommunications services market to competition, subject to licensing and notification requirements. Any entity that has extensive telecommunications activities in Sweden must obtain a license from the Swedish National Post and Telecommunications Agency or NPTA (*Post- och telestyrelsen*), the Swedish regulatory authority, in order to provide certain telecommunications services within a public telecommunications network and all other providers (other than providers of data communications and Internet services) must provide notification to the NPTA. In general, any entity meeting the licensing requirements is granted a license, and the licensing process is open, simple and expedient.

*Universal Service.* As part of its licensing conditions, Telia is required to provide universal basic telecommunications services to a fixed point of network connection on similar terms and conditions to anyone requesting the service. Telia can satisfy this requirement with its fixed line and its NMT 450 services. Currently, no other fixed telecommunications operator is required to provide this universal service.

*Retail Price Regulation.* Currently, Telia is not subject to any special regulation capping its prices or any other similar regulation. However, Swedish regulation requires Telia's tariffs for basic fixed line telecommunications and leased lines to be cost-based.

*Interconnection Access and Pricing.* One principle underlying the Telecommunications Act is that a notified or licensed telecommunications service provider must allow interconnection to its network and services by other service providers. A service provider holding a significant market position must



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offer interconnection on a non-discriminatory basis, and in particular may not put other service providers in a worse position than its internal departments or affiliates. In Sweden, both fixed line and mobile interconnection access and rates are subject to regulation. If operators are unable to negotiate voluntary interconnect agreements, the NPTA has the power to mediate and decide the matter. The Telecommunications Act requires operators with significant market power to meet certain conditions, which include publishing tariffs for fixed interconnection services and offering equivalent terms to operators requesting interconnection services. In addition, all interconnection rates for fixed and mobile telecommunications charged by Telia must be cost-based. Telia is also required to maintain separate accounts for its fixed interconnection business. The Telecommunications Act imposes cost-based pricing requirements for traffic terminating on mobile networks of operators with significant market power in the national market for interconnection. In a ruling dated February 21, 2002, the NPTA found that Telia, Vodafone and Tele2 all have such a market position. The ruling was appealed and the Administrative Court has granted injunctive relief from the NPTA's ruling until the relevant courts have rendered a decision in this matter.

*Carrier Pre-Selection.* The NPTA required license holders operating fixed networks to implement carrier pre-selection by September 11, 1999. Currently, carrier pre-selection is available for all national, international and fixed-to-mobile calls. The Telecommunications Act contains provisions that address carrier pre-selection for mobile services. However, they require further regulations in order to become effective. On February 2, 2002, carrier pre-selection for local calls was introduced in Sweden.

*Number Portability Fixed Telecommunications.* The introduction of number portability for fixed telecommunications access (including access to Telia's ISDN), premium rate calls and free-phone services began in July 1999 and was completed in December 1999. Presently, any associated technical hurdles have been overcome and cost-sharing has not been problematic. This may be due to the relatively low number of users that have taken advantage of number portability thus far. With the introduction of local loop unbundling, however, use of number portability is expected to increase and there can be no assurance that technical or cost-sharing issues will not arise as a result.

*Number Portability Mobile* On May 3, 2000, the NPTA adopted regulations for mobile number portability, which was implemented in September 2001. The regulations apply to all operators offering digital mobile telecommunications subscription, prepaid and short message services. There have been no substantial technical problems in implementing mobile number portability and Telia has developed together with other operators a centralized database for the purpose of both fixed and mobile number portability. The introduction of mobile number portability has resulted in a greater willingness among certain customers to change operators.

*Mobile Virtual Network Operators.* In May 2000, legislation intended to encourage competition from mobile virtual network operators entered into force. The legislation has three principal components: (i) all three current GSM operators are required to provide mobile virtual network operators any excess mobile network capacity (meaning capacity not required by the GSM operator), (ii) only service providers that do not own their own networks qualify for this capacity and (iii) rates charged for use of this capacity may be market (rather than cost) based.

*Mobile National Roaming 2G 3G* GSM operators, if granted a UMTS license, are required to offer other UMTS operators roaming on their GSM networks. This legislation entered into force in July 2000.

The Swedish government has, however, proposed amendments to the Telecommunications Act and has requested public comments relating to such amendments by October 21, 2002. Telia is not currently in a position to assess the impact of these changes on its business, results of operations or financial condition.

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### ***Regulatory Authorities***

Responsibility for regulating the telecommunications sector and the promotion of fair and open competition has been allocated among several regulatory bodies. The primary body under the Telecommunications Act is the NPTA. The NPTA is responsible for the day-to-day oversight of the telecommunications sector. The NPTA falls under, for various administrative purposes, the responsibility of the Swedish Government (Ministry of Industry, Employment and Communications (*Näringsdepartementet*)).

The NPTA is a fully independent governmental authority. The director general, who is the head of the NPTA, is appointed for a fixed term of six years, subject to extension for an additional three to six years. Because the director general is not a political appointee, he or she is not required to resign upon changes in governments.

The Swedish Government, the Ministry and individual ministers are not permitted to intervene in the day-to-day affairs of the NPTA. Under the Swedish constitution, only the Swedish Government, acting collectively, may issue instructions to a government agency such as the NPTA. Any instructions would have to comply with the provisions of the Telecommunications Act and any other applicable legislation. The Swedish Government determines budget allocations. However, since NPTA regulatory operations are fully funded by licensing and notification fees, the Swedish Government has little impact on the NPTA's budget as a practical matter.

Other relevant regulatory bodies are the Swedish Competition Authority and the Swedish Consumer Agency. The Swedish Competition Authority is the central administrative authority in Sweden in charge of competition issues, including the application of the European Union competition regulations. The Swedish Consumer Agency is the central authority in charge of consumer issues. It serves as a monitoring agency on issues affecting consumers, such as marketing practices, and enforces consumer market legislation in most areas.

### ***Licensing and Notification Requirements***

Unless a company has considerable telecommunications activities in the Swedish market, it may provide telecommunications services without a license so long as it files a notification with the NPTA. Specifically, notification is required for fixed telecommunications, mobile services, any other telecommunications services that require allocation of capacity from a telecommunications number plan and network capacity (including leased lines) in a public telecommunications network. As of April 8, 2002, 296 companies had filed notifications with the NPTA.

Operators of certain telecommunications services, including Telia, are required to obtain a license if they have extensive activities, which generally means that they have or intend to obtain approximately a 10 to 15 percent or greater share of their particular markets. The licensing requirement extends to providers of (i) fixed telecommunications services in a public telecommunications network, (ii) mobile telecommunications services in a public telecommunications network and (iii) network capacity (including leased lines).

The licensing process is not viewed as a burdensome process. There is no limit on the number of licenses that may be granted under the Telecommunications Act for fixed telecommunications services, mobile telecommunications services (subject to availability of frequencies) and network capacity, and in practice, even companies with smaller market shares have obtained licenses. As of April 8, 2002, there were 11 licensed fixed telecommunications operators, eight licensed providers of network capacity (leased lines), eight licenses for mobile services issued and four UMTS licenses issued. The NPTA must grant a license unless it has reason to believe that the applicant would not be able to meet the licensing requirements. There is a nominal annual fee for the license, the amount of which is subject to annual review. Currently, the fee is 0.15 percent of the annual turnover for the licensed operation or a minimum amount of SEK 50,000 per licensed service. The NPTA uses the proceeds from the licensing and notification fees to fund its operating costs.

The term of a license for fixed telecommunications services or leased lines is indefinite, whereas a license for mobile telecommunications services may be limited in time. Licenses may contain conditions that

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impose obligations on the operators to provide certain services and information. Telia is the only operator with license conditions for fixed telecommunications linked to the provision of universal service. Although the license itself is indefinite, its conditions are subject to periodic revision, and the revised conditions, subject to the parameters set forth in the Telecommunications Act, may change substantially. As part of the revision process, the NPTA sends the operator a draft of the new conditions for comment before issuing the final conditions. An operator also has the right to appeal the imposition of the conditions after the NPTA issues final conditions. License holders may be subject to other provisions of the Telecommunications Act regulations, such as the carrier pre-selection requirements.

A license under the Telecommunications Act may be revoked, in whole or in part, if the operator violates the terms of the Telecommunications Act or the operator violates any condition of the license. However, the NPTA must notify the operator and provide the operator an opportunity to rectify the violation before any revocation can take effect. The NPTA also may impose conditional fines on license holders in connection with injunctions and prohibitions to ensure compliance with the conditions set forth in the licenses.

If an operator is unsure whether a license or a simple notification is required, it may apply for an advanced ruling. In addition, the NPTA conducts annual inspections to determine whether licensing is necessary. If it determines an operator requires a license, the NPTA will request the operator to apply for a license prior to taking any remedial action.

Mobile communications are also subject to a separate licensing regime under the Radio Communications Act that is based on the radio frequency spectrum. At present, the NMT and GSM licenses cover the 450/900 and 900/1800 spectrums, respectively. GPRS services may be provided under a GSM licenses and as a result, there is no separate licensing regime for GPRS services. In December 2000, the NPTA issued four licenses for UMTS network capacity. Telia was not granted a UMTS license. However, Telia expects to provide UMTS services based on the UMTS network capacity of Svenska UMTS-nät AB, a company jointly owned by Telia and Tele2. The UMTS license is held by a wholly owned subsidiary of Svenska UMTS-nät.

### ***Telia's Licenses***

Under the Telecommunications Act, separate licenses are required for the provision of public fixed telecommunications services and for the provision of network capacity where the extent of these activities is considerable. Currently, Telia has six licenses: one fixed telecommunications license, one network capacity license (including leased lines) and four mobile licenses (NMT 450 service, GSM 900 and other mobile services, GSM 1800 service and terrestrial flight telecommunications service). Telia's GSM 900 license also includes the NMT 900 service which Telia terminated on December 31, 2000.

### ***Public Fixed Telecommunications***

Telia has been licensed to provide public fixed telecommunications services since 1993, when the licensing regime was first established. The license is valid for an unlimited period of time, although certain of the license conditions have expiration dates at which point they may be extended or modified by the NPTA. Telia's current conditions took effect on January 1, 2000 and will expire on December 31, 2003. The principal license conditions for the provision of telecommunications services are as follows:

*Universal Service.* Telia is required to provide fixed line telecommunications services on similar conditions to any residential or business customer in Sweden that requests it and payphones in rural areas.

*Numbering Information.* All license holders (and notified operators) are required to provide subscriber information for number inquiry services, and under its license, Telia is required to provide number inquiry services on reasonable terms and publish a directory of these numbers. These conditions are likely to change in 2002 following new regulations under the Telecommunications Act.

*Cost Accounting System.* The license specifies the cost accounting system Telia must use to ensure its prices for fixed telephony services are cost-based.

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*Emergency Services.* All license holders (and notified operators) are required to provide customers access to a number for emergency services at no charge.

*Modification or Addition of Conditions.* The license also contains various provisions pursuant to which the NPTA reserves the right to modify or impose new conditions as part of the license. Under these provisions, the NPTA may modify the license, among others, (i) in order to comply with European Union requirements, (ii) as a result of changes in the Telecommunications Act or (iii) to change the cost accounting methodology (following consultation with Telia).

*Protection and Services for the Disabled.* The license also contains conditions relating to protection measures and services for the disabled.

*Network Capacity*

Telia has been licensed to provide network capacity, including leased lines, since 1993. The license is valid for an indefinite period, although, as in the case of the license for public fixed telecommunications services, the conditions in the license have expiration dates at which point they may be extended or modified by the NPTA. Telia's current license conditions took effect on January 1, 2000 and will expire on December 31, 2003. The principal conditions for the provision of network capacity are as follows:

*Supply.* Telia must comply with the European Union Open Network Provision Framework Directive (the ONP Directive) regarding leased lines (92/44/EEC), which requires Telia to provide a minimum set of leased lines, and supply other operators with network capacity (other than these minimum leased lines) to the extent Telia has available capacity, which means Telia does not have to grant other operators priority over Telia's own traffic on its network.

*Cost Accounting System.* The license specifies the cost accounting system Telia must use to ensure Telia's prices for leased lines are cost-based.

*Modification or Addition of Conditions.* The license also contains various provisions pursuant to which the NPTA reserves the right to modify or impose new conditions as part of the license, including in order to implement wire tapping/ surveillance measures, if any, that may be enacted during the term of the license, in order to comply with European Union requirements, as a result of changes in the Telecommunications Act, or to change the cost accounting methodology (following consultation with Telia).

*Defense.* The license also contains conditions related to defense measures.

*Mobile*

Under the current regulatory structure, providers of public mobile telecommunications services must notify the NPTA and, if their activities are extensive, they may be required to obtain a license under both the Telecommunications Act and, for purposes of obtaining radio frequencies, the Radio Communications Act. The NPTA allows operators who were providing mobile telecommunications services prior to the adoption of these regulations in 1993 and who applied for licenses under the new regime to continue providing services pending the issuance of a new license. Telia is licensed to provide NMT 450 and GSM 900/1800 services. Telia's licenses also include NMT 900 services which Telia terminated on December 31, 2000. Telia is also licensed to provide other wireless communications services, including local paging and terrestrial flight telecommunications services. The GSM 900 license will expire on December 31, 2004, and the GSM 1800 license will expire on December 31, 2005. The NMT license will expire on December 31, 2007. The conditions of these licenses took effect on January 1, 2000 and will expire on December 31, 2003. Telia has no reason to believe the licenses will not be prolonged or renewed. The principal license conditions for NMT 450/GSM 900/1800 mobile communications are as follows:

*Coverage.* Telia is required to provide NMT 450 coverage to over 95 percent of Sweden (which reflects the scope of Telia's current coverage), GSM 900 coverage over main roads and in urban

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areas with at least 10,000 inhabitants; and GSM 1800 coverage (or GSM 900/1800 coverage) over main roads and in urban areas with at least 50,000 inhabitants.

*Cost Accounting System.* The license specifies the cost accounting system Telia must use. However, unlike the fixed telecommunications and network capacity (including leased lines) licenses, end user prices are not required to be cost-based. Instead, Telia must be able to identify the separate costs associated with its NMT and GSM systems.

*Emergency Services.* As with fixed telecommunications, all license holders (and notified operators) are required to provide customers access to an emergency services number at no extra charge.

*Modification or Addition of Conditions.* The license also contains various provisions pursuant to which the NPTA reserves the right to modify or impose new conditions as part of the license including in order to comply with European Union requirements, as a result of changes in the Telecommunications Act, to change the cost accounting methodology (following consultation with Telia).

*Defense and Services for the Disabled.* As with fixed telecommunications, the license also contains conditions related to defense measures and services for the disabled.

The license also requires Telia, if it introduces data communications over its mobile networks, to provide data communications over the preceding coverage areas within two years of its launch date. The principal license conditions for Telia's other mobile services are as follows:

*Cost Accounting System.* The license specifies the cost accounting system Telia must use. As with Telia's other mobile license, end user prices are not required to be cost-based. Instead, Telia must be able to identify the separate costs associated with the different types of mobile services.

*Emergency Services.* As with fixed telecommunications, all license holders (and notified operators) are required to provide customers access to an emergency services number at no charge.

*Modification or Addition of Conditions.* The license also contains various provisions pursuant to which the NPTA reserves the right to modify or impose new conditions as part of the license, including to implement wire tapping/ surveillance measures, if any, that may be enacted during the term of the license, in order to comply with European Union requirements, as a result of changes in the Telecommunications Act, or to change the cost accounting methodology (following consultation with Telia).

*Defense and Services for the Disabled.* As with fixed telecommunications, the license also contains conditions related to defense measures and services for the disabled.

### ***Universal Service***

The conditions of Telia's license for public fixed telecommunications currently require Telia to provide universal fixed telecommunications services. As a result, Telia must deliver basic fixed telecommunications services to all private households and businesses that request it, on similar terms. The similar terms requirement allows for geographical price differentiation, subject to certain limitations. For example, Telia is not permitted to increase prices for customers in rural areas as a result of increased competition (and hence, lower prices) in urban areas. According to the Telecommunications Act, prices for fixed telecommunications services should be cost based if the services are provided by an operator with significant market power. Telia is the only operator with significant market power for these services in Sweden. There is currently no other price regulation, such as price caps or similar schemes, in place.

### ***Interconnection Access and Pricing***

Interconnection arrangements for both mobile and fixed telecommunications are important to operators trying to enter a market dominated by a single operator. The primary concern for operators wishing to enter the market is the interconnection rate, which entitles a network operator to receive compensation for

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terminating a call in its network that has originated in another network, originating access to services of another network for which the end user customers are invoiced by the operator of that other network, and carrying traffic between two networks.

In 1997, the Telecommunications Act was amended to incorporate the European Union directive applying to interconnection. Under the 1997 amendment, companies with significant market power in the fixed telecommunications market, such as Telia, are required to meet all reasonable demands for interconnection services, publish terms and conditions for interconnection services, offer equivalent terms to operators requesting interconnection services, provide information necessary for interconnection agreements when so requested, submit any interconnection agreements to the NPTA and keep revenue and costs for interconnection services separate from revenue and costs for other operations.

Similarly, companies with significant power in mobile communications market are required to meet all reasonable demands for interconnection services, offer equivalent terms to operators requesting interconnection services, provide information necessary for interconnection agreements when so requested, and submit any interconnection agreements to the NPTA.

The Telecommunications Act also imposes cost-based pricing requirements for traffic terminating on mobile networks of operators with significant market power in the national market for interconnection. In a ruling dated February 21 2002, the NPTA found that Telia, Vodafone and Tele2 all have such significant market power. The ruling was appealed and the Administrative Court has granted injunctive relief of the NPTA's ruling until the case has been tried by the relevant courts.

The NPTA has the authority to decide upon interconnection charges to be applied by operators. If the interconnection charges set out in an operator's price list (which must be submitted to the NPTA) are deemed to be in violation of the Telecommunications Act, the NPTA may decide that the charges should be changed. Also, if it deems it necessary to accommodate a significant public interest, the NPTA may decide that two operators which otherwise do not wish to interconnect, must enter into an interconnection agreement. In such event, the NPTA may determine the relevant terms and conditions of these agreements.

On January 30, 2002, the NPTA ruled that Telia must reduce its mobile interconnection tariffs to 0.92 SEK per minute, effective March 1, 2002. Telia filed an appeal with the Administrative Court seeking to reverse the ruling and in the interim, injunctive relief. On February 26, 2002 the Administrative Court denied Telia injunctive relief and as a consequence Telia lowered its interconnection tariffs on March 1, 2002 to 0.92 SEK per minute. In May 2002, the Administrative Court rejected Telia's appeal to reverse the NPTA's ruling. Telia has filed an appeal with the Administrative Court of Appeal. The NPTA has also stated that it will continue its review of Telia's mobile interconnection tariffs. Effective October 1, 2002, Telia will lower its mobile interconnection tariff to SEK 0.88 per minute. There is no assurance that Telia will not be required to reduce prices in the future.

The NPTA has been given certain powers relating to interconnection to enable a more speedy resolution of disputes between operators. For example, upon request by either parties in an on-going interconnection negotiation, the NPTA will set a time limit within which the negotiations must be concluded. If a final agreement has not been reached within this time limit, the NPTA must mediate between the parties and, upon request by either party, determine the relevant terms of the agreement. Decisions may be appealed to the relevant court of law, but the terms of the NPTA decision apply during the appeal.

### *NPTA consultation*

In 2001, the NPTA initiated a consultation process on calculation models to be used when calculating cost-based prices for interconnection and unbundled access products. The consultation is ongoing and the results may have an impact on Telia's prices for these products.

### *Local Loop Unbundling*

Telia must comply with Regulation (EC) No 2887/2000 of the European Parliament and of the Council of December 18, 2000 on unbundled access to the local loop. In accordance with this EC regulation, Telia

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has published reference offers for full unbundled access, shared access and unbundled access to sub-loops (for VDSL). In May 2002, the NPTA proposed new legislation requiring an SMP-operator on the market for fixed public telephone services to meet reasonable requests for bitstream access to the local loop on terms which are cost-oriented and non-discriminatory.

### *Rights of Way*

The Telecommunications Act does not govern rights of way. Instead, rights of way for telecommunications are covered by the general regulations set forth in the Swedish Rights of Way Act (*ledningsrättslagen* 1973:1144). This Act requires public and private landowners to provide access for certain activities with a public purpose, such as power supply and telecommunications. The parties involved are permitted to negotiate the level of compensation for the rights of way and if they fail to reach an agreement, a court can set the compensation. In Stockholm, Stokab (owned by the municipality of Stockholm) is the sole company authorized to dig tunnels and lay cable, although they are required to give access to anyone who requests it. Telia already has an extensive network in Stockholm.

### *Liability of Internet Service Providers*

The applicability of existing laws governing issues such as intellectual property rights, freedom of speech, defamation and personal privacy with respect to the liability of an Internet service provider is uncertain. Under certain circumstances, Internet service providers could be held responsible for permitting illegal material to be made available over their services.

Currently, operators who provide bulletin board systems on their Internet sites are required to scrutinize the content for instances of copyright infringement, hate speech, child pornography and speech that is intended to incite others to commit serious crimes. In addition, there are two EC directives which have been adopted governing Internet service content and implementation in Sweden is expected in 2002. In March 2002, the Swedish Government presented a bill to Parliament proposing legislation to implement the E-commerce Directive 2000/31/EC. The Swedish Parliament adopted the Act in May 2002 and it came into force on July 1, 2002.

### *Personal Data*

In general, the Personal Data Act (*personuppgiftslagen* 1998:204), permits personal data about an individual to be processed only with the consent of that individual. Consent is not necessary if the processing falls into a justifiable exception. Before consent is given, the individual must have received information necessary to enable him to assess the advantages and disadvantages of the processing of his personal data and to exercise his rights under the Personal Data Act.

The Personal Data Act prohibits the transfer of personal data for processing to countries outside the European Union and the European Economic Area which do not have an adequate level of protection unless, the transfer is approved by the Data Inspection Board or an exemption applies. An exemption applies if the individual has consented to the transfer or if the transfer is necessary for substantial reasons.

### *Leased Line Access*

Telia is required under the terms of its network capacity license to provide a minimum set of analog and digital leased lines in accordance with Annex II of Directive 92/44/EEC.

### *Services for the Disabled*

The NPTA currently procures through a bidding process services for disabled persons. In the event no operators bid to provide these services, Telia is required to provide them for a reasonable remuneration. Currently, Telia provides these services as a result of having won the contract in the bidding process.

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### *National Security*

The NPTA is responsible for ensuring that the national telecommunications system is sustainable and accessible during wartime. To fulfill this obligation, the NPTA requires operators to place certain network systems in secure locations, and funds the extra costs associated with the added security measures. In addition, as the major operator in the market, Telia has been assessed an annual fee to be used by NPTA to prevent serious threats and trouble in telecommunications during peacetime. These fees were SEK 20 million for 1997 and SEK 100 million for each of the years 1998, 1999, 2000 and 2001. The government has announced its intention to evaluate the fee in order to assess it in a more non-discriminatory way.

### *Payphones*

Telia is required under its license for fixed telecommunications, and without special compensation, to provide a minimum number of payphones (currently, approximately 1,100) in sparsely populated regions.

### ***The European Union***

#### *General*

Sweden is a member of the European Union and, as such, is required to follow European Union regulations and to enact domestic legislation to give effect to European Union legislation that is adopted in the form of directives and decisions. Regulations have general application and are binding in their entirety and directly applicable to all member states. Directives and decisions are binding, but national authorities may choose the form and method of their implementation. Resolutions, recommendations and Green Papers of the European Union are not legally binding but are politically important.

The basis for the European Union's telecommunications policy is set forth in the European Commission's Green Paper, dated June 30, 1987, on the development of the common market for telecommunications services and equipment. This Green Paper fixed as a general objective the development of a strong telecommunications infrastructure and efficient services to provide the European consumer with a broad variety of telecommunications services on the most favorable terms in an open competitive environment. Two primary measures proposed to achieve this objective were the liberalization of telecommunications markets and the harmonization of telecommunications services and equipment.

#### *Liberalization of Telecommunications Markets*

On June 28, 1990, the European Commission issued the Directive on Competition in the Markets for Telecommunications Services (90/388/EEC), which commenced the liberalization of the European telecommunications sector. This directive abolished existing monopolies on, and permitted the competitive provision of, all telecommunications services with the exception of the commercial provision to the public of direct transmission and switching of speech in real time between two points on the public network. The directive did not apply to telex, mobile radio-telecommunications, paging or satellite services.

The scope of the directive has been enlarged several times by the adoption of various amending directives, which liberalized satellite telecommunications services (October 13, 1994), telecommunications services provided via cable television networks (October 18, 1995) and mobile and personal communications (January 16, 1996).

On March 13, 1996, the directive was again amended with the European Commission's adoption of the Full Competition Directive (96/19/EC), which required European Union member states to permit alternative infrastructure providers, such as existing networks of cable companies, railroads, electric and other utility companies, to resell capacity on their networks for the provision of already liberalized services, beginning July 1, 1996. This Full Competition Directive also established January 1, 1998 as the date by which member states had to remove all remaining restrictions on the provision of telecommunications services, including telecommunications and telecommunications infrastructure. Because Sweden had few restrictions prior to its enactment of the Telecommunications Act in 1993, well ahead of the January 1998 deadline, the deadline had little direct effect in Sweden.



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### *ONP Directives*

The legislative process of the harmonization of telecommunications services and equipment began with the adoption of the ONP (Open Network Provision) Framework Directive (90/387/EEC), issued on June 28, 1990. This directive concerned the conditions under which telecommunications providers and consumers could gain open and efficient access to the state monopoly telecommunications service providers' public networks. The ONP requirements are intended to harmonize technical interfaces, usage conditions and tariff principles throughout the European Union and to ensure objectivity, transparency and non-discrimination in access to telecommunications services.

On June 5, 1992, the European Commission adopted the ONP Leased Line Directive (92/44/EEC) requiring state monopoly telecommunications service providers to lease lines to competitors and end users without discrimination and to establish cost accounting system for these products by the end of 1993. Directive 97/51 amended the ONP Leased Line Directive and the ONP Framework Directive, adapting to a more competitive environment.

On February 26, 1998, the European Commission adopted the Voice Telephony Directive (98/10/EC), which extended the application of the open network provision to voice telecommunications and to the provision of universal telecommunications services. The Voice Telephony Directive requires all telecommunications operators:

to provide directory services on a fair, objective and non-discriminatory basis subject to specific legislation;

to provide users with access to operator assistance and emergency services;

to ensure that user contracts address supply times, compensation for failure to provide services, dispute resolution and quality-of-service levels; and

to publish standard user terms and conditions and tariff information.

### *Licensing*

The EU directive on general authorizations and individual licenses in the field of telecommunications services was adopted on April 10, 1997. The key elements of the directive are:

the prohibition of any limit on the number of new entrants, except to the extent required to ensure an efficient use of radio frequencies and, under limited circumstances and for a temporary period, of numbers;

the priority given to general authorizations as opposed to individual licenses; and

the definition of harmonized licensing principles and procedures.

On December 14, 1998, the European Union adopted the UMTS Decision, which provides for the coordinated licensing regulatory framework of third generation mobile communication systems in the EU member states to ensure that users can use their third generation handsets or other devices anywhere in the European Union just as they can with GSM today. This pan-European roaming will result from licenses being based on the coordinated allocation of frequencies, and the use of European Telecommunications Standards Institute's (ETSI) standards. The harmonized licensing environment was required to be in place by the end of 2000, but UMTS services were not expected to be available before 2002. The introduction of UMTS services is dependent upon a number of factors, including the development of commercially viable technology and the ability of telecommunications operators to license such technology on commercially acceptable terms.

### *European Union Interconnection Directive*

On June 30, 1997, the European Parliament and the European Council adopted the Interconnection Directive establishing a regulatory framework for the interconnection of telecommunications networks. The Interconnection Directive provides that member states must take all necessary measures to remove any

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restrictions on the rights of fixed-line public telecommunications providers, leased-line providers and public mobile telecommunications operators to negotiate interconnection agreements with each other. In addition, organizations that have significant market power must offer interconnection services at cost-based rates on a nondiscriminatory basis. Such organizations are required to establish appropriate cost accounting methods to determine their actual cost of providing interconnection services. Significant market power is presumed where an organization holds a 25 percent share of its relevant telecommunications market. However, national regulatory authorities may determine that an organization with less or more than a 25 percent share of the relevant telecommunications market may nevertheless have significant market power or does not have market power regardless of this threshold.

### *Liability of Internet Service Providers*

On December 10, 1997, the European Commission adopted a proposal for a directive harmonizing certain aspects of copyright and related rights in the information society, known as the Copyright Directive, which, for example, introduces an exclusive right to make on-demand transmissions available to the public, as well as harmonizes reproduction and distribution rights. Among exceptions from a general rule of the protection of the reproduction right, the proposal of the Copyright Directive envisages an exception for transient (cache) copies. The Copyright Directive has been adopted by the European Parliament and the European Council.

The issue of Internet service provider liability for mere conduit, caching and hosting activities is addressed in a directive on certain legal aspects of electronic commerce in the internal market, known as the Electronic Commerce Directive, adopted on November 10, 1998. On May 4, 2000, the European Parliament adopted the Electronic Commerce Directive.

### *The New Regulatory Package*

The main European Union harmonization directives that make up the 1998 regulatory package were reviewed in 1999. The process of the European Commission's review of existing legislation in the field of telecommunications is referred to as the so-called 1999 Review program. As a result of the 1999 Review, the European Commission proposed a number of Directives in July 2000.

The Directives are:

Framework Directive;

Access Directive;

Authorization Directive;

Universal Service Directive; and

Data Protection Directive.

All these Directives have been adopted by the European Parliament and the Council.

In addition, the Package includes a Radio Spectrum Decision by the European Parliament and the Council on co-ordination of spectrum policy issues in Europe.

The Swedish government has put forth a proposal to implement these Directives, which proposals are currently subject to public comment. While these Directives will bring significant changes to telecommunications regulation in the European Union, Telia is not in a position to assess the impact of these changes on its results of operations or financial condition.

### *International Obligations*

Over 70 member countries of the World Trade Organization (WTO) representing over 90 percent of the world's basic telecommunications revenues, including the members of the European Union and the United States, have entered into a Basic Telecommunications Agreement, or BTA, to provide market access to some



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or all of their basic telecommunications services. This agreement was signed by all the member states of the European Union as well as the United States, and took effect on February 5, 1998. BTA is the fourth protocol of the General Agreement on Trade in Services, which is administered by the WTO. Under BTA, Sweden and the other signatories have made commitments to provide market access, under which they are to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors and to provide national treatment, under which they are to avoid treating foreign telecommunications service suppliers differently from national service suppliers. In addition, a number of signatories, including Sweden, agreed to abide by certain pro-competitive principles set forth in a reference paper relating to the prevention of anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and non-discriminatory allocation of scarce resources.

### ***Competition***

Telia is subject to the Swedish and general EU competition legal framework and to special provisions, regulations and directives relating specifically to telecommunications.

#### ***Sweden***

The Swedish Government follows a policy of unlimited competition in the telecommunications sector in Sweden. Entry into the telecommunications sector was never formally restricted in Sweden, although Telia was protected by certain legal terminal connection monopolies, which were gradually abolished during the 1980s. However, since Telia was the only operator and there was no independent regulator, Telia had a de facto monopoly over the telecommunications market. The Swedish Government decided to foster competition in telecommunications through the introduction in 1993 of new telecommunications legislation and an independent telecommunications agency, the NPTA.

On July 1, 1993, a new Competition Act entered into effect in Sweden. The Competition Act prohibits the abuse of a dominant position in a market, and any such abuse may be subject to a fine of up to ten percent of annual revenues. The Competition Act also imposes fines on any supplier with a dominant position in a market that establishes excessive prices or unreasonable terms. The Swedish Competition Authority, the regulatory authority under the Competition Act, is empowered to issue injunctions and to enjoin a party to discontinue immediately practices that are not permitted under the Competition Act. The Competition Act is based on and generally conforms to the rules of competition of the European Commission. The Swedish Competition Authority and the NPTA cooperate in order to facilitate investigations of anti-competitive behavior in the area of telecommunications services.

From time to time, Telia's competitors and customers file complaints with the Swedish Competition Authority alleging that Telia is abusing its dominant market position in various respects. Currently, the Swedish Competition Authority has, upon receipt of complaints from other operators during the second half of 2001, initiated an investigation of Telia's pricing of ADSL services and has also, based upon a complaint from RSL COM Sweden AB submitted in 2002, initiated an investigation into a bank guarantee Skanova has required as a condition to Telia's supply of ADSL services to RSL COM. See Legal and Regulatory Proceedings for a further discussion of these complaints.

#### ***The European Union***

The competition rules of the European Union have a direct effect in its member states. The main principles in the European Commission competition rules are contained in Articles 81 and 82 of the Amsterdam Treaty (formerly Articles 85 and 86 of the Treaty of Rome). These European Union competition rules have the force of law in member states and are therefore applicable to Telia's operations in Sweden. Article 81 prohibits agreements or collusive behavior between companies that may affect trade between member states and which restrict, are intended to restrict or have an effect of restricting, competition within the European Union. Article 82 prohibits any abuse of a dominant position within a substantial part of the European Union that may affect trade between member states. These rules are enforced by the European Commission in cooperation with the national competition authorities (i.e., in Sweden, the Swedish

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Competition Authority). The European Commission may impose fines in the event of a breach amounting to up to ten percent of a company's revenues on a consolidated basis in the preceding financial year. In addition, national courts have jurisdiction to apply European Union competition law and award damages in the event of a breach.

For so long as the majority of Telia's shares are owned by the Kingdom of Sweden or the Kingdom of Sweden exercises a significant influence over Telia, the European Commission will have the authority to address individual decisions to the Kingdom of Sweden to ensure that Telia complies with European Union competition rules. In this regard, the European Commission will be able to initiate proceedings against Telia directly under Articles 81 and 82 of the Amsterdam Treaty, or against the Kingdom of Sweden under Article 86 of the Amsterdam Treaty (formerly, Article 90 of the Treaty of Rome). As a result, Telia may have to face two different proceedings, one of which Telia cannot directly influence and in which Telia is not a party. Due to the recent liberalization of the telecommunications markets in the majority of European Union member states, the application of EU competition rules to the telecommunications industry is still somewhat unsettled. However, Telia believes that as a result of the early liberalization of telecommunications services in Sweden, Telia has the advantage of having operated in a competitive environment and of having adopted behavior suitable to a competitive marketplace.

There is currently one case pending before the European Commission. Bredbandsbolaget, a Swedish provider of broadband services, has filed a complaint with the European Commission alleging that Telia abused its dominant position through undercutting prices, discriminatory business practices and bundling services. See [Legal and Regulatory Proceedings](#) for a further discussion of this complaint.

## **Related Party Transactions**

Described below are certain transactions between Telia and its affiliates and other related parties since the beginning of 1999. See also Note 9 to Telia's consolidated financial statements.

### ***The Swedish State***

The Swedish state owns a 70.6 percent interest in Telia AB. Telia's customers include various government ministries, agencies and government-owned entities in Sweden. Telia also purchases goods and services from these ministries, agencies and entities. Charges for services provided to these ministries, agencies and entities are based on Telia's commercial pricing policies. Similarly, Telia believes the costs of obtaining goods and services from these ministries, agencies and entities are on commercial terms. Services provided to or purchased from any one government ministry, agency or entity do not represent a significant component of Telia's revenues or expenses.

The Swedish telecommunications market is governed by the Telecommunications Act and telecommunications regulations as well as conditions for licenses issued by the NPTA. According to those conditions, Telia must maintain, without special compensation, a certain level of service for public phones in sparsely populated regions. Telia's costs for operating these public phones were SEK 14.0 million, SEK 15.0 million and SEK 15.0 million in 1999, 2000 and 2001, respectively.

According to telecommunications regulations in Sweden, any notified operator may be subject to a fee to finance measures to prevent serious threats to telecommunications operations during peacetime. As the major operator in the market, Telia is the only operator paying the fee. Telia was required to pay fees amounting to SEK 20 million for 1997 and SEK 100 million for each of the years 1998, 1999, 2000, 2001 and 2002.

In addition, as part of the licensing process, licensed operators must pay an annual fee to fund the NPTA's activities. In 1999, this fee equaled SEK 0.85 per thousand of sales resulting from activities that must be registered. As from 2000, the fee is SEK 1.5 per thousand of sales resulting from activities that must be registered. Telia's fees equaled SEK 28 million, SEK 49 million and SEK 47 million in 1999, 2000 and 2001, respectively.

**Table of Contents*****Unisource N.V.***

Telia, Swisscom and KPN of the Netherlands previously held equal stakes in Unisource N.V. All businesses of Unisource, except for AUCS Communication Services (AUCS), were sold or shut down in 1999 and the company was dissolved in July 1, 2000. During 1999, Telia sold products and services worth SEK 161 million and purchased services and products from the Unisource group worth SEK 313 million. During 2001 and 2000, Telia sold services to AUCS worth SEK 44 million and SEK 51 million, respectively.

In 1999, Unisource and its shareholders, including Telia, entered into an agreement in which the parties effectively transferred much of the operations of the AUCS business to Infonet Services Corp., which assumed the responsibility for managing the customers of the AUCS business for a three year period. At the end of this three-year period, Infonet has an option to buy the remaining AUCS assets. Under the terms of various agreements, Unisource is required to provide certain transitional services to Infonet during this three-year period. In addition, Unisource and its shareholders, including Telia, are responsible for any losses incurred by AUCS and are required to pay Infonet a bonus if the losses are below a specified level. Under these agreements, Telia's share of the minimum loss that would be paid by Unisource is SEK 1,348 million. Telia's consideration for this transaction was the purchase from Infonet of 15.9 million of its Class B shares shortly before its initial public offering at a price of SEK 110 million, which was below fair value. Based on the offering price, these shares of Infonet were worth SEK 2,758 million. The difference between the fair value of the shares (SEK 2,758 million) at the time of the offering and the liabilities assumed (SEK 1,348 million), representing Telia's share of the potential gain on this transaction, will be reported as Telia's share of earnings in AUCS over the three year period that the management agreement and other agreements are in effect.

***Infonet Services Corp.***

Infonet became an associated company of Telia as of December 31, 1999. In 1999, 2000 and 2001, Telia sold services and goods to Infonet having a value of SEK 29 million, SEK 38 million and SEK 29 million respectively, and purchased services and products from Infonet having a value of SEK 320 million, SEK 264 million and SEK 117 million, respectively. In July 2002, Telia was named as one of several defendants in a securities law class action suit relating to the initial public offering of Infonet. The suit alleges, among other things, that the prospectus used in connection with Infonet's initial public offering contained material misstatements or omission relating to the AUCS business, a part of which was transferred by Unisource, a company in which Telia had a minority interest, to Infonet in 1999. See Legal and Regulatory Proceedings for a further discussion of this legal proceeding.

***Netia Holdings S.A.***

In 2001, Telia International Carrier entered into a duct agreement with Netia Holdings S.A. pursuant to which Telia International Carrier provides certain international carrier services to Netia. This agreement expired in 2002 and the parties are currently in discussions regarding their continued business relationship.

***Comsource/Eircom***

Until April 2002, Telia held a 40 percent interest in the holding company Comsource, an Irish unlimited company. In April 2002, Comsource partly redeemed the shares held by Telia and paid 87.0 million to Telia, of which 84.4 was used to satisfy outstanding loans made by Comsource in favor of Telia. Shortly thereafter, Telia sold its interest in Comsource to KPN, which held the remaining 60 percent interest in Comsource, for 13.5 million in cash. Comsource owned a 35 percent interest in Eircom plc, the leading Irish fixed line telecommunications operator, which it divested in November 2001 in connection with a cash tender offer made by Valentia Telecommunications for all outstanding shares in Eircom. In addition to having net interest-bearing debt obligations to Comsource in the principal amount of 84.4 million as of March 31, 2002, Telia sold services to Eircom worth SEK 39 million and SEK 16 million in 1999 and 2000, respectively. Telia did not sell any services to Eircom in 2001.

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See OPERATING AND FINANCIAL REVIEW AND PROSPECTS OF TELIA Recent Acquisitions, Investments and Divestitures for a discussion of Telia's divestment of its interest in Eircom.

***Any Media Solutions AB***

During 1999, the supporting operations for Telia's catalogue production were transferred to Any Media Solutions AB, and on June 30, 1999, Elanders AB purchased 70 percent of Any Media's shares. In June 2000, Telia sold its remaining interest in Any Media to Elanders AB, which subsequently sold the IT division of Any Media to Cap Gemini. Telia purchased goods and services from Any Media of SEK 80 million in 1999.

***Sontel UAB***

Sontel UAB, which is jointly owned by Telia and Sonera, was established in 1999 and provides services to AB Lietuvos Telekomas, an associated company of Telia. Telia sold services to Sontel worth SEK 27 million in 2000 and SEK 34 million in 1999. Telia did not sell services to Sontel in 2001. Telia and Sonera plan to liquidate Sontel during the second half of 2002.

***NorSea Com AS***

Telia owns NorSea Com AS, which owns submerged telecommunications cables in the North Sea. Telia held a 50 percent interest in NorSea Com until 2001, at which time it acquired the entire share capital of the company. As of December 31, 1999 and 2000, Telia had interest-bearing claims of SEK 31 million and SEK 34 million, respectively, on NorSea Com.

***Telefos AB***

As of March 31, 2002, Telia held a 49 percent interest in Telefos AB, which was formerly a wholly owned subsidiary of Telia. As of December 31, 2001, Telia had interest-bearing claims on Telefos of SEK 1,735 million and had signed a limited supplementary guarantee of SEK 150 million for the credit-insured pension commitments of Telefos and its subsidiaries.

In June 2001, Telia sold a 51 percent interest in Telefos AB to Industri Kapital 2000 Ltd for a purchase price of SEK 205.2 million. During the period after the change in ownership in 2001, Telia sold products and services worth SEK 279 million to the Telefos Group and bought products and services worth SEK 1,210 million. Some of the services purchased by Telia relate to the construction of capital assets.

***Service Factory SP AB***

Telia currently owns a 35.3 percent interest in Service Factory SF AB. Service Factory offers a system for the production of Internet sites including functions such as end consumer services, administration, statistical monitoring and configuration tools. During 2001, Telia bought services from Service Factory worth SEK 94 million.

***Eniro AB***

Until November 2000, Eniro AB was a wholly owned subsidiary of Telia. In 2000 and 2001, Telia completely divested its shareholding in Eniro. During the same period, Telia transferred to Eniro all of Telia's shareholdings in its directory businesses. In 2000, Telia also granted Eniro an option to purchase shares held by Telia in the Polish directory company Panorama Polska should Telia become the sole shareholder of Panorama Polska. After Telia acquired a 100 percent interest in Panorama Polska in May 2001, Telia promptly thereafter sold its Panorama Polska shares to Eniro under the terms of the option.

In addition, Telia, in accordance with its statutory obligation to provide directories containing basic subscriber information to all fixed telephony in Sweden, appointed Eniro as the official publisher of all such information, which includes the directories Vita Sidorna and Rosa Sidorna. Eniro receives a fixed payment for these services in the amount of SEK 20 million per year starting as of July 1, 2000.

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See OPERATING AND FINANCIAL REVIEW AND PROSPECTS OF TELIA Recent Acquisitions, Investments and Divestitures for a discussion of Telia's divestment of its interest in Eniro.

***Svenska UMTS-nät AB***

On March 15, 2001, Telia entered into a joint venture with Tele2 to develop the UMTS license awarded to Tele2. The joint venture will operate through a jointly owned Swedish limited liability company, Svenska UMTS-nät, of which each party owns 50 percent of the shares. Telia and Tele2 will, on a pro rata basis, finance the construction of the UMTS infrastructure through capital contributions and the issuance of guarantees that are necessary in order for Svenska UMTS-nät to obtain third party financing to build a UMTS network in accordance with the license conditions. As of December 31, 2001 Telia had made an aggregate capital contribution of SEK 250 million to Svenska UMTS-nät. Telia made an additional capital contribution of SEK 250 million to the joint venture in May 2002.

On September 19, 2002, Svenska UMTS-nät signed a SEK 11 billion term loan and revolving credit facility for the construction of its UMTS network infrastructure in Sweden. Telia and Tele2 have each severally but not jointly guaranteed up to a maximum of SEK 5.5 billion of the principal amount borrowed by Svenska UMTS-nät under the credit facility and have pledged their shares in Svenska UMTS-nät as security for such amount. The indebtedness under the credit facility may become due on an accelerated basis, under certain circumstances, including if either Telia or Tele2 ceases to hold, directly or indirectly, 50 percent of Svenska UMTS-nät, unless the lenders provide their advance consent.

Telia is not contractually required to provide any further capital contributions to or guarantees in favor of Svenska UMTS-nät.

***INGROUP Sweden AB***

Since November 2000, Telia has owned a 33.3 percent interest in INGROUP Holding AB. INGROUP Holding is the sole owner of the former Telia subsidiary INGROUP Sweden AB. During 2001, Telia sold products and services to INGROUP Sweden worth SEK 67 million and bought products and services worth SEK 245 million in 2001 and SEK 113 million in 2000.

***Other Relationships***

In addition, Telia sells and buys services and products to a limited extent to and from other associated companies. The transactions between Telia and these associated companies, as well as the transactions mentioned above, are based on commercial terms, unless otherwise indicated.



**Table of Contents****DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES OF TELIA****Board of Directors**

Under the Swedish Companies Act, the Telia board of directors is responsible for Telia's organization and the management of Telia's affairs. Telia's articles of association provide that its board of directors must be elected by Telia's shareholders and must consist of no fewer than four and no more than nine directors and no more than three deputy directors.

In addition to the provisions in Telia's articles of association, Swedish law provides that the unions that represent Telia's employees may appoint three additional directors and three deputy directors.

Under Swedish law, the managing director and at least half of the board members must be resident in a European Economic Area country unless the Swedish Patent and Registration Office grants an exemption. Under Swedish law, a director's term of office (other than a union appointee) may not be more than four years, but is normally one year. Telia's articles of association provide that board members shall be elected at the annual general meeting of shareholders for a period of one year. A director may, however, serve any number of consecutive terms. The union may decide the term for the union-appointed directors, which may not exceed four years, and such directors may also serve any number of consecutive terms. Directors elected by the general meeting of the shareholders may be removed from office by a general meeting of the shareholders at any time, and vacancies on the board, except when filled by a deputy director, may only be filled by a resolution of the shareholders. Each year, one director is elected chairman of the board of directors by resolution of the board of directors at the first meeting following its appointment, unless elected by the shareholders.

At present, the Telia board of directors has 11 ordinary members, of whom three are union appointees, composed of a Chairman and ten directors. Telia also has three deputy directors who are each union appointees. The current members of Telia's board of directors and certain information relevant to such persons is set forth below:

| Name                     | Year Born | Director Since | Number of shares owned as of August 31, 2002 | Position                       |
|--------------------------|-----------|----------------|--|--------------------------------|
| <i>Ordinary Members:</i> |           |                |  |                                |
| Lars-Eric Petersson      | 1950      | 2000           | 4,800(1)                                     | Chairman                       |
| Marianne Nivert          | 1940      | 2001           | 5,150(2)                                     | Director                       |
| Carl Bennet              | 1951      | 2000           | 10,000(3)                                    | Director                       |
| Anders Igel              | 1951      | 1999           | 100  | Director                       |
| Peter Augustsson         | 1955      | 2001           | 800  | Director                       |
| Ingvar Carlsson          | 1934      | 2000           | 400  | Director                       |
| Lars Olofsson            | 1951      | 2001           | 0  | Director                       |
| Caroline Sundewall       | 1958      | 2001           | 1,000  | Director                       |
| Yvonne Karlsson          | 1959      | 2001           | 100  | Director <sup>(4)</sup>        |
| Berith Westman           | 1945      | 1993           | 650  | Director <sup>(4)</sup>        |
| Elof Isaksson            | 1942      | 2000           | 1,150  | Director <sup>(4)</sup>        |
| <i>Deputy Members:</i>   |           |                |  |                                |
| Magnus Brattstrom        | 1953      | 2001           | 0  | Deputy Director <sup>(4)</sup> |
| Stefan Carlsson          | 1956      | 2002           | 650  | Deputy Director <sup>(4)</sup> |
| Arja Kovin               | 1964      | 2002           | 0  | Deputy Director <sup>(4)</sup> |

- (1) Excludes 34,874,533 shares beneficially owned by Livforsäkrings AB Skandia, an affiliate of Skandia, of which Mr. Petersson is the President, Chief Executive Officer and a member of the board of directors.

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- (2) Excludes 40,085,400 shares beneficially owned by Fjärde AP-Fonden, of which Ms. Nivert is a director.
- (3) Including shareholdings through affiliated persons.
- (4) Appointed by the unions.

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Below is a summary biography of the members of Telia's board of directors:

*Lars-Eric Petersson* was elected to the Telia board of directors in 2000. He is the Chairman of the Telia board of directors, the President, Chief Executive Officer and a member of the board of directors of Skandia, and Chairman of the board of the National Agency for Higher Education.

*Anders Igel* was elected to the Telia board of directors in 1999. Mr. Igel assumed the position of President and Chief Executive Officer of Telia on July 1, 2002. Previously, Mr. Igel served as President and Chief Executive Officer of Esselte, and before that, Mr. Igel was an Executive Vice President of the Ericsson Group. While at Ericsson, he was over the course of his career the Head of Infocom Systems, which was one of Ericsson's three global business areas comprising fixed networks, Internet and IP-communication, the Head of Ericsson's Public Networks business area, the Head of Ericsson UK, and an operations executive for Ericsson in the Middle East, South-East Asia and Latin America. He left Ericsson to become the President and Chief Executive Officer of Esselte in 1999.

*Carl Bennet* was elected to the Telia board of directors in 2000. In addition to being a member of the Telia board of directors, Mr. Bennet is the Chairman of the board of directors of Boliden AB, Elanders AB, Getinge Industrier AB, University of Halmstad, Lifco AB, Scanrec AB and Sorb Industri AB, and a board member of AMS (the National Labor Market Board) and Center for Business and Policy Studies (SNS).

*Peter Augustsson* was elected to the Telia board of directors in 2001. In addition to being a member of the Telia board of directors, Mr. Augustsson is the Chairman of the board and Chief Executive Officer of SAAB Automobile AB and a member of the board of the Managing Direktorat for the Association of Swedish Engineering Industries.

*Ingvar Carlsson* was elected to the Telia board of directors in 2000. In addition to being a member of the Telia board of directors, Mr. Carlsson is Chairman of the Foundation for Strategic Research. Previously, he was Prime Minister of Sweden from 1986 to 1991 and from 1994 to 1996.

*Marianne Nivert* was elected to the Telia board of directors in 2001. Marianne Nivert served as President and Chief Executive Officer of Telia AB until July 1, 2002. Ms. Nivert joined Televerket in 1961 and since that time she has held a number of senior positions within Telia, including business area head of Telia Networks and Telia International Carrier. Ms. Nivert is also a member of the board of directors of Fjärde AP-fonden, Huddinge University Hospital, Lennart Wallenstams Byggnads AB, Center for Business and Policy Studies (SNS), the Chalmers University of Technology Foundation, AB Svensk ExportKredit, Systembolaget AB, Svenskt Stal AB, Beijer Alma AB and the World Childhood Foundation.

*Lars Olofsson* was elected to the Telia board of directors in 2001. In addition to being a member of the Telia board of directors, Mr. Olofsson is the Executive Vice President of Nestlé S.A. and a board member of Cereal Partners Worldwide. Mr. Olofsson is also a member of the board of directors of several companies within the Nestlé Group.

*Caroline Sundewall* was elected to the Telia board of directors in 2001. In addition to being a member of the Telia board of directors, Ms. Sundewall is a board member of Lifco AB and a board member of Stralfors AB.

*Berith Westman*, an employee representative, was appointed by the trade union to the Telia board of directors in 1993. In addition to being a member of the Telia board of directors, Ms. Westman is the Chairman of SIF-TELE (Swedish Union of Clerical and Technical Employees in Industry, telecommunications section) and a board member of Telia Pension Fund.

*Elof Isaksson*, an employee representative, was appointed by the trade union to the Telia board of directors in 1995. He served on the Telia board of directors until October 1999 and was reappointed in January 2000. In addition to being a member of the Telia board of directors, Mr. Isaksson is the Chairman of SEKO (Union of Service and Communication Employees) within Telia and is a board member of Telia Mobile AB.

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*Yvonne Karlsson*, an employee representative, was appointed by the trade union to the Telia board of directors in 2001. In addition to being a member of the Telia board of directors, Ms. Karlsson is the deputy Chairman of SIF-TELE and board member of Telia Promotor AB and Telia Online AB.

Below is a summary biography of the deputy members of the Telia board of directors:

*Magnus Brattström*, an employee representative, was appointed by the union to the Telia board of directors in 2001 and is the Vice Chairman in SEKO Telia group Union.

*Stefan Carlsson*, an employee representative, was appointed by the trade union to the Telia board of directors in 2002. He is a board member of Telia Online AB.

*Arja Kovin*, an employee representative, was appointed by the trade union to the Telia board of directors in 2002. She is a board member of Telia Nät AB.

**Nomination Committee**

The shareholders at the annual general meeting on May 10, 2001 resolved to establish a nomination committee consisting of representatives from the four largest shareholders in Telia AB from time to time and the Chairman of the Telia board of directors. The primary purpose of the committee is to nominate members of the Telia board of directors and present proposals regarding compensation of the members of the Telia board of directors. The committee also devotes special attention to the need for greater equality between women and men. The recommendations of the committee will be reported in the notice of the annual general meeting and at the meeting. The nomination committee shall organize a consultation procedure to provide the principal shareholders of the combined company an opportunity to participate in the nomination process.

The current committee members are Lars-Johan Cederlund (Swedish government), Ramsay Brufer (Alecta), Björn Lind (SEB Fonder), Marianne Nilsson (Robur) and Lars-Eric Petersson (chairman of the Telia board of directors). At the extraordinary general meeting of Telia's shareholders convened to be held on November 4, 2002, Telia shareholders will be asked to vote in favor of a resolution, subject to the exchange offer being declared unconditional, to change the composition of the nomination committee to consist of the chairman and the vice chairman of the Telia board of directors.

**Group Management**

The current members of Telia's group management team, and certain information relevant to such persons is set forth below:

| <b>Name</b>      | <b>Year Born</b> | <b>Executive Manager Since</b> | <b>Employed by Telia Since</b> | <b>Number Of Shares Owned as of August 31, 2002</b> | <b>Principal Occupation</b>           |
|------------------|------------------|--------------------------------|--------------------------------|---|---------------------------------------|
| Anders Igel      | 1951             | 2002                           | 2002                           | 100   | President and Chief Executive Officer |
| Jörgen Latte     | 1954             | 2002                           | 2000                           | 600   | Acting Chief Financial Officer        |
| Jan Rudberg      | 1945             | 1999                           | 1994                           | 2,000   | Executive Vice President              |
| Lars Härenstam   | 1949             | 1999                           | 1999                           | 3,150   | Executive Vice President              |
| Kenneth Karlberg | 1954             | 1999                           | 1987                           | 1,400   | Senior Executive Vice President       |
| Indra Asander    | 1956             | 2001                           | 2000                           | 3,350   | Senior Vice President                 |
| Kennet Radne     | 1957             | 2001                           | 2001                           | 1,000   | Senior Vice President                 |
| Anders Gylder    | 1950             | 2001                           | 2000                           | 1,750   | Senior Vice President                 |
| Michael Kongstad | 1960             | 2001                           | 2001                           | 1,000   | Senior Vice President                 |
| Eva Lindqvist    | 1958             | 2002                           | 2000                           | 1,750   | Senior Vice President                 |
| Joel Westin      | 1970             | 2002                           | 1997                           | 200   | Management Member <sup>(1)</sup>      |

- (1) Mr. Westin is a member of the group management team for a period of 15 months.

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Below is a summary biography of the members of Telia's group management team:

*Anders Igel:* See Board of Directors above.

*Jörgen Latte* has been Acting Chief Financial Officer since September 1, 2002. Mr. Latte joined Telia in 2000 as Financial Director of Telia Mobile. Prior to joining Telia, he was Chief Financial Officer of Tele2. He has also been Chief Executive Officer and President of Kabelvision, the second largest cable TV operator in Sweden. Previously Mr. Latte has held a number of chief financial officer positions, including at Kabelvision and Strängbetong AB.

*Jan Rudberg* is an Executive Vice President. Before he joined the Telia group in 1994, Mr. Rudberg was President and Chief Executive Officer of Tele2, the first competitive fixed line telecommunications operator in Sweden. Previously, Mr. Rudberg held a number of executive positions, including Executive Vice President of Nordbanken, President and Chief Executive Officer of Enator, as well as President of Ericsson Information Systems Sweden and head of the Nordic region. Mr. Rudberg has also held a number of key marketing positions within IBM.

*Lars Härenstam* is an Executive Vice President, the head of Human Resources and Group Business Development. Mr. Härenstam joined the Telia group in April 1999. Prior to joining Telia, he was Vice President of Human Resources and Communications at Ericsson Microwave Systems AB. He has also held management positions in Human Resources at Sandvik, Volvo, Stena, Transatlantic and the Götaverken shipbuilding industry. He is also a member of various boards of directors, including IHM Business School.

*Kenneth Karlberg* is a Senior Executive Vice President and head of Telia Mobile. Mr. Karlberg has been with Telia since 1987 and has held many positions in Telia, including as a regional sales leader, both in the consumer and the business sector, manager of Human Resources, Regional Director of Telia Mobile, Stockholm, head of Telia's production department and president of Mobitel.

*Indra Asander* is a Senior Vice President and head of Telia Internet Services. Ms. Asander has been with Telia since 2000 in various management positions, including Senior Vice President and Marketing Director of Telia Networks. She has also served as Senior Vice President at Vattenfall and Chief Executive Officer at Värmdö Energi.

*Kennet Radne* is a Senior Vice President and head of Telia Networks. Prior to joining Telia in 2001, Mr. Radne was the Chief Executive Officer for Ericsson Internet Solutions AB, Ericsson Business Consulting AB and held various management positions at Cap Gemini Nordic and Programator AB. Mr. Radne is also a member of the board of directors of Eesti Telekom and Lietuvos Telekomas.

*Anders Gylder* is a Senior Vice President and head of Telia Sverige. Mr. Gylder joined Telia in 2000 and has been a member of the group management team since 2001. He has also been Chief Executive Officer for Travelbusiness, a Swedish Rail company. In 1996, Mr. Gylder was appointed president of Telia Publicom. Between 1998 and 1999, he was head of Telia's Systems and Service business unit.

*Michael Kongstad* is a Senior Vice President and head of Corporate Communications. Mr. Kongstad joined Telia and became a member of the group management team in 2001. He has served as Managing Director for the Burson-Marsteller's Swedish operations and Senior Vice President of Corporate Communications at Posten, WASA Försäkring and the OM Group.

*Eva Lindqvist* is a Senior Vice President and head of Telia International Carrier since September 9, 2002. Ms. Lindqvist joined Telia in 2000 when she was appointed head of Telia's Enterprises business area. In March 2001, she was appointed head of Telia's Equity business area and a Senior Vice President of Telia. Before joining Telia, she held a number of positions at Ericsson, where she worked for approximately 20 years.

*Joel Westin* will be a member of the group management team for a period of 15 months and is currently a Business Manager in Telia Networks. Mr. Westin joined Telia in 1997 and became a member of the executive management board in 2002. He has also worked in the business development and product strategy area of Telia International Carrier.

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Each of the members of the Telia board of directors, the president and chief executive officer of Telia AB and each other member of the Telia's group management team is a Swedish citizen. The business address of each of the members of the Telia board of directors, the president and chief executive officer of Telia AB and each other member of Telia's group management team is c/o Telia AB, Marbackagatan 11, S-123 86 Farsta Sweden, telephone +46-8-713-1000.

## **Business Area Heads**

The following are the heads of Telia's four business areas:

*Kenneth Karlberg* is Senior Executive Vice President and head of Telia Mobile.

*Indra Asander* is Senior Vice President and head of Telia Internet Services.

*Eva Lindqvist* is Senior Vice President and head of Telia International Carrier.

*Kennet Radne* is Senior Vice President and head of Telia Networks.

## **Compensation**

The total aggregate compensation for the then Telia group management team (excluding pension costs and other social security contributions) for the year ended December 31, 2001 was approximately SEK 25.7 million. Aggregate compensation totaling SEK 1,634,453 was paid to members of the Telia board of directors for the year ended December 31, 2001. The fee to the chairman of the board is SEK 500,000 and SEK 200,000 for each of the other members of the Telia board of directors elected by the general meeting of shareholders who are not employees of Telia. A total of SEK 99,400 was paid to the employee representatives for their service until the annual general meeting 2001. No additional fees have been paid to these employees by virtue of their service on the Telia board of directors.

Union representatives no longer receive any fees in their capacity as members of the board of directors. In addition, all members of the Telia board of directors, including deputy members, and members of the group management team who are employees of Telia are entitled to receive options pursuant to Telia's employee stock option plan which permits the holder to purchase up to an additional 1,000 shares of Telia.

In 2001, Marianne Nivert, Telia's then President and Chief Executive Officer, received SEK 4,704,534 in salary and benefits, as well as a bonus of SEK 750,000. Before she reaches the age of 65, Ms. Nivert has been guaranteed a pension from her retirement on September 1, 2002 equal to 70 percent of her salary. From the age of 65, pension benefits will be paid under the ITP-Tele scheme as well as a supplementary pension, which will be paid for the portion of her salary that exceeds 20 base amounts, as that term is defined under Swedish law.

Anders Igel's fixed yearly salary is set at SEK 5,600,000, which will be paid pro rata for the year 2002, and with a maximum bonus of 50 percent of his fixed salary. In addition, Mr. Igel is entitled to participate in the Telia Group incentive plan for 2002 as described above under Incentive Programs. Mr. Igel's employment contract may be terminated with six months' prior written notice and with a subsequent severance payment equivalent to 24 months' fixed salary. Mr. Igel is also guaranteed early retirement at the age of 60, pursuant to which his total pension payments will equal 70 percent of his fixed salary. From the age of 65, pension benefits will be paid under the ITP-Tele scheme as well as a supplementary pension, which will be paid for the portion of his salary that exceeds 20 base amounts, as that term is defined under Swedish law.

In addition to general employment benefits, Telia offers the following benefits to members of the group management team and other executive officers: health insurance (including coverage for the spouse of an employee), an annual medical examination, a telephone subscription for private use free of charge and the choice of the following: use of a company car, domestic service or a salary increase of an equivalent amount. All benefits, except for health insurance for the employee and the annual medical examination, are treated as taxable income in Sweden.

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### ***Compensation Committee***

The Telia board of directors has appointed a compensation committee, which considers cases and submits recommendations to the board of directors concerning compensation matters. The committee is responsible for matters that affect remuneration paid to the president, vice presidents and business area heads. Its responsibilities also include incentive programs that target a broader group of employees within the Telia group. The current members of the compensation committee are Lars-Eric Petersson, Carl Bennet and Ingvar Carlsson.

### ***Incentive Programs***

The Executive Incentive Program provides the members of the group management team and other executive officers with an annual incentive payment of up to between 20 and 35 percent of their base salary. The program is based on the performance of the Telia group and/or the business area or unit in question, and the parameters measured in the program are, normally, external net sales, operating income (EBIT), human capital and different individual objectives, such as specific business ventures.

Telia has also established a Telia Group incentive plan for 2002, connected to the planning and realization of the integration of Telia and Sonera and the performance levels of Telia's businesses. A total of approximately 70 Telia executive officers and key employees are eligible to participate in the plan. Awards under the plan are limited to an aggregate of SEK 30 million.

### ***Employee Stock Option Plan***

The shareholders at the 2001 annual general meeting voted in favor of establishing an employee stock option program involving the issuance of debt instruments that carry the right to subscribe for shares in Telia. A total of 1,000 stock options were allotted free of charge to all employees with a permanent employment contract as of December 31, 2001. A portion of the options was issued to employees on May 15, 2001, and a second portion was sent out to all other employees during the first half of 2002. Due to legal and/or administrative reasons, stock options could not be offered to employees in certain countries and in certain states in the United States.

The program encompasses the issuance of a maximum of 21,000,000 options, which entitle the holder thereof to acquire a corresponding number of shares in Telia. The options are exercisable between May 31, 2003 and May 31, 2005. In addition, up to a maximum of 6,500,000 additional options may be issued and sold in the open market to compensate for any social costs incurred in connection with the option program.

The increase in share capital following a full subscription in the stock option plan will amount to SEK 88,000,000, leading to an increase in the total number of Telia shares by 0.9 percent. The current subscription price is set at SEK 69 per Telia share; however, the subscription price may be subject to adjustment following new issuances of shares, stock-splits and similar transactions.

### ***Pension Benefits***

Currently, substantially all of Telia's employees in Sweden are eligible for retirement benefits under a statutorily defined benefit plan called ITP/ITP-Tele. Telia and most of its subsidiaries use the ITP-Tele plan.

The rules set out by the FPG/PRI systems are used to calculate the amount of the pension contributions that Telia is required to make. These rules also govern those employees retired from public service for whom Telia has assumed responsibility for payment of their pensions. The Telia group's pension commitments are covered through a pension fund.

Telia's Top Management Pension Plan is based on the general pension plan, but with a retirement age of 60 or 62. After retirement at age 60 or 62, and until age 65, the plan grants a pension level equal to 70 percent of the compensation eligible for pensions. From the age of 65, a supplementary pension will be paid for the portion of the salary that exceeds 20 base amounts.



**Table of Contents****Employment Benefits for the Members of the Board of Directors**

Four members of the Telia board of directors are employed by Telia. Telia's general employment benefits are applicable to Berith Westman, Elof Isaksson and Yvonne Karlsson. Mr. Igel's employment benefits are described in Employment Agreements Compensation to the Board of Directors and Group Management below.

**Employment Agreements**

Members of Telia's group management team and certain executive officers have entered into employment agreements with Telia, which provide for, among other things, standard employment terms in accordance with Telia's basic employment labor contracts. The agreements also include compensation and termination provisions. Pursuant to the employment agreements, employment can typically be terminated by Telia upon 12 months' notice, after which each executive remains subject to a confidentiality requirement. After the period of notice has ended, the employee is typically entitled to a severance payment equal to one year's base salary which is paid monthly. The employee may be removed from his or her duties during the period of notice, and may become employed by a non-Telia group employer. In such a case, the salary from this new employer is then deducted from the payment during the period of notice and the severance payment period.

A total of 45 executives have employment contract clauses that contain termination benefits entitling them to receive 12 months' severance pay. A total of 33 executives are entitled to early retirement, which entitles them to receive pension benefits until the normal retirement age representing 70 percent of the salary on which the pension entitlement is based.

**Employees**

From December 31, 2000 to December 31, 2001, the number of Telia's employees decreased by 12,719 to 17,149 employees. On June 30, 2002, the number of Telia's employees was 16,561. The number of persons employed in Telia's Swedish operations declined by 11,540, to 13,365 from December 31, 2000 to December 31, 2001. On June 30, 2002, the number of Telia's employees in Sweden was 12,916.

From December 2000 to December 2001, the number of Telia's employees outside Sweden decreased by 1,179, of whom 1,015 were based in other Nordic countries. At December 31, 2001, 2,739 persons were employed in other Nordic countries and 1,045 outside the Nordic countries. The average number of Telia's employees outside Sweden was 4,057. On June 30, 2002, the number of Telia's employees outside Sweden was 3,645.

As of June 30, 2002, employees in the Telia group were distributed as follows: 27 percent in Telia Mobile; 5 percent in Telia International Carrier; 9 percent in Telia Internet Services; 45 percent in Telia Networks; 9 percent in Telia Holding; and 5 percent in group-wide functions. Approximately 1,000 employees in Sweden are employed in research and development activities undertaken at the business area or subsidiary level.

The table below lists the number of employees by business area for the periods indicated:

|                             | As of the year ended<br>December 31, |               |               | As of<br>June 30,<br>2002 |
|-----------------------------|--------------------------------------|---------------|---------------|---------------------------|
|                             | 1999                                 | 2000          | 2001          |                           |
|                             | (in thousands)                       |               |               |                           |
| Telia Mobile                | 3,618                                | 4,700         | 4,813         | 4,484                     |
| Telia Networks              | 8,657                                | 8,319         | 7,910         | 7,492                     |
| Telia Internet Services     | 845                                  | 1,132         | 1,369         | 1,447                     |
| Telia International Carrier | 294                                  | 611           | 777           | 796                       |
| Telia Holding               | 16,289                               | 14,281        | 1,576         | 1,523                     |
| Other Group-wide            | 940                                  | 825           | 704           | 819                       |
| <b>Total</b>                | <b>30,643</b>                        | <b>29,868</b> | <b>17,149</b> | <b>16,561</b>             |



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The Telia group is a member of ALMEGA, the Swedish employer association of the IT Trade & Industry. There are three trade unions at the Telia group level, Seko, Sif-Tele and Akademikerna i Telia. Approximately 70 percent of Telia group employees were union members as of June 30, 2002. In addition to the Co-determination at Work Act (*lag 1976:580 om medbestämmande i arbetslivet*), there is a Telia group agreement with the unions regarding active union participation, negotiating procedure and working environment. According to the Act on Board Representation for Private Sector Employees, the unions are entitled to appoint members of Telia's board of directors. There are two board members from Sif and one from Seko on Telia's board of directors. Labor contracts with the unions are due to be renewed on November 1, 2002. Telia considers its relations with its employees and the unions to be good.

As the telecommunications and data communications markets in Sweden have become increasingly competitive, Telia's adjustment and adaptation to this competitive environment has involved considerable changes for Telia's personnel. From 1990 to 2001, Telia reduced its labor force in Sweden by more than 70 percent, from approximately 49,000 employees to 13,365 employees as of December 31, 2001. Between December 31, 2001 and June 30, 2001, Telia's number of employees in Sweden decreased by another three percent to 12,916. Many of these employees left following extensive skills redeployment and recruitment programs. Between 1996 and 1998, under the Telia Redeployment Concept Project, Telia coordinated an in-depth Telia group-wide skills redeployment campaign involving approximately 6,500 employees. The project resulted in the redeployment of approximately 2,800 people while 3,700 chose to leave Telia. In total, Telia invested approximately SEK 5,200 million in this project from 1996 through 1999.

Telia has entered into a new redeployment agreement with the unions effective as of April 1, 2002 in order to continue to develop its human resources to keep Telia competitive. Telia's strategy is to create favorable conditions for skills development, redeployment and increased employee mobility.

**Auditors**

The following individuals currently serve as Telia's auditors for purposes of the Swedish Companies Act:

Torsten Lyth, Ernst & Young

Gunnar Widhagen, Ernst & Young

Filip Cassel, Swedish National Audit Office.

**Table of Contents****OPERATING AND FINANCIAL REVIEW AND PROSPECTS OF TELIA**

*The following discussion should be read in conjunction with Telia's consolidated financial statements and Telia's unaudited condensed consolidated interim financial statements, each of which are included elsewhere in this prospectus. Telia's consolidated financial statements and unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (IAS). For a detailed discussion of the principal differences between IAS and U.S. GAAP relevant to Telia, together with a reconciliation of net income and shareholders' equity recorded under IAS to net income and shareholders' equity under U.S. GAAP, see Note 39 to Telia's consolidated financial statements. Results for interim periods are not necessarily indicative of results for the full year.*

**Overview of the Year 2001 and the Six Months Ended June 30, 2002**

Telia's net sales increased by SEK 3,132 million, or 5.8 percent, from SEK 54,064 million in 2000 to SEK 57,196 million in 2001. The increase was positively influenced by the half-year effect of the acquisition of NetCom ASA and negatively affected by the divestiture of Telia's non-core operations carried out as part of its refine and focus initiative. For Telia's core business areas, which include Telia Mobile, Telia Internet Services, Telia Networks and Telia International Carrier, but excludes Telia Holding, the increase in net sales was approximately 13 percent and, excluding the half-year effect of the acquisition of NetCom ASA, approximately eight percent. This increase was principally due to an increase in revenues from Telia Mobile as a result of subscriber growth and higher traffic, as well as from Telia Internet Services as a result of increased demand for broadband services. Telia International Carrier also recorded net sales growth, despite turbulence in the industry, as the build-out of Telia's international carrier network approached completion and management concentrated greater resources on the marketing of such services. While the retail portion of Telia Networks experienced a decline in net sales, wholesale fixed network sales increased.

In the six months ended June 30, 2002, Telia's net sales increased by SEK 436 million, or 1.6 percent, from SEK 27,795 million in the first six months of 2001 to SEK 28,231 million in the first six months of 2002. For Telia's core business areas, the increase in net sales was approximately seven percent. The increase in net sales was primarily due to growth in Telia Mobile and Telia Internet Services. Telia International Carrier's net sales also grew by approximately 28 percent in the first six months of 2002 as compared to the comparable period in 2001.

In 2001, Telia's operating income decreased by SEK 6,546 million, or over 54 percent, from SEK 12,006 million in 2000 to SEK 5,460 million in 2001 largely as a result of higher depreciation and write-downs. Depreciation and write-downs increased from SEK 8,222 million in 2000 to SEK 13,975 million in 2001 principally due to the write-down of the carrying value of Telia International Carrier, higher investments in Telia's broadband network in Sweden, the build-out of its international carrier network and capacity reinforcement of its fiber-optic networks in prior years as well as the amortization of goodwill related to the acquisition of NetCom ASA for the full year. In 2001, Telia wrote down the carrying value of its Telia International Carrier assets by SEK 3,027 million; Telia recorded only minor asset write-downs in 2000. Capital gains, excluding gains from associated companies, has a significant impact on operating income in 2000, amounting to SEK 8,004 million, largely from the public offering of the directory services subsidiary Eniro AB, as compared to capital gains, excluding gains from associated companies, of SEK 775 million in 2001. However, earnings from associated companies improved from negative SEK 1,197 million in 2000 to SEK 6,136 million in 2001 as a result of capital gains from the divestment of companies that recorded negative results in 2001. The earnings from associated companies in 2001 also included a write-down of SEK 1,820 million relating to Telia's holding in Netia.

In the six months ended June 30, 2002, Telia's operating income decreased by SEK 971 million, or 54.0 percent, from SEK 1,799 million in the first six months of 2001 to SEK 828 million in the first six months of 2002. Depreciation, amortization and write-downs increased from SEK 4,915 million in the first six months of 2001 to SEK 5,711 million in the first six months of 2002 principally due to major investments in 2001 in the build-out of Telia's broadband network in Sweden, capacity reinforcement of its fiber-optic networks and the expansion of its international carrier network. In the six months ended June 30, 2002, Telia

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recorded write-downs of SEK 137 million primarily attributable to its portal business. In addition, restructuring costs had a negative effect of SEK 513 million in the first six months of 2002 as compared to no restructuring costs in the same period in 2001. On the other hand, earnings from associated companies improved from SEK 51 million in the six month period ended June 30, 2001 to SEK 375 million in the six month period ended June 30, 2002.

Telia's net interest-bearing liabilities decreased from SEK 20,235 million as of December 31, 2000 to SEK 10,661 million as of December 31, 2001, mainly as a result of the use of proceeds from the divestitures of non-core assets to pay down Telia's outstanding debt. As of June 30, 2002, Telia's net interest-bearing liabilities were SEK 10,336 million.

## **Future Outlook and Financial Goals**

Telia's management believes that the poor economic climate in the Nordic countries and elsewhere will continue to have a negative effect on Telia's revenue growth and profitability. As a result, Telia is concentrating on the implementation of efficiency measures in its core operations to achieve stated growth and profitability objectives. These efficiency measures have begun to yield positive results which are expected to continue. In addition, Telia expects its investment levels to continue to be significantly lower in 2002 compared to 2001, reflecting lower investments in the fixed networks in Sweden and its international carrier network, which accounted for a significant share of Telia's investment in prior years.

During 2001, Telia set the following medium term financial goals:

Growth in consolidated net sales for comparable units of approximately eight percent per year.

Underlying consolidated EBITDA margin of 25-30 percent on an annual basis.

Positive underlying monthly EBITDA by the end of 2002 for Telia International Carrier.

Positive underlying monthly EBITDA by the end of 2003 for Telia Internet Services.

Management reviews these financial goals on an ongoing basis. Management's current assessment of these goals is as follows:

Telia recorded net sales growth for comparable units of seven percent for the first six months of 2002 as compared to the comparable period in 2001. Management believes that the growth target of eight percent is optimistic for 2002 given the current market situation.

Telia achieved an underlying consolidated EBITDA margin of 24.7 percent for the first six months of 2002 and reached the lower end of the target, 25.0 percent, in the three month period ended in June 30, 2002.

In light of the ongoing turbulence in the market, including the insolvencies of several large companies operating in the carrier market, Telia undertook a comprehensive review of Telia International Carrier's operations to clarify how the international carrier business can achieve a positive cash flow as quickly as possible. As a result of such review, which was completed in early September 2002, Telia has decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. The restructuring of Telia International Carrier will result in provisions of an estimated SEK 3.5 billion, most of which are expected to be recorded in the third quarter of 2002. In addition, due to the adverse market developments in the international carrier operations and the significant downscaling of Telia International Carrier, Telia will write down the value of fixed assets relating to its international carrier operations by approximately SEK 6.0 billion in the third quarter of 2002. Adjusted for the estimated restructuring charges, Telia now expects its international carrier operations to achieve positive cash flow during 2003.

Management believes that Telia Internet Services may meet its goal of achieving positive underlying monthly EBITDA by the end of 2003, but that achieving this goal will be affected by the required disposition of its Com Hem AB Swedish cable TV business.

**Table of Contents****Proposed Merger with Sonera**

Telia and Sonera expect to derive significant synergies as a result of the merger and have identified and quantified cost and capital expenditure synergies within a number of areas in their respective operations. These synergies are described in greater detail under **THE TRANSACTION** **Reasons for the TeliaSonera Merger**. In addition to cost and capital expenditure synergies, Telia and Sonera expect to achieve revenue synergies, although such revenue synergies have not been quantified. Neither Telia nor Sonera has, however, previously undertaken a restructuring project comparable in size or complexity with the integration plans associated with the merger. Accordingly, the combined company may face difficulties integrating their businesses, operations and personnel in a timely and efficient manner and may not be able to achieve these synergies and other benefits or may not be able to achieve them within the expected timescale. See **RISK FACTORS** **Risks Relating to the Exchange Offer** Telia and Sonera may have difficulty integrating their large and complex businesses and realizing the anticipated synergies of the merger.

Telia expects that one-off expenses (excluding transaction related expenses) resulting from the merger will be limited in 2002 and to total approximately SEK 2 billion ( 220 million) over the years 2003-2005, of which approximately one-third relates to capital expenditures. Telia estimates that most of the expenses will be incurred in connection with the elimination of overlapping activities and most of the capital expenditures will relate to investment in telecommunications and IT systems. No assurances can be given, however, that the combined company will not incur higher-than-expected expenses in connection with the merger.

Telia plans to dispose of certain non-core businesses in order to receive competition clearance for the merger. These businesses include Telia's mobile business in Finland and Telia's Com Hem cable TV business in Sweden. In addition, Telia and Sonera have committed to make available to other operators in Sweden and Finland its regulated wholesale fixed and mobile network products and international GSM roaming in Sweden and Finland on a non-discriminatory basis as compared to the terms on which they are offered internally within the combined company. Telia does not believe that the effect of the EU requirements will have a material effect on the combined company's results of operations, financial situation and cash flow.

**Sources of Growth**

Telia Mobile and Telia Internet Services are Telia's fastest growing sources of revenue. Telia is the leading provider of mobile telecommunications services in Sweden, the second largest provider in Norway and has significant mobile operations in each of Denmark and Finland. Although mobile penetration rates in the Nordic countries are among the highest in the world, Telia's subscriber base and traffic have continued to experience strong growth. The number of GSM subscribers for Telia's mobile services increased by 88 percent from 1999 to 2001, from 2,551 million to 4,792 million, and total minutes of outgoing mobile traffic on Telia's network increased 86 percent during the same period. A portion of this growth is accounted for by Telia's acquisition of the Norwegian mobile operator NetCom ASA in 2000 and growth in pre-paid subscriptions in each of the Nordic countries. Telia's mobile customers have also been quick to adopt SMS services. SMS services accounted for approximately four percent of Telia Mobile's revenue in Sweden in 2001 as compared to one percent in 1999. The take-up of SMS services was even greater in Norway, accounting for approximately 13 percent of Telia's Norwegian mobile telecommunications net sales in 2001. In addition, Telia recently introduced GPRS services in each of Sweden, Norway and Finland. While GPRS services have not yet had a significant effect on Telia Mobile's revenues, mobile data products and services are expected to be a significant source of Telia Mobile's revenue growth in the future.

Although representing only approximately six percent of Telia's total consolidated net sales in 2001 and seven percent in the first half of 2002, Telia Internet Services is an important source of Telia's revenue growth. Internet Service net sales increased by 31 percent in 2001 as compared to 2000, largely as a result of the full-scale commencement of active marketing for broadband services. Internet service net sales increased by 30 percent for the six months ended June 30, 2002 as compared to the same period in 2001. At the end of 2001, broadband customers accounted for approximately 27 percent of Telia's total Internet access customers. Although approximately 64 percent of Swedish households have Internet access, most of those subscriptions are for dial-up services, and surveys indicate that approximately half of the households currently using dial-up

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access are planning to switch to broadband services within the next three years. Subscription to ADSL services in Sweden increased particularly rapidly, as did cable television Internet connections in Sweden. Broadband access services in Denmark, Telia's second largest Internet Services market, also increased at a rapid rate. Management expects that broadband sales will continue to provide a source of revenue growth in the future.

Telia's build-out phase for its international carrier network is now nearly complete and its International Carrier business has achieved strong revenue growth in recent periods. Despite this revenue growth and an increase in orders received in the first half of 2002, management believes the current volumes and earnings trends for the International Carrier business area are unsatisfactory and Telia undertook a comprehensive review of Telia International Carrier's operations to clarify how the international carrier business can achieve a positive cash flow as quickly as possible. As a result of such review, which was completed in early September 2002, Telia has decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. The restructuring of Telia International Carrier will result in provisions of an estimated SEK 3.5 billion, most of which are expected to be recorded in the third quarter of 2002. In addition, due to the adverse market developments in the international carrier operations and the significant downscaling of Telia International Carrier, Telia will write down the value fixed assets relating to its international carrier operations by approximately SEK 6.0 billion in the third quarter of 2002. Adjusted for the estimated restructuring charges, Telia now expects its international carrier operations to achieve positive cash flow during 2003.

The retail portion of Telia Networks is mature, and revenues have continued to decline in 2002 as a result of the introduction of local carrier pre-selection in Sweden in February 2002. Management believes, however, that Telia's market share loss in the Swedish retail market will now slow down as local carrier pre-selection has been fully implemented. In the future, the financial difficulties of some of Telia's competitors in the retail market may have a positive effect on Telia's retail operations. In recent years, revenues from Telia's wholesale fixed network business have been growing steadily. In conjunction with the increase in competition, demand for Telia's wholesale services, such as interconnection and network capacity, from third-party operators and service providers have increased. Although Telia expects that the financial difficulty of some of Telia's competitors in the retail market may negatively affect its revenues in the wholesale market, management still believes that the wholesale market will be an important source of revenue growth in the long-term. Net sales for the six months ended June 30, 2002 increased by approximately 24 percent to SEK 2,216 million as compared to SEK 1,793 million for the same period in 2001. In Sweden, operating under the brand Skanova, Telia offers wholesale services including leased lines, network capacity, interconnection, wholesale broadband access and voice services to third-party operators and service providers. In Denmark, Telia acquired the infrastructure company Powercom A/S in 2001 and is currently the second largest infrastructure owner. Telia's management believes that Telia's fixed network wholesale business will continue to grow as additional third-party service providers enter the market and Sweden's overall telecommunications market expands.

Telia's future revenues depend on the appeal of its new products and services, including advanced mobile communications services utilizing such technologies as GPRS and UMTS, as well as broadband Internet services. Telia further believes that Telia International Carrier's restructuring and new strategic focus on profitability and positive cash flow will establish a foundation for long-term growth.

**Competitive Environment**

The telecommunications industry in the Nordic countries is among the most liberalized in Europe. Each of the Nordic countries has few legal barriers to new entrants and, as a result, there are a large number of telecommunications operators and service providers operating in each of the Nordic countries. In its mobile services business, Telia is facing increasing competition from a number of domestic and international telecommunications providers. Telia has been reducing mobile tariffs in response to pricing packages offered by its competitors. As competition continues to intensify, Telia may lose market share in its mobile business and it expects to further reduce its mobile tariffs. In addition, the commercial launch of third generation mobile services will put further pressure on Telia to reduce the prices it charges for mobile services.

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Management also expects competition in its fixed line business will continue to increase, particularly from international telecommunications operators and alliances, resulting in a loss of Telia's market share and reductions in tariffs for its fixed line services. The implementation of carrier pre-selection and number portability in the fixed network market in 1999 and local carrier pre-selection in 2002 has increased competition by facilitating fixed network customers' ability to choose local, national and international carriers independent of the local loop provider. Telia also opened up its access networks to other operators in March 2000, in advance of the implementation of EU regulations mandating unbundled access to the local loop. These regulatory developments have, and are expected to continue to have, the effect of increasing competition for retail fixed network services in Sweden. Telia Networks implemented significant price cuts for traffic tariffs in 1999 and 2000 in response to increased competition. However, with Telia's increase of subscription fees to better reflect costs in March 2001, overall tariffs in the Telia Networks retail operations in 2001 remained stable.

Competition in the broadband segment of the Internet services market has also been intense. In Sweden, Telia's competitors, including Tele2, Song Networks, Bostream, Telenordia, Bredbandsbolaget, Chello and Utfors, have been aggressively marketing their services, which has led to pricing pressure on broadband services for business subscribers.

Telia has experienced intense competition in the international carrier services area. The entry of a considerable number of competitors in the market for global data and voice communications services since the late 1990s has created overcapacity and has resulted in the rapid decline of the price of wholesale bandwidth capacity in the markets where Telia's international carrier business operates. This led Telia to write down the carrying value of its international carrier business by approximately SEK 3 billion in 2001. Management expects that the global data and voice communications market will continue to be marked by intense competition and continued price pressure in at least the near future. Management expects that the intense competition, price pressure and overcapacity in the international carrier services area may lead to some consolidation and a reduction of the number of businesses operating in the carrier market. In light of the ongoing turbulence in the market, including the insolvencies of several large companies operating in the carrier market, Telia undertook a comprehensive review of Telia International Carrier's operations to clarify how the international carrier business can achieve a positive cash flow as quickly as possible. As a result of such review, which was completed in early September 2002, Telia has decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. The restructuring of Telia International Carrier will result in provisions of an estimated SEK 3.5 billion, most of which are expected to be recorded in the third quarter of 2002. In addition, due to the adverse market developments in the international carrier operations and the significant downscaling of Telia International Carrier, Telia will write down the value fixed assets relating to its international carrier operations by approximately SEK 6.0 billion in the third quarter of 2002. Adjusted for the estimated restructuring charges, Telia now expects its international carrier operations to achieve positive cash flow during 2003.

**Reorganization of Business Area Structure**

As of April 1, 2001, Telia implemented a new business area structure focused on four core areas:

Telia Mobile;

Telia Internet Services;

Telia Networks; and

Telia International Carrier

In addition, until April 2002, Telia treated Telia Equity, which was responsible for managing Telia's non-core ownership interests and business operations outside of its core business, as a separate business area. With the recent completion of Telia's refine and focus initiative in 2001, in which a substantial portion of Telia's non-core assets were divested, Telia Equity ceased being treated as a separate business area, and has been renamed Telia Holding. Because Telia Equity was treated as a separate business segment through March 31, 2002, the review of Telia's results of operations for the six months ended June 30, 2001 and 2002



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and for the years ended December 31, 1999, 2000 and 2001 included in this prospectus analyzes Telia Holding, as renamed, as a separate segment.

Management chose to concentrate on these four core areas based on the belief that (1) these areas offer good growth and profitability potential, (2) Telia already holds a strong position in each of these areas and (3) synergies between these areas continue to emerge and grow. In addition, Telia's focus on its core business areas has led it to concentrate an increasing part of its operations in the Nordic countries and the Baltic region.

Prior to April 2001, Telia had organized its operations into five business areas: (1) Mobile, (2) Carrier and Networks, which comprised Telia's international carrier operations and its fixed network wholesaling operations in the Nordic countries, (3) Enterprises, which comprised non-core operations that Telia was seeking to divest in whole or part, (4) People Solutions, which provided a broad range of fixed and communications services and Internet services to residential and small business customers in the Nordic countries and (5) Business Solutions, which provided fixed communications services for the large and medium-sized corporate customers in the Nordic countries. In accordance with IAS 14 and SFAS 131, Telia has restated its business segment information for the years ended December 31, 1999 and 2000 so that it corresponds with the way Telia presents its segment information beginning as of April 1, 2001. Due to significant interdependencies and overlaps among the various operating units, the information with respect to operating profit and underlying EBITDA with respect to each business segment may not be indicative of the amounts that would have been reported if these segments were operationally or legally independent of one another. See Note 33 to Telia's consolidated financial statements.

## **Implementation of the Refine and Focus Strategy**

As part of its plan to reorganize its business area structure, Telia embarked upon a strategy of refining and focusing its operations through divestments of businesses and functions outside of its core operations. The refine and refocus strategy was aimed at (1) rationalizing Telia's geographic presence and business range, (2) increasing Telia's profitability and (3) strengthening Telia financially. By the end of 2001, Telia had substantially completed implementing its refine and focus efforts. As part of its refine and focus efforts, Telia divested several businesses, comprising such services as directory operations, directory assistance services, call center operations and consulting operations, as well as certain functions, such as network construction and maintenance, installation and servicing of access and customer equipment and some administrative support functions. Rather than carry out such functions within the company, Telia now purchases such services from outside partners and subcontractors. In addition, as part of efforts to concentrate its geographic presence, Telia divested many of its international investments in 2001, including its holding in the Irish fixed and mobile operator Eircom, its financial interests in the Brazilian mobile operator Tess S.A., its fixed network operations in Finland and ISP businesses in Spain and the United States. As a result of Telia's refine and focus initiative, management believes that Telia has become less sensitive to economic fluctuations and other market changes and more financially stable. Among other things, divestitures made in 2001 yielded cash of SEK 15,631 million, which enabled Telia to further amortize its outstanding debt. With the completion of Telia's refine and focus initiative, Telia Equity, which was treated as a separate business area responsible for managing Telia's non-core ownership interests and business operations outside of its core business, will no longer be treated as a separate business area, and has been renamed Telia Holding.

In the first quarter of 2002, Telia restated its segment information for the three years ended December 31, 2001 to reflect the following changes in Telia's internal reporting structure:

The operations of Telia's Business Solutions product unit were moved from Telia Networks to Telia Mobile. The Business Solutions product unit markets and sells products and services such as PBXs and network-based switchboard functions that combine fixed and mobile functionality, known as Centrix.

Following the recent completion of Telia's refine and focus initiative in 2001, in which a substantial portion of Telia's non-core assets were divested, Telia Equity is no longer treated as a separate business area and has been renamed Telia Holding. Telia Holding is a business unit that is

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responsible for managing Telia's ownership interests in companies outside of Telia's core operations and will be reported as part of group-wide operations from 2002.

Certain smaller-scale operations, such as the submarine cable company NorSea Com AS, were moved from Telia International Carrier to Telia Holding.

Telia's restated segment information gives effect to the foregoing events as if they occurred on January 1, 1999 and will be reported according to the new reporting structure beginning January 1, 2002.

### **Write-downs Relating to Telia International Carrier Operations and Netia Holdings S.A.**

Since the late 1990s, competition in the global data and voice communications services area has increased substantially. The entry of a considerable number of competitors has created overcapacity and has resulted in a rapid decline of the price of wholesale bandwidth capacity in the markets where Telia's international carrier business operates. These market conditions led Telia to write down the carrying value of its international carrier business by approximately SEK 3 billion in 2001. Management expects that the global data and voice communications market will continue to be marked by intense competition and continued price pressure in at least the near future. Management continues to believe that current volumes and earnings trends for the International Carrier business area are unsatisfactory and Telia undertook a comprehensive review of Telia International Carrier's operations to clarify how the international carrier business can achieve a positive cash flow as quickly as possible. As a result of such review, which was completed in early September 2002, Telia has decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. The restructuring of Telia International Carrier will result in provisions of an estimated SEK 3.5 billion, most of which are expected to be recorded in the third quarter of 2002. In addition, due to the adverse market developments in the international carrier operations and the significant downscaling of Telia International Carrier, Telia will write down the value fixed assets relating to its international carrier operations by approximately SEK 6.0 billion in the third quarter of 2002.

Netia Holdings S.A., a fixed-line telecommunications provider in Poland in which Telia currently has a 48.07 percent interest, suffered serious financial setbacks in 2001. As of December 31, 2001, it had an accumulated deficit of PLN 2.3 billion ( \$650 million) and a working capital deficit of PLN 3.5 billion ( \$1 billion). In December 2001, one of its wholly-owned subsidiaries failed to make interest payments on its outstanding notes. In March 2002, Netia negotiated a restructuring plan with its principal noteholders, financial creditors and Netia's largest shareholders, including Telia, which subsequently received the requisite approval of 95 percent of the holders of its existing notes. At an extraordinary shareholder's meeting on April 4, 2002, Netia's shareholders approved of a capital increase necessary to implement the restructuring. If the restructuring is completed and an option granted by Telia to Warburg Pincus to purchase a portion of Telia's interest in Netia is exercised, Telia's ownership interest in Netia will be diluted from 48.06 percent to approximately 2.1 percent on a fully diluted basis. Telia will also have the right to purchase an additional 4.3 percent interest in Netia upon the exercise of warrants to acquire Netia shares to be granted in connection with the restructuring. The restructuring is expected to be completed by the end of 2002.

Telia recorded a substantial impairment charge relating to its investment in Netia in 2001, and subsequently wrote down its investment in Netia to zero as a result of a loss in earnings from associated companies attributable to Netia. In 2001, Telia recorded a loss in earnings from associated companies of SEK 2,464 million with respect to its investment in Netia. Telia records the carrying value of its investment in Netia at zero, and does not expect to be required to make any further impairment charges with respect to its investment in Netia. See **INFORMATION ABOUT TELIA International and Other Significant Investments Netia Holdings S.A.** for a further discussion of Netia Holdings and its restructuring plan.

### **Recent Acquisitions, Investments and Divestitures**

Telia has made a number of significant acquisitions and equity investments as well as divestitures since the beginning of 2000. Telia's most significant investments during this period include its acquisition of the Norwegian mobile operator NetCom ASA in 2000, its investment in the joint-venture company Svenska UMTS-nät AB in 2001 and its acquisition of the Danish fixed line infrastructure company Powercom A/S in

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2001. As part of the implementation of its refine and refocus initiative in 2000 and 2001, Telia divested a number of businesses and operations outside of its core operations. Telia's principal divestitures included the sale of its economic interest in the Brazilian mobile operation Tess S.A. in 2001, its sale of its entire interest in its directory services subsidiary Eniro AB in 2000 and 2001, and its sale of a 51 percent interest in its former subsidiary Telefonos AB, which was responsible, among other things, for Telia's IT consulting businesses, directory assistance services, and infrastructure design, construction and maintenance services.

### ***Principal Acquisitions and Investments***

Telia's principal acquisitions and investments since the beginning of 2000 include:

In February 2000, Telia acquired a 29.5 percent interest in First National Holding S.A., which held stakes in several mobile and fixed network operators in Northwestern Russia, for SEK 700.2 million.

In June-August 2000, Telia acquired 51.6 percent of NetCom ASA, the second largest mobile operator in Norway, and the remaining interest in August-December 2000 through a mandatory cash offer, market purchases on the Oslo Stock Exchange and a redemption offer. The aggregate purchase price for the acquisition was SEK 24,577 million. Telia financed the acquisition of NetCom through loans and funds raised in Telia's initial public offering. NetCom has been integrated as part of Telia Mobile. As of December 31, 2001, NetCom had approximately 970,000 customers. NetCom generated external net sales of SEK 4,287 million in 2001.

In June 2001, Telia purchased all of the shares of Powercom A/S for Danish kroner 457 million, significantly expanding Telia's broadband capacity in Denmark.

In August 2001, Telia acquired the mobile portal Halebop for SEK 25.7 million.

In September 2001, KF, Skandia and Telia signed an agreement to jointly form Coop Bank, whose main channel for services will be the Internet, with services offered via fixed and mobile telecommunications. Telia made an initial capital contribution of SEK 25.1 million in Coop Bank, representing a 20 percent ownership interest in Coop Bank. As of September 25, 2002, Telia's total capital contributions in Coop Bank amounted to SEK 93.1 million.

In addition, Telia has also made significant investments in UMTS licenses in 2000 and 2001. In 2000, Telia invested NOK 200 million to acquire a UMTS license in Norway. During 2001, Telia was awarded a UMTS license in Denmark for a total purchase price of SEK 1,024 million. While Telia was not granted a UMTS license in connection with the UMTS tender by the Swedish State in 2000, it entered into a joint venture with Tele2 in March 2001 to exploit the UMTS license awarded to Tele2. The joint venture is owned on an equal basis by the parties. The cooperation between Telia and Tele2 has been reviewed by the Swedish Competition Authority and in March 2002, the cooperation was given an exemption for a period of five years from the prohibition against anti-competitive agreements in the Swedish Competition Act. The exemption ends in February 2007, at which time the cooperation has to be reviewed by the Competition Authority.

Telia and Tele2 will, on a pro rata basis, finance the construction of the UMTS infrastructure through capital contributions and issuance of guarantees that are necessary in order for Svenska UMTS-nät to obtain third party financing. As of December 31, 2001, Telia had made an aggregate capital contribution of SEK 250 million to Svenska UMTS-nät. An additional capital contribution of SEK 250 million was made in May 2002. On September 19, 2002, Svenska UMTS-nät signed a SEK 11 billion term loan and revolving credit facility for the construction of its UMTS network infrastructure in Sweden. As security for certain amounts borrowed by Svenska UMTS-nät under the facility, Telia and Tele2 have issued guarantees to the lenders and have granted pledges of their shares of Svenska UMTS-nät. Telia is not contractually required to provide any further capital contributions to or guarantees in favor of Svenska UMTS-nät. See **INFORMATION ABOUT TELIA - Material Contracts** for a further discussion of Telia's UMTS joint venture in Sweden. Telia's management believes that the ability to offer UMTS services throughout the Nordic countries will provide a significant competitive advantage both in terms of network construction and service development.

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***Principal Divestitures***

Telia's principal divestitures since the beginning of 2000 include:

Effective January 1, 2000, Telia sold its fixed telephone operations in Norway to Enitel ASA for \$252.6 million and realized a gain of SEK 1,375 million.

In October-November 2000, Telia sold 50.9 percent of its shareholding in its directory services subsidiary, Eniro AB, through an initial public offering of Eniro's shares, which generated net proceeds to Telia of approximately SEK 6.2 billion and a capital gain of SEK 6,022 million. In July 2001, Telia further reduced its shareholding through a sale of 25.4 percent of its interest in Eniro to various institutional investors for an aggregate purchase price of approximately SEK 4.16 billion. In December 2001, Telia sold the balance of its remaining interest in Eniro through a sale to various institutional investors for an aggregate purchase price of SEK 3.1 billion. These two transactions generated capital gains of SEK 5,447 million. In addition, during 2001, Eniro acquired operations in Germany and Finland paying with its own newly issued shares. The resulting dilution of Telia's ownership interest in Eniro generated non-cash capital gains of SEK 486 million. In total for 2000 and 2001, Telia recorded capital gains of SEK 11,955 million in relation to Eniro.

In February 2001, Telia's partially owned subsidiary Telia Overseas AB sold its 29 percent interest in the Slovenian mobile company SI.Mobil to Mobikom Austria for 50.1 million. Telia realized a capital gain of SEK 380 million in connection with this sale.

In April 2001, Telia and its majority owned subsidiary Telia Overseas sold all of their economic interest in the Brazilian mobile operator Tess SA for cash and notes to Telecom Americas Ltd., a consortium owned by America Moviles, Bell Canada International and SBC Communications. To meet the requirements of Agencia Nacional de Telecomunicacões or Anatel, the telecommunications regulatory authority in Brazil, under Tess's concession, Telia was required to maintain voting control in Tess until December 2003. Telia and Telia Overseas have, accordingly, retained a majority of the voting shares in Tess. As part of the transaction, however, Telia and Telia Overseas granted a call option to Telecom Americas to purchase Telia's and Telia Overseas' voting interest in Tess, which may be exercised in the event all Brazilian laws and regulations applicable to the transfer of the voting interest are satisfied. At the same time, Telecom Americas granted Telia and Telia Overseas a put option granting Telia and Telia Overseas the right to put their voting interest in Tess to Telecom Americas under substantially the same conditions.

The total face value of the consideration for the sale of Tess was \$681.9 million, of which 66 percent was paid in cash upon signing, with the remaining 34 percent paid in the form of promissory notes issued by Telecom Americas and guaranteed by America Moviles, Bell Canada International and SBC, respectively. As agreed between the parties, Telia and Telia Overseas have resold their notes during 2001. As a result, Telia and Telia Overseas have received an aggregate of \$625.9 million in cash proceeds from the sale of their Tess interests. Telia realized a capital gain of SEK 2,786 million connection with the Tess divestiture. Telia's capital gain from its sale of Tess was, however, a consequence of equity losses that Telia had previously recorded from its holding in Tess. Between 1998 and 2001, Telia recorded equity losses from its holding in Tess in the aggregate amount of SEK 3,623 million.

In May 2001, Telia sold its call center operations in Sweden, Norway, Denmark and Finland for approximately SEK 100 million and realized a capital gain of SEK 55 million.

In May 2001, Telia acquired the remaining shares of the Polish directory company Panorama Polska Sp.z.o.o., in which Telia previously owned a 49 percent interest, for SEK 812 million. In accordance with an option agreement with Eniro AB, all shares in Panorama were transferred immediately thereafter to Eniro, which paid for the purchase in cash and newly issued shares in Eniro. Telia realized a capital gain of SEK 103 million in connection with the sale of Panorama Polska. Following the transaction, Telia disposed of its holding in Eniro in several stages, as described above, and, at the end of 2001, Telia had no remaining shareholding in Eniro.

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In May 2001, Vodafone Plc finalized the acquisition of Eircell, the mobile operations within Eircom Plc. The acquisition of Eircell by Vodafone resulted in Telia acquiring an indirect shareholding in Vodafone. Telia has since disposed of all of its shareholdings in Vodafone, realizing net proceeds of approximately SEK 3,500 million and a capital loss of SEK 314 million.

In June 2001, Telia sold all of its shares in Telia Finland Oy, which was responsible for Telia's Finnish fixed-line operations, to Song Networks for SEK 445 million resulting in a capital gain of SEK 65 million.

In June 2001, Telia sold a 51 percent interest in its subsidiary Telefon AB to Industri Kapital 2000 Ltd. Telefon AB owns Multicom Security AB, Ki Consulting and Solutions AB, Respons AB, Swedia Networks AB, Comcarta AB, Swedtel AB, Swedtel Inc., TA Teleadress Information AB, and Validation AB, along with the respective subsidiaries for those companies. Telia presently maintains significant and continuing commercial and financial relationships with some of the companies held by the Telefon Group that are more fully described in INFORMATION ABOUT TELIA Related Party Transactions. Due to these relationships Telia has not calculated any capital gain or loss in connection with the sale of the Telefon Group.

In November 2001, Telia sold its holding in Eircom plc to Valentia Telecommunication Ltd. for SEK 3,900 million. Telia realized a capital gain of SEK 1,070 million in connection with the sale.

In December 2001, Telia sold all of its interest in the Internet service provider Scandinavian Online AB to Eniro for SEK 128 million and realized a capital gain of SEK 53 million.

In December 2001, Telia sold 91 percent of its interest in the Orbiant Group, which installs and services network infrastructure and other telecommunications equipment, to Flextronics Network Services Sweden AB for SEK 1,046 million. Telia recorded a capital gain of SEK 653 million in connection with this transaction. The Orbiant Group consists of Neterna AB, Orbiant Service AB, Orbiant Systems AB, Evega AB, Relacom AB, and Wireless Network Management WNM AB. See INFORMATION ABOUT TELIA Telia Holding for a further description of the business of the Orbiant Group. Flextronics acquired Telia's remaining nine percent interest in the Orbiant Group in July 2002 for a purchase price of SEK 106 million.

In April 2002, Telia sold its 26 percent interest in Bharti Mobile Ltd (India) to Telia Overseas AB, a 65 percent owned subsidiary of Telia, for SEK 526 million. Telia realized a capital gain of SEK 176 million in connection with this transaction. In May 2002, Telia Overseas AB announced the sale of its 26 percent interest in Bharti Mobile Ltd (India) to Bharti Tele-Ventures Ltd. The transaction is expected to be completed during the second half of 2002 and is anticipated to generate a capital gain of approximately SEK 400 million.

***Capital Expenditures and Investments***

Telia's capital expenditures in 2000 and 2001 have been high relative to historical levels. In 2001, Telia recorded capital expenditures of SEK 17,713 million as compared to SEK 16,580 million in 2000 and SEK 7,701 in 1999. The increases in capital expenditures have been largely the result of the build-out of Telia's international carrier network, capacity reinforcement of its fiber-optic networks, the extension of its broadband networks in Sweden and capacity increases in its GSM networks. Telia expects to make lower capital expenditures in 2002. For the six months ended June 30, 2002, capital expenditures equalled SEK 4,113 million, a decline of 43 percent when compared to the same period in 2001. These significant capital expenditures in 2000 and 2001, together with the amortization of goodwill related to the acquisition of NetCom in 2000, have resulted in significantly higher depreciation in 2001 and 2002. In 2001 depreciation, amortization and write-downs increased to SEK 13,975 million from SEK 8,222 million in 2000 and SEK 7,652 in 1999. For the six months ended June 30, 2002, depreciation, amortization and write-downs equalled SEK 5,711 million. Management expects depreciation levels to remain high in 2002 and to fall gradually as Telia scales back its capital investment program.

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### ***Regulatory and Other Legal Developments***

Telia's business has been and continues to be heavily influenced by the regulatory regime applicable to telecommunications service providers in Sweden. In particular, laws and regulations covering the pricing of fixed network services, interconnection access and pricing, unbundling of the local loop, carrier pre-selection and number portability have affected Telia's business and recent results of operations.

The most significant regulatory developments with respect to Telia Mobile's results of operations for each of the three years ended December 31, 2001 have been interconnection pricing and number portability. Telia is required to provide interconnection to its mobile and fixed networks for calls to and from competing domestic operators. Under interconnection agreements with other operators, Telia receives fees for terminating incoming calls that originate from other operators. Because Telia is deemed to have significant market power in Sweden, it is obliged to offer interconnection to its networks at cost-based pricing terms. In June 1999, the NPTA required Telia to reduce its mobile interconnection tariffs by 15 percent to reflect better Telia's actual cost of terminating calls. Telia has since lowered its mobile interconnection tariffs on several occasions, effective July 1, 2001, March 1, 2001 and March 31, 2002, from an average interconnection rate of SEK 1.80 per minute to SEK 0.92 per minute in response to NPTA rulings. This has resulted in a sharp decline in Telia's mobile interconnection revenues. While Telia appealed the recent ruling of the NPTA to reduce its mobile interconnection tariffs from SEK 1.18 to SEK 0.92 per minute in May 2002, the County Administrative Court rejected Telia's appeal. Telia has filed an appeal with the Administrative Court of Appeal. Effective October 1, 2002, Telia will lower its mobile interconnection tariff to SEK 0.88 per minute.

In its ruling dated February 21, 2002, the NPTA found that Telia's principal competitors in the Swedish GSM market, Vodafone-Europolitan and Tele2, also have significant market power in the national market for interconnection. Vodafone-Europolitan and Tele2 have appealed this ruling and the Swedish Administrative Court has granted injunctive relief relating to the effectiveness of the NPTA's ruling pending the conclusion of the court appeals process. If this ruling is upheld, it would level the playing field for mobile interconnection fees in the Swedish market.

A number of regulatory developments have increased competition in the fixed network retail market. Effective September 1999, the NPTA has mandated the offering of carrier pre-selection for national international and fixed-to-mobile calls. In addition, carrier pre-selection covering local calls was introduced on February 2, 2002. Carrier pre-selection has had a significant effect on the net sales and profitability of Telia Networks as competitors have attracted significant amounts of subscriber traffic away from Telia Networks.

In December 2000, the European Union decided on a regulation of the European Parliament and the European Council on unbundled access to the local loop. The regulation took effect on January 2, 2001 and was immediately applicable to the European Union member states. Telia opened its access network to other operators in the spring of 2000 and in the course of 2001 has modified all of its offerings to comply with the regulation. While Telia has not yet experienced a significant increase in competition as a result of the new legal regime regarding unbundled local loop access, as most competitors continue to opt to gain subscriber traffic through interconnection arrangements rather than leasing the access lines, such opening of the local loop may have significant long-term consequences for Telia.

### **Results of Operations**

#### ***Results of Operations for the Six Months Ended June 30, 2002 Compared to the Six Months Ended June 30, 2001***

Following Telia's refine and focus initiative in 2001, in which a substantial portion of Telia's non-core operations were divested, Telia is, as from the beginning of 2002, focusing on rationalizing and streamlining its core operations. In the six months ended June 30, 2002, substantial efficiency measures and restructuring efforts have been made within sales and distribution, among other areas. The streamlining affected over 1,000 employees, of which over 500 staff members were within Telia Mobile, approximately 400 within Telia Networks, approximately 70 within Internet Services and approximately 50 within Telia Holding. This streamlining is in line with Telia's previously communicated plans. The streamlining efforts will continue in

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the fall of 2002 and may lead to further redundancies, mainly within the Swedish operations. During the streamlining efforts, a freeze has been imposed on the employment of permanent staff and also on the employment of temporary staff and consultants.

**Telia Group**

|   | <b>Six months ended<br/>June 30,</b>     |             |
|---|--|-------------|
|   | <b>2001</b>                              | <b>2002</b> |
|   | <b>(SEK in millions)<br/>(unaudited)</b> |             |
| Net sales   | 27,795                                   | 28,231      |
| Costs of goods and services sold                              | (18,001)                                 | (18,344)    |
| Gross income  | 9,794                                    | 9,887       |
| Selling, administrative and research and development expenses | (8,324)                                  | (9,004)     |
| Other operating revenues and expenses, net                    | 278                                      | (430)       |
| Income from associated companies                              | 51                                       | 375         |
| Operating income  | 1,799                                    | 828         |
| Financial net   | (388)                                    | (371)       |
| Income after financial items                                  | 1,411                                    | 457         |
| Taxes   | (848)                                    | (308)       |
| Minority interests  | (22)                                     | 8           |
| Net income  | 541                                      | 157         |

**Net Sales**

The following table sets forth Telia's external net sales by business area and business unit and the percentage change therein for the periods indicated:

|                             | <b>Six months ended<br/>June 30,</b> |             |               |
|-----------------------------|--------------------------------------|-------------|---------------|
|                             | <b>2001</b>                          | <b>2002</b> | <b>Change</b> |
|                             | <b>(SEK in millions)</b>             |             | <b>(%)</b>    |
| Telia Mobile                | 8,357                                | 9,764       | 16.8          |
| Telia Networks              | 14,289                               | 13,788      | (3.5)         |
| Telia Internet Services     | 1,528                                | 1,993       | 30.4          |
| Telia International Carrier | 1,627                                | 2,088       | 28.3          |
| Telia Holding               | 1,901                                | 461         | (75.7)        |
| Other                       | 93                                   | 137         | 47.3          |
| Total Sales                 | 27,795                               | 28,231      | 1.6           |

Total group sales were SEK 28,231 million for the six months ended June 30, 2002, an increase of SEK 436 million, or 1.6 percent, over sales of SEK 27,795 million for the same period in 2001. The increase was primarily attributable to customer growth and traffic revenue in Telia Mobile, as well as to strong demand for broadband services. The increase in Telia's total group sales was partially offset by the divestiture of

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Telia's non-core operations in 2001 carried out as part of Telia's refine and focus initiative. For Telia's core business areas, which includes Telia Mobile, Telia Internet Services, Telia Networks and Telia International Carrier, but excludes Telia Holding, net sales increased 7.2 percent in the six months ended June 30, 2002 compared to the same period in 2001.

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|                      | Six months ended<br>June 30, |            | Change<br><br>(%) |
|----------------------|------------------------------|------------|-------------------|
|                      | 2001                         | 2002       |                   |
|                      | (SEK in millions)            |            |                   |
| Mobile telephony:    |                              |            |                   |
| Sweden               | 4,703                        | 5,096      | 8.4               |
| Norway               | 1,945                        | 2,513      | 29.2              |
| Finland              | 281                          | 459        | 63.3              |
| Denmark              | 327                          | 376        | 15.0              |
| Business Solutions   | 739                          | 994        | 34.5              |
| Other                | 362                          | 326        | (9.9)             |
| Total external sales | 8,357                        | 9,764      | 16.8              |
| Intra group sales    | 1,088                        | 707        | (35.0)            |
| <br>Total sales      | <br>9,445                    | <br>10,471 | <br>10.9          |

The following table sets forth selected operational data for Telia Mobile for the periods indicated:

|   | As at or for the<br>six months ended (except<br>average traffic per<br>subscriber, customer churn,<br>and ARPU) |                  |
|---|---|------------------|
|   | December 31,<br>2001  | June 30,<br>2002 |
| <b>Sweden:</b>  |   |                  |
| Total subscriptions (in thousands)                                | 3,439   | 3,484            |
| of which, residential   | 2,356   | 2,395            |
| of which, business  | 1,083   | 1,089            |
| Total GSM (in thousands)  | 3,295   | 3,344            |
| of which, subscriptions   | 1,759   | 1,701            |
| of which, prepaid   | 1,536   | 1,643            |
| Total NMT 450 (in thousands)                                      | 144   | 140              |
| Subscribers via external service providers (in thousands)         | 74  | 87               |
| Average traffic per subscriber per month (minutes) <sup>(1)</sup> | 129   | 139              |
| Total SMS messages (in millions)                                  | 218   | 223              |
| Customer churn (%) <sup>(1)</sup>                                 | 10  | 11               |
| ARPU (SEK) <sup>(1)</sup>   | 289   | 283              |
| <b>Norway:</b>  |   |                  |
| Total subscriptions, GSM (in thousands)                           | 970   | 996              |
| of which, residential   | 794   | 809              |
| of which business   | 176   | 187              |
| of which, subscriptions   | 469   | 501              |
| of which, prepaid   | 501   | 495              |
| Subscribers via external service providers (in thousands)         | 112   | 92               |
| Average traffic per subscriber per month (minutes) <sup>(1)</sup> | 141   | 162              |
| Total SMS messages (in millions)                                  | 281   | 342              |
| Customer churn (%) <sup>(1)</sup>                                 | 26  | 28               |

ARPU (NOK)<sup>(1)</sup>

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338

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|                                       | As at or for the<br>six months ended (except<br>average traffic per<br>subscriber, customer churn,<br>and ARPU) |                  |
|---------------------------------------|---|------------------|
|                                       | December 31,<br>2001  | June 30,<br>2002 |
| <b>Other Nordic:</b>                  |   |                  |
| Subscriptions, Denmark (in thousands) | 288   | 413              |
| SMS messages, Denmark (in millions)   | 31  | 62               |
| Subscriptions, Finland (in thousands) | 239   | 235              |
| SMS messages, Finland (in millions)   | 33  | 41               |

(1) Figures here are for the last quarter of each respective period as per market practice in the industry.

External net sales by Telia Mobile were SEK 9,764 million for the six months ended June 30, 2002, an increase of SEK 1,407 million, or 16.8 percent, over sales of SEK 8,357 million for the same period in 2001. The increase was primarily attributable to increased traffic per subscriber, particularly in Norway, as well as to subscriber growth and increased demand for SMS services. A growing proportion of the subscriber base of Telia Mobile was prepaid subscribers, who generate significantly less average revenue per month than postpaid subscribers.

The number of subscribers in the Nordic region increased by 192,000, or 3.9 percent, to 5,128,000 subscribers in the six months ended June 30, 2002 as compared to December 31, 2001. The number of subscribers from external service providers, which are not included in the total number of subscribers in the Nordic region, decreased by 7,000, or 3.8 percent, to 179,000 in the six months ended June 30, 2002 over the number of subscribers at December 31, 2001.

*Sweden*

External net sales from mobile telecommunications in Sweden were SEK 5,096 million in the six months ended June 30, 2002, an increase of SEK 393 million, or 8.4 percent, over external net sales of SEK 4,703 million for the same period in 2001. The average price level fell 4.0 percent due to reduced interconnect fees. The increase in external net sales was primarily attributable to an increase in the number of prepaid subscribers, traffic per subscriber and demand for SMS services. The increase was partially offset by reduced interconnection fees, which led to a four percent decline in the total price level in the six months ended June 30, 2002 as compared to the comparable period in 2001.

The number of GSM subscribers increased by 49,000 to 3,344,000 in the six months ended June 30, 2002 over the number of subscribers at December 31, 2001. The number of subscribers from external service providers, which are not included in the total number of subscribers, increased by 13,000, or 17.6 percent, to 87,000 in the six months ended June 30, 2002 over the number of subscribers at December 31, 2001, which was primarily attributable to Telia's Halebop Mobile prepaid card initiative.

A total of 223 million SMS messages were sent in the six months ended June 30, 2002, an increase of 30.4 percent over the same period in 2001.

The average traffic per subscriber per month increased by 2 minutes to 121 minutes in the three months ended March 31, 2002 over the same period in 2001, and increased by 9 minutes to 139 minutes in the three month period ended June 30, 2002 as compared to the same period in 2001. Monthly average revenue per subscriber decreased by SEK 11 to SEK 262 in the three months ended March 31, 2002 compared to the same period in 2001, but increased by SEK 3 to SEK 283 during the three months ended June 30, 2002 compared to the same period in 2001. The rate of customer churn was 11 percent during the second quarter of 2002 compared to 10 percent during the fourth quarter of 2001.

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*Norway*

External net sales from mobile telecommunications in Norway were SEK 2,513 million in the six months ended June 30, 2002, an increase of SEK 568 million, or 29.2 percent, over external net sales of SEK 1,945 million for the same period in 2001. The increase was primarily attributable to subscriber growth, higher traffic per customer and higher demand for SMS services.

The total number of subscribers increased by 26,000 to 996,000 in the six months ended June 30, 2002 over the number of subscribers at December 31, 2001. The number of subscribers from external service providers decreased by 20,000 to 92,000 in the six months ended June 30, 2002 as compared to the number of subscribers at December 31, 2001. A total of 342 million SMS messages were sent in the six months ended June 30, 2002, an increase of 55 percent, over the same period in 2001. Average traffic volume per subscriber increased by 13 minutes to 144 minutes in the three months ended March 31, 2002 over the same period in 2001, and increased by 21 minutes to 162 minutes in the three months ended June 30, 2002 as compared to the same period in 2001. Average monthly revenue per user rose to NOK 326 in the three months ended March 31, 2002 as compared to NOK 292 for the same period in 2001, and rose to NOK 338 in the three months ended June 30, 2002 as compared to NOK 317 for the same period in 2001.

In the first quarter of 2002, Telia Mobile introduced a new price structure for prepaid cards where subscribers pay the same rate per minute regardless of where and when they make calls.

*Denmark*

External net sales from mobile telecommunications in Denmark were SEK 376 million in the six months ended June 30, 2002, an increase of SEK 49 million, or 15.0 percent, over external net sales of SEK 327 million in 2001. The increase in external net sales in the six months ended June 30, 2002 was primarily attributable to an increase in the number of subscribers. The total number of subscribers increased by 125,000 to 413,000 in the six months ended June 30, 2002 over the number of subscribers at December 31, 2001.

A significant portion of Telia's new sales in the six months ended June 30, 2002 in Denmark were from The Choice household subscription, a new service launched in 2002 that allows subscribers to create their own service packages. Telia also launched Telia Mobiz in the first quarter of 2002, which targets business subscribers and combines a flat rate for traffic with a telephone lease offer. Several successful campaigns were completed during the second quarter of 2002. The strong customer growth in Denmark is expected to yield a significant increase in revenue during the second half of 2002 which management expects will lay the groundwork for more rapidly attaining a positive underlying EBITDA.

Telia expects to further increase its subscriber base in Denmark with the expansion of its GSM 900 services. The network is expected to attain full build-out as required by the provisions of Telia's license in Denmark before the end of 2002. Telia believes the new GSM 900 network will enhance its opportunities to offer competitive prices and new services in Denmark.

*Finland*

External net sales from mobile telecommunications in Finland were SEK 459 million in the six months ended June 30, 2002, an increase of SEK 178 million, or 63.3 percent, over external net sales of SEK 281 million for the same period in 2001. The increase in external net sales during the period was primarily attributable to an increased subscriber growth and the resulting higher traffic.

The total number of subscribers decreased by 4,000 to 235,000 at June 30, 2002 over the number of subscribers at December 31, 2001. In June 2002, Telia switched from Radiolinja's network to its own network and a roaming agreement was signed with Suomen 2G, developments which management expects will increase Telia's opportunities to make its Finnish business profitable as costs will be lower and nationwide coverage will be provided throughout Finland. The number of customers fell in connection with the agreement with Suomen 2G, which required customers to change their SIM cards. The decrease in the number of customers was, however, less than anticipated.

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Telia also signed agreements with Scandic Hotels Oy for the installation of Telia's HomeRun wireless Internet access at Scandic's hotels and conference facilities in Finland and with Finnair for the installation of HomeRun in several airport business lounges. HomeRun was available in 450 locations throughout the Nordic countries as of June 30, 2002.

*Business Solutions*

Telia's Business Solutions unit markets and sells products and services such as PBX's and Centrex that combine fixed and mobile functionality. External net sales by Business Solutions increased by 35 percent to SEK 994 million in the six months ended June 30, 2002 as compared to external sales of SEK 739 million for the same period in 2001. The increase was primarily attributable to a change in sales operations in which equipment sales that previously were sold on commission by Telia are now sold directly by Telia.

In June 2002, a new exchange solution, Mobile Switcher, was launched.

**Table of Contents***Telia Networks*

The following table sets forth net sales for Telia Networks by source for the periods indicated:

|   | Six months ended<br>June 30, |        |
|---|------------------------------|--------|
|   | 2001                         | 2002   |
| (SEK in millions)   |                              |        |
| <b>Retail:</b>  |                              |        |
| Sweden:   |                              |        |
| Fixed telephony:  |                              |        |
| Fixed charges   | 3,828                        | 3,838  |
| Domestic calls  | 2,815                        | 2,083  |
| International calls   | 348                          | 320    |
| Calls to mobile telephones  | 1,540                        | 1,566  |
| Other calls   | 381                          | 351    |
| Total call charges  | 5,084                        | 4,320  |
| Other   | 753                          | 761    |
| Total fixed telephony   | 9,665                        | 8,919  |
| Network capacity  | 860                          | 698    |
| Customer premises equipment                                       | 212                          | 396    |
| Data communications, information technology services and<br>Other | 1,166                        | 1,220  |
| Total Sweden  | 11,903                       | 11,233 |
| Other Nordic countries  | 530(1)                       | 332    |
| Baltic region   | 7                            | 7      |
| Rest of Europe  | 56                           | 0      |
| Total retail  | 12,496                       | 11,572 |
| <b>Wholesale:</b>   |                              |        |
| Sweden  |                              |        |
| Fixed telephony   | 892                          | 1,093  |
| Network capacity  | 545                          | 617    |
| Other   | 222                          | 240    |
| Subtotal  | 1,659                        | 1,950  |
| Other Nordic countries  | 134                          | 266    |
| Total wholesale   | 1,793                        | 2,216  |
| Total external sales  | 14,289                       | 13,788 |
| Intra-group sales   | 2,224                        | 2,851  |
| Total sales   | 16,513                       | 16,639 |

(1) Telia divested its fixed line operations in Finland in June 2001.

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The following table sets forth selected operational data for the Telia Networks business area for the periods indicated:

|   | As at or for<br>six months ended |                  |
|---|----------------------------------|------------------|
|   | December 31,<br>2001             | June 30,<br>2002 |
| <b>Sweden:</b>  |                                  |                  |
| Fixed telephony, PSTN subscriptions (thousands)                     | 5,663                            | 5,605            |
| of which, household customers                                       | 3,841                            | 3,850            |
| of which, business customers  | 1,822                            | 1,755            |
| Fixed telephony, ISDN channels (thousands)                          | 922                              | 905              |
| of which, household customers                                       | 121                              | 115              |
| of which, business customers  | 801                              | 790              |
| Fixed telephony, calls (millions of minutes)                        |                                  |                  |
| Domestic calls  | 12,316                           | 10,619           |
| International calls   | 246                              | 239              |
| Calls to mobile telephones  | 887                              | 884              |
| Connected broadband ADSL for ATM (thousands)                        | 9                                | 7                |
| Connected broadband ADSL/LAN via Service Providers (thousands)      | 47                               | 80               |
| <b>Denmark:</b>   |                                  |                  |
| Fixed telephony, prefix and contract customers, Denmark (thousands) | 264                              | 256              |

External net sales by Telia Networks were SEK 13,788 million, a decrease of SEK 501 million, or 3.5 percent, from external net sales of SEK 14,289 million for the same period in 2001. The decrease was primarily attributable to reduced fixed traffic volumes in Sweden as a result of local carrier pre-selection which was introduced on February 2, 2002 as well as to weaker growth in the wholesale market.

*Retail*

External net sales in the retail market decreased 7.4 percent in the six months ended June 30, 2002 to SEK 11,572 million from external net sales of SEK 12,496 million in the same period in 2001. In Sweden, external net sales in the retail market decreased 5.6 percent in the six months ended June 30, 2002 to SEK 11,233 million from external net sales of SEK 11,903 million for the same period in 2001. Traffic revenues decreased 15 percent to SEK 4,320 million in the six months ended June 30, 2002 from traffic revenues of SEK 5,084 million for the same period in 2001. The decrease in external net sales and traffic revenues was primarily attributable to the effects of local carrier pre-selection which was introduced in Sweden on February 2, 2002.

Subscription sales in Sweden were SEK 3,838 million in the six months ended June 30, 2002 compared to sales of SEK 3,828 million for the same period in 2001. The effect of the price increase for retail subscribers that took effect in March 2001 was offset by a decrease in the number of subscriptions.

The number of PSTN subscriptions decreased 58,000 to 5,605,000 subscriptions in the six months ended June 30, 2002 from 5,663,000 subscriptions at December 31, 2001. The decrease was primarily attributable to the fact that in certain customer segments, customers are substituting their fixed subscriptions for mobile subscriptions.

Sales of data communications and other information technology services totaled SEK 1,220 million in the six months ended June 30, 2002, which represents an increase of 4.6 percent from SEK 1,166 million in the same period in 2001. The market for data communications services continues to be characterized by heavy price pressure and intense competition.

Sales of customer premises equipment increased 86.8 percent to SEK 396 million in the six months ended June 30, 2002 from sales of SEK 212 million for the same period in 2001. The increase was primarily





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attributable to a change in sales operations in which equipment sales that were formerly made by external resellers on a commission basis are now made directly by Telia.

Sales of network capacity to businesses in Sweden decreased 18.8 percent to SEK 698 million in the six months ended June 30, 2002 from sales of SEK 860 million for the same period in 2001. The decrease was primarily attributable to increased competition and the trend among Telia's customers towards more refined products.

Several new teleconferencing services were launched during the six months ended June 30, 2002, and the market for these services is growing.

Local loop unbundling has not had a significant effect on Telia's net sales in the six months ended June 30, 2002.

External net sales in the retail market in Denmark increased 3.1 percent to SEK 332 million in the six months ended June 30, 2002 over external net sales of SEK 322 million for the same period in 2001.

*Wholesale*

External net sales in the wholesale market increased by 23.6 percent in the six months ended June 30, 2002 to SEK 2,216 million from external net sales of SEK 1,793 million for the same period in 2001, but the rate of growth has decreased as a result of the turbulent market situation for wholesale services. External net sales from interconnection traffic in Sweden increased by 22.5 percent in the six months ended June 30, 2002 to SEK 1,093 million from external net sales of SEK 892 million for the same period in 2001. The increase in external net sales and interconnection traffic was primarily attributable to the effects of local carrier pre-selection, which resulted in an increase in the demand for Telia's network from other operators that provided connectivity to retail users.

External net sales of network capacity was SEK 617 million for the six months ended June 30, 2002 in Sweden which is an increase of 13 percent over the same period in 2001.

During the six months ended June 30, 2002, Telia delivered a total of 101,000 ADSL/LAN broadband connections in Sweden, including 33,000 to external service providers. At June 30, 2002, a total of 351,000 customers in Sweden were connected to Telia's broadband network via ADSL/LAN, an increase of 40.4 percent from December 31, 2001. The increase was primarily attributable to the development of Telia's broadband access services both internally to customers of Telia Internet Services as well as to external Internet service providers.

Telia launched several new services for data storage and distribution during the first quarter of 2002, including application hosting and content distribution that enables service providers to offer video on demand, games on demand and other types of interactive broadband services to their end customers.

Telia's acquisition of the Danish infrastructure company Powercom in 2001 resulted in a 99 percent increase in wholesale revenue from Denmark to SEK 266 million for the six months ended June 30, 2002 as compared to the same period in 2001.

**Table of Contents***Telia Internet Services*

The table below sets forth net sales for Telia Internet Services by source for the periods indicated:

|                                | Six months ended<br>June 30, |       |
|--------------------------------|------------------------------|-------|
|                                | 2001                         | 2002  |
|                                | (SEK in millions)            |       |
| <b>Sweden:</b>                 |                              |       |
| Internet access                | 868                          | 1,113 |
| Internet services              | 51                           | 60    |
| Cable television               | 365                          | 438   |
| Other                          | 25                           | 62    |
| <b>Other Nordic Countries:</b> | 219                          | 320   |
| Total external sales           | 1,528                        | 1,993 |
| Intra-group sales              | 44                           | 18    |
|                                | <hr/>                        | <hr/> |
| Total sales                    | 1,572                        | 2,011 |

The following table sets forth selected operational data for Telia Internet Services for the periods indicated:

|  | As at and for<br>six months ended      |                  |
|--|--|------------------|
|  | December 31,<br>2001                   | June 30,<br>2002 |
|  | (in thousands, except as<br>specified) |                  |
| <b>Sweden:</b>                                       |  |                  |
| Dial-up:   |  |                  |
| Subscriptions, dial-up access:                       | 747                                    | 722              |
| Traffic, dial-up access (millions of minutes)        | 3,352                                  | 3,139            |
| Broadband and cable television:                      |  |                  |
| ADSL/LAN access                                      | 194                                    | 264              |
| Fixed access (ProLane)                               | 3                                      | 3                |
| Cable television subscriptions                       | 1,378                                  | 1,384            |
| of which, broadband Internet users                   | 48                                     | 55               |
| <b>Denmark:</b>                                      |  |                  |
| Dial-up Internet access subscriptions                | 89                                     | 94               |
| Cable television subscriptions                       | 179                                    | 186              |
| of which, broadband Internet users                   | 58                                     | 70               |
| Total Nordic dial-up Internet access subscriptions   | 836                                    | 816              |
| Total Nordic broadband Internet access subscriptions | 303                                    | 392              |
| Total Nordic Internet access subscriptions           | 1,139                                  | 1,208            |

External net sales by Telia Internet Services increased in the six months ended June 30, 2002 to SEK 1,993 million, or 30.4 percent, from external net sales of SEK 1,528 million for the same period in 2001. The increase was primarily attributable to strong demand for Internet access accounts, particularly broadband access.

*Internet accesses*

External net sales of Internet accesses increased 31.5 percent to SEK 1,224 million in the six months ended June 30, 2002 from external net sales of SEK 931 million for the same period in 2001.

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The total number of Internet access subscribers increased by 69,000, or 6 percent, to 1,208,000 subscribers in the six months ended June 30, 2002 from 1,139,000 subscribers as of December 31, 2001. During the six months ended June 30, 2002, demand for broadband access remained strong, particularly the provision of ADSL in the business segment. In the six months ended June 30, 2002, 89,000 paying broadband subscribers were added since December 31, 2001, bringing the total number to 392,000. Dial-up subscriptions decreased by 25,000 in Sweden, or 3.3 percent, to 722,000 subscribers in the six months ended June 30, 2002 from 747,000 subscribers as of December 31, 2001. A growing number of Telia's subscribers have upgraded their fixed line connections to broadband service, principally to obtain faster Internet access.

Telia also introduced a new Internet cable access service during the first quarter of 2002 which offers Internet access at speeds of up to 1 Mbps.

In Denmark, ADSL services were launched on the Danish market during the second quarter of 2002. Telia has a strong ADSL offer in Denmark with a transfer speed of up to 2 Mbps.

Several major customer contracts were signed during the second quarter of 2002. A general agreement with the Swedish Sports Confederation was signed for the delivery of ADSL connections to the confederations over 20,000 clubs in Sweden, and an agreement with Apoteket AB (the National Corporation of Swedish Pharmacies) for the delivery of a virtual private network linking approximately 950 of Apoteket's geographically widespread units via the Internet. The agreement with Apoteket AB is the largest IP-VPN deal in the Nordic countries.

At June 30, 2002, Telia had a total of 1,208,000 Internet access subscribers, an increase of 6.1 percent from 1,139,000 subscribers as of December 31, 2001. In Denmark, the number of Internet access subscribers increased 11.6 percent in the six months ended June 30, 2002 to 164,000.

*Internet services*

External net sales from Internet services increased to SEK 65 million in the six months ended June 30, 2002, or 25 percent, from external net sales of SEK 52 million in the same period in 2001. Weak demand for content services and payment services led to a decline in sales during the second quarter of 2002. The services are being reviewed and some have already been removed from Telia's product range or have been adapted to new market conditions.

*Cable television*

External net sales from cable television increased to SEK 641 million in the six months ended June 30, 2002, or 23.5 percent, from net sales of SEK 519 million for the same period in 2001. The increase in sales was primarily attributable to price increases.

In Sweden, where most of the network is digitalized, the number of digital television subscribers increased 4.8 percent to 130,000 subscribers during the six months ended June 30, 2002, compared to 124,000 subscribers as of December 31, 2001.

In Denmark, 186,000 subscribers were connected directly via cable and 430,000 subscribers were connected indirectly via satellite dishes as at June 30, 2002.

A collaboration with Telenor for a digital TV initiative in Denmark was launched during the second quarter of 2002.

As a result of the planned merger between Telia and Sonera, Telia has made a commitment to the European Commission to divest its Swedish cable TV business.

**Table of Contents*****Telia International Carrier***

The following table sets forth net sales for Telia International Carrier for the periods indicated:

|                      | Six months<br>ended<br>June 30, |       |
|----------------------|---------------------------------|-------|
|                      | 2001                            | 2002  |
|                      | (SEK in millions)               |       |
| Total external sales | 1,627                           | 2,088 |
| Intra-group sales    | 451                             | 402   |
| Total sales          | 2,078                           | 2,490 |

The table below sets forth selected operational data for Telia International Carrier for the periods indicated:

|  | As at and for<br>six months ended      |                  |
|--|--|------------------|
|  | December 31,<br>2001                   | June 30,<br>2002 |
|  | (in thousands, except as<br>indicated) |                  |
| Fiber network, Europe (kilometers)               | 16,000                                 | 22,300           |
| Fiber duct installation, Europe (kilometers)     | 10,000                                 | 14,400           |
| Fiber network, USA (kilometers)                  | 18,000                                 | 18,000           |
| Telephony, traffic minutes (millions of minutes) | 2,098                                  | 2,247            |

Telia commands a strong position in the international carrier market by virtue of its financial stability and its established position as a telecommunications operator. Despite an increase in orders received, however, volume and earnings trends have been unsatisfactory. In light of the ongoing turbulence in the market, Telia undertook a comprehensive review of Telia International Carrier's operations to clarify how the international carrier business can achieve a positive cash flow as quickly as possible. As a result of such review, which was completed in early September 2002, Telia has decided to change the strategic focus of Telia International Carrier and significantly restructure its operations. The restructuring of Telia International Carrier will result in provisions of an estimated SEK 3.5 billion, most of which are expected to be recorded in the third quarter of 2002. In addition, due to the adverse market developments in the international carrier operations and the significant downscaling of Telia International Carrier, Telia will write down the value fixed assets relating to its international carrier operations by approximately SEK 6.0 billion in the third quarter of 2002. Adjusted for the estimated restructuring charges, Telia now expects its international carrier operations to achieve positive cash flow during 2003.

External net sales by Telia International Carrier in the six months ended June 30, 2002 increased to SEK 2,088 million, or 28.3 percent, over the same period in 2001. The increase in external net sales during the period was primarily attributable to increased sales in telephony, network capacity and IP-traffic. Telephony increased 14.6 percent, network capacity 43.2 percent and IP-traffic 61.5 percent.

Compared with the six months ended December 31, 2001, net sales during the six months ended June 30, 2002 increased by 3.1 percent. The increase was primarily attributable to IP-traffic and telephony while network capacity decreased due to the fact that two carriers that were Telia customers canceled payments.

Several of Telia's industry competitors are experiencing significant financial difficulties, and Telia's increase in orders is now to a large extent coming from customers or former customers of these competitors, particularly as some of them exit the market. It is Telia's success in this effort that has led to an increase in orders during the second quarter, despite the continued turbulence and uncertainty in the market. Several

additional IP customers have been connected to the Viking Network, and IP sales and traffic surged by almost 50 percent in the second quarter of 2002 as compared with the first quarter of 2002.

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The number of orders received doubled during the second quarter of 2002 as compared with the first quarter of 2002. Most of the order agreements received in the second quarter of 2002 will begin to have an impact on earnings in the third quarter of 2002.

The carrier market continued to experience considerable turbulence during the first half of 2002. The entry of a considerable number of new competitors and delays in the expansion of broadband services in the retail market has created overcapacity and strong price pressure in some areas. Telia has undertaken efforts to streamline its international carrier operations, including renegotiating agreements for operation and maintenance and reviewing facilities and costs for consultants.

Telia International Carrier offers a wide range of services to fixed and mobile operators, carriers and service providers.

Traditional voice services, including call termination and transit services, are offered on a wholesale basis charged primarily on minutes of terminated traffic.

Net sales of network capacity are mainly derived from sale of data transmission and wave-length services to customers who require large data transport capacity. Capacity is normally sold either under short (typically yearly) lease contracts or through indefeasible rights of use (IRUs), in which case revenue is recognized over the length of the IRU contract, normally ten years or more. Cash flow from IRU contracts normally does not coincide with reported revenue.

Net sales from IP services refer to wholesale of IP-Transit at speeds of 2 Mbps and up to 2.5 Gbps. For IP connectivity and transit pricing, Telia offers two pricing options: a flat rate for a defined access speed, and a variable rate based on the actual volume transferred. Telia International Carrier charges for its IP traffic based on Mbits terminated under contracts normally running for at least one year. Net sales of IP services increased during 2000 and 2001 which is primarily due to stable price levels in Eastern Europe, which was partially offset by significant price decreases in Western Europe.

There is a trend among customers to purchase IP traffic and network capacity instead of infrastructure, due to the relatively high upfront costs for the customer related to the equipment necessary to activate acquired infrastructure.

### ***Telia Holding***

Following the completion of Telia's refine and focus initiative in 2001, in which a substantial portion of Telia's non-core assets were divested, Telia Equity ceased being treated as a separate business area and was renamed Telia Holding in April 2002.

Telia Holding currently operates as an independent business unit under Telia AB and has responsibility for the management and rationalizing of Telia's interest in companies outside of Telia's core business areas as well as for possible divestments of certain Telia interests. The companies that are subject to Telia Holding's management and oversight are either wholly or partially owned companies of Telia and operate in a variety of industries in Sweden, including pay phone services, credit services and debt collection, venture capital, telecommunications security services, home electronics, computer software, human resource management and other areas. Some of the companies managed by Telia Holding have a significant proportion of external customers that are outside of the Telia group. Other companies provide products and services to Telia's business areas or to customers served by Telia's business areas. Telia Holding comprises a number of consolidated businesses, including Finans/Credit, Sergel Kredittjänster, Division Satellit, Division Offentlig Telecom, Telia Promotor, Telia Overseas and Suntel, as well as several associated companies, including Slottsbacken, INGROUP, Drutt Corp, Telefons, AUCS, Infonet Services and COOP Bank.

External net sales of the Telia Holding business unit were SEK 461 million in the six months ended June 30, 2002, a decrease of SEK 1,440 million, or 75.7 percent, from external net sales of SEK 1,901 million for the same period in 2001. The decrease in external net sales in the six months ended June 30, 2002 was attributable to the divestiture of Telia's non-core business operations, which were formerly a part of the Telia Holding business unit.



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See INFORMATION ABOUT TELIA Telia Holding for a further discussion of the operations of Telia Holding.

**Operating Expenses**

The following table sets forth Telia's operating expenses by function and the percentage change in operating expenses for the periods indicated:

|                           | Six months ended<br>June 30, |               | Change<br><br>(%) |
|---------------------------|------------------------------|---------------|-------------------|
|                           | 2001                         | 2002          |                   |
|                           | (SEK in millions)            |               |                   |
| Production <sup>(1)</sup> | 18,001                       | 18,344        | 1.9               |
| Sales                     | 4,014                        | 4,136         | 3.0               |
| Administration            | 3,955                        | 4,327         | 9.4               |
| Research and development  | 355                          | 541           | 52.4              |
| <b>Total</b>              | <b>26,325</b>                | <b>27,348</b> | <b>3.9</b>        |

(1) Production includes all costs for services and products sold as well as for installation, maintenance, service and support.

The following table sets forth Telia's operating expenses by type of cost and the percentage change in operating expenses for the periods indicated:

|                                    | Six months ended<br>June 30, |               | Change<br><br>(%) |
|------------------------------------|------------------------------|---------------|-------------------|
|                                    | 2001                         | 2002          |                   |
|                                    | (SEK in millions)            |               |                   |
| Total goods and services purchased | 8,319                        | 10,418        | 25.2              |
| Personnel expenses                 | 7,051                        | 5,055         | (28.3)            |
| Depreciation and write-downs       | 4,867                        | 5,652         | 16.1              |
| Other expenses                     | 6,088                        | 6,223         | 2.2               |
| <b>Total</b>                       | <b>26,325</b>                | <b>27,348</b> | <b>3.9</b>        |

Telia's operating expenses increased by four percent in the six months ended June 30, 2002 to SEK 27,348 million as compared to SEK 26,325 million for the same period in 2001. The increase in the six months ended June 30, 2002 was primarily attributable to depreciation expense. The cost of goods and services increased primarily as a result of the need to purchase network maintenance and support services from the Orbiant Group following the divestiture of such operations in 2001 as part of Telia's refine and focus initiative. This divestiture also led to reduced personnel and personnel expenses.

Goods and services purchased include interconnection fees, mobile terminals and PABXs as well as network expenses relating to the cost of network maintenance and services and other installation and support services which Telia purchases from the Orbiant Group. Other expenses include marketing expenses, costs for commissions to retailers and advertising expenses.



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The following table sets forth the major components of Telia's personnel costs and percentage change therein for the periods indicated:

|  | Six months ended<br>June 30, |        | Change<br><br>(%) |
|--|------------------------------|--------|-------------------|
|  | 2001                         | 2002   |                   |
|  | (SEK in millions)            |        |                   |
| Personnel expenses:                    |                              |        |                   |
| Salaries and remuneration              | 4,755                        | 3,173  | (33.3)            |
| Social security expenses               | 1,495                        | 903    | (39.6)            |
| Pension costs                          | 405                          | 596    | 47.2              |
| Other personnel costs                  | 396                          | 383    | (3.3)             |
|  | <hr/>                        | <hr/>  |                   |
| Total                                  | 7,051                        | 5,055  | (28.3)            |
|  | <hr/>                        | <hr/>  |                   |
| Average full-time equivalent employees | 27,637                       | 16,529 | (40.2)            |
| Headcount at period end                | 22,468                       | 16,561 | (26.3)            |

Telia's total personnel expenses decreased by 28.3 percent in the six months ended June 30, 2002 from the same period in 2001. The decrease in personnel expenses was primarily attributable to the divestiture of Telia's non-core operations in 2001 as part of its refine and focus initiative.

**Depreciation, Amortization and Write-downs**

The following table sets forth Telia's depreciation and amortization distributed among functions for the periods indicated:

|                          | Six months ended<br>June 30, |       | Change<br><br>(%) |
|--------------------------|------------------------------|-------|-------------------|
|                          | 2001                         | 2002  |                   |
|                          | (SEK in millions)            |       |                   |
| Production               | 4,514                        | 5,174 | 14.6              |
| Sales                    | 117                          | 154   | 31.6              |
| Administration           | 224                          | 312   | 39.3              |
| Research and development | 12                           | 12    | 0.0               |
| Other operating expenses | 48                           | 59    | 22.9              |
|                          | <hr/>                        | <hr/> |                   |
| Total                    | 4,915                        | 5,711 | 16.2              |
|                          | <hr/>                        | <hr/> |                   |

The following table sets forth Telia's total depreciation, amortization and write-downs for the periods indicated, according to the following types of fixed assets:

|  | Six months ended<br>June 30, |       | Change |
|--|------------------------------|-------|--------|
|  | 2001                         | 2002  |        |
|  | <hr/>                        | <hr/> |        |

|                                 | (SEK in millions) |                   | (%)  |
|---------------------------------|-------------------|-------------------|------|
| Goodwill                        | 688               | 725               | 5.4  |
| Other intangible assets         | 156               | 266               | 70.5 |
| Buildings and land improvements | 57                | 75                | 31.6 |
| Fixed and mobile networks       | 3,201             | 3,639             | 13.7 |
| Other machinery and equipment   | 813               | 1,006             | 23.7 |
|                                 | <u>          </u> | <u>          </u> |      |
| Total                           | 4,915             | 5,711             | 16.2 |
|                                 | <u>          </u> | <u>          </u> |      |

Telia amortizes goodwill according to original useful lives determined for each asset individually, but normally not longer than ten years. In addition, Telia reassesses goodwill annually to determine if additional write-downs are required. Amortization periods for mobile and fixed telephony licenses equal the period of

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the license. Other intangible fixed assets are amortized according to their useful lives generally over a period of five to ten years.

Depreciation, amortization and write-down expense was SEK 5,711 million in the six months ended June 30, 2002, an increase of 16.2 percent from SEK 4,915 for the same period in 2001. The increase in depreciation amortization, and write-downs was primarily due to high investments during 2001 and write-downs totalling SEK 137 million, primarily attributable to write-downs in the portal business.

**Other Operating Revenues and Expenses**

The following table sets forth the components of other operating revenues and expenses for the periods indicated:

|                           | Six months<br>ended<br>June 30, |       |
|---------------------------|---------------------------------|-------|
|                           | 2001                            | 2002  |
|                           | (SEK in millions)               |       |
| Other operating revenues: |                                 |       |
| Capital gains             | 156                             | 21    |
| Exchange rate gains       | 125                             | 186   |
| Other revenues            | 112                             | 109   |
|                           | <hr/>                           | <hr/> |
| Total                     | 393                             | 316   |
|                           | <hr/>                           | <hr/> |
| Other operating expenses: |                                 |       |
| Capital losses            | (13)                            | (117) |
| Exchange rate losses      | (82)                            | (196) |
| Other expenses            | (20)                            | (433) |
|                           | <hr/>                           | <hr/> |
| Total                     | (115)                           | (746) |
|                           | <hr/>                           | <hr/> |
| Net effect on income      | 278                             | (430) |
|                           | <hr/>                           | <hr/> |

Other operating revenues were SEK 316 million in the six months ended June 30, 2002, a decrease of SEK 77 million, from other operating revenues of SEK 393 million for the same period in 2001. The decrease was mainly due to the fact that the figures for 2001 were affected by capital gains from the sales of the fixed network operations in Finland and the call center operations, Direct Response Services. Other operating expenses were SEK 746 million in the six months ended June 30, 2002, an increase of SEK 631 million, over other operating expenses of SEK 115 million for the same period in 2001. SEK 430 million of the increase was related to a provision for streamlining core businesses.

**Income from Associated Companies**

The following table sets forth the effect on Telia's income from its share of earnings after taxes in its associated companies for the periods indicated:

|   | Six months ended<br>June 30, |      |
|---|------------------------------|------|
|   | 2001                         | 2002 |
|   | (SEK in millions)            |      |
| Share in net income for the period      | (1,255)                      | 101  |
| Amortization and write-down of goodwill | (2,095)                      | (99) |

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|                      |       |       |
|----------------------|-------|-------|
| Capital gains        | 3,401 | 373   |
|                      | <hr/> | <hr/> |
| Net effect on income | 51    | 375   |
|                      | <hr/> | <hr/> |

Telia's income from associated companies increased to SEK 375 million in the six months ended June 30, 2002, compared to income of SEK 51 million for the same period in 2001. The six month period ended June 30, 2002, included capital gains of SEK 373 million. The six month period ended June 30, 2001,

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included capital gains of SEK 3,401 million and a write-down of goodwill in Netia of SEK 1,820 million. Not including capital gains and the write-down of goodwill in Netia, the improvement in income was SEK 1,532 million, primarily as a result of the divestiture in 2001 of associated companies that previously reported losses, such as Tess, Eircom and Scandinavia Online. In addition, Telia currently records the carrying value of its investment in Netia at zero and no longer records its share of Netia's losses in its consolidated financial statements, which also contributed to the improvement in Telia's share of earnings in associated companies.

**Operating Income**

Telia's operating income was SEK 828 million in the six months ended June 30, 2002, a decrease of 54 percent from operating income of SEK 1,799 million for the same period in 2001.

**Segment Reporting of Underlying EBITDA and Operating Income**

Telia's management uses underlying EBITDA and operating income as the principal measures for monitoring profitability in internal operations. Underlying EBITDA consists of EBITDA (earnings before interest, taxes, depreciation and amortization) net of items not reflecting the underlying business operations and excluding income from associated companies. Management believes that, besides operating income, underlying EBITDA is also a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. Accordingly, underlying EBITDA is presented to enhance the understanding of Telia's historical operating performance. Underlying EBITDA, however, should not be considered as an alternative to operating income as an indicator of our operating performance. Similarly, underlying EBITDA should not be considered as an alternative to cash flows from operating activities as a measure of liquidity. Underlying EBITDA is not a measure of financial performance under IAS or U.S. GAAP and may not be comparable to other similarly titled measures for other companies. Underlying EBITDA is not meant to be predictive of potential future results.

For illustrative purposes, the following table sets forth the relationship between underlying EBITDA and operating income for the Telia Group for the periods indicated:

|   | <b>Six months ended<br/>June 30,</b> |             |
|---|--------------------------------------|-------------|
|   | <b>2001</b>                          | <b>2002</b> |
|   | <b>(SEK in millions)</b>             |             |
| Underlying EBITDA                                       | 6,362                                | 6,968       |
| Depreciation, amortization and write-downs              | (4,915)                              | (5,711)     |
| Items not reflecting the underlying business operations | 301                                  | (804)       |
| Income from associated companies                        | 51                                   | 375         |
| Operating income  | 1,799                                | 828         |

The following table sets forth items not reflecting the underlying business operations.

|  | <b>Six months ended<br/>June 30,</b> |              |
|--|--------------------------------------|--------------|
|  | <b>2001</b>                          | <b>2002</b>  |
|  | <b>(SEK in millions)</b>             |              |
| Phase-out of operations <sup>(1)</sup> |                                      | (188)        |
| Personnel redundancy costs             |                                      | (325)        |
| Certain pension-related items          | 158                                  | (195)        |
| Capital gains/losses <sup>(2)</sup>    | 143                                  | (96)         |
| <b>Total</b>                           | <b>301</b>                           | <b>(804)</b> |

- (1) Excluding depreciation, amortization and write-downs.
- (2) Excluding associated companies.

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The following table sets forth underlying EBITDA, operating income and the percentage change (or percentage point change for margins) therein for Telia, its four business areas and Telia Holding for the periods indicated:

|  | Six months ended<br>June 30, |              | Change        |
|--|------------------------------|--------------|---------------|
|  | 2001                         | 2002         |               |
| <b>(%, except percentage points for margins)</b> |                              |              |               |
| <i>Underlying EBITDA (SEK millions):</i>         |                              |              |               |
| Telia Mobile                                     | 2,241                        | 2,591        | 15.6          |
| Telia Networks                                   | 5,630                        | 5,608        | (0.4)         |
| Telia Internet Services                          | (518)                        | (314)        | 39.4          |
| Telia International Carrier                      | (567)                        | (618)        | (9.0)         |
| Telia Holding                                    | 130                          | 203          | 56.2          |
| Other group-wide                                 | (554)                        | (502)        | 9.4           |
| <b>Total</b>                                     | <b>6,362</b>                 | <b>6,968</b> | <b>9.5</b>    |
| <i>Underlying EBITDA margin (%):</i>             |                              |              |               |
| Telia Mobile                                     | 23.7                         | 24.7         | 1.0           |
| Telia Networks                                   | 34.1                         | 33.7         | (0.4)         |
| Telia Internet Services                          | (33.0)                       | (15.6)       | 17.4          |
| Telia International Carrier                      | (27.3)                       | (24.8)       | 2.5           |
| Telia Holding                                    | 1.8                          | 22.1         | 20.3          |
| Other group-wide                                 | (1)                          | (1)          | (1)           |
| <b>Total</b>                                     | <b>22.9</b>                  | <b>24.7</b>  | <b>1.8</b>    |
| <i>Operating income (loss) (SEK millions):</i>   |                              |              |               |
| Telia Mobile                                     | 827                          | 535          | (35.3)        |
| Telia Networks                                   | 233                          | 2,630        | 1,028.8       |
| Telia Internet Services                          | (727)                        | (798)        | (9.8)         |
| Telia International Carrier                      | (738)                        | (1,030)      | (39.6)        |
| Telia Holding Total                              | 2,581                        | 38           | (98.5)        |
| Other group-wide                                 | (377)                        | (547)        | (45.1)        |
| <b>Total</b>                                     | <b>1,799</b>                 | <b>828</b>   | <b>(54.0)</b> |
| <i>Operating income margin (%):</i>              |                              |              |               |
| Telia Mobile                                     | 8.8                          | 5.1          | (3.7)         |
| Telia Networks                                   | 1.4                          | 15.8         | 14.4          |
| Telia Internet Services                          | (46.2)                       | (39.7)       | 6.5           |
| Telia International Carrier                      | (35.5)                       | (41.4)       | (5.9)         |
| Telia Holding                                    | 35.6                         | 4.1          | (31.5)        |
| Other group-wide                                 | (1)                          | (1)          | (1)           |
| <b>Total</b>                                     | <b>6.5</b>                   | <b>2.9</b>   | <b>(3.6)</b>  |

(1) The underlying EBITDA margin and operating income margin for other group-wide are not meaningful for any of the periods indicated.

Telia's underlying EBITDA increased 9.5 percent to SEK 6,968 million in the six months ended June 30, 2002 as compared to 6,362 million for same period in 2001. In the six months ended June 30, 2002, underlying EBITDA for Telia's core operations increased by 8.6 percent.

**Table of Contents*****Telia Mobile***

Underlying EBITDA for Telia Mobile was SEK 2,591 million in the six months ended June 30, 2002, an increase of SEK 350 million, or 15.6 percent, from underlying EBITDA of SEK 2,241 million in the same period in 2001. The increase in the six months ended June 30, 2002 was primarily due to continued subscriber growth, particularly among prepaid subscribers, increased SMS usage and increasing traffic per subscriber in mobile operations. While pre-paid subscribers in general generate significantly lower average revenue per user than contract customers, they are also significantly less expensive to acquire as customers.

Depreciation and amortization was SEK 1,839 million in the six months ended June 30, 2002, an increase from SEK 1,519 million in the same period in 2001. Income from associated companies increased to SEK 131 million from SEK 119 million in 2001. Items not reflecting the underlying business operations were SEK (348) million, compared with SEK (14) in 2001. The ongoing streamlining of operations, mainly within distributions, has affected approximately 400 employees to date this year. Streamlining costs, including provisions for redundant personnel, totaled SEK 236 million during the six months ended June 30, 2002. Operating income totaled SEK 535 million, a decrease from SEK 827 million in 2001.

In Sweden, underlying EBITDA in the mobile telephony operations increased by 3.0 percent to SEK 2,477 million in the six months ended June 30, 2002. Underlying EBITDA margin decreased 0.5 percentage points to 43.4 percent in the six months ended June 30, 2002. Continued subscriber growth, higher traffic per subscriber increased SMS usage and low churn had a positive effect on the underlying EBITDA, which was partially offset by reduced interconnection fees.

In Norway, underlying EBITDA in the mobile telephony operations increased by 65.9 percent to SEK 1,012 million in the six months ended June 30, 2002. Underlying EBITDA margin increased 8.9 percentage points to 40.0 percent in the six months ended June 30, 2001. The increase in underlying EBITDA and underlying EBITDA margin was primarily attributable to continued volume growth and cost management.

In Denmark, underlying EBITDA in the mobile telephony operations decreased from SEK negative 219 million to SEK negative 360 million in the six months ended June 30, 2002, primarily due to higher customer recruitment costs. Underlying EBITDA in Finland decreased to negative SEK 203 million in the six months ended June 30, 2002 from negative SEK 170 million for the same period in 2001. The decrease was influenced by a SEK 16 million write-down in inventories.

***Telia Networks***

Underlying EBITDA for Telia Networks was SEK 5,608 million in the six months ended June 30, 2002, a decrease of SEK 22 million, or 0.4 percent, from underlying EBITDA of SEK 5,630 million for the same period in 2001. Underlying EBITDA margin decreased 0.4 percentage points to 33.7 percent in the six months ended June 30, 2002. The introduction of local carrier pre-selection on February 2, 2002 had a negative effect of SEK 170 million on underlying EBITDA and provisions for bad debt had a negative effect of SEK 184 million.

Depreciation, amortization and write-downs was SEK 2,821 million in the six months ended June 30, 2002, an increase from SEK 2,532 million in the same period in 2001. Income from associated companies improved to SEK 106 million from SEK (2,906) million in 2001. The six months ended June 30, 2002, included a capital gain of SEK 153 from the divestiture of Comsource. For the same period in 2001, the remaining goodwill in Netia was written down and the equity loss from Telia's holding in the associated company Eircom negatively affected earnings. Items not reflecting the underlying business operations were SEK (263) million compared to SEK 41 million in 2001. The ongoing streamlining operations, mainly within distribution, has affected approximately 400 employees to date in 2002. Streamlining costs, including provisions for redundant personnel, totaled SEK 146 million and are reported under items not reflecting underlying business operations. Operating income totaled SEK 2,630 million, an improvement from SEK 233 million in 2001.

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***Telia Internet Services***

Underlying EBITDA for Telia Internet Services was negative SEK 314 million in the six months ended June 30, 2002, as compared to underlying EBITDA of negative SEK 518 million in the six months ended June 30, 2001. The improvement in underlying EBITDA in the first half of 2002 was primarily attributable to a price increase and to decreased expenditures relating to the development of broadband services.

Depreciation, amortization and write-downs was SEK 369 million in the six months ended June 30, 2002, an increase from SEK 173 million in the same period in 2001. The greatest part of the increase was due to write-downs of the portal business and payment and security services. Income from associated companies improved to SEK (18) million for the six months ended June 30, 2002 from SEK (27) million for the same period in 2001. Items not reflecting the underlying business operation were SEK (97) million for the six months ended June 30, 2002, a decrease as compared to SEK (9) million for the same period in 2001. The ongoing streamlining of operations has affected approximately 70 employees to date in 2002. Under items not reflecting underlying business operations, Telia Internet Services reported SEK 86 million in restructuring costs, including provisions for redundant personnel in the six months ended June 30, 2002. Operating income totaled SEK (798) million for the six months ended June 30, 2002, a decrease from SEK (727) million for the same period in 2001.

***Telia International Carrier***

Underlying EBITDA for Telia International Carrier was negative SEK 618 million in the six months ended June 30, 2002 a decrease from underlying EBITDA of negative SEK 567 million in the same period in 2001. The negative underlying EBITDA is primarily attributable to the fact that Telia International Carrier was in a build-up phase during 2000 and 2001 as it was completing the Viking Network and establishing local market organisations. In the three months ended June 30, 2002, Telia International Carrier improved its underlying EBITDA for the third consecutive quarter. The improvement was attributable to increased sales as well as the streamlining of operations.

Depreciation, amortization and write-downs was SEK 411 million in the six months ended June 30, 2002, an increase from SEK 170 million in the same period 2001. There was no income from associated companies in 2002 and 2001. Items not reflecting the underlying business operations was SEK (1) million for the six months ended June 30, 2002 and 2001. Operating income totaled SEK (1,030) million for the six months ended June 30, 2002, a decrease from SEK (738) million for the same period in 2001.

**Table of Contents****Financial Net**

The following table sets forth financial income and expense items for the periods indicated:

|                              | Six months ended<br>June 30, |       |
|------------------------------|------------------------------|-------|
|                              | 2001                         | 2002  |
|                              | (SEK in millions)            |       |
| Dividends                    | 0                            | 0     |
| Capital gains                | (2)                          | (14)  |
| Write-downs                  | (2)                          | (30)  |
| Total                        | (4)                          | (44)  |
| Other financial revenues:    |                              |       |
| Interest on financial leases | 310                          | 308   |
| Other interest income        | 561                          | 243   |
| Exchange rate gains          | 99                           | 70    |
| Total                        | 970                          | 621   |
| Other financial expenses:    |                              |       |
| Interest expenses            | (1,329)                      | (844) |
| Capitalized interest         | 1                            | 1     |
| Exchange rate losses         | (26)                         | (105) |
| Total                        | (1,354)                      | (948) |
| Net effect on income         | (388)                        | (371) |

Telia's financial net was negative SEK 371 million in the six months ended June 30, 2002, an improvement from negative SEK 388 million for the same period in 2001. The improvement in the six months ended June 30, 2002 was primarily due to the effects of divestitures of non-core businesses as part of Telia's refine and focus initiative carried out in 2001.

**Results of Operations for the Years Ended December 31, 1999, 2000 and 2001****Telia Group**

|   | Year ended December 31, |          |          |
|---|-------------------------|----------|----------|
|   | 1999                    | 2000     | 2001     |
|   | (SEK in millions)       |          |          |
| Net sales   | 52,121                  | 54,064   | 57,196   |
| Costs of goods and services sold                              | (31,206)                | (33,028) | (40,435) |
| Selling, administrative and research and development expenses | (14,887)                | (16,326) | (17,943) |
| Other operating revenues and expenses, net                    | (805)                   | 8,493    | 506      |
| Income from associated companies                              | 723                     | (1,197)  | 6,136    |
| Operating income  | 5,946                   | 12,006   | 5,460    |

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|                              |                   |                   |                   |
|------------------------------|-------------------|-------------------|-------------------|
| Financial net                | 34                | (289)             | (652)             |
|                              | <u>          </u> | <u>          </u> | <u>          </u> |
| Income after financial items | 5,980             | 11,717            | 4,808             |
| Taxes                        | (1,754)           | (1,447)           | (2,917)           |
| Minority interests           | (4)               | 8                 | (22)              |
|                              | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income                   | 4,222             | 10,278            | 1,869             |
|                              | <u>          </u> | <u>          </u> | <u>          </u> |

**Table of Contents****Net Sales**

The following table sets forth Telia's external net sales by business area and business unit and as a percentage of total sales for the periods indicated:

|                             | Year ended December 31, |                         |                   |                         |                   |                         |
|-----------------------------|-------------------------|-------------------------|-------------------|-------------------------|-------------------|-------------------------|
|                             | 1999                    |                         | 2000              |                         | 2001              |                         |
|                             | (SEK in millions)       | Percentage of net sales | (SEK in millions) | Percentage of net sales | (SEK in millions) | Percentage of net sales |
| Telia Mobile                | 10,467                  | 20.1                    | 13,791            | 25.5                    | 17,857            | 31.2                    |
| Telia Networks              | 30,164                  | 57.9                    | 28,379            | 52.5                    | 29,159            | 51.0                    |
| Telia Internet Services     | 2,018                   | 3.9                     | 2,501             | 4.6                     | 3,288             | 5.7                     |
| Telia International Carrier | 2,374                   | 4.6                     | 3,124             | 5.8                     | 3,652             | 6.4                     |
| Telia Holding               | 6,966                   | 13.4                    | 6,057             | 11.2                    | 3,072             | 5.4                     |
| Other                       | 132                     | 0.3                     | 212               | 0.4                     | 168               | 0.3                     |
| <b>Total Sales</b>          | <b>52,121</b>           | <b>100</b>              | <b>54,064</b>     | <b>100</b>              | <b>57,196</b>     | <b>100</b>              |

Total group sales increased 5.8 percent in 2001 as compared to 2000 and in 2000 total group sales increased 3.7 percent as compared to 1999. The increase in 2001 was primarily attributable to high customer growth and traffic revenue in Telia Mobile and the full year effect of the acquisition of the Norwegian mobile operator NetCom ASA in June 2000, as well as increased demand for broadband Internet access in Telia Internet Services. Increases in consolidated sales in 2001 were partially offset by the divestiture of many non-core operations carried out as part of Telia's refine and focus initiative. The increase in group sales in 2000 was primarily attributable to increased subscriber growth and traffic revenue in Telia Mobile and to the acquisition of the NetCom, as well as to strong demand in Telia International Carrier, particularly for IP transport services.

**Telia Mobile**

The following table sets forth net sales for Telia Mobile by source for the periods indicated:

|                             | Year ended December 31, |               |               |
|-----------------------------|-------------------------|---------------|---------------|
|                             | 1999                    | 2000          | 2001          |
|                             | (SEK in millions)       |               |               |
| Mobile Telephony            |                         |               |               |
| Sweden                      | 7,540                   | 8,868         | 10,047        |
| Norway                      |                         | 1,655         | 4,287         |
| Denmark                     | 345                     | 442           | 633           |
| Finland                     | 70                      | 364           | 648           |
| Business Solutions          | 1,540                   | 1,426         | 1,450         |
| Other                       | 972                     | 1,036         | 792           |
| <b>Total external sales</b> | <b>10,467</b>           | <b>13,791</b> | <b>17,857</b> |
| Intra-group sales           | 2,077                   | 2,233         | 1,973         |
| <b>Total sales</b>          | <b>12,544</b>           | <b>16,024</b> | <b>19,830</b> |



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The following table sets forth selected operational data for Telia Mobile for the periods indicated:

|   | Year ended December 31,                |       |       |
|---|--|-------|-------|
|   | 1999                                   | 2000  | 2001  |
|   | (in thousands,<br>except as indicated) |       |       |
| <b>Sweden:</b>  |  |       |       |
| Total subscriptions (in thousands)                                | 2,638                                  | 3,257 | 3,439 |
| of which, residential   | 1,557                                  | 2,042 | 2,356 |
| of which, business  | 1,081                                  | 1,215 | 1,083 |
| Total GSM (in thousands)  | 2,348                                  | 3,076 | 3,295 |
| of which, subscriptions   | 1,425                                  | 1,755 | 1,759 |
| of which, prepaid   | 923                                    | 1,321 | 1,536 |
| Total NMT (in thousands)  | 290                                    | 181   | 144   |
| Subscribers via external service providers (in thousands)         | 4                                      | 48    | 74    |
| Total traffic (in millions of minutes)                            | 3,505                                  | 4,357 | 5,083 |
| Average traffic per subscriber per month (minutes)                | 121                                    | 123   | 127   |
| Total SMS messages (in millions)                                  | 46                                     | 185   | 389   |
| Customer churn (%)  | 9                                      | 8     | 8     |
| ARPU (SEK)  | 332                                    | 308   | 285   |
| <b>Norway:</b>  |  |       |       |
| Total subscriptions, GSM (in thousands)                           |  | 850   | 970   |
| of which, residential   |  | 707   | 794   |
| of which business   |  | 143   | 176   |
| of which, subscriptions   |  | 417   | 469   |
| of which, prepaid   |  | 433   | 501   |
| Subscribers via external service providers (in thousands)         |  | 50    | 112   |
| Average traffic per subscriber per month (minutes) <sup>(1)</sup> |  | 139   | 136   |
| Total SMS messages (in millions)                                  |  | 302   | 501   |
| ARPU (NOK)  |  | 308   | 310   |
| <b>Other Nordic Countries:</b>                                    |  |       |       |
| Subscriptions, Denmark (in thousands) <sup>(2)</sup>              | 170                                    | 263   | 288   |
| SMS messages, Denmark (in millions)                               | 23                                     | 39    | 61    |
| Subscriptions, Finland (in thousands)                             | 33                                     | 149   | 239   |
| SMS messages, Finland (in millions)                               | 4                                      | 28    | 57    |

(1) In 2000 average traffic per subscriber per month has been calculated in order to give a full year effect to the acquisition of NetCom in June 2000.

(2) Historical figures have been adjusted in light of the changed definition of prepaid customers in Denmark.

External net sales by Telia Mobile increased 29 percent in 2001 as compared to 2000 and external net sales increased 32 percent in 2000 as compared to 1999. The increase in external net sales in 2001 and 2000 was primarily attributable to the increase in the number of subscribers and the acquisition of NetCom ASA, an increase in the number of subscribers from external service providers, increased traffic per subscriber and increased demand for SMS services. In 2001 and 2000, a growing proportion of the subscriber base of Telia Mobile were prepaid subscribers, who generate significantly less average revenue per month than postpaid subscribers. In 2001, over 78 percent of new subscriptions were prepaid subscribers.

The number of Telia's subscribers in the Nordic region increased by 417,000 to 4,936,000 subscribers in 2001 as compared to 2000 and by 1,678,000 to 4,519,000 subscribers in 2000 as compared to 1999, including 773,000 subscribers gained as a result of Telia's acquisition of NetCom ASA in 2000. The number of subscribers from external service providers, which are not included in the total number of subscribers in the Nordic region, increased by 88,000 in 2001 to 186,000.





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*Sweden*

External net sales from mobile telephony in Sweden were SEK 10,047 million in 2001, an increase of SEK 1,179 million, or 13 percent, over external net sales of SEK 8,868 million in 2000 and in 2000 external net sales increased by SEK 1,328 million, or 18 percent, over external net sales of SEK 7,540 in 1999. The increase in external net sales in 2001 and 2000 was primarily attributable to an increase in the number of prepaid subscribers, traffic per subscriber and demand for SMS services. During 2001, Telia entered into cooperation agreements with an additional three service providers and as of December 31, 2001, Telia had agreements with seven service providers in Sweden.

The number of subscribers increased by 182,000 to 3,439,000 in 2001 as compared to 2000 and by 619,000 to 3,257,000 subscribers in 2000 as compared to 1999. The average traffic per subscriber per month increased by four minutes to 127 minutes per month in 2001 as compared to 2000 and by two minutes to 123 minutes per month in 2000 as compared to 1999. Several new SMS services launched in 2001 contributed to a 110 percent increase in the number of SMS messages sent during 2001 over 2000, which also contributed to the increase in external net sales in 2001.

Net sales were partially offset in 2001 and 2000 due to a six percent decrease in average prices and an increase in the number of prepaid subscribers as a percentage of total subscribers, who generate significantly less revenue per month than postpaid subscribers. Average monthly revenue per subscriber declined by 7.5 percent in 2001 to SEK 285 from SEK 308 in 2000 and by 7.2 percent in 2000 from SEK 332 in 1999.

The rate of customer churn remained unchanged at eight percent between 2001 and 2000 and decreased in 2000 from nine percent in 1999.

*Norway*

External net sales from mobile telephony in Norway were SEK 4,287 million in 2001, an increase of SEK 2,632 million, or 159 percent, over external net sales of SEK 1,655 million in 2000, which was primarily attributable to the inclusion of NetCom's results of operations for the full year in 2001 as well as to steady subscriber growth, higher traffic per customer and higher demand for SMS services.

The total number of subscribers increased by 120,000 to 970,000 in 2001 as compared to 2000 and the number of subscribers from external service providers increased by 62,000 to 112,000 in 2001. A total of 501 million SMS messages were sent in 2001, an increase of 199 million messages, or 66 percent, over 2000. Average monthly revenue per user rose from NOK 308 in 2000 to NOK 310 in 2001.

Prior to the acquisition of NetCom ASA in 2000, the Telia Mobile did not operate in Norway.

*Denmark*

External net sales from mobile telephony in Denmark were SEK 633 million in 2001, an increase of SEK 191 million, or 43 percent, over external net sales of SEK 442 million in 2000 and in 2000 external net sales increased by SEK 97 million, or 28 percent, over external net sales of SEK 345 in 1999. The increase in external net sales in 2001 and 2000 was primarily attributable to an increase in the number of subscribers. The total number of subscribers increased by 25,000 to 288,000 in 2001 as compared to 263,000 subscribers in 2000.

A total of 61 million SMS messages were sent in 2001, an increase of 22 million messages, or 56 percent, over 2000 and in 2000 39 million SMS messages were sent, an increase of 16 million messages, or 70 percent over 1999.

Telia expects to further increase its subscriber base in Denmark with the expansion of its GSM 900 services, which Telia believes will enhance its opportunities to offer competitive prices and new services in Denmark.

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*Finland*

External net sales from mobile telephony in Finland were SEK 648 million in 2001, an increase of SEK 284 million, or 78 percent, over external net sales of SEK 364 million in 2000 and in 2000 external net sales increased by SEK 294 million, or 420 percent, over external net sales of SEK 70 in 1999. The increase in external net sales in 2001 and 2000 was primarily attributable to an increase in the number of subscribers.

The total number of subscribers increased by 90,000 to 239,000 in 2001 as compared to 2000 and in 2000 the total number of subscribers increased by 116,000 to 149,000 as compared to 1999. In 2001 the success of Telia's dual prepaid card and a significant marketing campaign in Finland were the main factors driving growth. In 2000 Telia signed a roaming agreement with Radiolinja that enabled Telia to offer nationwide coverage for its GSM services.

A total of 57 million SMS messages were sent in 2001, an increase of 29 million messages, or 104 percent, over 2000 and in 2000 a total of 28 million SMS messages were sent, an increase of 24 million messages, or 600 percent, over 1999.

*Business Solutions*

Telia's Business Solutions unit markets and sells products and services such as PBXs and network-based switchboard functions that combine fixed and mobile functionality, known as Centrex. Net sales by Business Solutions have remained stable between 2000 and 2001 and decreased between 1999 and 2000.

**Table of Contents***Telia Networks*

The following table sets forth net sales for Telia Networks by source for the periods indicated:

|  | Year ended December 31, |        |        |
|--|-------------------------|--------|--------|
|  | 1999 <sup>(1)</sup>     | 2000   | 2001   |
|  | (SEK in millions)       |        |        |
| <b>Retail:</b>   |                         |        |        |
| Sweden:  |                         |        |        |
| Fixed telephony:   |                         |        |        |
| Fixed charges  | N/A                     | 7,489  | 7,749  |
| Domestic calls   | N/A                     | 5,875  | 5,126  |
| International calls  | N/A                     | 1,047  | 680    |
| Calls to mobile telephones                                     | N/A                     | 3,363  | 3,101  |
| Other calls  | N/A                     | 654    | 779    |
| Total call charges   | N/A                     | 10,939 | 9,686  |
| Other  | N/A                     | 1,320  | 1,664  |
|  | -----                   | -----  | -----  |
| Total fixed telephony  | N/A                     | 19,748 | 19,099 |
|  | -----                   | -----  | -----  |
| Network capacity   | N/A                     | 1,571  | 1,652  |
| Customer premises equipment                                    | N/A                     | 574    | 573    |
| Data communications, information technology services and other | N/A                     | 2,541  | 2,432  |
|  | -----                   | -----  | -----  |
| Subtotal   | N/A                     | 4,686  | 4,657  |
|  | -----                   | -----  | -----  |
| Other Nordic countries <sup>(2)</sup>                          | N/A                     | 1,044  | 926    |
| Baltic region  | N/A                     | 29     | 14     |
| Rest of Europe   | N/A                     | 16     | 106    |
|  | -----                   | -----  | -----  |
| Subtotal   | N/A                     | 1,089  | 1,046  |
|  | -----                   | -----  | -----  |
| Total Retail   | N/A                     | 25,523 | 24,802 |
|  | -----                   | -----  | -----  |
| <b>Wholesale:</b>  |                         |        |        |
| Sweden:  |                         |        |        |
| Fixed telephony  | N/A                     | 1,591  | 1,812  |
| Network capacity   | N/A                     | 776    | 1,136  |
| Other  | N/A                     | 301    | 1,002  |
|  | -----                   | -----  | -----  |
| Subtotal   | N/A                     | 2,668  | 3,950  |
|  | -----                   | -----  | -----  |
| Other Nordic countries   | N/A                     | 188    | 407    |
|  | -----                   | -----  | -----  |
| Total Wholesale  | N/A                     | 2,856  | 4,357  |
|  | -----                   | -----  | -----  |
| Total external sales   | 30,164                  | 28,379 | 29,159 |
| Intra-group sales  | 8,664                   | 9,403  | 4,906  |
|  | -----                   | -----  | -----  |
| Total sales  | 38,828                  | 37,782 | 34,065 |
|  | -----                   | -----  | -----  |

- (1) Telia is unable to provide historical financial data relating to net sales for the year 1999 other than on an aggregate basis due to internal restructurings carried out during 2001 which resulted in changes to Telia's reportable segment structure.
- (2) Net sales in other Nordic countries include net sales from Telia Finland of SEK 274 million for the year 2000 and net sales of SEK 213 million until the divestiture of Telia Finland in June 2001.

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The following table sets forth selected operational data for Telia Networks for the periods indicated:

|   | Year ended December 31, |        |        |
|---|-------------------------|--------|--------|
|   | 1999                    | 2000   | 2001   |
| <b>Sweden:</b>  |                         |        |        |
| Fixed telephony, PSTN subscriptions (thousands)                     | 5,889                   | 5,783  | 5,663  |
| of which, household customers                                       | 3,919                   | 3,868  | 3,841  |
| of which, business customers  | 1,970                   | 1,915  | 1,822  |
| Fixed telephony, ISDN channels (thousands)                          | 630                     | 838    | 922    |
| of which, household customers                                       | 53                      | 99     | 121    |
| of which, business customers  | 577                     | 739    | 801    |
| Fixed telephony, calls (millions of minutes)                        |                         |        |        |
| Domestic calls  | 35,200                  | 31,360 | 26,533 |
| International calls   | 560                     | 520    | 503    |
| Calls to mobile telephones  | 1,490                   | 1,590  | 1,744  |
| Connected broadband ADSL for ATM (thousands)                        | 7                       | 8      | 9      |
| Connected broadband ADSL/LAN via Service Providers (thousands)      | 1                       | 7      | 47     |
| <b>Denmark:</b>   |                         |        |        |
| Fixed telephony, prefix and contract customers, Denmark (thousands) | 209                     | 232    | 264    |

External net sales by Telia Networks increased in 2001 to SEK 29,159 million as compared to external net sales of SEK 28,379 million in 2000 and decreased in 2000 as compared to external net sales of SEK 30,164 million in 1999. The increase in external net sales in 2001 was primarily due to the transfer of materials from Telia Networks to an associated company, Telefos, relating to network infrastructure as well as to the half-year effect on sales of the acquisition of Powercom A/S in the middle of 2001 which was partially offset by the half-year effect of the divestment of Telia's fixed line operations in Finland. Excluding these effects, sales were essentially unchanged between 2000 and 2001. Continued growth in the wholesale business and higher sales of value-added services partially compensated for reduced traffic revenues in the Swedish retail market. The decline in external net sales in 2000 was primarily due to lower tariffs as well as the effects of carrier pre-selection.

*Retail*

External net sales in the retail market decreased three percent in 2001 to SEK 24,802 million from external net sales of SEK 25,523 million in 2000.

*Retail in Sweden*

In Sweden, external net sales in the retail market decreased three percent in 2001 to SEK 23,756 million from external net sales of SEK 24,434 million in 2000. The decrease in external net sales in the retail segment was primarily attributable to reduced fixed traffic volumes in Sweden. Total fixed telecommunications traffic in Sweden decreased by 4,827 million minutes, or 15 percent, in 2001 as compared to 2000 and in 2000 by 3,840 million minutes, or 11 percent, as compared to 1999.

External net sales from fixed telephony in Sweden decreased to SEK 19,099 million in 2001, or three percent, from SEK 19,748 million in 2000.

The decrease in external net sales from fixed telephony was primarily due to the effects of carrier pre-selection, which came into effect in Sweden on September 11, 1999 for national long distance, international and fixed-to-mobile calls. The introduction of pre-selection and lower per minute tariffs resulted in a decrease in traffic revenues of approximately 12 percent between 2000 and 2001. Despite the effects of pre-selection, most of Telia's customers remained subscribers for access services with Telia, and the decrease in traffic revenues was partially offset by an increase in the monthly fee for fixed telephony services, leading to a three percent increase in subscription sales in 2001 to SEK 7,749 million from SEK 7,489 million in 2000. On average, the price levels for fixed telephony services in Sweden decreased between 1999 and 2000 and were stable between 2000 and 2001.



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Local loop unbundling so far has not had a significant effect on Telia's net sales in 2000 or 2001.

The number of PSTN subscriptions decreased two percent in Sweden to 5,663,000 subscriptions in 2001 from 5,783,000 subscriptions in 2000 and PSTN subscriptions decreased 1.8 percent in 2000 from 5,889,000 subscriptions in 1999. The most significant declines in PSTN subscriptions were among businesses, where subscriptions decreased five percent in 2001 from 2000 and nearly three percent in 2000 from 1999, primarily driven by the trend in certain customer segments for customers to substitute their fixed subscriptions for mobile subscriptions. The number of PSTN subscriptions among retail subscribers was also affected negatively by young subscribers choosing to have only a mobile subscription rather than both a mobile and a fixed subscription.

The decline in PSTN subscriptions was to some extent compensated for by an increase in the number of ISDN channels in Sweden, which rose by 84,000, or ten percent, to 922,000 channels in 2001 and by 208,000 channels in 2000, or 33 percent, from 630,000 channels in 1999. Demand for ISDN channels was particularly strong in the retail market in Sweden during 2001 and 2000.

Demand for value-added services was strong in 2001. Sales of caller identification, TeleSvar voicemail, telemeetings and videoconferences increased 26 percent to SEK 1,664 million in 2001 over 2000. Sales of network capacity to businesses in Sweden also increased five percent in 2001 over 2000.

Sales of data communications and other information technology services were SEK 2,432 million in 2001, a four percent decrease from 2000. The data communications market has been characterized by heavy price pressure and intense competition.

*Retail Outside Sweden*

Net sales in the retail market in Denmark increased two percent to SEK 713 million in 2001 over external net sales of SEK 699 million in 2000. The increase was primarily attributable to an increase in the number of subscribers in 2001 and the higher level of broadband service provided to business subscribers.

*Wholesale*

External net sales in the wholesale market increased by 53 percent in 2001 to SEK 4,357 million from external net sales of SEK 2,856 million in 2000. Excluding the effects of the transfer of materials from Telia Networks to Telefons and the acquisition of Powercom, the increase in net sales in 2001 as compared to 2000 was 19 percent.

*Wholesale in Sweden*

External net sales from wholesale of fixed telephony mainly refer interconnection traffic, which increased by 14 percent in 2001 to SEK 1,812 million from net sales of SEK 1,591 million in 2000. The increase in 2001 was primarily attributable to the effects of carrier pre-selection, which resulted in an increase in the demand for Telia's network from other operators that provided connectivity to retail users.

External net sales of network capacity increased by 46 percent in 2001 in Sweden to SEK 1,136 million from external net sales of SEK 776 million in 2000. The increase in 2001 was primarily attributable to the effects of carrier pre-selection, which resulted in an increase in the demand for Telia's network capacity from other operators in Sweden.

During 2001, a total of 208,000 broadband connections were delivered in Sweden, including 40,000 to external service providers. At the end of 2001 a total of 250,000 customers in Sweden were connected to Telia's broadband network via ADSL/LAN, an increase of 495 percent over 2000. The increase in 2001 and 2000 was primarily attributable to the development of Telia's broadband access services both internally to customers of Telia Internet Services as well as to external Internet service providers.



**Table of Contents***Wholesale Outside Sweden*

The acquisition of the Danish infrastructure company Powercom in 2001 resulted in a 116 percent increase in wholesale revenue from Denmark, amounting to SEK 407 million in 2001 as compared to SEK 188 million in 2000.

**Telia Internet Services**

The table below sets forth net sales for Telia Internet Services by source for the periods indicated:

|                                | Year ended December 31, |       |       |
|--------------------------------|-------------------------|-------|-------|
|                                | 1999 <sup>(1)</sup>     | 2000  | 2001  |
|                                | (SEK in millions)       |       |       |
| <b>Sweden:</b>                 |                         |       |       |
| Internet access                | N/A                     | 1,396 | 1,820 |
| Internet services              | N/A                     | 35    | 136   |
| Cable television               | N/A                     | 666   | 786   |
| Other                          | N/A                     | 47    | 60    |
| <b>Other Nordic Countries:</b> | N/A                     | 357   | 486   |
| Total external sales           | 2,018                   | 2,501 | 3,288 |
| Intra-group sales              | 471                     | 292   | 17    |
| Total sales                    | 2,489                   | 2,793 | 3,305 |

- (1) Telia is unable to provide historical financial data relating to net sales for the year 1999 other than on an aggregate basis due to internal restructurings carried out during 2001 which resulted in changes to Telia's reportable segment structure.

The following table sets forth selected operational data for Telia Internet Services for the periods indicated:

|   | Year ended December 31,             |       |       |
|---|-------------------------------------|-------|-------|
|   | 1999                                | 2000  | 2001  |
|   | (in thousands, except as indicated) |       |       |
| <b>Sweden:</b>                                |                                     |       |       |
| Dial-up Internet access subscriptions         | 598                                 | 687   | 747   |
| of which, residential customers               | 501                                 | 576   | 617   |
| of which, business customers                  | 97                                  | 111   | 130   |
| Traffic, dial-up access (millions of minutes) | 5,330                               | 7,072 | 7,117 |
| Broadband and cable television:               |                                     |       |       |
| ADSL/LAN access                               | 2                                   | 27    | 194   |
| Fixed access (ProLane)                        | 1                                   | 2     | 3     |
| Cable television subscriptions                | 1,348                               | 1,358 | 1,378 |
| of which, broadband Internet users            | 3                                   | 22    | 48    |
| <b>Denmark:</b>                               |                                     |       |       |
| Dial-up Internet access subscriptions         | 67                                  | 78    | 89    |
| Cable television subscriptions                | 170                                 | 175   | 179   |

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|  |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| of which, broadband Internet users                   | 11              | 30              | 58              |
| Total Nordic dial-up Internet access subscriptions   | 665             | 765             | 836             |
| Total Nordic broadband Internet access subscriptions | 17              | 81              | 303             |
|  | <u>        </u> | <u>        </u> | <u>        </u> |
| Total Nordic Internet access subscriptions           | 682             | 846             | 1,139           |
|  | <u>        </u> | <u>        </u> | <u>        </u> |

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External net sales by Telia Internet Services increased in 2001 to SEK 3,288 million, or 31 percent, from external net sales of SEK 2,501 million in 2000 and in 2000 external net sales increased 24 percent from SEK 2,018 million in 1999. The increase in 2001 and 2000 was primarily attributable to strong demand for Internet access accounts, particularly broadband access.

### *Internet accesses*

External net sales of Internet accesses increased to SEK 1,959 million in 2001, or 31 percent, from external net sales of SEK 1,488 million in 2000.

The total number of broadband subscribers increased by 222,000, or 274 percent, to 303,000 subscribers in 2001 from 81,000 subscribers in 2000. In 2001 and 2000 the demand for broadband access remained strong in the residential segment and demand within the business segment also showed significant increases. Dial-up subscriptions increased by 60,000 in Sweden, or nine percent, to 747,000 subscribers in 2001 from 687,000 subscribers in 2000 and in 2000 dial-up subscriptions increased 15 percent from 598,000 subscriptions in 1999. A growing number of Telia's subscribers have upgraded their fixed line connections to ISDN or broadband service in 2001 and 2000, principally to obtain faster Internet access. The introduction of new broadband services, including a virtual private IP-based network, IP-VPN, also contributed to the increase in demand for broadband services in Sweden in 2000.

At the end of 2001, Telia had a total of 1,139,000 Internet access subscribers, an increase of 35 percent from 846,000 subscribers in 2000 and in 2000 the total number of Internet access subscribers increased 24 percent from 682,000 subscribers in 1999. In Denmark the number of Internet access subscribers increased 36 percent to 147,000 in 2001 and in 2000 the number of Internet access subscribers increased 38 percent from 78,000 in 1999.

During 2000, Telia launched ProLane, a dedicated access service which offers business subscribers high capacity broadband connections and superior reliability. While demand for ProLane and Telia's other broadband accesses tailored for the business segment have steadily increased, Telia continues to face intense competition in the business segment of the broadband market, which has led to substantial price pressure. Telia's principal competitors in the business segment of the broadband market include TeleNordia, Song Networks, Bredbandsbolaget and Utfors. Competition among broadband providers in the business segment is currently based primarily on price, although Telia expects that in the future that competition will be based to a large extent on quality of service.

### *Internet services*

External net sales from Internet services increased to SEK 139 million in 2001, or 297 percent, from external net sales of SEK 35 million in 2000. The increase in 2001 was primarily attributable to strong demand for Telia's hosting, streaming and portal services.

The main source of revenue from Internet services in 2001 and 2000 was from fees charged for Telia's hosting and streaming services. To a lesser extent, Telia derived revenue in 2001 and 2000 from its portal services, primarily through advertising revenue and transaction fees for content and other services. Telia plans to continue to consolidate its portal services into an integrated consumer-oriented portal which will serve principally as a support function for Telia's access services with less emphasis on product development.

### *Cable television*

External net sales from cable television increased to SEK 1,129 million in 2001, or 21 percent, from net sales of SEK 929 million in 2000. The increase in sales was primarily attributable to higher average revenue per property owner, increased number of digital television subscribers and increased use of pay-per-view services.

In Sweden, where most of the network is digitalized, the number of television subscribers increased to 1,378,000 in 2001, or 1.4 percent, from 1,358,000 subscribers in 2000 and in 2000 the number of television subscribers increased 0.7 percent from 1,348,000 subscribers in 1999.

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In Denmark, as of December 31, 2001, the number of cable television subscribers connected directly via cable amounted to 179,000, an increase of 2.3 percent from 175,000 in 2000, and in 2000 the number of subscribers connected directly via cable increase by three percent from 170,000 in 1999. The number of cable television subscribers connected via satellite dishes amounted to 430,000 subscribers at year-end 2001.

**Telia International Carrier**

The following table sets forth net sales for Telia International Carrier for the periods indicated:

|                      | Year ended December 31,          |       |       |
|----------------------|----------------------------------|-------|-------|
|                      | 1999                             | 2000  | 2001  |
|                      | (SEK in millions)<br>(pro forma) |       |       |
| Total external sales | 2,374                            | 3,124 | 3,652 |
| Intra-group sales    | 1,327                            | 944   | 980   |
| Total sales          | 3,701                            | 4,068 | 4,632 |

The table below sets forth selected operational data for Telia International Carrier for the periods indicated:

|  | Year ended December 31,                |        |        |
|--|--|--------|--------|
|  | 1999                                   | 2000   | 2001   |
|  | (in thousands, except as<br>indicated) |        |        |
| Fiber network, Europe (kilometers)               | 4,070                                  | 13,000 | 16,000 |
| Fiber duct installation, Europe (kilometers)     | 1,900                                  | 5,300  | 10,000 |
| Fiber network, United States (kilometers)        |  | 18,000 | 18,000 |
| Telephony, traffic minutes (millions of minutes) | 2,451                                  | 2,911  | 3,997  |

External net sales by Telia International Carrier increased in 2001 to SEK 3,652 million, or 17 percent, from external net sales of SEK 3,124 million in 2000 and in 2000 external net sales increased 32 percent from SEK 2,374 million in 1999. The increase in external net sales in 2001 and 2000 was primarily attributable to increased sales of network capacity and infrastructure and increased IP traffic.

As of December 31, 2001, Telia's Viking Network was comprised of 18,000 kilometers of fiber optic network in the United States and 16,000 kilometers in Europe. The carrier market remained turbulent in 2001. The entry of a considerable number of new competitors and delays in the expansion of broadband services in the retail market has created overcapacity and strong price pressure in some areas.

During 2000 and 2001, increased sales from higher traffic volumes were offset to a large extent by significantly lower prices, resulting in fairly stable revenues.

Network capacity net sales increased during 2000 and 2001, despite high competition and a weakening market. The growth was explained primarily by the completion of the Viking Network, which enabled Telia International Carrier to provide international capacity services produced in its own network, and increased sales force efficiency. There is also a trend among customers to purchase network capacity instead of infrastructure, due to the relatively high upfront costs for the customer related to the equipment necessary to activate acquired infrastructure. A small share of revenue is derived from large corporations that operate their own internal networks.

Net sales from IP traffic refer to wholesale of IP-Transit, IP-Server co-location, IP-VPN and IP Connect at speeds of 2 Mbps and up to 2.5 Gbps. For IP connectivity and transit pricing, Telia offers two pricing options: a flat rate for a defined access speed, and a variable rate based on the actual volume transferred. Net sales from IP traffic increased during 2000 and 2001, which is primarily due to a stable price level and

increased traffic in Eastern Europe, which was partly offset by significant price decreases in Western Europe.

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Although sales of infrastructure decreased because many customers elected instead to purchase capacity, revenue from infrastructure increased during 2000 and 2001, which is primarily attributable to the continuing recognition of IRU contracts, increased revenue from operation and maintenance contracts and also sales of new infrastructure.

Net sales from other services refer mainly to co-location, that is, services permitting carriers to extend and expand their networks by housing their own computing and telecommunications equipment, such as routers and servers, inside Telia International Carrier's secure premises. Net sales from co-location increased during 2000 and 2001, although from a small base level.

**Telia Holding**

External net sales of the Telia Holding business unit were SEK 3,072 million in 2001, a decrease of SEK 2,985 million, or 49 percent, from external net sales of SEK 6,057 million in 2000 and in 2000 external net sales decreased 13 percent from external net sales SEK 6,966 million in 1999. The decrease in external net sales in 2001 was primarily attributable to the divestiture of Telia's non-core business operations, which were formerly a part of the Telia Holding business unit.

**Operating Expenses**

The following table sets forth Telia's operating expenses by function and the percentage change in operating expenses for the periods indicated:

|                           | Year ended December 31, |               |               | Change      |              |
|---------------------------|-------------------------|---------------|---------------|-------------|--------------|
|                           | 1999                    | 2000          | 2001          | 1999/2000   | 2000/2001    |
|                           | (SEK in millions)       |               |               | (%)         |              |
| Production <sup>(1)</sup> | 31,206                  | 33,028        | 40,435        | 5.84        | 22.43        |
| Sales                     | 6,508                   | 8,277         | 8,738         | 27.18       | 5.57         |
| Administration            | 6,809                   | 6,485         | 7,902         | (4.76)      | 21.85        |
| Research and development  | 1,570                   | 1,564         | 1,303         | (0.38)      | (16.69)      |
| <b>Total</b>              | <b>46,093</b>           | <b>49,354</b> | <b>58,378</b> | <b>7.07</b> | <b>18.28</b> |

(1) Production includes all costs for services and products sold as well as for installation, maintenance, service and support.

The following table sets forth Telia's operating expenses by type of cost and the percentage change in operating expenses for the periods indicated:

|  | Year ended December 31, |               |               | Change      |              |
|--|-------------------------|---------------|---------------|-------------|--------------|
|  | 1999                    | 2000          | 2001          | 1999/2000   | 2000/2001    |
|  | (SEK in millions)       |               |               | (%)         |              |
| Total goods and services purchased         | 15,269                  | 15,456        | 18,822        | 1.22        | 21.78        |
| Personnel expenses                         | 13,891                  | 14,507        | 13,158        | 4.43        | (9.30)       |
| Depreciation, amortization and write-downs | 7,521                   | 8,012         | 13,921        | 6.53        | 73.75        |
| Other expenses                             | 9,412                   | 11,379        | 12,477        | 20.9        | 9.65         |
| <b>Total</b>                               | <b>46,093</b>           | <b>49,354</b> | <b>58,378</b> | <b>7.07</b> | <b>18.28</b> |

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Telia's operating expenses increased in 2001 to SEK 58,378 million as compared to SEK 49,354 million in 2000 and in 2000 as compared to SEK 46,093 million in 1999. The increase in 2001 was primarily attributable to a write-down in the carrying value of Telia International Carrier in the amount of SEK 3,027, and higher depreciation. Excluding these effects, operating expenses increased 6.3 percent. The costs of goods and services increased primarily as a result of the need to purchase network maintenance and support service from the Orbiant Group following divestiture of such operations in 2001 as part of Telia's refine and focus initiative. This divestiture also led to reduced personnel and personnel expenses. The increase in 2000 was

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primarily attributable to a 27 percent increase in sales costs and six percent increase in costs for services and products sold.

Advertising costs were SEK 444 million, SEK 452 million and SEK 417 million in 1999, 2000 and 2001, respectively.

The following table sets forth the major components of Telia's personnel costs and percentage change therein for the periods indicated:

|  | Year ended December 31, |        |        | Increase/decrease(-) |           |
|--|-------------------------|--------|--------|----------------------|-----------|
|  | 1999                    | 2000   | 2001   | 1999/2000            | 2000/2001 |
|  | (SEK in millions)       |        |        | (%)                  |           |
| Personnel expenses:                    |                         |        |        |                      |           |
| Salaries and remuneration              | 9,184                   | 9,543  | 8,852  | 4                    | (7)       |
| Social security expenses               | 2,895                   | 3,055  | 2,614  | 6                    | (14)      |
| Pension costs                          | 1,051                   | 901    | 613    | (14)                 | (32)      |
| Other personnel costs                  | 761                     | 1,008  | 1,079  | 32                   | 7         |
| Total                                  | 13,891                  | 14,507 | 13,158 | 4                    | (9)       |
| Average full-time equivalent employees | 29,546                  | 30,307 | 24,979 | 3                    | (18)      |
| Headcount at year end                  | 30,643                  | 29,868 | 17,149 | (3)                  | (43)      |

Telia's total personnel expenses decreased by 9.3 percent in 2001 from 2000 and in 2000 personnel expenses decreased by 4.4 percent over 1999. The decrease in personnel expenses in 2001 and 2000 was primarily attributable to the divestiture of Telia's non-core business carried out during 2001 and 2000 as part of Telia's refine and focus initiative. Telia reduced the number of its employees by approximately 13,000, or 43 percent, from 30,000 employees to 17,000 employees since the fall of 2000 as part of its refine and focus initiative.

**Depreciation, Amortization and Write-downs**

The following table sets forth Telia's depreciation, amortization and write-down expense distributed among functions for the periods indicated:

|                          | Year ended December 31, |       |        |
|--------------------------|-------------------------|-------|--------|
|                          | 1999                    | 2000  | 2001   |
|                          | (SEK in millions)       |       |        |
| Production               | 7,011                   | 7,325 | 13,061 |
| Sales                    | 259                     | 343   | 366    |
| Administration           | 214                     | 283   | 467    |
| Research and development | 37                      | 61    | 27     |
| Other operating expenses | 131                     | 210   | 54     |
| Total                    | 7,652                   | 8,222 | 13,975 |



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The following table sets forth Telia's total depreciation, amortization and write-down expense for the periods indicated, according to the following types of fixed assets:

|                                 | Year ended December 31, |              |               |
|---------------------------------|-------------------------|--------------|---------------|
|                                 | 1999                    | 2000         | 2001          |
|                                 | (SEK in millions)       |              |               |
| Goodwill                        | 180                     | 656          | 1,403         |
| Other intangible assets         | 156                     | 212          | 340           |
| Buildings and land improvements | 110                     | 102          | 142           |
| Fixed networks                  | 4,552                   | 4,473        | 8,061         |
| Mobile networks                 | 1,103                   | 1,158        | 1,807         |
| Other machinery and equipment   | 1,551                   | 1,621        | 2,222         |
| <b>Total</b>                    | <b>7,652</b>            | <b>8,222</b> | <b>13,975</b> |

Telia amortizes goodwill according to original useful lives determined for each asset individually, but normally not longer than ten years. In addition, Telia reassesses goodwill annually to determine if additional write-downs are required. Amortization periods for mobile and fixed telephony licenses equal the period of the license. Other intangible fixed assets are amortized according to their useful lives generally over a period of five to ten years.

Depreciation, amortization and write-down expense was SEK 13,975 million in 2001, an increase of 70 percent from SEK 8,222 million in 2000, and in 2000 depreciation, amortization and write-down expense increased seven percent from SEK 7,652 million in 1999. The increase in depreciation and write-downs in 2001 was mainly due to write-down in the carrying value of Telia International Carrier in the amount of SEK 3,027 due to adverse conditions in the international carrier market as well as broadband expansion and capacity reinforcement of fixed networks in Sweden, expansion of the carrier network and the full-year effect of amortization of goodwill from the acquisition of NetCom.

**Other Operating Revenues and Expenses**

The following table sets forth the components of other operating revenues and expenses for the periods indicated:

|                           | Year ended December 31, |              |                |
|---------------------------|-------------------------|--------------|----------------|
|                           | 1999                    | 2000         | 2001           |
|                           | (SEK in millions)       |              |                |
| Other operating revenues: |                         |              |                |
| Capital gains             | 353                     | 8,031        | 1,347          |
| Exchange rate gains       | 57                      | 161          | 183            |
| Other revenues            | 366                     | 776          | 288            |
| <b>Total</b>              | <b>776</b>              | <b>8,968</b> | <b>1,818</b>   |
| Other operating expenses: |                         |              |                |
| Capital losses            | (18)                    | (27)         | (572)          |
| Exchange rate losses      | (7)                     | (43)         | (152)          |
| Other expenses            | (1,556)                 | (405)        | (588)          |
| <b>Total</b>              | <b>(1,581)</b>          | <b>(475)</b> | <b>(1,312)</b> |

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|                      |       |       |     |
|----------------------|-------|-------|-----|
| Net effect on income | (805) | 8,493 | 506 |
|----------------------|-------|-------|-----|

Other operating revenues were SEK 1,818 million in 2001, a decrease of SEK 7,150 million from operating revenues of SEK 8,968 in 2000. Other operating revenues in 2000 were primarily comprised of capital gains from the initial public offering of Eniro and the sale of fixed telephone operations in Norway. Other operating revenues in 2001 were primarily comprised of capital gains from the sale of real estate properties and the sale of Telia's 91 percent interest in the Orbiant Group.

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Other operating expenses were SEK 1,312 million 2001, an increase of SEK 837 million over other operating expenses of SEK 475 million in 2000, and in 2000 other expenses decreased SEK 1,106 million from SEK 1,581 million in 1999. Other operating expenses in 2001 were comprised of capital losses from the sales of Telia Internet Inc. and Telia Iberia and of costs for winding up Telia's satellite business.

**Income from Associated Companies**

The following table sets forth the effect on Telia's income from its share of earnings after tax in its associated companies for the periods indicated:

|   | Year ended December 31, |                |              |
|---|-------------------------|----------------|--------------|
|   | 1999                    | 2000           | 2001         |
|   | (SEK in millions)       |                |              |
| Share in net income for the year        | 992                     | (879)          | (903)        |
| Amortization and write-down of goodwill | (672)                   | (549)          | (2,285)      |
| Capital gains                           | 403                     | 231            | 9,324        |
|   | <u>723</u>              | <u>(1,197)</u> | <u>6,136</u> |
| Net effect on income                    | <u>723</u>              | <u>(1,197)</u> | <u>6,136</u> |

Telia's income from associated companies increased to SEK 6,136 million in 2001 from a loss of SEK 1,197 million in 2000, primarily as a result of divestitures of companies that reported negative results in 2001, such as Tess, Eircom and Scandinavia Online. Income from associated companies was also negatively affected by the write-down of SEK 1,820 million relating to Telia's holding in Netia during 2001. As a result of this write-down, Telia currently records the carrying value of its investment in Netia at zero and no longer records its share of Netia's losses in its consolidated financial statements.

**Operating Income**

Telia's operating income decreased with more than 54 percent to SEK 5,460 million in 2001 and, in 2000, the operating income increased to SEK 12,006 million from SEK 5,946 million in 1999.

**Segment Reporting of Underlying EBITDA and Operating Income**

Telia's management uses underlying EBITDA and operating income as the principal measures for monitoring profitability in internal operations. Underlying EBITDA consists of EBITDA (earnings before interest, taxes, depreciation and amortization) net of items not reflecting the underlying business operations and excluding income from associated companies. Management believes that, besides operating income, underlying EBITDA is also a measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. Accordingly, underlying EBITDA is presented to enhance the understanding of Telia's historical operating performance. Underlying EBITDA, however, should not be considered as an alternative to operating income as an indicator of our operating performance. Similarly, underlying EBITDA should not be considered as an alternative to cash flows from operating activities as a measure of liquidity. Underlying EBITDA is not a measure of financial performance under IAS or U.S. GAAP and may not be comparable to other similarly titled measures for other companies. Underlying EBITDA is not meant to be predictive of potential future results.

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For illustrative purposes following table sets forth the relationship between underlying EBITDA and operating income for the Telia Group for the periods indicated:

|   | Year ended December 31, |         |          |
|---|-------------------------|---------|----------|
|   | 1999                    | 2000    | 2001     |
|   | (SEK in millions)       |         |          |
| Underlying EBITDA                                       | 14,059                  | 13,087  | 12,915   |
| Depreciation, amortization and write-downs              | (7,652)                 | (8,222) | (13,975) |
| Items not reflecting the underlying business operations | (1,184)                 | 8,338   | 384      |
| Income from associated companies                        | 723                     | (1,197) | 6,136    |
| Operating income  | 5,946                   | 12,006  | 5,460    |

The following table sets forth items not reflecting the underlying business operations.

|  | Year ended December 31, |              |            |
|--|-------------------------|--------------|------------|
|  | 1999                    | 2000         | 2001       |
|  | (SEK in millions)       |              |            |
| Phase-out of operations <sup>(1)</sup> |                         |              | (478)      |
| Personnel redundancy costs             | (722)                   |              |            |
| Certain pension-related items          | 189                     | 854          | 88         |
| IPO/integration expenses               | (226)                   | (144)        |            |
| Year 2000 compliance                   | (604)                   |              |            |
| Capital gains/losses <sup>(2)</sup>    | 179                     | 7,628        | 774        |
| <b>Total</b>                           | <b>(1,184)</b>          | <b>8,338</b> | <b>384</b> |

(1) Excluding depreciation, amortization and write-downs.

(2) Excluding associated companies.

Items not reflecting the underlying business operations for 2001 included capital gains from the divested operations and the winding up of the satellite business. Such items in 2000 include capital gains from the initial public offering of Eniro and the sale of other operations.

The following table sets forth underlying EBITDA, operating income and underlying EBITDA margin and operating income margin for Telia, its four business areas and Telia Holding for the periods indicated:

|   | Year ended December 31, |         |         |
|---|-------------------------|---------|---------|
|   | 1999                    | 2000    | 2001    |
| <i>Underlying EBITDA (SEK in millions):</i> |                         |         |         |
| Telia Mobile                                | 3,407                   | 3,285   | 4,705   |
| Telia Networks                              | 11,534                  | 11,515  | 11,710  |
| Telia Internet Services                     | (561)                   | (1,201) | (970)   |
| Telia International Carrier                 | 634                     | (423)   | (1,569) |
| Telia Holding                               | 1,557                   | 1,535   | 265     |

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|                                      |                   |                   |                   |
|--------------------------------------|-------------------|-------------------|-------------------|
| Other group-wide                     | (2,512)           | (1,624)           | (1,226)           |
|                                      | <u>          </u> | <u>          </u> | <u>          </u> |
| Total                                | 14,059            | 13,087            | 12,915            |
|                                      | <u>          </u> | <u>          </u> | <u>          </u> |
| <i>Underlying EBITDA margin (%):</i> |                   |                   |                   |
| Telia Mobile                         | 27.2              | 20.5              | 23.7              |
| Telia Networks                       | 29.7              | 30.5              | 34.4              |
| Telia Internet Services              | (22.5)            | (43.0)            | (29.3)            |
| Telia International Carrier          | 17.1              | (10.4)            | (33.8)            |
| Telia Holding                        | 8.2               | 8.1               | 2.5               |
| Other group-wide                     | (1)               | (1)               | (1)               |
| Total                                | 27.0              | 24.2              | 22.6              |

(1) The underlying EBITDA margins for other group-wide is not meaningful for any of the periods indicated.

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|   | Year ended December 31, |               |              |
|---|-------------------------|---------------|--------------|
|   | 1999                    | 2000          | 2001         |
| <i>Operating income (loss) (SEK in millions):</i> |                         |               |              |
| Telia Mobile                                      | 2,347                   | 1,506         | 1,632        |
| Telia Networks                                    | 5,976                   | 6,761         | 3,854        |
| Telia Internet Services                           | (753)                   | (1,307)       | (1,649)      |
| Telia International Carrier                       | 500                     | (641)         | (5,159)      |
| Telia Holding                                     | 1,051                   | 6,773         | 7,403        |
| Other group-wide                                  | (3,175)                 | (1,086)       | (621)        |
| <b>Total</b>                                      | <b>5,946</b>            | <b>12,006</b> | <b>5,460</b> |
| <i>Operating income margin (%):</i>               |                         |               |              |
| Telia Mobile                                      | 18.7                    | 9.4           | 8.2          |
| Telia Networks                                    | 15.4                    | 17.9          | 11.3         |
| Telia Internet Services                           | (30.2)                  | (46.8)        | (49.9)       |
| Telia International Carrier                       | 13.5                    | (15.7)        | (111.4)      |
| Telia Holding                                     | 5.6                     | 35.7          | 69.3         |
| Other group-wide                                  | (1)                     | (1)           | (1)          |
| <b>Total</b>                                      | <b>11.4</b>             | <b>22.2</b>   | <b>9.5</b>   |

(1) Operating income margin for other group-wide is not meaningful for any of the periods indicated.

Telia's underlying EBITDA decreased one percent to SEK 12,915 million in 2001 as compared to 2000. The decrease in 2001 was due to the divestiture of non-core operations carried out as part of Telia's refine and focus initiative. In 2001, underlying EBITDA for Telia's core operations increased by ten percent. Telia's underlying EBITDA decreased seven percent to SEK 13,087 million in 2000 as compared to underlying EBITDA of SEK 14,059 million in 1999. The decrease in 2000 was primarily due to higher subscriber acquisition costs in mobile operations, investments in broadband access and services in the consumer market in Sweden and the expansion of Telia's Viking Network.

**Telia Mobile**

Underlying EBITDA for Telia Mobile was SEK 4,705 million in 2001, an increase of SEK 1,420 million, or 43 percent, from underlying EBITDA of SEK 3,285 million in 2000 and in 2000 underlying EBITDA decreased by four percent from SEK 3,407 in 1999. The increase in 2001 was primarily due to continued subscriber growth, particularly among prepaid subscribers, and increasing traffic per subscriber in mobile operations. While pre-paid subscribers in general generate significantly lower average revenue per user than contract customers, they are also significantly less expensive to acquire as customers. Underlying EBITDA also improved in 2001 as a result of the full year effect of the acquisition of NetCom which occurred in June 2000. The decrease in underlying EBITDA in 2000 was primarily attributable to higher costs associated with the ramping up of operations in Finland and Denmark and higher subscriber acquisition costs due in large part to high dealer commissions relating to the strong increase in the number of subscribers in the first half of 2000.

Depreciation, amortization and write-downs was SEK 3,385 million in 2001, an increase from 1,965 in 2000, mainly due to the full year effect of amortization of goodwill from the acquisition of NetCom and write-down of technology platforms for mobile portals. In 1999, the depreciation and amortization was SEK 1,189 million. Income from associated companies totaled SEK 361 million, SEK 166 million and SEK 119 million in 2001, 2000 and 1999, respectively. Items not reflecting the underlying business operations were SEK (49) million, SEK 20 million and SEK 10 million 2001, 2000 and 1999, respectively. Operating income totaled SEK 1,632 million, SEK 1,506 million and SEK 2,347 million 2001, 2000 and 1999, respectively.

In Sweden, underlying EBITDA in the mobile telephony operations increased by 24 percent to SEK 5,132 million in 2001 and in 2000 underlying EBITDA increased two percent from SEK 4,059 million in 1999. Underlying EBITDA margin increased 6.4 percentage points to 44.4 percent in 2001 and in 2000



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underlying EBITDA margin decreased 4.1 percentage points to 38.0 percent. The increase in underlying EBITDA and underlying EBITDA margin in 2001 was primarily attributable to continued subscriber growth, higher traffic per subscriber and low churn. The decrease in underlying EBITDA margin in 2000 was primarily attributable to a six percent decrease in average prices during the year and costs for subscriber acquisition.

In Norway, underlying EBITDA in the mobile telephony operations increased by 193 percent to SEK 1,381 million in 2001. Underlying EBITDA margin increased 3.8 percentage points to 32.0 percent in 2001. The increase in underlying EBITDA and underlying EBITDA margin in 2001 and 2000 was primarily attributable to the acquisition of NetCom which occurred in June 2000 and to continued subscriber growth and higher traffic per subscriber.

In Denmark, underlying EBITDA in the mobile telephony operations decreased from SEK negative 475 million to SEK negative 602 million in 2001 and underlying EBITDA in Finland improved from SEK negative 494 million to SEK negative 412 million in the same period. The decrease in Denmark was primarily attributable to restructuring costs and write-downs of telephone inventories. The increase in Finland was primarily attributable to subscriber growth.

***Telia Networks***

Underlying EBITDA for Telia Networks was SEK 11,710 million in 2001, an increase of SEK 195 million, or two percent, from underlying EBITDA of SEK 11,515 million in 2000 and in 2000 underlying EBITDA remained unchanged from 1999. Underlying EBITDA margin increased 3.9 percentage points to 34.4 percent in 2001 and in 2000 underlying EBITDA margin increased 0.8 percentage points from 29.7 percent in 1999. In addition, in 2001 underlying EBITDA and underlying EBITDA margin increased primarily as a result of increased efficiency measures.

Depreciation, amortization and write-downs were SEK 5,422 million, SEK 4,786 million and SEK 4,985 million in 2001, 2000 and 1999, respectively. The increase in 2001 was mainly due to broadband expansion and capacity reinforcement in the fixed network. Income from associated companies was a negative SEK 2,363 million, negative SEK 1,309 million and SEK 100 million in 2001, 2000 and 1999, respectively. The result in 2001 was affected by write-down of goodwill in Netia and of this company's higher deficit. Items not reflecting the underlying business operations were negative SEK 71 million, SEK 1,341 million and negative SEK 673 million in 2001, 2000 and 1999, respectively. The result in 2000 was affected by capital gains from divestment of the fixed network operations in Norway. Operating income totaled SEK 3,854 million, SEK 6,761 million and SEK 5,976 million in 2001, 2000 and 1999, respectively.

***Telia Internet Services***

Underlying EBITDA for Telia Internet Services was negative SEK 970 million in 2001, as compared to underlying EBITDA of negative SEK 1,201 million in 2000 and negative SEK 561 million in 1999. Underlying EBITDA was negatively affected by substantial investment in the development of Telia's broadband services and its Internet portals. Furthermore, prices and intense competition continued to exert significant pressure on earnings for Telia Internet Services in 2001 and 2000. The improvement, in underlying EBITDA in 2001 was primarily attributable improved efficiency in subscriber support, as well decreased expenditures relating to the development of broadband services.

Depreciation, amortization and write-downs were SEK 606 million, SEK 191 million and SEK 189 million in 2001, 2000 and 1999, respectively. The increase in 2001 was mainly due to write-down of portal platforms and to the conversion of the cable television networks to broadband Internet. Income from associated companies totaled negative SEK 45 million, negative SEK 21 million and SEK 0 million in 2001, 2000 and 1999, respectively. Items not reflecting the underlying business operations were negative SEK 28 million, SEK 106 million and negative SEK 3 million in 2001, 2000 and 1999, respectively. Operating income totaled negative SEK 1,649 million, negative SEK 1,307 million and negative SEK 753 million in 2001, 2000 and 1999, respectively.



**Table of Contents*****Telia International Carrier***

Underlying EBITDA for Telia International Carrier was negative SEK 1,569 million in 2001, a decline from underlying EBITDA of negative SEK 423 million in 2000 and, in 2000, underlying EBITDA declined from SEK 634 million in 1999. The decrease in underlying EBITDA in 2001 and 2000 was primarily attributable to the build-up phase to complete the Viking Network and the establishment of local market organizations. In 2001, Telia International Carrier added SEK 296 million in bad debt expense, including a net provision for doubtful receivables of SEK 229 million.

Depreciation, amortization and write-downs was SEK 3,589 million, SEK 199 million and SEK 134 million in 2001, 2000 and 1999, respectively. The increase in 2001 was mainly due to write-down of the carrying value of the business area with SEK 3,027 million. Income from associated companies was SEK 0 million, negative SEK 20 million and SEK 0 million in 2001, 2000 and 1999, respectively. Operating income totaled negative SEK 5,159 million, negative SEK 641 million and SEK 500 million 2001, 2000 and 1999, respectively.

**Financial Net**

The following table sets forth financial income and expense items for the periods indicated:

|                                      | Year ended December 31, |      |       |
|--------------------------------------|-------------------------|------|-------|
|                                      | 1999                    | 2000 | 2001  |
|                                      | (SEK in millions)       |      |       |
| Earnings from financial investments: |                         |      |       |
| Dividends                            | 53                      | 14   | 1     |
| Capital gains                        | 23                      | 10   | 4     |
| Write-downs                          |                         |      | (147) |
|                                      | —                       | —    | —     |
| Total                                | 76                      | 24   | (142) |
|                                      | —                       | —    | —     |
| Other financial revenues:            |                         |      |       |
| Interest on financial leases         | 499                     |      |       |