Annual Report
on Form 20-F 1999

Annual Report on Form 20-F 1999

sonera

As filed with the Securities and Exchange Commission on June 26, 2000

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-30340

SONERA CORPORATION

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

Not Applicable
(*Translation of Registrant's name into English*)

The Republic of Finland
(*Jurisdiction of incorporation or organization*)

Teollisuuskatu 15
P.O. Box 154
FIN-00051 Helsinki
Finland
(*Address of principal executive offices*)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of each class:
Shares, no nominal value,
represented by American Depositary Shares

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Number of Shares, no nominal value, outstanding on December 31, 1999: 722,000,000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorted period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☒

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INTRODUCTION

Unless the context otherwise requires, as used in this report, the terms "Sonera," "Group," "Company," "we," "our" and "us" refer to Sonera Corporation or to Sonera Corporation together with its subsidiaries depending upon the context. As used herein, the term "Finnish State" refers to the Republic of Finland.

References in this document to "Sonera" relating to periods prior to the demerger (as described in the paragraph below) may refer to PT Finland Ltd or Telecom Finland Ltd depending upon the context.

Until July 1, 1998, Sonera's business operations constituted a part of the operations of PT Finland, a company incorporated under the laws of the Republic of Finland. Prior to July 1, 1998, all current subsidiaries of Sonera Corporation were direct or indirect subsidiaries of PT Finland with the exception of subsidiaries established or acquired after July 1, 1998. Effective July 1, 1998, PT Finland's postal services and telecommunications operations were separated from each other in a demerger. Although prior to the demerger Sonera did not form a separately reporting consolidated group, the consolidated financial statements have been prepared by separating out the telecommunications related businesses from the consolidated financial statements of PT Finland, and presenting the results of operations, financial position and cash flows of these businesses as if they had formed a separately reporting consolidated group with the same structure as that of Sonera subsequent to the demerger as of and for the year ended December 31, 1997 and for the six months ended June 30, 1998. For a discussion of the basis for, and adjustments made in relation to, Sonera's financial statements, see Note 1 to the consolidated financial statements.

On February 22, 1999, the board of directors of Sonera Group plc, a predecessor of Sonera Corporation, approved a merger between Sonera Group plc, the stock exchange listed parent company of the consolidated group, and its principal operating subsidiary Sonera Ltd. The merger took effect on September 30, 1999, and upon the effectiveness of the merger the name of the merged entity was changed to Sonera Corporation.

Sonera's consolidated financial statements have been prepared in accordance with the Finnish generally accepted accounting principles ("Finnish GAAP"). For a detailed discussion of the principal differences between Finnish GAAP and the U.S. generally accepted accounting principles ("U.S. GAAP"), together with a reconciliation of net income and shareholders' equity recorded under Finnish GAAP to net income and shareholders' equity under U.S. GAAP, see Note 21 to Sonera's consolidated financial statements.

Effective January 1, 1999, Finland and ten other member states of the European Union adopted the euro as their common currency. In this document, Sonera has presented its consolidated financial statements in euros. The consolidated financial statements for all periods presented were prepared in Finnish markkas, and have been restated into euros using the irrevocable conversion rate of €1.00 = FIM 5.94573. The consolidated financial statements depict the same trends as would have been presented if Sonera had continued to present consolidated financial statements in FIM. However, the 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 FIM.

As used in this document:

- "Finnish markka" or "FIM," when used with respect to any time or period before January 1, 1999, means the lawful currency of the Republic of Finland and, when used with respect to any time or period after January 1, 1999, means the sub-unit of the euro designated as such under the applicable regulations of the European Community;

- "euro," or "€" means the new single unified currency that was introduced in connection with the Economic and Monetary Union ("EMU") in Finland and ten other participating member states of the European Union on January 1, 1999; and
- "U.S. dollar," or "U.S.$" means the lawful currency of the United States of America.

For your convenience, this document contains translations of certain amounts denominated in one currency into another currency. You should not assume, however, that amounts could have been exchanged at any particular rate or at all.

Unless otherwise stated, euro amounts have been translated into U.S. dollars at the noon buying rate in New York City for cable transfer in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on March 31, 2000, which was €1.00 = U.S.$0.9574 (U.S.$1.00 = €1.0445).

On June 15, 2000, the Noon Buying Rate for the euro was €1.00 = U.S.$0.9530 (U.S.$1.00 = €1.0493).

The financial information and certain other information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal. Therefore, the sum of the number in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and accordingly may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Some of the financial, operating and country-specific data contained in this document under "Item 1. Description of Business" relating to Sonera's associated companies and other companies in which Sonera has an equity interest are based on financial and other information received from these companies. Sonera assumes no responsibility for the accuracy of such data.

Unless otherwise indicated in this document, (1) macroeconomic statistics relating to the Republic of Finland as set forth herein are based on data provided by Statistics Finland, a Finnish governmental statistics service, (2) data relating to the Finnish telecommunications market, including market share data and penetration rates, are based on data provided by (A) the Finnish Ministry of Transport and Communications, in particular, in the Ministry's publication "Telecommunications Statistics 1999," (B) EMC World Cellular Database, a commercial statistics organization, and (C) Taloustutkimus Ltd, a private Finnish research company, (3) data relating to the telecommunications industry in the European Union and in certain European Union member states are based upon data provided by the Finnish Ministry of Transport and Communications, and (4) data relating to the telecommunications industry in the member states of the Organization for Economic Cooperation and Development are based on data provided by Eurodata Foundation, an independent telecommunications research, consultancy and information company.

This document also contains the audited consolidated financial statements for Turkcell Iletisim Hizmetleri A.S. as of December 31, 1998 and 1999 and for the years ended December 31, 1997, 1998 and 1999 as well as the unaudited interim consolidated financial statements of Turkcell as of March 31, 2000 and for the three months ended March 31, 1999 and 2000. Turkcell is a provider of mobile communications services in Turkey in which Sonera currently holds a 41 percent interest. Turkcell's consolidated financial statements have been prepared in accordance with U.S. GAAP. This financial data should be read in conjunction with Sonera's audited consolidated financial statements.

Reference in this document to "Nordic Countries" are to Denmark, Finland, Iceland, Norway and Sweden. References to the "Baltic States" are to Estonia, Latvia and Lithuania.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. Statements that are not historical facts, including statements about Sonera's beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore the reader should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and Sonera undertakes no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

- the level of demand for telecommunications services, particularly with regard 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 success of new businesses, many of which involve start-up costs and capital commitments, and have generated little or no revenue to date, particularly with regard to the products and services of our new services unit, including mobile transaction security applications and advanced mobile and Internet services;
- the success of our international investments; and
- other factors that are described under "Item 1. Description of Business—Risk Factors."

GLOSSARY

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this Annual Report.

Access line:	The system used to connect a subscriber to the nearest switch or concentrator. An access line generally takes the form of a closed circuit and consists of a pair of copper wires, but may also employ fiber optic cables, microwave links or other technologies.
ADSL (Asymmetric Digital Subscriber Line):	A technology for transferring data that uses existing copper wires to provide faster network access to the Internet and other popular multimedia and data services at speeds of up to two to six Mbps, a transfer speed 50 times faster than ordinary transfer technology.
AMPS (Advanced Mobile Phone System):	An analog mobile telecommunications system used in the United States.
Analog:	A transmission mode in which the initial signal (i.e. voice) is converted into and transmitted as an electrical signal.
ARP (autoradiopuhelin):	Sonera's mobile vehicle radio telephone system operating in the 150 MHz frequency band. ARP, which was introduced in 1971 and which is still in operation, was Sonera's first mobile communications network.
ATM (Asynchronous Transfer Mode):	A multiplexing and routing technology for high-speed digital communications that permits data, text, voice, video and multimedia signals to be transmitted simultaneously between network access points at speeds of up to 155 Mbps or more. ATM allows for better local area network interconnections, PBX interconnection, data transmission and flexible bandwidth delivery.
Backbone network:	A centralized national or regional high-speed network utilizing mainly fiber optic cables and which interconnects smaller, primarily local and independent networks.
Bandwidth:	The measure of the capacity of a communications channel. Analog telephone lines measure capacity in hertz, the difference in the highest and lowest frequency of the channel. Digital channels measure bandwidth in bits per second.
Base station:	Fixed transceiver equipment in each cell of a GSM mobile telecommunications network that communicates by radio signal with mobile handsets in that cell.
Base station controller:	Equipment used in a GSM mobile telecommunications network for controlling call set-up, signaling and maintenance functions as well as the use of radio channels of one or more base stations.

Basic data services:	Digital transmission of packet-switched data through wired networks to provide services such as the transfer of text, numeric data and graphics in digital format.
Bit:	The smallest unit of binary information.
Bps (Bits per second):	A data transmission rate. Bps is the number of bits sent per second.
Broadband network:	A network where data is transmitted through multiple channels over a transmission medium. A broadband network is also used to describe a network where data is transmitted at high bandwidth, typically exceeding two Mbps.
Broadband service:	A communications service for content requiring high-speed transmission rates such as video transmission.
CDMA (Code Division Multiple Access):	Transmission technology utilized in the upcoming third generation UMTS mobile communications system, where each transmission is sent over multiple frequencies and a unique code is assigned to each data or voice transmission, allowing multiple users to share the same frequency spectrum.
Cell:	The geographic area covered by a single base station in a mobile communications network.
Channel:	A link between one point in a network to another point in that network, over which traffic can be conveyed.
Concentrator:	A communications device that subdivides a channel into a larger number of channels.
Data packet:	A data transmission technique whereby information is segmented and routed in discrete data envelopes called "packets," each with its own appended control information for routing, sequencing and error checking.
DCS 1800 (Digital Cellular System):	See "GSM."
Digital:	A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a sequence of these pulses to represent information as opposed to the continuously variable analog signal. Compared to analog networks, digital networks allow for greater capacity, lower interference, protection against eavesdropping and automatic error correction.
Dual band handsets:	Handsets that operate on two bands within the same systems, for example, both GSM 900 and GSM 1800.
Dual mode handsets:	Handsets that operate on two different systems, for example GSM and NMT.
EDI (Electronic Document Interchange):	A standardized format for the inter-company exchange of legally binding trade documents, such as invoices and shipping and purchase orders, over an electronic network.

E-mail:	A general term for electronic mail, the computer-based storage and forwarding of text-based messages in a packet switched digital format.
ETSI (European Telecommunications Standards Institute):	An organization made up of national representatives from member countries of the CEPT, the European post and telecommunications organization. ETSI representatives can include public and private telecommunications providers, research institutions and equipment manufacturers and users, subject to national determination.
Eutelsat (European Telecommunications Satellite Organization):	The European Telecommunications Satellite Organization headquartered in Paris.
Exchange:	See "Switch."
Extranet:	An intranet that is extended to include certain outside businesses, organizations or individuals. Extranets are typically established to enable the sharing of documents and information between an enterprise and its suppliers, vendors and/or trading partners.
Fiber optic cable:	A transmission medium constructed from extremely pure and consistent glass through which digital signals are transmitted as pulses of light. Fiber optic cables offer greater transmission capacity and lower signal distortion than traditional copper cables.
File transfer protocol:	A protocol used to transfer files from one system to another via the Internet.
Frame relay service:	A public data network service typically utilized for LAN-to-LAN communications using conventional telephone lines.
Frequency band:	A specified range of frequencies. Frequency refers to the number of times per second that a wave (e.g. electromagnetic wave) oscillates or swings back and forth in a complete cycle from its starting point to its end point.
Gbps (Gigabits per second):	A data transmission rate. One Gbps equals 2^{30} bps.
GPRS (General Packet Radio Service):	A GSM-based packet-switched data transmission technology standard, established by ETSI, in which base stations can be directly connected to the Internet, thus bypassing the switching systems typically used to connect mobile traffic to fixed networks. GPRS is expected to provide users of mobile communications services better data access capability.
GSM (Global System for Mobile Communications):	A digital mobile telecommunications system standardized by ETSI based on digital transmission and cellular network architecture with roaming in use throughout Europe, in Japan and in various other countries. GSM systems operate in the 900 MHz (GSM 900) and 1800 MHz (GSM 1800) frequency bands.

Home page:	An entry point for a collection of information presented through the World Wide Web.
Inmarsat (International Maritime Satellite):	A worldwide satellite telecommunications service that provides mobile telecommunications to ships at sea, aircraft in flight and vehicles on the road.
Intelligent network:	A network architecture concept focusing on the efficiency, automation and functionality of telecommunication networks. Intelligent networks are typically equipped with sophisticated computerized routing systems, allow for advanced features such as caller identification and voice mail and can be readily expanded and upgraded.
Intelsat (International Telecommunications Satellite):	A worldwide satellite telecommunications organization founded in 1964 and headquartered in Washington, D.C. which owns and runs the world's largest satellite- based communications network.
Interconnection:	Practice of allowing a competing telephone operator to connect its network to the network or network elements of certain other telephone operators to enable the termination of phone calls made by subscribers of the competing telephone operator's network to the subscribers of the other telephone operator's network.
Internet:	A collection of interconnected networks spanning the entire world, including university, corporate, government and research networks from around the globe. These networks all use the IP (Internet Protocol) communications protocol.
Internet telephony:	Voice traffic routed through the Internet via packet-switched technology. Because a packet-switched transmission does not require engagement of an end-to-end connection for the entire duration of the call, Internet voice telephony is typically less expensive than ordinary voice telephony.
Intranet:	An internal network of an enterprise or organization based on Internet technologies (Web sites, e-mail, etc.) and the Internet Protocol, and typically equipped with electronic security barriers that prevent external access to internal systems.
IP (Internet Protocol):	Protocol used in the Internet for communication among multiple networks.
ISDN (Integrated Services Digital Network):	A transmission system with the capacity to transmit two streams of information (voice, text, data or graphics) simultaneously on a single telephone line, based upon end-to-end digitalization and standardized out-of-band signaling.
ISP (Internet Service Provider):	A company providing access to Internet and other computer based information networks through their servers.
IT (Information Technology):	A general term covering telecommunications, computing and media technologies.
Kbps (kilobits per second):	A data transmission rate. One kbps equals 2^{10} bps.

LAN (Local Area Network):	A short distance data transmission network designed to interconnect personal computers, workstations, minicomputers, file servers and other computing devices within a localized environment, for the purpose of sharing files, programs and various devices such as printers and high-speed modems. LANs may have a decentralized communications management, or include dedicated computers or file servers that provide a centralized source of shared files and programs.
Leased line:	Voice or data circuits leased to connect two or more locations for the exclusive use of the subscriber.
LMDS (Local Multipoint Distribution Service):	A broadband radio system used as part of a fixed network that allows for the wireless transmission of multimedia data and information.
Local loop:	See "Access line."
Mbps (Megabits per second):	A data transmission rate. One Mbps equals 2^{20} bps.
MHz (Megahertz):	A measure of frequency. One MHz equals 1,000,000 cycles per second.
Mobile portal:	A commercial entry point for Internet designed for users of mobile terminals. Provides subscribers access to information and various services and allows them to personalize the immediate content and the structures of the site providing easier accessibility.
Modem:	A device for transmitting digital information over an analog telephone line.
Multimedia:	Computer technology which integrates (generally using digital technology) various media, such as text, video, voice, graphics, or animation, in a single tool.
Multiplexing:	A technique used to send multiple signals over the same channel simultaneously.
National roaming:	Provision of roaming services in the domestic market to subscribers of a competing operators' network. See "Roaming."
Network:	An arrangement of devices that can communicate with each other, e.g., a public switched telephone network over which residential and commercial telephones and modems communicate with each other.
NMT (Nordic Mobile Telephone):	An analog mobile communications system that originally operated only in the Nordic Countries but at present also operates in many other countries.
Node:	A network element that provides a point at which key telecommunications equipment or computers can access the network. In circuit networks, nodes are switching systems. In packet-switched networks they are often computers.
Number portability:	The ability of an end-user to change local exchange carriers or mobile carriers while retaining the same telephone number.

Packet-switched services:	Data transmission services based on parceling or breaking the data stream into packets and thereafter switching the individual packets. Transmitted information (whether voice or data) is segmented into cells of a standardized length, which are then transmitted independently of one another, allowing maximization of available capacity and usage of a single transmission path for multiple communications. The cells are then reassembled upon reaching their destination.
Paging:	A one-way message transmission service in which numbers or a short text are sent by radio to a portable receiver.
PBX (Private Branch Exchange):	A private computerized telephone switching system of a business or organization.
PCS (Personal Communications Service):	A second generation comprehensive wireless communications service that was first introduced in the United Kingdom in 1993. In Europe, the underlying digital technology for PCS is GSM. PCS systems in the United States operate under one of four principal digital signal transmission technologies, or standards, that have been proposed by various operators and vendors in PCS: one based on GSM (known as PCS 1900 in the United States), one that is GSM compatible, one based on CDMA and one based on TDMA. GSM and TDMA are both "time-division" based standards but are incompatible with each other and with CDMA. PCS 1900 is a slightly modified version of the European GSM 1800 standard that has been adapted to work at 1900 MHz frequency band.
PDH (Plesiochronous Digital Hierarchy):	A transmission standard predating SDH technology.
PKI (Public Key Infrastructure):	A cryptographic system that uses an asymmetrical, two-key encryption algorithm that encrypts data with one key that is made public and decrypts data with a different key that remains secret.
POCSAG (Post Office Code Standardization Advisory Group):	A digital technology used in paging systems. Sonera uses a modified version of POCSAG in its Kaukohaku paging system.
PSTN (Public Switched Telephone Network):	A domestic network for voice and data telephone services.
Roaming:	The mobile telecommunications feature that permits subscribers of one network to use their mobile handsets and telephone numbers when in a region covered by another operator's network.
Router:	An inter-network device that relays data packets to networks connected to the router based upon the destination address contained in those data packets being routed.
SDH (Synchronous Digital Hierarchy):	The European standard for high-speed digital transmission using fiber optic cables.

SIM (Subscriber Identity Module):	An electronic card inserted into a mobile handset that identifies the subscriber to the network. The SIM card contains the personal identification number of the subscriber and identifies the subscriber's network.
SMS (Short Message Service):	A mobile communications system which allows users to send alphanumeric messages from one mobile handset to another either directly or via a message center operator.
SMTP:	One of the worldwide protocols for electronic mail. SMTP is the standard used for transmitting electronic mail through the Internet.
Switch:	A device used to set up and route telephone calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.
TDMA (Time Division Multiple Access):	Transmission technology underlying the GSM mobile communications system, where transmissions for multiple users are sent over a selected frequency but at different time intervals.
Telnet:	An Internet service that enables a user to log into and access a computer on a different network.
TETRA (Terrestrial Trunked Radio System):	A digital radio system standardized by ETSI for use by public authorities.
Trunk network:	See "Backbone network."
UMTS (Universal Mobile Telecommunications System):	The third-generation broadband mobile communications standard. UMTS utilizes CDMA technology and has the speed and capacity to handle multimedia transmissions.
VDSL (Very high speed Digital Subscriber Line):	A technology for transferring data using existing copper wires and fiber optic cables to provide access to the Internet and other popular multimedia and data services at transfer speeds of up to 52 Mbps.
WAN (Wide Area Network):	A data communications network designed to interconnect personal computers, workstations, microcomputers, file servers and other communications and computing devices that covers an area larger than a single building or campus. See "LAN."
WAP (Wireless Application Protocol):	A global open standard protocol for service applications provided over wireless networks. It allows delivery of basic Internet-based services through use of directories to mobile phones and other wireless devices.
WDM (Wavelength Division Multiplexing):	A method of multiplying the capacity of fiber optic transmission lines by combining wavelengths at the sending end and separating them at the receiving end.

World Wide Web:	A collection of computer systems supporting a communications protocol that permits multimedia presentation of information over the Internet.
X.25:	A worldwide protocol for communications services using packet-switched networks.
X.400:	One of the worldwide protocols for electronic mailing systems. X.400 is used only in the international and domestic X.400 networks of which the Internet is not a part.

PART I

Item 1. Description of Business

BACKGROUND AND SUMMARY

General

We are the leading provider of mobile telecommunications services in Finland, one of the most sophisticated telecommunications markets in the world, and also have significant strategic investments in mobile operators in eight other countries. We are a forerunner in the development and commercialization of data and media services in Finland as well as one of the leading providers of domestic long distance and international voice services in Finland. We have also committed substantial resources to the development of new services and applications for mobile communications users. In addition, we provide local voice services primarily in the more sparsely populated areas of eastern and northern Finland. We also have significant investments in fixed-line telecommunications operators in the Baltic States.

In 1999, our revenue grew by 14 percent to €1,849 million from €1,623 million in 1998. The biggest contribution to revenue growth came from our Mobile Communications business area which accounted for 52 percent of our total revenues in 1999. Our consolidated operating profit for 1999 was €387 million, an increase of 34 percent from €289 million in 1998. At December 31, 1999 we had total assets of €3,609 million.

We have played a significant role in the development of Finland into one of the most sophisticated telecommunications markets in the world, characterized by high penetration of telecommunication access, early liberalization of telecommunication services and technological innovation. Finland's mobile, fixed-line and Internet connection penetration rates are among the highest in the world. As of December 31, 1999, Finland's mobile penetration rate was 67 percent. Finland's fixed-line penetration rate was 56 percent and Finland's Internet host penetration rate was approximately 12 percent. By comparison, the average mobile, fixed-line and Internet host penetration rates within the European Union were approximately 46 percent (as of May 2000), 55 percent and 2.4 percent, respectively.

Technological innovation, liberalization and early competition are also largely responsible for Finland having mobile communications, data communications, local, domestic long distance and international voice tariffs that are among the lowest in the European Union.

Competitive Strengths

We are the Leader in the Finnish Mobile Market. We are the largest mobile communications provider in Finland. As of May 31, 2000, we had over two million subscribers to our GSM network representing a 60 percent share of the Finnish GSM subscriber base. We have maintained our market leadership by being a forerunner in the development of innovative mobile telecommunications products and services, including a wide variety of SMS (text messages) applications. In 1999, revenues from Mobile Communications accounted for approximately 52 percent of our total revenues.

We have Experienced Growth from Targeted International Investments. We have made a number of significant equity investments in telecommunications providers outside of Finland. Our principal investments have been in providers of mobile communications services in rapidly growing markets including Turkey, the Baltic States and Hungary. In these markets we have been able to capitalize on our expertise in building and operating technologically advanced GSM networks, as well as our strength in sales, marketing and customer service. We also hold a 7.9 percent interest, on a fully diluted basis, in VoiceStream Wireless Corporation, the leading provider of GSM-based PCS services in the United States. We recorded equity income from associated companies of €110 million in 1999 as compared to €59 million in 1998 and €19 million in 1997.

We are Developing New Innovative Mobile Transaction Security and Mobile Internet Applications. Management believes that we are at the forefront globally in developing mobile transaction security and mobile Internet applications. The mobile transaction security applications that we are developing through our Sonera SmartTrust Ltd. subsidiary are designed for carrying out secure transactions, such as banking, brokering and e-commerce, over mobile handsets. For example, in August 1999, we acquired an interest in 724 Solutions Inc., a developer of wireless applications, to develop secure mobile banking applications. In April 2000, we acquired Across Wireless AB, a leading provider of wireless Internet-based service platforms that allow wireless operators to deliver high-quality Internet applications to their subscribers. We also offer the most widely used mobile portal service in Finland, which we call Zed. Our Zed service aggregates many of the content and transaction-based services of an Internet portal, such as news, financial transactions, travel services and shopping, and combines them with other content services for mobile subscribers, such as directory services, ringing tone and icon services, and mobile bill account query services. We have entered into a number of partnerships with mobile operators and service providers worldwide to provide our SmartTrust and Zed services in various markets throughout the world.

We are an Innovative Provider of Data and Media Services. We offer our customers a full range of technologically advanced data and media communications services on a state-of-the-art domestic fixed network platform. We provide basic data and LAN interconnection and management services primarily to large business customers and management believes that we are a leading provider for these services in Finland. We have been a forerunner in the development and marketing of advanced data transmission services having introduced a number of data transmission services to the European telecommunications markets, including the first commercial LAN interconnection service, the first frame relay service and the first ATM service.

Management believes that we are also the leading Internet service provider in Finland, with an estimated share of approximately 40 percent of the market at the end of 1999. We also own the most visited Internet portal site in Finland, "Sonera Plaza" which in December 1999 had an average of 336,000 different visitors a week and in March 2000 an average of over 400,000 different visitors a week.

We have a Strong Position in Domestic Fixed Network Services. We are also a leading provider of fixed network telecommunications services in Finland. We operate both a fixed-line regional and trunk network and a fixed-line local network. Management believes that our network is one of the most modern in the world, featuring: fully digital local, trunk and international switching; fully digital transmission; regional and trunk transmission based mostly on fiber optic cable infrastructure; and a new switching platform capable of providing wide access to ADSL services in Finland.

We provide local voice services principally in the more sparsely populated areas of eastern and northern Finland where we had a 98 percent market share in 1999. We also offer competitive local services primarily to business customers in Helsinki and other major cities in Finland. As of December 31, 1999, we had approximately 28 percent of the total number of access lines in Finland. During 1999, we had approximately 38 percent of the Finnish market for domestic long distance voice services as well as 53 percent of the Finnish market for international voice services calculated on the basis of call minutes accrued.

HISTORY

Overview

Sonera originated as a state organization, the Telegraph Office of Finland, which was created shortly after the founding of the independent state of Finland in 1917 and was responsible for state telegraph operations. The Telegraph Office initially operated a fixed long distance network and a number of local fixed networks and was merged with another state organization, Post of Finland, in 1928 to form Posts and Telegraphs of Finland, subsequently renamed Posts and Telecommunications of Finland. As an administrative entity, Posts and Telegraphs of Finland had a dual role as a telecommunications operator and as a regulator of the telecommunications market. In 1935, Posts and Telegraphs of Finland became the only Finnish long distance and international call operator. The monopoly in long distance and international telephone services continued until 1992, at which time the Finnish Council of State began granting licenses to competing telephone operators. Practically all forms of national telecommunications services in Finland were opened to competition in 1994 when the market for the provision of domestic long distance and international telecommunications services was fully liberalized.

As a first step towards making the structure of Posts and Telecommunications of Finland more market-orientated, its regulatory functions were transferred to the Ministry of Transport and Communications in 1987. On January 1, 1990, Posts and Telecommunications of Finland became an unincorporated state-owned enterprise and its operations were separated from the state budget. On January 1, 1994, Posts and Telecommunications of Finland was converted into a limited liability company, PT Finland, and its business operations and assets were divided into two principal business areas; postal services and telecommunications. PT Finland's postal service operations and telecommunications operations were then transferred into newly-created corporations, Finland Post Ltd and Telecom Finland, while certain non-core operations were transferred to other subsidiaries within PT Finland. After incorporation, the group started operating entirely on commercial terms.

In December 1997, the Finnish Parliament approved a gradual and partial privatization of Telecom Finland. As part of the privatization program, PT Finland's postal services and telecommunications operations were separated from each other by dividing PT Finland into separate telecommunications and postal services groups and placing Telecom Finland and some other subsidiary and associated companies of PT Finland under the telecommunications group. The demerger took effect on July 1, 1998.

The Demerger

The demerger was effected principally to allow Sonera access to the international capital markets and thus to implement a capital structure better suited to its needs and prospects. The demerger was also prompted by the expectation that, as a separate company, Sonera would be better able to focus on its distinctive strategic objectives, operational needs and philosophies, capital requirements, personnel needs and resources, product development and marketing policies.

The demerger took effect on July 1, 1998. Upon the effectiveness of the demerger, the shares of Telecom Finland, Tieto Corporation (currently TietoEnator), and PT Credit Ltd (currently Sonera Credit) and other assets and liabilities were transferred by operation of law to Telecom Finland Group plc, and the shares of Finland Post Ltd and other assets and liabilities were transferred to Finland Post Group Ltd. After the completion of the demerger, PT Finland ceased to exist, and the Finnish State, as the former sole shareholder of PT Finland, received all of the outstanding shares of Telecom Finland Group and of Finland Post Group.

Share Split and Name Change

After the demerger, in a series of meetings of the shareholders of Telecom Finland Group plc, the articles of association of Telecom Finland Group plc were amended to provide for an increase in the number of shares through two share splits in which the nominal value of the shares was changed from FIM 10 to FIM 2.50 as well as a change to the name Sonera Group plc. In addition, the share capital of Telecom Finland Group plc was resolved to be changed into euro denomination and the nominal value of the ordinary shares to be dropped on the basis of a legislative amendment promulgated in connection with the introduction of the euro. These changes took effect on January 25, 1999. The name change was motivated primarily by the anticipated change in Sonera's status from a state-owned company to a publicly owned corporation in connection with Sonera's initial public offering. In particular, management believes that Sonera's previous name gave the impression of the company as a Finnish telecommunications monopoly, which is neither representative of Sonera's position in the Finnish telecommunications market nor reflective of its ongoing business strategy. In connection with the demerger, Sonera's principal operating subsidiary, Telecom Finland, assumed the name Sonera Corporation on April 15, 1998, which was subsequently changed to Sonera Ltd in July 1998.

Merger of Sonera Group plc and Sonera Ltd

In February 1999, the board of directors of each of Sonera Group plc (presently, Sonera Corporation) and Sonera Ltd, a wholly-owned subsidiary of Sonera Group plc, resolved to merge Sonera Ltd into Sonera Group plc, the stock exchange listed parent company of the consolidated group. The name of the combined entity was decided to be changed to Sonera Corporation upon completion of the merger. The merger was completed on September 30, 1999 while the name change took effect on October 1, 1999.

Initial Public Offering

Prior to November 1998, all of the shares of Sonera were owned by the Finnish State. In November 1998, the Finnish State sold 158,000,000 shares at the price of FIM 45 (€7.57) per share in an offering in reliance on Rule 144A and Regulation S under the Securities Act and in a retail offering in Finland. At the same time, Sonera issued 2,000,000 shares at the price of FIM 40.5 (€6.81) per share in an employee offering. In connection with the November 1998 offering, Sonera's shares were listed on the Helsinki Securities and Derivative Exchange, Clearing House Ltd (the "Helsinki Exchanges").

Follow-on Offerings of Sonera Shares

In October 1999, the Finnish State sold an additional 143,950,000 shares at the price of €23.75 per share, the sale of which reduced the Finnish State's holding in Sonera to 57.9 percent. Approximately 50,000 investors participated in the retail offering in Finland, and more than 44,000 of them purchased shares with bonus rights. In November 2000, investors who participated in the bonus offering will, for no additional cost, receive from the Finnish State one additional share for each ten shares which they purchased and have owned without interruption since the date of the follow-on offering in November 1999. Investors who participated in the employee offering will receive three additional shares for every 20 shares they purchased and have owned without interruption since the date of the follow-on offering in November 1999. In March 2000, the Finnish State sold an additional 22 million shares at the price of €92 per share to institutional investors on a private placement basis. The Finnish State currently holds 53.3 percent of Sonera's outstanding shares. In June 2000, the Finnish Parliament authorized the Finnish Government to lower the Finnish State's holding to zero. See "Item 4. Control of Registrant."

In connection with the 1999 offering, Sonera applied for quotation of its shares on the Nasdaq National Market in the United States. Trading in the Sonera shares on the Nasdaq National Market commenced on October 13, 1999. See "Item 5. Nature of Trading Market."

RECENT DEVELOPMENTS

Results of operations for the three months ended March 31, 2000

In the three month period ended March 31, 2000, Sonera's revenues were €487 million, an increase of 14 percent from revenues of €426 million for the comparable period in 1999. The growth in revenues was mainly attributable to Mobile Communications which contributed 54 percent of Sonera's revenues during the period. Compared with the three month period ended December 31, 1999, revenues were down five percent in the first three months of 2000 due primarily to seasonal variations and high equipment and systems sales at the end of 1999.

The following table sets forth Sonera's revenues by business area for the periods indicated:

	Three months ended March 31,			Year ended December 31,
	1999	2000	2000/1999 (% change)	1999
	(in € millions, except percentages)			
Mobile Communications	214	264	23	966
Media Communications and New Services	34	43	26	140
Fixed Network Voice and Data Services	143	148	3	570
Equipment Sales and Other Operations	35	32	(9)	173
Total	426	487	14	1,849

The revenues of Sonera's associated companies (principally those companies in which Sonera holds between 20 to 50 percent of the share capital and the voting rights) are not included in Sonera's revenues. The estimated aggregate revenues generated by associated companies grew by 67 percent in the three months ended March 31, 2000 as compared with the corresponding period in 1999 and amounted to €1,242 million.

For the three months ended March 31, 2000, operating profit before depreciation and amortization and write-downs on fixed assets or EBITDA (as adjusted for write-downs on fixed assets) was €162 million and the EBITDA margin was 33 percent as compared with EBITDA (as adjusted for write-downs on fixed assets) of €157 million and an EBITDA margin of 37 percent for the corresponding period in 1999. The comparable EBITDA margin excluding non-recurring items was 32 percent for the first three months of 2000 as compared to 36 percent for the first three months of 1999. Total operating expenses grew by 21 percent in the three months ended March 31, 2000 as compared to the corresponding period of 1999, outpacing revenues. The most significant contributor to the increase in operating expenses in the first quarter of 2000 was the cost of developing and marketing new services. Expenditures on purchased services and goods rose by 18 percent, personnel expenses by 16 percent and other operating expenses by 33 percent as compared with the three months ended March 31, 1999. The increase in personnel expenses was due in part to the social security contribution related to the 1999 equity incentive program for Sonera's employees which provides employees the opportunity to subscribe for bond loans with warrants attached. Sonera accrues the estimated amount of the social security contribution over the period preceding the subscription period. See "Item 12. Options to Purchase Securities from Registrant or Subsidiaries."

The following table sets forth Sonera's EBITDA (as adjusted for write-downs on fixed assets) by business area for the periods indicated:

	Three months ended March 31,		Year ended December 31,
	1999	2000	1999
	(in € millions)		
Mobile Communications	103	130	468
Media Communications and New Services	1	(31)	(47)
Fixed Network Voice and Data Services	43	59	200
Equipment Sales and Other Operations	10	4	47
Total	157	162	668

Operating profit amounted to €90 million, or 18 percent of revenues, for the three months ended March 31, 2000 compared to €90 million, or 21 percent of revenues, for the corresponding period in 1999. Depreciation and amortization for the three months ended March 31, 2000 totaled €72 million compared to €67 million for the three months ended March 31, 1999.

The following table sets forth Sonera's operating profit by business area for the periods indicated:

	Three months ended March 31,		Year ended December 31,
	1999	2000	1999
		(in € millions)	
Mobile Communications	73	100	345
Media Communications and New Services	(1)	(36)	(60)
Fixed Network Voice and Data Services	17	24	98
Equipment Sales and Other Operations	1	2	4
Total	90	90	387

Equity income in associated companies was €20 million for the three month period ended March 31, 2000 as compared to €18 million for the corresponding period in 1999. Sonera adopted a new accounting practice as of the beginning of 2000 in such a manner that Sonera's results for each quarter, beginning with the three months ended March 31, 2000, include Sonera's share of Turkcell's final results for the preceding quarter. Accordingly, Sonera's financial results for the first quarter of 2000 include Turkcell's results for the last quarter of 1999.

Sonera's net financial income was €3 million for the three month period ended March 31, 2000 as compared with net financial expenses of €1 million for the corresponding period in 1999. Both net interest expense and dividend income grew compared with the first three months of 1999.

In the three month period ended March 31, 2000, profit before extraordinary items and taxes was €113 million, an increase of approximately six percent as compared to €107 million for the comparable period in 1999. Income taxes amounted to €31 million in the first three months of 2000 as compared to €29 million in the corresponding period in 1999 and Sonera's effective tax rate was 27 percent for both periods.

The cumulative effect of the change in the accounting treatment of Turkcell's results on Sonera's retained earnings has been accounted for as an extraordinary expense. Before the cumulative effect of the change in the accounting practice, earnings per share were €0.12 for the three month period ended March 31, 2000, an increase from €0.11 for the comparable period in 1999, whereas, when adjusted for the cumulative effect of the change in the accounting practice, earnings per share for the three month period ended March 31, 2000 amounted to €0.06.

For the three months ended March 31, 2000, return on capital employed was 15 percent, and return on shareholders' equity was 18 percent compared with 20 percent and 21 percent, respectively, for the three months ended March 31, 1999.

Business Areas

Mobile Communications. Revenues from Mobile Communications totaled €264 million for the three month period ended March 31, 2000, an increase of 23 percent as compared to the corresponding period in 1999. Revenues for the first three months of 1999 were reduced by the free air-time offers that were made to attract new subscriptions at the end of 1998 and that were in effect at the beginning of 1999. Compared with the last three months of 1999, revenues grew by over two percent in the three months ended March 31, 2000. EBITDA (as adjusted for write-downs on fixed assets) rose to €130 million in the three month period ended March 31, 2000, a 26 percent increase from €103 million in the corresponding period in 1999. Operating profit was €100 million in the three months ended March 31, 2000, an increase of 37 percent from €73 million in the corresponding period in 1999.

In the three month period ended March 31, 2000, the average monthly use of Sonera's mobile subscribers grew to 131 minutes, a ten percent increase as compared to 119 minutes in the first three months of 1999, and average monthly revenues per subscriber rose to €38.8 compared with €36.2 for the corresponding period in 1999. Value-added services, including SMS text messages and content services, accounted for approximately nine percent of Mobile Communications' overall revenues for the three month period ended March 31, 2000 as compared to approximately seven percent for the comparable period in 1999. In the three months ended March 31, 2000, each Sonera GSM subscriber transmitted 23 text messages per month on average as compared to 18 per month for the corresponding period in 1999.

Approximately 30 percent of Sonera GSM subscribers used value-added content services during the three months ended March 31, 2000, as compared to approximately 23 percent in 1999, and the number of registered Zed users totaled approximately 170,000 at the end of March 2000, an increase of 34 percent from the approximately 127,000 users at December 31, 1999.

Sonera had no major subscription sales campaigns during the first quarter of 2000. Nevertheless, the number of Sonera GSM subscriptions grew by two percent, totalling 1,985,810 at the end of the first quarter of 2000 as compared to 1,938,644 at December 31, 1999. The proportion of Duo dual band subscriptions within sales of GSM subscriptions grew and represented nearly 90 percent of subscriptions sold during the first quarter.

The annualized churn rate for GSM subscriptions in the three month period ended March 31, 2000 was 13 percent as compared to 17 percent for the corresponding period in 1999. Sonera continuously strives to maintain customer loyalty by offering advanced value-added services and superior customer care. The exceptionally high churn rate during the first quarter of 1999, used as a comparative figure, was the result of the record-high number of subscription sales during the Christmas season of 1998.

At March 31, 2000, Sonera had 174,320 NMT subscriptions and a total of 2,160,130 mobile subscriptions, an increase from 2,136,241 at December 31, 1999.

In January 2000, the Finnish Government granted the third national GSM license to Suomen 2G Oy, which according to the terms and conditions of its license must begin commercial operations by September 1, 2000. Suomen 2G has announced that it will build a nationwide network that will be supported by the Finnet Group's existing GSM 1800 city networks. See "Item 9. Management's Discussion and Analysis of Financial Condition and Result of Operations—Overview—Changes in the Telecommunications Market."

In January 2000, the Finnish Competition Authority ("FCA") issued a decision in which it held that the pricing of national roaming applied by Sonera does not require any action by the FCA. In the decision, the FCA expressed the view that a telecommunications operator has several different ways of gaining access to a national telecommunications network by, for example, entering into a service provider agreement. The FCA's decision was issued pursuant to a complaint filed by Telia Finland Oy with it in September 1998 requesting the FCA to examine whether Sonera and Radiolinja restrict competition in the Finnish mobile network markets. Telia Finland has filed an appeal of the decision with the Competition Council. Telia Mobile Finland currently has a service provider agreement with Radiolinja Oy.

In March 2000, Sonera announced that it had signed a service provider agreement with Saunalahti Oyj. Saunalahti buys mobile network capacity from Sonera which enables Saunalahti to sell its wireless services to its customers. Sonera first entered into an agreement of this type in January 1999 with RSL COM Finland Oy.

Sonera has a third generation mobile communications network license in Finland. In March 2000, Xfera Moviles S.A., in which Sonera has a minority holding of 15 percent, was granted a third generation license in Spain. Sonera will invest a total of €350 million in Xfera during the years 2000 to 2004.

In March 2000, Sonera also participated in the third generation license auction in the United Kingdom through its subsidiary Spectrum Company in which Sonera holds a 67.1 percent interest. On

April 4, Spectrum withdrew from the bidding for a U.K. license when the price offered by competitors exceeded its outstanding bid of GBP 2.1 billion.

Media Communications and New Services. Revenues from Media Communications and New Services were up 26 percent to €43 million in the three month period ended March 31, 2000 as compared to €34 million for the corresponding period in 1999, primarily due to increased demand for Internet services. The use of various electronic directory services also contributed to the revenue growth. For the three month period ended March 31, 2000, Media Communications and New Services recorded EBITDA (as adjusted for write-downs on fixed assets) of negative €31 million and an operating loss of €36 million as compared with EBITDA (as adjusted for write-downs on fixed assets) of €1 million and an operating loss of €1 million for the corresponding period in 1999. Profitability was weakened by major outlays on product development, marketing and the start-up of new businesses.

In March 2000, the Finnish pages of Sonera Plaza, Sonera's Internet network media service, were visited by an average of over 400,000 different browsers per week and the corresponding number of visits on the Dutch pages was approximately 60,000. In March 2000, Sonera announced that it will incorporate its network-independent Sonera Plaza business and review the possibility of listing the new company on a stock exchange in 2000 or 2001. Sonera also intends to increase the provision of financial services available on Sonera Plaza. In this regard, Sonera expects to enter into negotiations with Sampo Varma Group and Leonia Bank on cooperation related to financial services.

At March 31, 2000, Sonera's Internet subscribers in Finland numbered approximately 227,000, an increase of five percent from approximately 216,000 at the end of 1999.

On February 1, 2000, Sonera incorporated its wireless portal business to form a company named Sonera Zed Ltd. In February, Sonera Zed announced preliminary partnerships with Hutchison Telecom of Germany, KPN Mobile and Libertel of the Netherlands, Smart Communications of the Philippines, and Turkcell and Powertel Inc. (Sonera holds an equity interest in the latter two companies), to offer Zed services in the markets of these network operator companies.

In January 2000, Sonera incorporated its wireless certification business to form Sonera SmartTrust Ltd. and, together with eQ Online Corporation, launched eQ Free, a brokerage service which is intended mainly for WAP phones and which is based on Sonera SmartTrust technology.

On April 18, 2000, Sonera acquired Across Holding AB of Sweden. Sonera paid for the acquisition by issuing 16,732,055 new shares. Across Wireless AB, a subsidiary of Across Holding, offers wireless Internet based service platforms which make it possible, for example, to manage applications and terminals over a mobile network. In 1999, Across Wireless had revenues of €9 million, and an operating loss of €7 million. Management intends to transfer Sonera's equity interest of Across Wireless to Sonera SmartTrust.

Sonera has stated its intention to list Sonera Zed and Sonera SmartTrust on a stock exchange in 2000 or 2001.

On April 19, 2000 the FCA announced that it had decided to refer Sonera's acquisition of a 34 percent holding in Digita Oy, a subsidiary of the Finnish Broadcasting Company, to the Finnish Competition Council. According to the FCA, the transaction would give Digita a dominant market position in broadcasting services and strengthen Sonera's position in local markets. The FCA has proposed that the Competition Council block the transaction. The Competition Council must issue a decision in the matter within three months after the matter has come up before it. Management is not currently in a position to assess how the Competition Council will decide on the matter.

In May 2000, Sonera's Board of Directors resolved to transfer Sonera's applications service provider (ASP) business to Sonera Juxto Ltd, a newly established wholly-owned subsidiary of Sonera effective June 1, 2000. Sonera is evaluating whether to list Sonera Juxto on a stock exchange.

Fixed Network Voice and Data Services. Revenues from Fixed Network Voice and Data Services were €148 million for the three month period ended March 31, 2000, a three percent increase as compared to €143 million for the comparable period in 1999. Fixed Network Voice and Data Services recorded EBITDA (as adjusted for write-downs on fixed assets) of €59 million, and operating profit of €24 million for the three months ended March 31, 2000 as compared to €43 million and €17 million, respectively, for the three months ended March 31, 1999.

Revenues from domestic voice services for the three month period ended March 31, 2000 remained at the previous year's level, amounting to €65 million. The effect of the decrease in the number of long-distance call minutes and the lower local network charge was offset by the increase of the long-distance call charge in May 1999 and the impact of the increase of the local call charge in July 1999.

The fall in the price level of international calls and the reduced market share lowered revenues from international voice services by nine percent from €32 million for the three month period ended March 31, 1999 to €29 million for the comparable period in 2000.

Total revenues from data services and leased lines grew by 17 percent to €54 million as compared to €46 million for the three months ended March 31, 1999. Management expects the use of basic data transfer services to continue to slow in the future and that new and more advanced data services are not expected to spur revenue growth over the next few years. In February 2000, Sonera received a license for the commercial exploitation of a fiber optic cable between St. Petersburg and Moscow.

On January 1, 2000, Sonera incorporated its access network business to form Sonera Entrum Ltd and its backbone network business to form Sonera Carrier Networks Ltd.

Equipment Sales and Other Operations. Revenues from Equipment Sales and Other Operations were down by nine percent to €32 million for the three months ended March 31, 2000 as compared to €35 million for the corresponding period in 1999. Equipment Sales and Other Operations recorded EBITDA (as adjusted for write-downs on fixed assets) of €4 million and operating profit of €2 million for the three months ended March 31, 2000 as compared to €10 million and €1 million, respectively, for the corresponding period in 1999.

During the first quarter of 2000, revenues from equipment sales were €25 million, the same level as during the comparable period in 1999. The brisk sales at the end of 1999, when companies renewed their hardware and systems before the turn of the millennium, also contributed to the slow-down in growth reflected in the results of the first quarter of 2000. External revenues generated by construction and maintenance and other operations declined to €7 million during the three months ended March 31, 2000 compared with €10 million in the corresponding period in 1999.

Associated companies and other significant holdings. During the three month period ended March 31, 2000, estimated total revenues generated by Sonera's associated companies in the areas of mobile communications and fixed network services rose by 43 percent to €850 million as compared with €595 million in the corresponding period in 1999. The figures do not include associated companies providing services other than mobile communications and fixed network services, such as TietoEnator Corporation.

At the end of the first quarter, the aggregate number of customers of associated companies with mobile communications operations rose to about 8.3 million from 7.3 million at the end of 1999 and from 4.3 million at March 31, 1999. The aggregate number of customers of companies in which Sonera has a minority holding but which are not associated companies totaled 1.0 million at the end of the review period an increase from 0.2 million at March 31, 1999. The aggregate number of customers of associated companies providing fixed network services was approximately 2.4 million at the end of the first quarter of 2000, unchanged from the figure at March 31, 1999.

Sonera changed its accounting treatment of Turkcell as of the beginning of 2000 in such a manner that Sonera's results for each quarter includes the last available and final quarterly information on Turkcell. Previously, Sonera's consolidated income statement included Sonera's preliminary estimated share of Turkcell's results in the corresponding period. As a result, Sonera's results for the first quarter of 2000 include Turkcell's results for the last quarter of 1999.

The change in accounting practice is due to the planned Turkcell initial public offering and stock exchange listing, after which Sonera will have access solely to information published by Turkcell simultaneously to all of its shareholders. The cumulative effect of the accounting change on Sonera's retained earnings has been included in Sonera's financial statements as an extraordinary expense.

Based on the completed Turkcell financial statements of 1999, Sonera's share of Turkcell's profit in 1999 for the first, second, third and fourth quarters was €27 million, €35 million, €47 million and €33 million, respectively. The €142 million result for the full year is €12 million less than indicated in Sonera's financial statements of 1999 in which Sonera's share of Turkcell's preliminary estimated profit was reported at €154 million.

The following table sets forth Sonera's equity income in associated companies for the periods indicated:

	Three months ended March 31,		Year ended December 31,
	1999	2000	1999
		(in € millions)	
Turkcell lletisim Hizmetleri A.S.[(1)]	28	33	154
Aerial Communications, Inc.[(2)]	(8)	(12)	(34)
Other mobile operators	6	9	36
Fixed network operators	6	12	27
Service providers	(1)	(1)	(11)
Other associated companies	6	2	16
Amortization of goodwill	(19)	(23)	(78)
Total	18	20	110

(1) The result for the three month period ended March 31, 2000 is based on the final result for the three month period ended December 31, 1999. The comparative figures of 1999 have not been restated.

(2) Aerial merged with VoiceStream effective May 4, 2000. As a result of the merger, Sonera holds a 7.9 percent interest, on a fully diluted basis, in VoiceStream.

In the first three months of 2000, the number of Turkcell's subscriptions grew by approximately 700,000 to approximately 6.2 million at March 31, 2000. Despite the growth in the number of subscriptions, Turkcell's net profit in the first quarter increased only slightly compared to the corresponding quarter of 1999 primarily as a result of the tax on mobile telephones implemented by the Turkish government in effect from December 1999 through the end of 2000. The amount of the tax is 25 percent of a subscriber's total monthly telephone bill net of VAT. In light of the tax, Turkcell's management did not raise tariffs in the first quarter of 2000. Turkcell's final financial results for the first quarter of 2000 will be included in Sonera's financial results for the second quarter of 2000.

In 2000, Turkcell and its principal shareholders, Sonera and the Cukurova Group, established a joint holding company named Fintur Holding B.V. to which Turkcell transferred most of its interest in GSM operators outside Turkey as well as its digital television distribution company. Sonera acquired a 35 percent interest in Fintur by investing U.S.$127 million in the company. In 1999, Sonera and the Cukurova Group agreed to transfer a 51 percent interest in Turkcell shares held by Sonera and Cukurova to the ownership of a joint Turkish holding company, Turkcell Holdings A.S., of which Sonera owns 47 percent. In addition, Sonera continues to own a 17 percent interest in Turkcell shares directly. The restructuring did not require any additional investments by Sonera.

In June 2000, Sonera's Board of Directors authorized the sale of a portion of the shares of Turkcell held by Sonera Holding B.V. in connection with an initial public offering of Turkcell shares. The offering commenced in the second half of June 2000 and is expected to be completed in July 2000. See "—International and Other Significant Investments—Mobile Telecommunications Operators—Turkcell."

During the three months ended March 31, 2000, the number of Aerial's subscriptions increased by approximately 51,000. Aerial's loss before taxes decreased compared with the corresponding period in 1999. Sonera's share of the previous year's loss was affected by the tax compensation Aerial received from its parent company in March 1999. Without the impact of the compensation, Sonera's share of Aerial's loss in the first quarter of 1999 would have been €13 million.

On March 30, 2000, the United States Federal Communications Commission ("FCC") granted final permission for the merger of Aerial and VoiceStream. The merger was completed on May 4, 2000. As a result of the merger and the U.S.$500 million investment Sonera made in VoiceStream in February 2000, Sonera owns approximately 7.9 percent of the share capital of VoiceStream, on a fully diluted basis. VoiceStream will not be included as an associated company in Sonera's consolidated financial statements on a going-forward basis.

Sonera's consolidated earnings for the second quarter in the year 2000 will include a gain booked on account of the Aerial/Voice Stream merger. The amount of the gain is determined by the difference between VoiceStream's market value at the time of the merger and the carrying value of Aerial on Sonera's consolidated balance sheet. On March 31, 2000, the carrying value of Aerial on Sonera's consolidated balance sheet was €308 million. Sonera has received an advance ruling from the Central Tax Board of Finland, according to which the Aerial/VoiceStream merger is considered a transaction for which Sonera is liable to pay tax in Finland. The amount of the tax is determined by the difference between Aerial's market value at the time of the merger and the original acquisition cost, resulting in an estimated total tax payment of approximately €216 million. Sonera has appealed the ruling to the Supreme Administrative Court of Finland. Sonera's position is that the merger should be treated as a normal merger under Finnish tax legislation which should not trigger a taxable gain or loss. Management is not currently in a position to predict with any certainty the timing or likely outcome of its appeal to the Supreme Administrative Court. See "—International and Other Significant Investments—Mobile Telecommunications Operators—Aerial."

Financial Position

For the three month period ended March 31, 2000, cash flow provided by Sonera's operating activities amounted to €74 million as compared to €91 million for the corresponding period in 1999. The decrease in cash flow reflects Sonera's increased tax expense in the first quarter of 2000 as compared with the corresponding period in 1999, and the growth in working capital.

The amount of net interest-bearing debt increased during the first quarter 2000, primarily as a result of new share investments, and was €1,688 million at March 31, 2000 an increase from €1,181 million at December 31, 1999. At the end of the first quarter, the equity-to-assets ratio was 41 percent and the gearing ratio 94 percent as compared to 51 percent and 65 percent, respectively, at December 31, 1999. In addition to the growth in the amount of debt, the decline in the equity-to-assets ratio was attributable to dividends totaling €87 million, which were recorded as a liability following the resolution to pay dividends passed by the Annual General Meeting on March 22, 2000. Dividends were paid to Sonera's shareholders on April 3, 2000.

For the three month period ended March 31, 2000, net financial income totaled €3 million compared with net financial expenses of €1 million for the corresponding period in 1999. The figure for the first three months of 2000 includes €14 million of dividend income from investments in venture capital funds as compared with €7 million for the corresponding period in 1999. Net interest expense amounted to €13 million for the three month period ended March 31, 2000 as compared with €9 million for the corresponding period in 1999.

Financial Income and Expenses

	Three months ended March 31,		Year ended December 31,
	1999	2000	1999
		(in € millions)	
Dividend income	7	14	21
Interest income	2	4	14
Interest expense	(11)	(17)	(40)
Other financial income and expenses	1	1	5
Exchange rate gains and losses	—	1	—
Total	(1)	3	—

At March 31, 2000, Sonera's cash and short-term investments totaled €305 million, and the available long-term committed credit facilities amounted to €1,205 million as compared to €115 million and €885 million, respectively, at December 31, 1999.

In March 2000, Sonera issued a bond with a nominal value of €1 billion. The bond replaced some of Sonera's existing credit arrangements. The bond will mature in five years and is due in March 2005. The bond is part of the Euro Medium Term Note (EMTN) program, established in March 1999. In February 2000, the maximum borrowing amount under the EMTN program was increased from €1 billion to €2 billion.

Investments and Divestments

During the three month period ended March 31, 2000, Sonera's capital expenditures on fixed assets amounted to €64 million as compared to €49 million during the corresponding period in 1999. Investments in shares totaled €519 million as compared to €13 million for the three months ended March 31, 1999.

In February 2000, upon the completion of the VoiceStream and Omnipoint Corporation merger, Sonera completed the U.S.$500 million investment in VoiceStream as previously agreed in September 1999. Under the agreement, Sonera acquired a total of 8,771,930 VoiceStream shares at the price of U.S.$57 per share. As a result of the merger of Aerial and VoiceStream in May 2000, Sonera's shareholding in VoiceStream is approximately 7.9 percent, on a fully diluted basis.

In May 2000, Sonera agreed to invest an additional U.S.$125 million in U.S. mobile communications operator, Powertel, which will increase its equity interest in Powertel from 9.1 percent to 11.8 percent, on a fully diluted basis, upon completion of the transaction. In addition, Sonera will invest U.S.$75 million in Eliska Wireless Ventures I, Inc. giving Sonera a 30.1 percent interest in the U.S. investment company. In May 2000, Eliska Wireless Ventures entered into an agreement to purchase the assets and PCS operations of DiGiPH PCS, Inc. an operator of a PCS network in the Southern United States.

Sonera also made additional investments in venture capital funds totalling €3 million and certain smaller investments in shares during the three month period ended March 31, 2000.

In January 2000, Sonera sold the shares it held in other publicly traded Finnish telephone companies. The net gain from the transaction amounted to almost €4 million.

Personnel

For the three months ended March 31, 2000, Sonera's average payroll was 9,399, an increase of eight percent as compared with 8,685 for the corresponding period in 1999. Sonera will continue to recruit new employees, in particular, for the Media and New Services business area.

New Business Organization from January 1, 2000

Sonera's operations were previously organized into four business areas: (1) Mobile Communications, (2) Fixed Network Voice and Data Services, (3) Media and Other Operations, and (4) International and Other Significant Investments. In 2000, Sonera reorganized its operations into five business areas: (1) Mobile Communications; (2) Media Communications and New Services (which contains some of the businesses of the former Media and Other Operations business area); (3) Fixed Network Voice and Data Services; (4) Equipment Sales and Other Operations (which contains some of the businesses of the former Media and Other Operations business area) and (5) International and Other Significant Investments. As part of Sonera's strategy, Sonera also introduced a new business organization under which it groups its operations into two main areas: Mobile & Media and Telecom. The purpose of the new structure is to allow Sonera to focus more sharply on its core businesses.

The Mobile & Media area concentrates on Sonera's fast growing and globally expanding businesses, and is comprised of mobile and media communications as well as new services and technologies.

The Telecom area focuses on those business functions having a strong cash flow and stable growth, and includes Fixed Network Voice and Data Services and Equipment Sales and Other Operations.

Mobile & Media. The Mobile and Media area is further divided into three groups: Sonera Mobile Operator, Sonera Services and Sonera Enabling Technologies.

The Sonera Mobile Operator group is responsible for the operation and development of Sonera's mobile networks and for managing Sonera's mobile network infrastructure. This group oversees Sonera's mobile communications networks in Finland as well as Sonera's interests in associated companies that have mobile communications operations. In addition, the group is responsible for training personnel in connection with mobile communications operations, providing consulting services to Sonera's associated companies on mobile network planning and for the further development of Sonera's strategy in light of the consolidation of the mobile communication industry.

The Sonera Services group is responsible for Sonera's service provider businesses that are targeted at both consumers and corporate customers as well as for its content and transaction services businesses. Sonera's wholly-owned subsidiary Sonera Zed Ltd. is included within Sonera Services.

The Sonera Enabling Technologies group develops business solutions based on Sonera's technological competence and assets. Sonera's wholly-owned subsidiary Sonera SmartTrust Ltd. is included within the Sonera Enabling Technologies Group.

Telecom. The Telecom area is comprised of five separate entities, four of which were incorporated in early 2000:

- Sonera Entrum Ltd is engaged in the fixed network access business and offers voice and data services to consumers as well as to small- and medium-sized companies in Finland.
- Sonera Solutions Ltd caters to Sonera's major customers, marketing and selling telecommunications solutions primarily to Finnish companies that operate in the domestic market.
- Sonera Carrier Networks Ltd owns and operates Sonera's fixed-line network infrastructure and acts as a wholesaler of narrowband and broadband capacity to other telecommunications operators and service operators.

In addition, the Telecom area consists of equipment sales, which are the responsibility of Sonera Solutions and Telering Ltd., and construction and maintenance services, which are the responsibility of Primatel Ltd.

Prospects for the Year 2000

Management estimates that Sonera's revenues will continue to grow by more than ten percent in the year 2000. In achieving the revenue target for 2000, the growing and diversifying use of mobile communications services is again expected to play an important role. In 2000, new services are not yet expected to have a significant effect on the growth in Sonera's revenues. In the long term, the target is to reach a growth rate of over 20 percent.

Due to the very large development outlays being made on new services, management estimates that Sonera's operating profit will be lower in 2000 than it was in 1999.

Management estimates that the growth in subscriptions achieved by Sonera's international associated companies that offer mobile communications services will continue at a fast rate, and that Sonera's share of the earnings generated by associated companies will continue to grow. Due to the change in the accounting treatment of Turkcell, profit before extraordinary items and taxes may, however, remain somewhat lower in euro terms than in 1999, if the gain recorded on the Aerial/VoiceStream merger is excluded.

In Finland, competition in the mobile communications market is expected to get tougher both due to new competitors and due to the third national GSM license that was granted by the Finnish Government. Management nevertheless believes that in the year 2000 Sonera will retain its market share at a level comparable to the first quarter of the year. In 2000, the relative profitability of Mobile Communications is estimated to remain at the level achieved in 1999.

Management estimates that the investments being made in developing new services will significantly weaken the financial results of Media Communications and New Services in the current year. Management estimates that during the period from 2000 to 2002 Sonera will spend a total of €500 million on developing new services. The timing and total amount of the expenditures will depend on the market situation and the availability of resources.

Management expects revenues from Fixed Network Voice and Data Services to grow somewhat in 2000 compared to the previous year, and relative profitability to be on a par with 1999.

The growth in revenues from Equipment Sales and Other Operations is partially seasonal in nature and thus dependent, with respect to equipment sales, on general market trends. Sonera's construction and maintenance business depends principally on the timing of jobs and the bringing in of new customers. Management expects the profitability for the Equipment Sales and Other Operations business area for the year ending December 31, 2000 to be on the level achieved in 1999.

STRATEGY

Our objective is to enhance shareholder value by becoming a leading provider of mobile services and enabling wireless technologies, such as advanced wireless security solutions, in Finland and internationally. To achieve our objectives, we have adopted the following strategies:

Focus on Becoming a Leading Provider of Data Services for Advanced Mobile Networks

We believe that mobile data will be a fast growing segment of the telecommunications market over the next several years. Consequently, we plan to further strengthen our ability to deliver mobile data services both in Finland and internationally. In the Finnish market, we are enhancing our position as the leading mobile telecommunications operator by increasing the capacity and speed of our wireless network by introducing GPRS and UMTS technologies. We have recently begun testing our packet-switched GPRS network and plan to introduce GPRS services commercially around year end 2000. In March 1999, we were granted a license to build a third generation national mobile network and plan to commence building our third generation network based upon UMTS technology beginning in 2001. We expect our third generation system to support broadband access at speeds up to 2 Mbps, and thus allow for high-speed data transfer and greater multimedia capability such as videoconferencing. Internationally, we have been active in participating in auctions for third generation licenses together with a variety of partners. Through Xfera Moviles S.A., a newly-formed company in which we hold a 15 percent interest, we received one of four licenses to build and operate a third generation mobile telecommunications network in Spain. We are also seeking to bid for third generation licenses together with selected partners in other European markets that we believe are attractive. We also plan to provide our associated companies with strategic and technological assistance to bid for third generation licenses and construct high-speed packet-switched GPRS and third generation networks.

Expand Our Wireless and Internet based Value-Added Content Service Business

We currently offer a mobile portal service, Zed, and an Internet portal service, Sonera Plaza, both of which are the leading portals of their kind in Finland. Zed aggregates many of the content and transaction-based services of an Internet portal, such as news, financial transactions, travel services and shopping for use by mobile subscribers. Sonera Zed has recently begun to offer our portal services on an international basis, having entered into partnerships with mobile operators in the United States, Germany, Singapore and a number of other countries. Sonera Zed plans to significantly enhance the global reach and content breadth of our mobile portal services by entering into distribution arrangements and partnerships with leading mobile operators and content and service providers. We also expect to upgrade the technological capabilities of our portal services, which we currently deliver through SMS messages or WAP services, to function in a UMTS environment. We are also planning to sharpen the focus of our Internet portal, developing it into a vertically-integrated financial services portal to enhance its appeal and to increase the potential of deriving significant transaction based revenue from the service. In addition, we are currently developing a range of ASP services. As a means of enhancing the value of our portal service businesses, we are currently evaluating whether to sell a portion of our interest in Sonera Zed and Sonera Plaza through public offerings.

Be a Leader in Developing and Launching New Value-added Services for its Mobile Telecommunications Subscribers

We are at the forefront of developing new value-added services based on SMS and other technologies for our mobile telecommunications subscribers. Our SMS services include transmission of SMS messages to a fax or an e-mail address. Using our mobile information service, a subscriber can send an SMS message to a special service number and receive an SMS reply with content including weather information, share price information or news reports. We have also been a pioneer in developing transaction-based SMS services. Such services include wireless telebanking, through which subscribers can access their bank accounts, arrange for wire transfers or pay bills. Another of our transaction-based SMS service in the pilot stage includes an application which allows mobile subscribers to purchase goods from selected vending machines and other automated service machines through their mobile handsets. In addition to introducing a variety of new SMS-based value-added services during the second half of 1999, we launched our first commercial services that utilize WAP. We believe that the third generation mobile service market will evolve from the current SMS-based value-added service environment to one that utilizes the increasing transmission capacity of HSCSD, GPRS and UMTS as well as WAP.

Focus on the Development and Commercialization of Innovative Mobile and Internet Transaction Technologies

Transaction volumes over the Internet and mobile telephones are expected to grow dramatically in the next several years. We are actively developing technologies intended to facilitate the growth of Internet and mobile handset transactions. We offer these technologies independently from our mobile telecommunications network, allowing us to sell them on a global basis. One of our technology offerings that has reached the commercial stage is our SmartTrust wireless security solution. SmartTrust provides PKI-based solutions for mobile network operators and service providers, such as banks and brokers, that enable highly secure mobile e-commerce services. We aim to make SmartTrust one of the world's leading providers of wireless security solutions by broadening the functionality of SmartTrust's current solution and by actively marketing the SmartTrust solution to a range of leading wireless operators and financial service providers. We also seek to acquire companies that have core technologies that complement SmartTrust's technology. In April 2000, we acquired Across Wireless, a leading provider of wireless Internet based service platforms that allow wireless operators to deliver high-quality Internet applications to their subscribers, as well as SIM based WAP browsers and TDMA-based mobile solutions. We are in the process of integrating the businesses of Across Wireless and SmartTrust so that we can offer a complete range of open standard solutions for both mobile network operators and service providers and thus speed up the adoption of wireless e-commerce services. On January 1, 2000, we established SmartTrust as a separately incorporated subsidiary. To allow our SmartTrust subsidiary greater strategic focus and the ability to better incentivize its management and employees, we currently plan to sell a portion of our interest in SmartTrust through a public offering within the next year.

Pursue International Growth in Mobile Telecommunications Markets

Due to the small size of our Finnish home market and its high mobile penetration rate, we believe that in order to grow, we must continue to selectively expand our mobile presence outside of Finland. We plan to pursue international growth through our existing associated companies, through potential acquisitions or investments in, and business combinations or strategic alliances with, mobile network operators and other industry participants and by bidding for third generation mobile licenses in markets outside of Finland. We have made significant investments in telecommunications companies outside of Finland that we believe have substantial growth potential and in which we believe we can apply technical and commercial know-how developed in the Finnish home market and other markets. Turkcell, the largest of our international investments, has experienced rapid revenue and profit growth in recent years and has been the primary contributor to the growth in our equity income from associated companies. Our associated mobile operators in the Baltic States have also experienced significant revenue, profit and subscriber growth.

We plan to continue to actively participate in enhancing the value of our associated companies with mobile operations by providing such operators with strategic and technological assistance to build out and upgrade their GSM and, in the future, third generation networks and to enable them to offer their customers a greater variety of value-added and high-speed data services. We also plan to continue to export our marketing and customer service expertise to our associated companies and to help such companies bid for third generation mobile licenses in the future. We may also make selective additional investments in mobile service providers where management believes that there are significant opportunities for growth. At the same time, we may also decide to dispose of certain of our investments either in part or in whole in light of market conditions or otherwise in an effort to maximize the return on our investments. For instance, we expect to sell approximately ten percent of Turkcell's outstanding shares, which we hold in one our subsidiaries, in a public offering that commenced in the second half of June 2000.

As part of its mobile growth strategy, we seek to participate in the ongoing consolidation of the mobile telecommunications industry in Europe and the United States. Management believes that we are well positioned to participate in this consolidation because of our role as a leader in mobile telecommunications services in the sophisticated Finnish market. Any acquisition, investment, business combination or strategic alliance undertaken in connection with the ongoing consolidation of the industry could increase our mobile subscriber base substantially and allow us to pursue growth in markets which are significantly larger and less penetrated than Finland. A significant acquisition, investment, business combination or strategic alliance could also increase our geographic presence and improve our ability to bid for additional third generation mobile licenses in markets outside of Finland. We will also continue to evaluate potential investment opportunities in GSM-based PCS operators in the United States. We believe that having a larger presence in the United States will facilitate the commercial introduction of our new mobile applications and advanced Internet services to the U.S. market.

Focus on Corporate Data Solutions and Broadband Services in its Fixed Line Business

We continue to focus on providing complete broadband telecommunications and data solutions to our corporate customers. We have been actively installing fiber optic loops in the largest cities in Finland and marketing direct broadband local access to business customers in those areas. We have also concentrated on developing broadband access solutions such as ADSL, VDSL and LMDS (Local Multipoint Distribution Services) technology, which is a broadband radio technology able to transmit data at speeds sufficient to support multimedia services, principally for our corporate customers. With respect to data solutions, we have been concentrating on the enhancement of our corporate LAN interconnection and management services, which include intranets with different security options, mobile (including WAP) and remote access electronic commerce applications and extranet applications, which are intranets that extend to include selected outside users, such as suppliers, vendors or other partners. We also offer management for servers and workstations for corporate customers. In addition, we are developing an Internet-based portal service targeted at business customers through which we plan to aggregate a variety of services that could be delivered to customers online.

Maintain our Strong and Profitable Position in the Finnish Mobile and Fixed Telecommunications Market

In the Finnish telecommunications market, we seek to maintain our position as a leading provider of mobile and fixed network services both to ensure revenue growth and to generate cash to fund our other strategic initiatives. We also aim to improve productivity and efficiency in our mobile and fixed network businesses to enhance our overall cash flow. We seek to maintain our position as the leading mobile communications operator in Finland by expanding our subscriber base and stimulating usage through, among other initiatives: (1) customer segmentation; (2) customer service; (3) introduction of new products and services; and (4) continued emphasis on strong retail distribution and high quality customer service. We also believe that the new organization of our operations into two main areas, Mobile & Media and Telecom, will help us to improve productivity and efficiency in the domestic market.

We seek to gain new subscribers and stimulate usage across our customer segments by providing a broad range of customized products and services aimed at attracting high usage customers and maintaining customer loyalty. Examples include the introduction of GSM tariff plans tailored to the usage patterns of different business and residential customers. We also seek to maintain our market leadership by being a forerunner in the development of innovative mobile telecommunications products and services, including a wide variety of SMS applications, for commercial application. We continue to focus on maintaining the breadth and quality of our mobile retail distribution network, which has been integral to the growth of our mobile communications business. We also intend to continue to provide high quality customer service, largely through our five customer call centers, which provide 24-hour-a-day, seven-day-a-week service.

We seek to maintain our strong position in the domestic fixed network telecommunications market in the face of increasing competition through, among other actions, offering customers more cost efficient and higher capacity fixed network access. In the highly competitive domestic long distance and international voice markets, we continue to develop new ways of delivering our services. For example, we are developing a new service that uses IP technology to carry voice transmissions over data networks.

RISK FACTORS

Our revenues, profitability and growth could decline if the growth in the Finnish telecommunications market slows.

The telecommunications industry in Finland is currently well developed relative to other European countries. In particular, Finland has among the highest mobile penetration rates and lowest mobile calling tariffs in the world. The high penetration rate may make it difficult for us to gain new mobile customers in the future. This may result in slower growth in the revenues we derive from Mobile Communications, a significant area of our recent growth, than we have achieved in the past.

Although the mobile penetration rate in Finland increased in 1998 from 42 percent to 57 percent, the rate of growth slowed during 1999, reaching 67 percent by year end 1999. We believe that this growth will continue to slow in the future. A significant slowdown in the rate of mobile penetration growth in Finland could have a negative effect on our future revenue and profit growth in our Mobile Communications business area.

The failure to develop and implement new technologies and services on a timely basis could cause us to lose customers.

Our growth strategy depends on the successful introduction of new telecommunications services, including third generation mobile services. We also plan to invest in the speed and capacity of our wireless networks by introducing new broadband services based on technologies such as GPRS (General Packet Radio Service) and UMTS (Universal Mobile Telecommunications System). We will also have to continually enhance our network independent solutions, including SmartTrust and Sonera Zed, to keep pace with technological developments and changing customer requirements. Delays or failures in developing or upgrading these and other new services and solutions or implementing new technologies could result in a loss of customers or a failure to attract new customers.

Our development of new advanced services could require substantial expenditures and resources and may not be successful.

As part of our growth strategy, we are developing and commercializing a wide variety of technologically advanced services. These services include several broadband mobile services, including services that utilize WAP (Wireless Application Protocol), new mobile transaction security applications, such as SmartTrust, and advanced mobile Internet services, such as Zed. We expect that these strategic initiatives will require substantial expenditures and commitment of our human resources. We cannot, however, assure you that we will be able to successfully market these new services or that the new services will gain widespread market acceptance.

One of our principal strategies is to become a leading provider of mobile data services based, in part, on acquiring licenses to operate third generation mobile telecommunications networks in markets outside of Finland. There is no assurance that we will be able to acquire such licenses on economically viable terms or that future levels of customer acceptance and use of third generation services will be sufficient to generate an acceptable return on our investment.

One of our principal strategies is to become a leading provider of mobile data services in both Finland and internationally. Internationally, we have been active in participating in auctions for third generation licenses together with a variety of partners. The decision of several national regulatory authorities including those of the United Kingdom and Germany to hold competitive auctions for national licenses to build and operate third generation mobile communications networks has substantially driven up the cost of obtaining such licenses. We face intense competition from other international operators and consortiums, many of whom have greater economic resources than we do, in bidding for these third generation licenses. As a result, we may be unable to acquire such licenses on terms that we deem economically reasonable. If this were to occur, we might be forced to reconsider part of our international growth strategy of participating in bids for third generation licenses. In addition, there can be no assurance that future levels of customer acceptance of third generation services will be sufficient to generate an acceptable return on investments we have made, or will in the future make, to obtain third generation licenses and upgrade our networks for third generation services. In particular, it is possible that operators may be forced to pass on the high costs of obtaining third generation licenses to users of third generation services, which may slow that market acceptance of third generation services.

Increased competition in the Finnish mobile and fixed network communications markets may result in decreased tariffs and loss in market share.

We operate in the highly competitive Finnish telecommunications market. As competition continues to intensify, we may lose market share in both our mobile and fixed-line voice services markets and we expect to reduce mobile and fixed-line tariffs further.

We believe that our principal competitor in the Finnish mobile communications market, Radiolinja, will continue to market its services aggressively and that we will face additional competition in the GSM 900 market when a new GSM 900 operator Suomen 2G commences operations later in 2000. We also expect that the emergence of competing providers of digital GSM (Global System for Mobile Communications) mobile services operating in the 1800 Megahertz (MHz) frequency band will pressure us to further decrease the prices we charge for our mobile services. In addition, the commercial introduction in Finland of third generation mobile services, which we expect will take place in 2002, will open the Finnish mobile communications market for an additional mobile operator, Finnish 3G Ltd, and may strengthen the position of Telia Mobile Finland, an existing operator, which is the Finnish branch office of the Swedish mobile operator, Telia Mobile AB.

In the Finnish fixed-line market, we expect that competition from international telecommunications operators and alliances such as RSL COM, Facilicom, Uniworld and Tele Nordia will increase, resulting in further reductions of tariffs. Moreover, new forms of telecommunications that do not use conventional tariff structures, such as Internet telephony, an application in which voice traffic is routed through the Internet, are also expected to increase the sources of competition we will face.

Our market position may subject us to legal constraints that may negatively impact revenues.

We are deemed by the Finnish Ministry of Transport and Communications to be an operator with significant market power in long distance, international, international transit and mobile telecommunications throughout Finland and in local voice telephony in our traditional service areas. We are therefore obligated under the Finnish Telecommunications Market Act to charge other operators cost-related tariffs for mobile network services, public fixed network services, leased lines and interconnection. This means that the amounts we charge for these services must be related to the costs of providing the services. We are also obligated not to discriminate among customers. These obligations may hamper our future pricing flexibility. In particular, in the event that the Finnish Ministry of Transport and Communications were to determine that our interconnection tariffs were not cost-related or that they differ significantly from those offered by other operators in the European Union, it would have the authority to modify the terms and conditions of existing interconnection agreements we have with other operators.

In addition, we are currently a party to a Finnish administrative proceeding in which one of our competitors has sought to require us to lower our mobile interconnection termination fees. If we were required to modify our interconnection tariffs, whether as a result of an adverse ruling in the above-referenced proceeding or otherwise, it could reduce our interconnection revenues and could have an adverse effect on our results of operations or financial condition.

We are also subject to Finnish and European Union competition law which is applied by the Finnish Competition Authority and the European Commission. Our dominant market position in the market for mobile services in Finland could impact on our flexibility in marketing and pricing our services. For example, the Finnish Competition Authority has stated that the pricing of our mobile services must be cost-based, non-discriminatory and transparent and we are currently a party to several Finnish administrative proceedings that may have an adverse effect on our results of operations or financial condition.

Additional regulatory requirements regarding the provision of national roaming services throughout Finland or the fees we charge for roaming services may adversely affect our business.

The introduction of national roaming in Finland could have a negative impact on our results of operations or financial condition. Roaming allows subscribers to other operators' services to use our networks when they are outside the reach of their own operators' network service areas. National roaming is an issue in Finland because several Finnish mobile operators, including those that operate local GSM networks in the 1800 MHz frequency bands, have networks with limited geographic reach. Although the Finnish Ministry of Transport and Communications announced in September 1998 that it has no plans to introduce mandatory national roaming for existing GSM network operators, Finnish or European Union authorities could require telecommunications operators in Finland to offer national roaming.

We are currently a party to administrative proceedings at both the national and the European Union level in which one of our competitors has claimed that we have an obligation to provide national roaming and has sought to require us to offer national roaming services at prices which do not provide an adequate return on our investment in our GSM network. If we are required to provide national roaming services, whether as a result of an adverse ruling in the currently pending proceedings or otherwise, other telecommunications providers, including our competitors, could gain access to our GSM network. If this were to take place on terms and conditions which do not provide an adequate return on our investment in our GSM network, it could have an adverse effect on our results of operations or financial condition.

The income we receive from our investments in telecommunications companies outside of Finland may be adversely affected by increases in competition.

Most of our associated companies and other non-Finnish companies in which we hold an equity interest face significant competition in the markets in which they operate. Our most significant associated companies operate in Turkey, the Baltic States and Hungary. The competition in these markets is expected to increase as additional GSM licenses are granted. For instance, we believe that our associated companies Turkcell, which operates in Turkey, and Pannon, which operates in Hungary, will experience increased competition in the future. Turkcell currently faces competition from GSM operator Telsim Mobil Telekomünikasyon A.Ş. and Türk Telekomünikasyon A.Ş., which currently operates an analog network. The government of Turkey originally stated its intention to issue three additional GSM licenses. According to the Turkish Ministry of Transport, Türk Telekom will receive one license. A second new license was awarded to a consortium formed by Telecom Italia and Isbank, one of the largest private banks in Turkey, subject to certain conditions. In the public tender for the third new license held in April and May 2000 no bids were received. It is possible, however, that a third GSM license may still be awarded in Turkey. In Hungary, a new competing GSM provider, Primatel, the owners of which include Vodafone Airtouch Plc, was granted a 15-year GSM 1800 license in the beginning of 1999.

In addition, we expect that the fixed-line telecommunications markets in each of the Baltic States will be opened to competition within the next several years as part of these countries' measures to comply with the European Union's membership requirements. As a result, we expect that our associated companies which offer fixed-line services in the Baltic States (AS Eesti Telefon in Estonia, Lattelekom SIA in Latvia and AB Lietuvos Telekomas in Lithuania) will lose market share and be forced to reduce some of their tariffs.

We currently cannot assess what specific effects increased competition will have on the results of operations or financial condition of our associated companies and other international investments and, in turn, the amount of income we will derive from our associated companies.

The value of our international investments in telecommunications companies outside of Finland may be adversely affected by political, economic and legal developments in these countries.

We have made a number of significant equity investments in telecommunications operators in countries outside of Finland, such as Turkey, the Baltic States, Hungary 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 we have 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 us from receiving profits from, or from selling our investments in, these countries. While none of the countries in which our associated companies are located currently has foreign exchange controls that affect us 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.

Over the past five years, the Turkish economy has experienced hyperinflation. To combat the persistently high levels of inflation in Turkey, the Turkish government has implemented new policies, including austerity measures, which could have a negative impact on the Turkish economy and on the profitability of Turkcell, our most significant associated company. In addition, in the aftermath of the major earthquakes which 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, in effect from December 1999 through the end of 2000, is expected to have a negative effect on mobile usage in Turkey. Turkcell's management is not, however, currently in a position to estimate the magnitude of the impact.

Since August 1998, Russia has been undergoing a period of increased economic and political instability, marked by a currency devaluation, hyperinflation, a severe banking crisis and changes of government. While our direct investments in Russia are relatively small, a prolonged economic or political crisis in Russia could have a material adverse effect upon the prospects and value of our investments in the Baltic States, which, together with our investments in Russia, had a total carrying value of approximately €0.7 billion as of December 31, 1999.

The value of our investments in our associated companies, and the income we derive from our associated companies, could decrease if the exchange rates between the euro and the operating and accounting currencies of our associated companies change significantly.

Most of our associated companies conduct their operations, prepare their financial statements and pay dividends in currencies other than the euro. Moreover, some of our associated companies, including Turkcell, operate under currencies that are relatively volatile and may therefore fluctuate greatly against the euro. Any loss in value of any such currencies against the euro will have a negative impact on the value of our investments in the relevant associated company and the amount of income we derive from the relevant associated company, in each case as reflected on our euro-denominated financial statements.

As part of our strategy to enhance the value of our assets, we plan to divest a portion or all of our interests in some of our growth businesses, such as SmartTrust and Sonera Zed, as well as our associated companies, such as Turkcell. If we were to partially or fully divest such assets, we could risk losing control of technologies and services or access to markets that are important for the future growth of our company.

To enhance the value of our assets, we plan to divest a portion or all of our interests in some of our growth businesses, such as SmartTrust and Sonera Zed. In the event we dispose of our interests in our growth businesses, such as SmartTrust and Sonera Zed, we would risk losing control over important technology and intellectual property rights that had been transferred to such businesses. We might also risk losing our customers to such businesses. Such dispositions might also give rise to the perception in the financial markets that Sonera itself is abandoning its innovative past and strategic goals, which could negatively affect our share price. We may also decide to dispose of certain of our investments in our international associated companies either in part or in whole in light of market conditions or otherwise in an effort to maximize the return on our investments. For instance, we expect to sell approximately ten percent of Turkcell's outstanding shares, which we hold in one of our subsidiaries, in a public offering that commenced in the second half of June 2000. In the event we sell a portion of our interests in our associated companies, such as Turkcell, we risk reducing the level of control we may exercise over such companies and the amount of equity income we receive from such companies.

We may be sued by third parties for infringement of their proprietary rights.

The telecommunications and security software industries are characterized by the existence of a large number of patents and litigation based on allegations of patent infringement or other violations of intellectual property rights. As the number of entrants into the market grows and the overlap of product functionalities increases, the possibility of an intellectual property claim against us increases. In particular with respect to some of our SmartTrust products, we have received, and may receive in the future, notices of claims of infringement of other parties' proprietary rights. Any such claims, whether with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel, cause product shipment delays or require us to develop non-infringing technology or to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on commercially reasonable terms or at all. If a successful claim of product infringement were made against us and we could not develop non-infringing technology or license the infringed or similar technology on a timely and cost-effective basis, our business could be harmed.

Our growth strategy depends on making successful acquisitions or significant investments and the failure to make successful acquisitions or significant investments could therefore prevent us from implementing our strategy.

A significant part of our growth has been through investments in telecommunications operators outside of Finland. As part of our growth strategy, we also plan to explore acquisition and significant investment opportunities in mobile network operators in Europe and the United States. This strategy entails risks that could negatively impact our results of operations or financial condition. These risks include unidentified liabilities of the companies we acquire or invest in, the commercial success of these companies, the quality of management and personnel at these companies, our inability to receive timely and accurate information from these companies in order to make informed investment decisions and disputes with other shareholders. In addition, we may face competition in the identification of attractive acquisition or investment opportunities and might therefore not be able to make acquisitions or investments on attractive terms. Regulation of merger and acquisition activity, by Finland or the European Union, might also limit our ability to make future acquisitions or significant investments. We might also be required to record significant amortization expenses related to goodwill or other intangible assets in connection with future acquisitions or investments.

We may not be able to remain competitive and implement our growth strategies if we cannot hire and retain skilled personnel.

In order to remain competitive and implement our growth strategies, we need to hire and retain high quality employees who possess the necessary qualifications and technical skills to work effectively in a company like ours. In particular, competition for qualified telecommunications and information technology personnel in Finland and internationally is intense. To a considerable extent, our ability to hire and retain skilled personnel for high growth business areas, such as our SmartTrust and Zed services, and for our international operations will depend on our ability to offer stock options and other similar incentives to our personnel. The adoption of such incentive programs may require the support of the Finnish State as a majority shareholder. We have already experienced difficulties in hiring and retaining various categories of employees, including product managers and information technology specialists, and have lost competent personnel to our competitors. We cannot assure you that we will be able to hire and retain qualified personnel in the future. In particular, we cannot assure you that we will continue to be able to make sufficient incentive programs available to our personnel. If we cannot hire and retain skilled employees, we may not be able to continue to develop new business areas or make advances in our traditional business areas.

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. Actual or perceived risks of mobile handsets or transmission masts and related publicity or litigation could reduce our growth rate, customer base or average usage per customer and could therefore have a negative impact on our results of operations or financial condition.

We could be influenced by the Finnish State whose interests may not always be aligned with yours.

The Finnish State holds approximately 53.3 percent of our share capital and voting rights. Accordingly, the Finnish State has the power to determine 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 or otherwise, and the election and removal of members of our board of directors and our supervisory board. The interests of the Finnish State in approving or rejecting these matters could be different from the interests of the other shareholders.

Future sales of shares could adversely affect the market price of our shares.

The Finnish Parliament has authorized the Finnish Government to reduce the Finnish State's shareholding in our company to zero. We do not know the timing and manner of any further sale of shares by the Finnish State, or the effect of any such sale on our other shareholders. However, the sale of a substantial number of additional shares by the Finnish State in the future could cause the market price for shares or ADSs to drop.

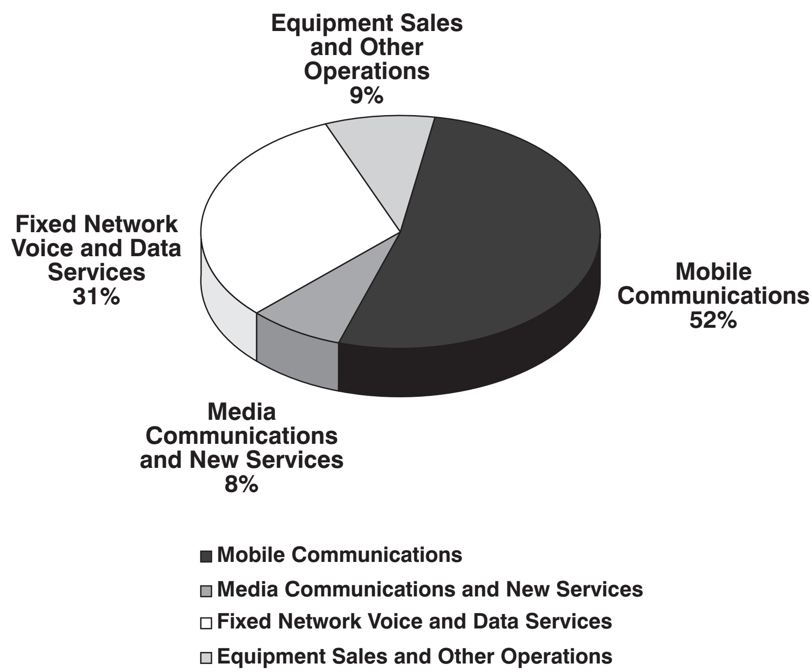
DESCRIPTION OF GROUP OPERATIONS

Overview of Operations

In 1999, Sonera's operations were organized into five business segments:

- Mobile Communications;
- Media Communications and New Services:
- Fixed Network Voice and Data Services:
- Equipment Sales and Other Operations; and
- International and Other Significant Investments.

The fifth business area included Sonera's equity income from its associated companies. See "—International and Other Significant Investments." The following chart sets forth Sonera's revenues broken down by business area as a percentage of Sonera's total revenues for the year ended December 31, 1999:



Mobile Communications in 1999

Sonera is the leading mobile telecommunications operator in Finland. In 1999, Mobile Communications generated revenues of €966 million, or approximately 52 percent of Sonera's total revenues for the period. Sonera offers digital mobile services through its GSM 900 and GSM 1800 networks and analog mobile services through its NMT 450 and NMT 900 networks. At December 31, 1999, Sonera's combined digital and analog services accounted for approximately 64 percent of the total Finnish mobile communications market in terms of subscribers and 65 percent in terms of revenues. The aggregate penetration rate of digital and analog mobile communications services in Finland is estimated to be one of the highest in the world, reaching approximately 67 percent at year end.

Sonera is one of three licensed providers of GSM 900 services in Finland. At year end, Sonera's GSM 900 network covered approximately 96 percent of Finland's geographical area and 99 percent of its population. Sonera also holds one of three nationwide GSM 1800 licenses. Sonera's GSM 1800 network is being built as a cost-effective means of increasing the capacity of its GSM 900 network, predominantly in urban areas with significant amounts of mobile traffic. Sonera has introduced a dual band service in 60 different zones including Helsinki and the other major Finnish cities that can utilize both Sonera's GSM 900 and GSM 1800 networks through the use of dual band handsets. Following the widespread launch of dual band handsets by mobile telecommunications equipment manufacturers that began in the second half of 1998, Sonera's dual band subscriptions have increased substantially, representing a significant part of Sonera's net increase of subscriptions. In the fourth quarter of 1999, approximately 80 percent of the new subscriptions were dual band. As of December 31, 1999, Sonera had approximately 1.9 million GSM subscribers, representing more than a 60 percent share of the total GSM market in Finland.

Sonera is the leading provider of analog mobile services in Finland through its NMT 450 and NMT 900 networks. Sonera's NMT 450 network covers approximately 99 percent of Finland's geographic area and its population. Sonera's NMT 900 network covers approximately 90 percent of Finland's geographical area and 99 percent of its population. In April 1999, due to the decrease in the number of NMT subscribers and the decreased average monthly usage of Sonera's NMT subscribers, Sonera announced that it will discontinue its NMT 900 service on December 31, 2000.

Subscribers

The table below sets forth selected subscriber data for Sonera's GSM and NMT services as of the dates specified:

	As of December 31,		
	1997	1998	1999
Subscribers at end of period:			
By type of service:			
GSM(1)	1,032,121	1,596,897	1,938,644
NMT	553,981	334,987	197,597
Total subscribers	1,586,102	1,931,884	2,136,241
By type of subscriber:			
Business(2)	402,824	431,739	453,615
Residential(2)	1,183,278	1,500,145	1,682,626
Total subscribers	1,586,102	1,931,884	2,136,241

(1) Includes combined data with respect to Sonera's GSM 900 and GSM dual band services.

(2) Business and residential subscribers have been divided according to tax identification number.

The growth in Sonera's total mobile subscriber base is due to the increase in the number of GSM subscribers. The rapid increase in the number of Sonera's GSM subscribers since 1995 is attributable to a number of factors, including the increased penetration rate of mobile telephone services in Finland, the active marketing of Sonera's GSM services, Sonera's introduction of targeted tariff packages and the increasing number of subscribers who have switched from NMT services to GSM services. Management expects GSM subscriber growth to continue in part due to the development of new applications for mobile handsets, including wireless applications and wireless transaction based services, as well as from the continuing evolution of Finland as a wireless telecommunications environment in which subscribers may have more than one mobile connection. However, management expects that the growth of the mobile subscriber base will slow down in the future.

Management also believes that Sonera has one of the lowest churn rates for GSM services in Europe. "Churn" refers to customer deactivations that occur either voluntarily, due, for example, to customers switching to a competing network or terminating mobile service altogether, or involuntarily, due, for example, to bill non-payment. Sonera's GSM churn rate, which reflects the total number of GSM subscriber deactivations during the period as a percentage of the average number of Sonera's GSM subscribers for the period, was 11.5, 14.0 percent and 14.6 percent for 1997, 1998 and 1999 respectively. Sonera attributes its low GSM churn rate to a number of factors including the general prohibition against handset subsidies in the Finnish market, the existence of only one GSM 900 competitor currently operating in the market, the high quality of Sonera's customer service and Sonera's computerized credit checking procedures. Because of the general prohibition against handset subsidies in the Finnish GSM market, a subscriber has little incentive to terminate his or her subscription and enter into a new subscription to obtain a more modern handset at a subsidized rate, as is the practice in most other European countries.

In recent years, Sonera has experienced a high migration rate in its NMT 450 and NMT 900 services. Increased migration of NMT customers has resulted principally from analog subscribers switching to digital services. The majority of Sonera's disconnecting NMT subscribers have gone on to subscribe to Sonera's GSM services. The migration rate for NMT 900 has tended to be greater than for NMT 450, principally because, unlike NMT 450, NMT 900 does not offer as wide a domestic coverage area as GSM and has been hastened by Sonera's announcement that it will discontinue the NMT 900 service at the end of 2000. Due to the gradually decreasing utilization of Sonera's NMT networks, Finnish telecommunications authorities have begun releasing some of the spectrum previously allocated to Sonera's NMT 900 operations to the GSM operations of Sonera and Radiolinja, Sonera's main competitor in nationwide GSM 900 services, in proportion to their respective market shares and have reserved spectrum for the GSM 900 operations of Suomen 2G.

Traffic

The table below sets forth selected traffic data for Sonera's GSM and NMT services for the periods indicated:

	Year ended December 31,		
	1997	**1998**	**1999**
Total traffic (in millions of minutes)[(1)]	1,728	2,452	3,173
Average monthly minutes of use per subscriber[(2)]	103	116	130

(1) Includes outgoing mobile to mobile and mobile to fixed-line calls.

(2) Average monthly minutes of use per subscriber is calculated by dividing total outgoing traffic for Sonera's GSM and NMT services by the average number of subscribers for the period for both types of service divided by the number of months in the period.

Growth in total traffic on Sonera's GSM network since 1997 is principally due to the rapid growth in the GSM subscriber base. Continued traffic volume growth on Sonera's GSM network will depend on a number of factors, including pricing and the availability of new services, general economic conditions, the overall mix of Sonera's subscribers and the level of competition for obtaining new subscribers. In addition, management believes that the growth of usage per subscriber has partly offset increases in the number of lower volume residential subscribers to Sonera's GSM services.

Sonera's NMT 450 and NMT 900 networks have experienced a continued decline in total traffic since 1995, attributable primarily to the steady decrease in the number of subscribers for each of these services. Sonera has also experienced declines in average traffic per NMT 900 subscriber, as most higher volume NMT 900 subscribers switch to GSM services. Average traffic per NMT 450 subscriber has remained largely stable in recent years as the core users of the NMT 450 service, including truck and taxi drivers and summer users, maintain steady usage.

Tariffs

Sonera charges subscribers an initial connection fee, monthly subscription charges and traffic charges for outgoing calls based on minutes of use. Subscribers are not charged for incoming calls (other than calls received while roaming) although Sonera receives interconnection fees from other telecommunications service providers for these calls. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Interconnection Arrangements." In 1999, traffic revenues, including interconnection and roaming revenues, accounted for approximately 86 percent of Mobile Communications' revenues, while monthly subscription charges, initial connection fees and complementary service charges accounted for approximately 11 percent. While charges for the provision of mobile communications services are not subject to direct regulation in Finland, Finnish telecommunications regulation and competition law subject operators with dominant market positions or a significant market power, including Sonera, to cost-based and non-discriminatory pricing requirements. See "—Regulation."

Airtime is billed in per-second intervals under all of Sonera's pricing plans. Sonera provides a number of value-added services to its subscribers at no additional monthly service fees, including voice mail and SMS messaging services. Subscribers are charged monthly service fees for other value-added services, such as smart phone back-up service, and are charged per-minute or per-transaction fees for other services such as value-added SMS messaging services and GSM data. In general, international tariff rates vary depending upon the country called rather than the tariff plan selected. Roaming rates vary depending upon the terms contained in the individual roaming agreements and the relevant foreign mobile network operator. See "—Value-Added Services."

GSM. Sonera currently offers five different pricing plans for its GSM 900 mobile communications service and three for its GSM dual band mobile communications service. The initial connection fee for each pricing plan is €6.73, while monthly service fees range from €2.30 to €8.41, in each case excluding value-added tax ("VAT").

Sonera's current GSM pricing plans include: Business, Company, Classic, Privat and Easy. In addition, there are three plans for dual frequency phones: Duo Business, Duo Company and Duo Privat.

The following table sets forth a summary of the tariff rates, excluding VAT applicable to Sonera's GSM pricing plans as of December 31, 1999:

	Domestic mobile airtime rates			
GSM Pricing Plan(1)	**Monthly service charge**	**Peak[(2)]**	**Off-Peak**	**Special rate**
	(€)	**(€/min)**	**(€/min)**	**(€/min)**
Business	8.41	0.24	0.14	—
Company[(3)]	7.57	0.24	0.14	0.12[(4)]
Classic	2.76	0.26	0.14	—
Privat	2.30[(5)]	0.33	0.11	0.24[(6)]
Easy	—[(7)]	0.50	0.50	—
Duo				
Business	8.41	0.17	0.14	—
Calls from outside of duo areas		0.26	0.15	—
Company	7.57	0.17	0.14	0.12[(4)]
Calls from outside of duo areas		0.26	0.15	0.12[(4)]
Privat	2.76[(8)]	0.21	0.11	—
Calls from outside of duo areas		0.34	0.14	0.21[(9)]

(1) Sonera quotes its tariff rates in Finnish markka. Tariffs in the table above have been translated into euros using the irrevocable conversion rate of €1.00= FIM 5.94573.

(2) Peak charges are incurred Monday to Friday from 7 am through 5 pm.

(3) Subscribers to the Company pricing plan may qualify for additional discounts based on usage and number of terminals in the same Company pricing plan subscription.

(4) For internal calls between mobile handsets connected to Sonera's GSM network in the same Company pricing plan subscription.

(5) Charged semi-annually in allotments of €13.79.

(6) In the Privat pricing plan, a lower summer rate of €0.24 per minute is charged for calls made during peak hours between June 15 and August 15.

(7) An Easy SIM card costs €63.91 and has €50.46 (including VAT) of pre-paid airtime. It has no monthly service charge.

(8) Charged semi-annually in allotments of €16.54.

(9) In the Duo Privat pricing plan, a lower summer rate of €0.21 per minute is charged for calls made during peak hours between June 15 and August 15 outside of GSM 1800 coverage areas.

The Business and Company pricing plans are designed for business users with heavy usage rates during peak hours and frequent international calling needs. Subscribers of the Company pricing plan may also qualify for additional discounts based on usage of mobile services per billing period and the number of handsets in the same plan. Enrolling in the Company pricing plan requires a minimum of three subscriptions per customer. The Classic pricing plan has a lower monthly service charge than the Business pricing plan and standard tariff rates to suit the needs of average and moderate usage subscribers. The Privat pricing plan is designed for callers with more moderate calling volumes and who use their mobile phones primarily in the evenings, on weekends and during summer months. It has a low monthly service charge and offers low minute rates during off-peak hours while relatively high tariff rates are charged for calls made during peak hours and for international calls. The Duo pricing plans offer lower per minute rates when a customer using a dual band phone calls from an area where Sonera offers GSM 1800 coverage while calls made from sole GSM 900 coverage areas are charged at slightly higher rates than in most other GSM 900 pricing plans. Duo Business and Duo Privat pricing plans for GSM dual band service are targeted to similar customer groups as Business and Privat pricing plans on the GSM 900 network. In addition, in September 1998, Sonera launched the Easy pricing plan, which is based on a pre-activated and pre-paid SIM card containing €50.46 (including VAT) of airtime. An Easy SIM card costs €63.91 but has no activation charge and no monthly subscription fee. On December 31, 1999, there were approximately 29,555 activated Easy SIM cards outstanding. All Sonera subscriptions offer reduced minute rates for calls between two Sonera GSM mobile phones.

Subscriptions to all of Sonera's GSM pricing plans offer an additional feature allowing subscribers to send SMS messages. As of December 31, 1999, the applicable tariff per sent SMS message for both peak and off-peak hours was €0.14, excluding VAT, for all pricing plans other than Easy. For Easy, the applicable tariff per sent SMS message for both peak and off-peak is €0.33 including VAT. Subscribers are not charged for incoming SMS messages.

NMT. Sonera currently offers five pricing plans for its NMT mobile telephone service. Sonera's current pricing plans include: Business, Company and Privat, which are similarly priced to comparable GSM pricing plans. In addition, Sonera offers its customers the Privat, Family and RinGo pricing plans. Sonera also offers some additional pricing plans to its NMT subscribers. New NMT subscriptions have not been marketed since April 1999. In April 1999, Sonera announced that it will discontinue its NMT 900 service on December 31, 2000. In conjunction with this announcement, Sonera lowered its NMT 900 normal priced domestic mobile airtime rates by 35 percent, valid until December 31, 2000.

Interconnection. Under Finnish telecommunications regulations, Sonera is required to provide interconnection to its mobile communications network for calls to and from competing domestic operators. See "—Regulation." Pursuant to interconnection agreements with other operators in which Sonera's mobile network interconnects, Sonera receives fees for terminating incoming calls that originate from other mobile telecommunications operators. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Mobile Communications."

Value-added Services

Sonera offers a variety of value-added services for its mobile customers. The importance of such non-voice services to Sonera's mobile operations has increased in recent years as customers have become familiar with SMS messaging, the means by which many of the services are provided. In 1999, non-voice value-added services represented eight percent of Sonera's Mobile Communications revenues, and management expects their share to grow in the future.

SMS communication services. In May 1995, Sonera introduced SMS, which allows users to send text messages with up to 160 characters from one mobile handset to another as well as to other communications devices. Sonera has experienced significant growth in the use of its SMS, with the number of messages sent by Sonera's GSM subscribers increasing approximately six-fold between 1998 and 1997 as compared with the previous year. In 1999, Sonera's GSM subscribers sent 439 million messages, more than double the number of messages sent in 1998. SMS messages are billed on a per message basis, with a charge of €0.14 per message, excluding VAT, as of December 31, 1999 (other than the Easy pricing plan, under which SMS messages are charged at €0.33 per message, including VAT). Sonera also offers a number of services that utilize SMS messaging technology, including transmission of an SMS message to a fax machine or a GSM e-mail address. A subscriber to Sonera's e-mail notification service can have e-mail messages received by his personal computer automatically forwarded as an SMS message to his mobile handset.

SMS-based content services. Sonera also offers a wide variety of SMS-based content services. Among the most popular services are (1) Zed Finder SMS directory service, which enables a subscriber to look up a person's telephone number or to identify the holder of a telephone number using SMS messaging, (2) Doris ringing tone and icon service, which enables a subscriber to order a new ringing tone for a mobile handset or a new icon (wallpaper) to the subscriber's mobile handset screen using SMS messaging, and (3) an account query service, which enables the subscriber to obtain the current balance of his or her mobile bill. Using Sonera's mobile information services, a subscriber can send an SMS message to a special service number and receive an SMS reply with information such as weather, share prices, public transportation schedules or news reports. A subscriber can also receive information regularly by subscribing to an SMS mailing list service. While SMS-based content services are delivered through a technological platform which is built into Sonera's network and operated by Sonera, the content of the services is in most cases provided by third parties.

On August 31, 1999, Sonera became the first operator in the world to launch information services intended for WAP compliant mobile phones, which first became commercially available in early October 1999. WAP is an industry standard protocol which allows delivery of Internet-based services through use of selection menus to mobile phones of different appliance manufacturers. Sonera is developing WAP services together with a number of its corporate partners and customers. While the current services of Sonera offered through a WAP platform include, among other things, its Doris ringing tone and icon service, its account query service and Zed Finder directory assistance service, Sonera plans to make most of its existing SMS content services WAP compliant. In addition, subscribers may create and modify their personal selection menus in their WAP phones with their favorite services through the Zed service. Sonera also plans to offer companies WAP platforms to deliver their services.

In October 1999, Sonera launched Zed, a mobile portal service, in Finland. Zed combines features of the Internet and mobile communications, providing an entry point to an Internet-type home page through which subscribers are able to access information and various services, such as e-mail, news, e-commerce, time and information management services, mobile phone ringing tones and service search engines. Zed can be accessed either by using a mobile phone or through the Internet. The service is targeted to both business and residential customers and its content is packaged by Sonera Zed. In its pilot stage, Zed functions on SMS and WAP platforms.

Transaction services. Sonera's customers can use their mobile handsets for executing various transactions, such as wireless telebanking, data communication, storing of back-up files for smartphones, modifying mobile subscriptions on-line, purchasing goods from vending machines and sending GSM postcards. Sonera's wireless telebanking allows subscribers to use their mobile handsets as an automated teller machine, through which subscribers can access account information and pay bills using SMS messaging or voice response technology. The service is provided in cooperation with two large Finnish banks.

Sonera's Mobile Pay application allows mobile subscribers to purchase goods or services from selected vending machines and other automated service machines such as car wash stations. The subscriber places a call on the number shown at the machine authenticating the transaction and the product or the service is billed via the subscriber's mobile bill. While the Sonera Mobile Pay service is still in the pilot stage, Sonera and Oyj Hartwall Abp agreed in February 2000 to equip some Hartwall softdrink vending machines with GSM technology, allowing consumers to order and pay for softdrinks by mobile phone. Another feature allows Sonera's subscribers to use their mobile handsets to mail a regular postcard by sending an SMS message with the address and the desired text for the card to a special service number through which the message is printed on a postcard and mailed to the addressee. The service is provided in cooperation with a printing house and Finland Post.

Through the Zed service subscribers may check their current mobile subscription account balance, change their subscription type or modify the features of their existing subscription by connecting to the Sonera Zed site and running the modifications on-line. After the modifications have been entered, the information is automatically submitted to Sonera's customer service unit which executes the specified modifications. Subscribers may also send SMS messages by logging on to the Sonera Zed site and the transaction is charged to the customer's bill. In the fall of 1999, Sonera partnered with the confectionary company Fazer Makeiset Oy to launch the GSM Chocolate Service, which allows a subscriber to order and pay for confectionary through the use of a mobile handset. The recipient of the chocolate receives an SMS message alerting him or her of their gift, the chocolate is delivered through the mail and the cost is included in the ordering subscriber's next statement.

Additional subscription options. Sonera also offers additional mobile services, including voice mail, call forwarding, home call, family package, and Privatel services. These services are based on additional elements that Sonera has installed in its network. Sonera's home call service provides a low-cost connection service between a mobile number and either one pre-selected fixed line number or a Sonera mobile number. Dialing of the HomeCall number 020100 connects the call to the pre-selected number automatically. HomeCalls are charged at a reduced rate at all times. Sonera's Family subscription agreement allows subscribers to make low-cost calls and send reduced rate SMS messages between subscriptions numbers under the same family agreement.

Through its Privatel service, Sonera's corporate customers can integrate mobile phones into their fixed corporate communications network and internal numbering system. The Privatel service connects a corporate customer's PBX to Sonera's mobile network using intelligent routing. Privatel features low-cost internal calls, internal mobile extensions and active call transfer services to other extension numbers.

Sonera's GSM data service allows for data communication through Sonera's GSM network at speeds up to 9.6 Kbps. Through GSM data service, subscribers can access their corporate LANs or e-mail through a laptop computer. Sonera smartphone back-up is a service for subscribers who have mobile handsets with data storage and Internet browsing capabilities. It enables subscribers to save data, including faxes and e-mail, on a Sonera network server by dialing a service number. In September 1999, Sonera launched a GSM HiSpeed Data service, which provides its subscribers data transmission at speeds of 14.4 Kbps, 4.8 Kbps higher than the transmission speed of standard GSM networks. In late 1999 Sonera further increased the transmission speed provided through GSM HiSpeed Data to 43.2 Kbps through the launch of a HSCSD feature, which allows a single subscriber to use up to four time slots at the same time. GSM HiSpeed Data enhances remote working possibilities as it supports a greater number of mobile applications including enhanced Internet browsing and e-mail transmission, more advanced graphics and transmission of moving images. The service is available throughout Sonera's GSM network, provided that the host network supports high speed transmission and the host operator has a data traffic interconnection agreement with Sonera. Currently, GSM HiSpeed Data service can be used only with certain more advanced GSM handset models.

In addition to basic voice services and non-voice value-added services, Sonera provides its mobile subscribers with complimentary voice traffic related services such as caller identification, blocking of caller identification, call waiting and blocking of pay-per-call services. Sonera also offers services with no subscription fee but which are charged on a transaction basis such as basic call forwarding and conference calling. Sonera also offers subscription fee based services such as voicemail and call forwarding with certain special features. These services are available for both analog and digital mobile networks.

International Roaming

Roaming agreements with mobile telecommunications operators in foreign countries allow Sonera's mobile telephone subscribers to make and receive calls while outside of Finland and for subscribers of foreign networks to make and receive calls through Sonera's mobile network while in Finland. At the end of 1999, Sonera had roaming agreements with 166 operators, an increase of almost 40 percent from 119 in 1998. Sonera's GSM reception area currently covers 86 countries including nearly all of Europe and the developed industrial countries of Southeast Asia—with the exception of Japan—as well as several areas in the United States and Canada.

These roaming agreements allow Sonera's GSM subscribers to access these telecommunications operators' respective networks by using their own SIM cards and a satellite or PCS 1900 compatible handset. Sonera's analog NMT systems offer subscribers only limited international roaming in countries that have adopted the NMT standard, including, for NMT 450, the Nordic Countries and the Baltic States and, for NMT 900, the Nordic Countries, the Baltic States, the Netherlands and Switzerland.

In general, Sonera's international roaming agreements provide that when a Sonera subscriber uses the services of a GSM network operator in another country, Sonera is responsible for the payment of charges for those services in accordance with the corresponding GSM network operator's tariffs. Sonera passes these charges on to the relevant subscriber, together with a surcharge of five percent. Similarly, when a customer of a GSM network operator in another country uses Sonera's GSM network, Sonera charges that GSM network operator for the call at Sonera's standard tariff plus an additional surcharge of five percent.

Other Mobile Communications Operations

Sonera also provides a range of other mobile communications services, including mobile satellite, mobile logistic, wireless automation, closed network radio and mobile consulting services. Some of these, such as mobile satellite services and mobile consulting services, complement Sonera's main GSM and NMT mobile services. In general, these services target specific customer groups and generate relatively modest revenues for Sonera. However, management considers these services important insofar as they enable Sonera to provide a broad spectrum of mobile communications services to its customers.

Mobile Satellite Services. Sonera provides global satellite services for inbound and outbound communications to and from areas outside of conventional mobile telecommunications coverage areas by means of satellite transmission through the Inmarsat Commercial Organization (ICO-Europe and ICO-Global), the European Telecommunications Satellite organization (Eutelsat), the International Telecommunications Satellite Service (Intelsat) and the International Maritime Satellite Service (Inmarsat). Sonera owns minor equity interests in both ICO organizations and in Inmarsat. Within Finland, Sonera's satellite services complement its conventional terrestrial wireless services by extending the coverage of Sonera's services to the most remote areas in northern Finland and open sea areas along the Finnish coast. Through its satellite services, Sonera is also able to offer mobile communications to airlines and ships as well as customers with overseas working sites that might otherwise be beyond the reach of terrestrial voice or data connections. In April 2000, Sonera launched a new global area network (GAN) satellite service, which is implemented by means of the Inmarsat satellite system, in the Finnish market. The GAN service makes it possible for customers who are in remote areas outside the coverage of other communications systems to access the Internet. In addition, Sonera is actively taking part in the development of the Global Mobile Personal Communications Satellite, which is expected to introduce more efficient and economical satellite communications solutions and extend the use of such satellite services solutions to larger customer groups.

Mobile Logistic Services. Mobile logistic control services involve the installation of terminals in trucks and other vehicles which allow for the monitoring of transportation and delivery of goods using Sonera's wireless network. Sonera provides logistic control services primarily to the freight transportation industry. Other mobile logistic services offered by Sonera include data information and dispatch systems used by taxi and limousine services as well as Mobitex fleet management and logistic data services, which are primarily used by the forest industry and field maintenance service providers. Sonera currently provides several companies, including the UPM-Kymmene Group, with the Sonera FleetWare™ service, a wireless vehicle data exchange system.

Closed Network Radio Services. As part of its closed network radio services, Sonera operates a Global Maritime Distress and Safety Service System, which is a hybrid communications solution utilizing both satellite technology and medium and very high frequency radio technology. Sonera anticipates that the majority of future investment in closed network radio services will, however, be allocated to the planning, construction and operation of a dedicated wireless radio network based on new cellular technology using the TETRA (Terrestrial Trunked Radio System) standard. One TETRA project is currently being carried out with the Finnish State, with Sonera acting as technical advisor and installer. The network, which will be operated by Sonera, will be used primarily by the police and other public safety authorities, the military, the frontier and coastal guard, and various other emergency and rescue services. It is expected to facilitate reliable and secure wireless voice traffic, group short message service and high speed wireless transfer of data which will support solutions such as video surveillance and satellite navigation systems. The TETRA network was launched on a trial basis in late 1999. Management expects that Sonera will continue its established cooperation with the public authorities through development and implementation of new closed network radio services designed for the individual needs of its customers.

Sonera has established a separate company, Suomen Erillisverkot Oy, to hold its assets relating to closed radio network services and certain other network services used by the public safety authorities, the military and various other emergency and rescue services. The separate entity employs approximately 25 persons and its ownership may be restructured at a later date depending on the ownership level of the Finnish State in Sonera.

Wireless Automation Services. Wireless automation services include surveillance, telemetry, automatic guidance, automatic payment and certain more advanced paging services. Sonera provides a variety of wireless telemetry solutions, including services such as TeleAlert, a wireless alarm system targeted to residential customers, and Datapak, a wireless credit card payment verification system. Automatic guidance services consist of security, control and guidance applications, which are operated through a mobile terminal. Sonera also provides automatic payment services, which consist of wireless payment and payment verification applications targeted to mobile subscribers. In addition, Sonera offers two paging services. The market for pagers has declined in recent years due to the increased use of GSM services and, in particular, increased use of SMS messaging. Sonera has announced that it will discontinue the operation of its paging services in their current form on December 31, 2001, at the latest. However, management expects that Sonera will continue using certain advanced paging solutions applications in the context of wireless automation services.

Mobile Consulting. Sonera provides consulting services relating to network planning, construction and operation to other mobile telecommunications operators. The primary customers of Sonera's mobile consulting services are its associated companies and its business partners.

Distribution

Sonera markets its mobile telecommunications services to residential subscribers primarily through independent distributors and to corporate subscribers primarily through its direct sales force.

Sonera's principal distributor is the independent Sonera GSM dealer network, which accounted for approximately 86 percent of Sonera's new residential subscriptions in 1999. The Sonera GSM dealer network, which has acted as the non-exclusive distributor of Sonera's mobile telephone subscriptions since 1990, is currently comprised of approximately 1,900 outlets in Finland, including specialty stores for mobile telecommunications equipment, home electronics stores and department stores. While Sonera GSM dealers principally offer Sonera mobile subscriptions, they may also sell other operators' subscriptions. However, the major partners of Sonera have devoted themselves to selling Sonera's subscriptions and services, and offer other alternatives merely upon request of customers. Major distribution chains providing Sonera services and subscriptions are Telering, Päämies, Expert, Tekniset and Data-Info. Telering, a retailing unit operated by a subsidiary of Sonera, Sonera Systems Oy, forms a part of the Sonera GSM dealer network. Telering sells mobile phones and communications products, and also markets subscriptions for Sonera's mobile network. Telering has 80 stores in Finland and Estonia, 20 of which are operated by Sonera and the remainder of which are operated by franchisees. In 1999, Telering generated approximately 20.7 percent of Sonera's mobile subscription sales. Päämies, in which Sonera is a major shareholder, is a marketing and coordinating company for a mobile specialist chain consisting of 15 independent retailers with 51 points of sale nationwide. In 1999, the Päämies chain of retailers generated approximately 11.8 percent of Sonera's mobile subscription sales. Other distribution chains in which Sonera has an ownership interest are Kasteam Oy and Data-Info. The two largest independent distributor chains in Sonera's dealer network are Expert and Tekniset, which together operate 255 stores. Sonera's distribution network was further strengthened during the first quarter of 2000 with the commencement of a cooperation arrangement with Musta Pörssi, a home electronics chain with over seventy outlets in Finland, and through a distribution arrangement with the R-Kioski chain, which has 729 convenience stores located throughout Finland, under which R-Kioski stores began selling Sonera pre-paid subscriptions.

Sonera pays its distributors a fixed sign-up commission per subscription, which is the same for all distributors, and fees for other services and provides marketing support, principally through common advertising campaigns. Unlike in many other countries, mobile operators in Finland are restricted from subsidizing the price of a mobile handset in connection with the sale of a mobile subscription. In July 1999, Sonera renewed its distributor compensation structure. The commission received by the distributor is divided into four allotments, each of which becomes payable after the sale of the subscription, provided that, among other things, the subscriber is accumulating traffic and is current in the payment of his monthly subscription charges. The final portion of the commission is paid to the distributor 18 months after the subscription sale. The new commission structure is intended to give the distributors an incentive to develop closer relationships with their customers, and to enhance the dealers' role in customer care and customer retention and thereby reduce churn. Sonera also renewed its compensation structure to enhance the sale of value-added services. Sonera also provides some additional incentives to dealers classified as "authorized" or "expert" based on subscription volume, service quality and other factors as provided in Sonera's distributor guidelines. Authorized and expert dealers have been authorized to use Sonera's software systems for either electronic subscription data transmission or on-line subscription activation, and they receive additional compensation for performing tasks which otherwise would be the responsibility of Sonera's customer service department.

Subscriber Management and Billing

Before activating a mobile subscription, Sonera verifies information that the subscriber provides in its subscription application and performs a credit check on the subscriber. Authorized and expert dealers generally have an on-line connection with Sonera's mobile activation system through which Sonera can verify information contained in the application as well as perform the credit check using its newly-installed intelligent credit evaluation systems. If the subscriber information is verified and the credit check is satisfactory, Sonera can activate the mobile connection within approximately five minutes. If the subscription application is rejected by Sonera's automated system, the application is then forwarded to Sonera's customer service department for handling. Mobile connections for customers submitting applications to non-authorized dealers are generally activated within two business days. Deposits are generally required for foreign subscribers and higher credit risk customers.

Sonera's mobile subscribers are billed monthly. To reduce costs, Sonera generally does not bill a residential subscriber with a balance of less than €16.82 or a business subscriber with a balance of less than €50.46, but, instead, transfers the balance to the next month's billing cycle. Subscribers may choose from a number of billing options, including traditional paper bills, direct withdrawal from the subscriber's bank account, some deferred payment options for which the subscriber is charged a fee, and aggregated bills for subscribers with families who maintain more than one subscription. In conjunction with Merita Bank and Leonia Bank, two major Finnish commercial banks, Sonera has also introduced a new billing service through which subscribers can receive and pay bills via the Internet. Under a service offered by Nordic Printmail Oy, an affiliate of Finnish Post, billing information to produce traditional paper bills is electronically transmitted to the post office, which then generates and mails physical bills. Customers of Sonera Solutions and of Sonera's Business and Residential Services unit can receive bills showing integrated charges for mobile telecommunications, fixed-line voice services and data and media services on one bill. Sonera can also provide, at the customer's request, detailed calling information in the bill, including, subject to some exceptions, numbers called and time and length of calls. In addition, subscribers can verify their balances with Sonera's balance inquiry services or receive notification from a balance reminder service in the event that their pre-defined balance level is exceeded.

Sonera's mobile communications customer care and billing system is responsible for all customer information required for customer management and billing. In 1998, the system sent over ten million bills to Sonera's mobile subscribers. In early 1999, Sonera introduced an SMS-based mobile billing service, which allows subscribers to receive their mobile bills directly to their mobile handsets.

Sonera has established a uniform policy for dealing with delinquent subscriber accounts. Written reminders are sent to subscribers who fail to pay their bills within seven days after the due date and, if payment is not received within 14 days after the first reminder is sent, Sonera will disconnect the subscriber connection. If payment is not received within ten days after the disconnection, Sonera will send a second reminder. If payment is still not received within 50 days of the original bill, Sonera will terminate the subscription. In 1999, approximately 79 percent of Sonera's mobile bills were paid in full before the first reminder was sent, which is 21 days after the sending of the invoice, and 96 percent of Sonera's mobile bills were paid within 14 days after the first reminder was sent.

Sonera's customer service department actively monitors Sonera's exposure to credit loss and subscriber fraud. Sonera utilizes advanced software that, in addition to processing current credit information on subscribers from third-party sources, tracks subscribers' bills on a daily basis and identifies unusual activity. Sonera's credit control managers monitor data regarding subscribers' account activity and credit history and carry out Sonera's credit control policy guidelines. In the event of unusual activity, Sonera's credit controllers may take a variety of actions including selectively barring some functions, such as entertainment services, sending invoices ahead of the billing schedule or terminating the subscription. As a result of Sonera's credit evaluation system, active monitoring program and strictly enforced program regarding accounts receivable, losses due to credit loss and subscriber fraud were less than one-half of one percent of Sonera's 1999 revenues.

Customer Service

Sonera's Mobile Communications unit has a separate customer service department serving both Sonera's mobile subscribers and dealers. The mobile customer service department is principally responsible for maintaining Sonera's subscriber database, answering billing inquiries, answering subscriber complaints, checking subscriber credit, opening new subscriptions for non-expert dealers and selling additional, value-added mobile services to existing subscribers. The customer service department operates five call centers at different locations in Finland which operate 24-hours-a-day, seven-days-a-week and which are linked together by a common database and an automated call delivery system. Call center services are segmented into a number of different categories, including fault reporting, billing, major accounts and general subscriber and dealer support. In 1999, Sonera's mobile telecommunications call centers handled over 5.5 million calls. Sonera's call centers are largely automated, offering subscribers access to product and price information and enabling a subscriber to order a number of value-added services without the assistance of a call center representative. In addition, other customer services offered by Sonera, such as an SMS-based account inquiry service and Internet price and product listings, allow Sonera's subscribers to access information regarding their mobile accounts and order new products and services without the need to contact Sonera's call centers.

Technology and Infrastructure

As of December 31, 1999, Sonera's GSM 900 and NMT 900 networks covered approximately 96 percent and 90 percent of Finland's geographic area, respectively, and 99 percent of the Finnish population. Sonera's NMT 450 network covered approximately 99 percent of Finland's geographic area and the Finnish population. Sonera's GSM 900 and NMT 900 networks have been designed for handheld terminals while its NMT 450 network was initially built as a network for vehicle-installed terminals. In February 1998, Sonera launched its GSM dual band service, which allows its subscribers to use both the 900 MHz and 1800 MHz frequency bands for making mobile calls. Sonera's GSM dual band service is currently operative in 110 different areas in Finland including the Helsinki metropolitan area and the cities of Kuopio, Oulu, Tampere and Turku.

Network Infrastructure. The infrastructure of a mobile communications network, whether analog or digital, consists of (1) a radio network comprising base stations, which communicate by radio signal with mobile handsets in their cells, as well as antenna systems and masts, (2) a switching network comprising base station controllers, which control call set-up, signaling and maintenance functions, as well as the use of radio channels in one or more base stations, and other network management systems, (3) mobile switching centers, which control the switching network, (4) home location registers, which not only contain information regarding subscribers and roaming users utilizing the network but also authorize their network usage, and (5) cabling and other transmission of devices to connect different components of the network. To save costs, Sonera has utilized components of its existing networks as part of its build-out of new networks. For example, Sonera's base station sites typically contain both NMT and GSM base stations. Similarly, Sonera's mobile network uses Sonera's fixed-line network to connect mobile switching centers to interconnection sites and for trunk transmission of all mobile traffic that terminates beyond the mobile caller's local cell (i.e., the geographic area covered by a single base station in a mobile communications network). In addition, Sonera's GSM 1800 switching network has been entirely integrated with its GSM 900 network.

In addition to standard infrastructure, mobile networks commonly contain several service platform elements. All of Sonera's networks contain platforms for basic services such as voice mail, call waiting and call forwarding. Sonera's GSM networks have also been equipped to provide a platform for higher level value-added services such as home call, SMS-based content services, Privatel services and Mobicentrex services. Sonera has also started to install network elements which enable the use of new WAP handsets. Sonera launched a WAP-based service in August 1999. In addition, Sonera's mobile infrastructure provides a platform for wireless data applications including e-mail and access to corporate LANs, although at transmission speeds of up to 9.6 Kbps which support only a limited number of data services. To increase the data capacity of its mobile networks, Sonera has completed the installation of multislot HSCSD software in its network. HSCSD increases the transmission speed of a single slot from 9.6 Kbps to 14.4 Kbps and allows a single user to utilize up to four timeslots at the same time and providing data transmission speeds of up to 43.2 Kbps. As a result, HSCSD supports a greater number of mobile applications. In September 1999, Sonera launched GSM HiSpeed Data, a pilot multislot service which enables the use of one slot with the higher 14.4 Kbps transmission speed. A multislot service feature with multiple timeslots was added to the GSM HiSpeed Data service in late 1999. Currently, the GSM HiSpeed Data service can be used only with certain advanced GSM handset models.

In addition, management has approved the updating of Sonera's existing GSM network through the installation of packet switched GPRS network elements by its existing component suppliers, Nokia Corporation and LM Ericsson. GPRS allows transmission speeds high enough to support effective running of Internet applications. Management expects Sonera to be in a position to launch a GPRS service commercially around year end 2000, at which time GPRS handsets are scheduled to be on the market. On March 18, 1999, Sonera received a license to operate a third generation mobile communications network in Finland (with the exception of the province of Åland (Ahvenanmaa) and on September 1, also in the province of Åland, and is currently waiting for the allocation of frequencies for that network. Management expects Sonera to be in a position to launch a pilot UMTS service during 2001 and a commercial service in 2002. The anticipated implementation of GPRS and UMTS technologies is expected to enable mobile networks to transfer data at sufficient speeds to support a wide range of data and media applications. Sonera is participating in the standardization process for these new technologies and is actively evaluating the possible applications and services that such technologies will provide. See "—Research and Development."

To guard against various technology related risks, Sonera is using components manufactured by two different suppliers in its networks and has installed central elements of its network in a number of different geographical locations. Sonera has also secured the system's transmission lines by building alternative backup routing.

Network Capacity and Quality. Using its network management system, Sonera regularly monitors capacity, congestion and utility of its network elements. The capacity of mobile telecommunications systems is dependent upon, among other things, the amount of spectrum available for transmission within the frequency band allocated to the network operator.

Sonera's primary challenge in meeting the market's capacity demand is in the Helsinki metropolitan area, which has approximately 25 percent of Finland's population. However, the recent introduction of dual band service and its strong acceptance by subscribers has enabled Sonera to more economically meet capacity demand through the build-out of new 1800 Mhz band based network capacity in the congested areas. In addition, Sonera secures the availability of capacity by installing micro- and pico-cells in congested areas and integrating intelligent features into its network. In addition, with the decrease in traffic in Sonera's NMT network, some 900 MHz frequencies allocated to Sonera's NMT service have been reallocated by the Finnish regulatory authorities to the GSM 900 operations of both Sonera and Radiolinja and reserved for the GSM 900 operations of Suomen 2G. The reallocation of NMT frequencies has further improved Sonera's ability to handle its constantly growing GSM traffic volume. Currently, Sonera is not facing significant capacity restraints in any of its service areas.

Development Plan. Management views the further development of Sonera's networks as an ongoing process. Sonera intends to continue building new base stations, adding cells to existing base stations and updating the technology of its existing networks. Recently, as a result of changing customer behavior, the focus of Sonera's network development activities, especially in densely populated areas, has shifted to improving the indoor coverage of its networks, in particular in areas such as shopping malls, underground parking garages and subway tunnels. In addition, Sonera has installed a number of base stations to improve the quality of its network within the offices and production facilities of some of its major corporate customers. Management expects that the new mobile communication technologies, including HSCSD, GPRS and UMTS, can be implemented on top of Sonera's existing GSM infrastructure through selected installation of new network elements.

Sonera's capital expenditures relating to its mobile communications operations totalled approximately €148 million in 1999. An increasing proportion of its capital expenditures relating to mobile communications will be allocated to value-added service platforms and, pursuant to growth expectations, wireless data applications. Sonera has not invested in the expansion of its NMT network since 1997. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures and Investments."

Media Communications and New Services

In 1999, Sonera's Media Communications and New Services business area generated revenues of €140 million in 1999, or approximately eight percent of Sonera's total revenues for the period. The following table sets forth the revenues of the Media Communications and New Services business area for the periods specified:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Media Communications and New Services	90	115	140

Media Communications

Sonera's Media Communications consist of its new media, business media and directory services operations. Sonera's new media services include consumer and corporate Internet services, cable TV and special calling services, such as pay-per-call numbers. Sonera's business media operations offer a variety of communications, marketing and customer care solutions for business customers, such as toll-free numbers and local access charge corporate numbers, multifax services, telephone and video conference calling and remote working, as well as e-commerce solutions. Sonera's directory services consist of electronic and operator assisted directory assistance as well as printed directories.

New Media. Sonera is the leading provider of Internet access in Finland and provides a variety of other Internet-related services such as Internet hosting and Internet data transfer. Sonera is also one of the leading cable TV service providers in Finland and offers a variety of innovative cable TV services including interactive services and cable TV Internet access. Sonera believes that it is well positioned to take advantage of the convergence of PC, television, cable TV, Internet and mobile communications technologies.

Sonera's principal consumer Internet access product is the Sonera Internet service, which can be used either with a PC or TV. Sonera Internet provides users with all the necessary features to browse the World Wide Web, send and receive e-mail, create homepages and use other value-added services on the Internet. According to statistics compiled by Network Wizards, a private computer and communications firm, as of January 1999, Finland had one of the world's highest number of computers linked to the Internet on a per capita basis at over ten percent. In addition, according to Taloustutkimus Ltd., a private Finnish research company, as of the end of May 1999 approximately 25 percent of the Finnish population used the Internet at least once a week. By year end 1999, the number of customers subscribing to Sonera Internet was about 216,000, giving Sonera approximately 40 percent of the Internet access provider market in Finland. In February 2000, Sonera launched a new product Sonera Internet PC. Available through authorized dealers, the Sonera Internet PC product includes Internet access, a PC, required software, maintenance, insurance and user support.

Sonera also provides content services through its Internet access portal site Sonera Plaza. The site is the most frequently visited in Finland, with almost 400,000 different visitors per week on average in January 2000. The Sonera Plaza portal offers clients navigation and search services, entertainment services including chat sites and on-line computer games, news and information services and links to Sonera's corporate customer's sites and various other sites. Through Sonera Plaza and its Internet access service, Sonera offers tailored content service packages for targeted user groups, such as young people, women and sports fans. Sonera also sells banner-type advertisement space on the site to a variety of businesses.

In May 1999, Sonera launched its e-commerce service, Ostella, which has been bundled with the Sonera Plaza portal site. Ostella—a virtual shopping mall—offers consumers a variety of purchasing options on the Internet and gives companies tools for establishing and developing their own electronic commerce services. In addition, in 1999 Sonera launched a real-time customer service solution based on Internet technology. By means of Sonera@Service, a company can manage its customer contacts on a centralized basis independently of the contact channel. The service makes possible real-time customer service on the Internet and provides a way of handling incoming e-mail, faxes and calls.

Sonera was the first company to offer high speed data cable TV services in Finland. As of December 31, 1999, Sonera provided cable TV access to approximately 136,700 households through its own broadband cable network, giving Sonera a 15 percent share of Finnish cable TV market. In addition to traditional cable TV, Sonera offers more innovative media products, including two-way cable TV Internet access (QuickNet service). It allows high speed access (2 Mbps) to the Internet through either personal computer or TV interface. QuickNet's TV interface service was launched in October 1998 and had 17,200 subscribers at the end of 1999. QuickNet service is available in the Netherlands and limited areas in Finland.

Sonera offers corporate customers, including independent Internet access and online service providers, access services to the Internet, providing them access to such services as e-mail, the World Wide Web, Telnet (an Internet service that enables users to log into and access a computer in a different network), Usenet news and file transfer protocol (a service for transferring files from one system to another via Internet). Sonera offers a variety of Internet connections, ranging from lower capacity ISDN to high capacity ATM line connections. Other value-added services include MailNet, which offers business customers global messaging through X.400 and SMTP standard compliant systems, enabling users to send and receive messages among diverse e-mail systems, and other messaging services.

Sonera also provides Internet hosting services, which enable subscribers to establish a World Wide Web site on one of Sonera's servers. The Sonera Forum hosting service is principally devoted to creating and maintaining basic home pages for small- to medium-sized enterprises. Sonera Palace is an enhanced hosting service for larger companies or organizations which conduct essential parts of their business through the Internet. Additional features offered through Sonera Palace include closed user groups, through which the customer can restrict access to its World Wide Web site, database connectivity tools and data encryption.

In 1995, Sonera became the first telecommunications operator in the world to deliver audio and video material through the Internet by means of its Live service. Live is targeted at companies delivering multimedia material through the Internet or through intranets or extranets. Through Sonera's Live service, business and residential customers can integrate multimedia material onto their Internet sites.

In June 1999, Sonera and Talentum Oyj, the parent company of a Finnish media group, announced a joint venture to establish a network media company in Finland. Sonera has a 37 percent interest in the new company. The Finnish Competition Authority approved the joint venture in December 1999 subject to certain conditions. See "Item 3. Legal and Regulatory Proceedings."

In February 1999, Sonera submitted to the Ministry of Transport and Communications an application for a national digital television license in order to start offering interactive content services on digital TV. In its decision issued in June 1999, the Finnish Government did not grant a license to any of the telecommunications companies that applied for one, including Sonera. Since 1998, Sonera has pursued cooperation with the Finnish Broadcasting Company, and it intends to broaden this initiative by studying possibilities for business cooperation, particularly in the area of digital television.

In November 1999, Sonera and the Finnish Broadcasting company signed an agreement by which the Finnish Broadcasting Company will sell 34 percent of its subsidiary Digita to Sonera. Over its terrestrial networks, Digita handles the distribution of radio and television programs in Finland and sell other services connected with the distribution of national broadcasting signals. The agreement will enable Sonera to gain experience in the management of a distribution channel and value chain in a digital national broadcasting network environment. The transaction is subject to the approval of the Competition Council which has a time limit of three months starting from April 19, 2000 to decide whether it will approve the transaction, approve the transaction with conditions or block the transaction. See "Item 3. Legal and Regulatory Proceedings."

Sonera also focuses on new business opportunities within the media services business line in selected markets in Europe. For example, in July 1999, Sonera acquired the entire share capital of MultiWeb B.V., a Dutch Internet service provider. Sonera decided in November to merge MultiWeb with its subsidiary Sonera Nederland B.V. effective January 1, 2000.

Sonera's new media services also include the provision of service call numbers, such as charged entertainment calls.

Business Media. Sonera's business media services include a variety of communications solutions targeted at business customers for their customer service, marketing and e-commerce needs. While e-commerce is the main focus of Sonera's business media unit, it is still in the early stages of development. The unit's aim is to offer services that will enable Sonera's business customers to conduct e-commerce on the Internet and to provide easy and secure utilization of such services to end-users. Present offerings range from pure software products, such as Sonera TradeXpress to a complete Internet shopping mall, Sonera Shopping World, facilitated by Sonera. Sonera TradeXpress is a software platform enabling efficient and reliable message delivery and routing between companies' legacy systems, between a Web store and different databases or companies' ERP systems. Sonera's TradeXpress customers include a number of multinational companies based both in Finland and elsewhere.

Sonera Shopping World offers a complete delivery channel for merchants selling goods to consumers. Shopping World offers customers Web catalogue features, universal shopping basket, a variety of payment methods and interconnectivity to logistics systems and companies ERP-systems. In May 1999, Sonera launched Ostella, the Finnish version of Sonera Shopping World, which has been bundled with the Sonera Plaza portal site.

Ostella is currently still at an early stage of development but Sonera expects that it will generate revenue both in the form of fees charged from merchants which place their products for sale on the site as well as transaction commissions. Sonera is also developing an IP based business to business e-commerce application.

Sonera's e-commerce product portfolio also includes Electronic Trading services hosted by Sonera. These hosted services vary from generic message handling and routing to turn-key solutions like fully featured Web stores or special applications for electronic communication.

For customer service and marketing purposes, the traditional offerings of Sonera's business media unit include intelligent network services such as toll-free 800 numbers and reduced tariff service numbers, fax services such as mass distribution of facsimile messages and prepaid/charge card telephone services. Similar applications are also utilized for remote working and access to corporate intranets. Intelligent network services are completed with a selection of pre-designed mass customized applications or with tailor-made applications on customers request. Sonera also offers call center services which enable outsourcing of customer service functions. In April 1999, Sonera introduced a new product called Sonera On Line Contact Center. It enables Internet originated contacts (chat, voice or e-mail) to be handled in a call center which uses traditional fixed-line phones.

Directory Services. Directory services consist of electronic and operator-assisted directory services and printed telephone directories. Sonera provides an electronic directory service called Zed Finder which can be utilized either via the Internet or SMS. Zed Finder can provide customers with a variety of information including mobile and fixed line telephone numbers and addresses as well as Web-sites and e-mail addresses and product information. Sonera also provides operator assisted directory services which have grown approximately 15 percent annually for the last five years. The growth is mainly due to the increased number of mobile phones and the fact that mobile numbers are not listed in printed telephone directories. In addition, features such as call completion are also increasing the number of users. Sonera's Directory services operations is also seeking to offer it services in a number of European countries outside of Finland through a variety of subsidiaries and joint ventures.

Sonera also publishes printed directories (white pages) in those geographical areas it provides fixed-line services. The sale of media space and yellow pages are managed through Suomen Keltaiset Sivut Oy (yellow pages), a joint venture of which Sonera holds a 30.2 percent interest. Under the agreement among the owners of Suomen Keltaiset Sivut, revenues from advertisers are credited to that telephone company which is the principal provider of fixed-line services to such advertiser.

To facilitate the centralized collection of information on Finnish telephone subscribers, Sonera, the Finnet Group and other telecommunications providers in Finland established Suomen Numeropalvelu Oy (Directory Assistance Services Finland), which maintains a joint subscriber database. Directory Assistance Services Finland, of which Sonera holds a 40 percent interest, provides a common database to the publishers of telephone directories, including Sonera and other telephone companies operating in a particular directory area, and to those service operators that provide directory assistance services or Internet directory services. In 1999, Sonera had an 84 percent share of the electronic directory services market in Finland, a 49 percent share of the operator assisted directory services in Finland and a 20 percent share of the printed directory services market in Finland. See "—Regulation—Telecommunications Data Privacy Act."

Technology and Infrastructure

The Media Communications and New Service business area operates its own infrastructure primarily in connection with its Internet operations.

Customers connect to Sonera's Internet access service via personal computer, TV or mobile handset by calling a single nationwide access number. These connections are established locally through Internet dial-in ports or, in places where local access is unavailable, through Sonera's national trunk network. Currently, Sonera provides local access nationwide in Finland, with the exception of the province of Åland. When a subscriber places a call to Sonera's dial-in port, the call connects to an access router, which transforms the signal into packet-switched format and relays the data packages through Sonera's frame relay or ATM backbone to Sonera's servers, giving the subscriber access to the Internet. Server computers also store data from frequently accessed Internet pages which accelerates the downloading of such pages to the user's computer. Sonera's Internet access network consists of more than 6,000 dial-in ports, 6,000 routers (used for both Internet and intranet services) and more than 200 servers, which maintain, in total, approximately 3,000 Gb of storage. Sonera continually monitors its network throughput and makes necessary hardware and software adjustments to maximize network throughput. Sonera's network elements are supplied by commercial power as well as diesel generators to provide emergency back-up power.

New Services

Sonera's New Services consists of businesses that focus on development projects for advanced communications, content and e-commerce services. New Services emphasizes the development of value-added services that can be delivered through mobile, fixed or cable TV networks. To date, New Services has focused principally on bringing the full benefits of the Internet to mobile communications. Sonera estimates that it will spend a total of €500 million on developing New Services over the next three years.

The first commercial offering of New Services is SmartTrust. The SmartTrust solution, targeted at wireless operators and services providers, offers its customers a convenient and secure method of transacting business using wireless devices. The unit is also focused on enhancing its mobile portal service Zed, which allows Sonera to bring many of the benefits of its Internet portal service to mobile subscribers. For business customers, New Services is planning to develop a portal service through which Sonera and its partners could deliver a variety of communications, customer care and e-commerce applications through the Internet.

Management anticipates that Sonera will make significant investments in the future to further develop the products and service concepts of New Services and that it will incur increased operating expenses in connection with such development work.

SmartTrust. SmartTrust is a service that Sonera began offering in February 1999 to banks and other financial institutions. SmartTrust enables financial institutions and other service providers to offer services such as access to account statements, bill payment, fund transfers, stock trading, insurance purchasing and other payment services through a mobile handset in a secure manner. The SmartTrust service is based on Sonera technology that uses public-key infrastructure, or PKI and 1,024 bit encryption which is embedded in a SIM card and which provides for secure user identification and message encryption. The technology allows service providers and users to authenticate each other's identity and to ensure that information exchanged between them remains confidential. The service is designed to be easy to operate: all the subscriber needs is a PIN number to authorize his or her transactions. Sonera's aim is to promote SmartTrust as the premier secure mobile transaction solution and on that basis develop SmartTrust into a global product with universal acceptance.

The SmartTrust solution involves a number of different participants, including mobile network operators, service providers, such as banks and brokers, SIM card manufacturers that incorporate Sonera's SmartTrust technology on the SIM card, "certification authorities" that are central to the verification of users, and software firms that integrate existing service providers' systems with SmartTrust. In establishing Sonera SmartTrust, Sonera has entered into a cooperation agreement with TietoEnator, the leading systems integrator in the Nordic Countries. Sonera has also entered into an agreement with SIM card manufacturer Gemplus SA to have SmartTrust features and application codes embedded into SIM cards.

SmartTrust enables mobile phones operating on existing and future digital mobile communication networks to be used as a tool for a wide range of secure e-commerce applications. Management believes that the SmartTrust solution is one of the first commercial services for the emerging market of mobile commerce. It is part of Sonera's strategy of using mobile devices to bring the Internet into a person's pocket. Management anticipates that SmartTrust will generate revenues for Sonera in the form of both license fees for its secure mobile commerce transaction platform and annual usage and transaction-based fees. Management expects that Sonera will also benefit from additional traffic generated by mobile e-commerce applications.

In January 2000, Sonera and eQ Online Corporation, an advanced online brokerage firm in Finland, launched a secure, SMS-based stock exchange transaction service. The service uses SmartTrust digital signature technology and 1,024 bit RSA data encryption to allow the customers of eQ Online's service to buy and sell stocks using their mobile handsets in a highly secure manner. In May 1999, Hewlett Packard and Sonera signed a letter of intent for Sonera to provide SmartTrust security for Hewlett Packard e-speak platform (a uniform architecture for electronic services that enables transactions between all Internet based services).

In August 1999, Sonera acquired an interest in 724 Solutions, a developer of wireless applications, to develop secure mobile banking applications. During 1999, 724 Solutions began to integrate SmartTrust technology into its software platform.

In January 2000, Sonera SmartTrust announced a joint development and marketing agreement with MasterCard International to enable mobile devices equipped with SmartTrust's secure wireless technology to support the family of payment products of MasterCard and its European strategic partner, Europay International.

A number of partner agreements also contained provisions according to which SmartTrust technology will be used as part of the partner's provision of services. Leonia Bank's first pilot services based on SmartTrust's digital signature know-how became operational in November 1999, and eQ Online's mobile brokerage service, eQ Free, which employs SmartTrust technology, was launched in January 2000.

In October 1999, Sonera SmartTrust also announced an agreement with Cable & Wireless HKT concerning the offering in Hong Kong of secure wireless electronic commerce services based on PKI. In November 1999, the Swiss GSM operator diAx announced that it would start providing security for mobile phone-based trading applications in its GSM network by employing SmartTrust solutions.

In January 2000, Sonera created a wholly-owned subsidiary, Sonera SmartTrust Ltd., and transferred the assets related to the SmartTrust business to that subsidiary. Sonera currently plans to sell a portion of its interest in Sonera SmartTrust through a public offering within the next year.

In April 2000, Sonera acquired Across Wireless, which provides a large selection of wireless Internet based service platforms, such as over-the-air service and device management and SIM-based WAP browsers. Sonera intends to transfer its interest in Across Holding to Sonera SmartTrust. Management believes that Sonera SmartTrust and Across Wireless will be able to provide a complete range of open standard solutions for both mobile operators and service providers, such as banks and brokers.

Sonera Zed. During 1999, Sonera launched a global wireless portal business called Sonera Zed. Sonera Zed's operations commenced in Finland in October 1999.

Zed is targeted at people who use a mobile phone both in their work and in their leisure time. Zed offers users a way of accessing services such as wireless Internet-based communications, time and information management facilities, electronic commerce and data and service searches. Initially, use of the services will be based on SMS and WAP messaging. Within the mobile portal business, Sonera acts as a packager of services and is investing in systems that will enable the enhanced provision of services.

Zed is aimed at selected international markets. The business concept relies on active cooperation with local mobile operators. Startup of mobile portal operations is an important step for Sonera because it is a means for expanding its mobile communications service offerings to areas where Sonera does not have its own mobile communications network.

In October 1999, Sonera purchased the business activities of ByeDesk, a U.S. company that specializes in wireless communications services, from the TeamWARE Group. Pursuant to the transaction, ByeDesk was made a part of Sonera's mobile portal business. Founded in 1998, ByeDesk has 20,000 customers, and it was the first provider of value-added services for mobile phones in the United States.

As part of the Zed concept, the company publishes a worldwide Zed Finder directory. The Zed Finder finds the telephone numbers, names and addresses of private individuals and companies in seven countries, putting more than 150 million people within reach. At present the countries within the scope of the service are Finland, Belgium, Great Britain, Austria, France, Switzerland and Denmark.

Zed services can be used via both a mobile handset and the Internet. In January 2000, nearly 600,000 customers used Zed services in Finland by means of their mobile phones and more than 140,000 customers had registered as users and personalized their subscription on the Internet. The most popular services are Zed Finder, the ringing tone and icon service, and the account balance query service.

Sonera Zed Ltd., a wholly-owned subsidiary of Sonera, was incorporated on February 1, 2000 and the assets of the Sonera Zed business were transferred to it. The principal operating company is located in Finland, and it has subsidiaries in Great Britain and the United States. Sonera Zed announced preliminary partnerships with Hutchison Telecom of Germany, KPN Mobile and Libertel of the Netherlands, Smart Communications of the Philippines as well as Turkcell and Powertel to offer Zed services in the markets of these mobile operators.

The mobile portal business is expected to face competition worldwide. Among Sonera Zed's competitors are mobile phone operators, Internet portals, equipment manufacturers and software companies. Management believes, however, that Sonera Zed is well placed to be successful in the mobile portal business because of Sonera's strong experience in the mobile communications and Internet businesses, value-added mobile communications services for mobile handsets and content packaging. In addition, one of Sonera Zed's main strengths is its ability to track customers' buying habits, both with respect to which services are used and how they are offered. Sonera Zed brings together essential services, both global and local, for mobile users and offers them in the user's own language.

In February 2000, Sonera also launched a wireless communications service for air travelers. In May 2000, Sonera signed distribution agreements with the nine major business travel agencies in Finland under which the agencies will offer the Zed Travel™ Flight Tracking Service to their customers. For a set price the service, which is activated three hours before a customer's flight, sends a reminder of the flight's scheduled time and any changes to such schedule as well as real-time information on the arrival time and gate information. The information is sent to the customer's mobile phone as an SMS message.

Other New Services. In April 2000, Sonera began offering Microsoft software and Lotus applications to its customers via the Internet, expanding its application service provider (ASP) business. Sonera is the first Finnish company to partner with Microsoft in the provision of Microsoft products on-line. The agreement covers both Microsoft Office 2000 and Microsoft BackOffice. Sonera customers can also rent Lotus applications via the Internet. The on-line service rental agreement covers the rental of Lotus ASP Solution Pack-based applications, such as workgroup, e-mail, calendar and document management applications. In addition, Sonera offers Lotus Domino-based applications manufactured by third parties. In May 2000, Sonera entered into an agreement with SAP Aktiengesellschaft to assist SAP in delivering SAP's management services applications to corporate customers in Finland.

In May 2000, Sonera acquired a 31.6 percent holding in Zoom HF, an Icelandic company that specializes in digitally produced 3D animation and interactive television commercials. In conjunction with Sonera, Zoom will concentrate on producing interactive animation content for wireless terminal devices. Sonera and Zoom are working to develop a new type of mobile animation content to be launched in Sonera's public exploration laboratory for 3G services, Sonera Mspace.

In June 2000, Sonera became the world's first mobile communications operator to offer positioning services which can be deployed by all GSM mobile phones via voice, WAP data call and text message connections. With the permission of the user of the GSM mobile phone, the positioning service offered by Sonera identifies the location of the user's mobile phone. Such information enables a variety of wireless value-added applications. Unlike the wireless positioning services currently on the market, Sonera's positioning service does not require a special mobile handset or SIM card or heavy network investments. The most important distribution channel of Sonera's positioning service is Zed. In addition, Sonera offers the positioning data package to other operators and service providers on a global basis. The package includes a positioning data service platform, positioning data applications, technical support and consultation. In addition, other positioning technologies such as GPS (Global Positioning System), TOA (Time of Arrival) and E-OTD (Enhanced Observed Time Difference) can be integrated into Sonera's positioning service. Management believes that positioning will be the basis for most mobile communications value-added services in the future.

Fixed Network Voice and Data Services

Sonera's Fixed Network Voice and Data Services business area is comprised of several distinct lines of business, each of which occupy leading positions in the Finnish telecommunications market. The principal lines of business of Sonera's Fixed Network Voice and Data Services business area include fixed network voice services, data services and leased lines. In total, Sonera's Fixed Network Voice and Data Services business area generated revenue of €570 million in 1999, or approximately 31 percent of Sonera's total revenues for the period.

The following table sets forth the revenues of Sonera's Fixed Network Voice and Data Services business area by principal lines of business for the periods specified:

	Year ended December 31,		
	1997	1998	1999
		(in € millions)	
Fixed network services:			
Domestic voice	245	258	250
International voice	134	128	120
Data services	111	149	168
Leased lines	19	25	32
Total	509	560	570

Fixed Network Voice Services

Sonera provides a full range of fixed network telecommunications services for both residential and business customers. Sonera's fixed network voice services provide access to local calling, domestic long distance calling and international calling. Despite increased competition since the liberalization of fixed network services in Finland in 1994, Sonera's fixed network voice services have continued to be a stable source of revenue for Sonera, generating €379 million, €386 million and €370 million in revenues in 1997, 1998 and 1999, respectively.

Domestic Voice Services

Domestic voice services comprises local voice services and long distance voice services.

Local Voice Services. In 1999, Sonera's local voice services generated net sales of €199 million. Sonera has a market share of 98 percent in its traditional service areas, located principally in the more sparsely populated areas of eastern and northern Finland. In addition to Sonera, 46 local telephone companies provide local telephone services in Finland and have maintained, to a large extent, monopolies in their traditional local service areas, which cover most of the larger towns and urban areas of Finland. Sonera has a share of approximately four percent of the market in the traditional service areas of the local telephone companies based on subscriber connections.

The following table sets forth information regarding total access lines of Sonera in Finland as of the dates indicated:

	Year ended December 31,		
	1997	1998	1999
Standard lines:			
Residential	575,084	541,368	497,466
Business	120,353	115,156	94,871
Total	695,437	656,524	592,337
ISDN lines:			
Residential	1,092	5,013	9,057
Business	11,514	19,759	27,356
Total	12,606	24,772	36,413
2 Mbps lines(2)	2,289	2,820	3,509
Equivalent lines:			
Residential	577,268	551,394	515,580
Business	212,051	239,274	254,853
Total	789,319	790,668	770,433
Total lines by location:			
in Sonera's traditional service areas	715,564	699,570	663,294
outside of Sonera's traditional service areas	73,755	91,098	107,139
Line growth (% per period):			
in Sonera's traditional service areas	(1.8)	(2.2)	(5.2)
outside of Sonera's traditional service areas	32.2	23.5	17.6

(1) Principles for keeping access line statistics were changed in the beginning of 1999. Prior to the change, residential ISDN lines were registered both as standard and ISDN lines. Certain 2 Mbps lines were also registered both as standard and 2 Mbps lines. Information for periods prior to 1999 has not been restated.

(2) Subscribers for 2 Mbps lines are exclusively business users.

The number of total equivalent lines installed annually by Sonera has remained generally level since 1993. Despite liberalization of the local calling market in 1994, there has been little competition in the Finnish local call market because charges for leasing existing local operators' networks remain high principally because potential new entrants would have to build out their own network infrastructure to offer local service. Sonera is installing fiber optic loops in the largest cities in Finland and is marketing direct local access to business customers in those areas. Management believes that the usage of Sonera's fixed network will shift from voice services to data, Internet and media applications and that competition for local customers in the heavily populated areas of Finland will increase as charges for leasing existing operators' networks fall and customers choose service providers based on the quality of customer service and their range of service offerings which are, to an increasing extent, going to be based on ISDN, ADSL and other broadband technologies as well as the Internet Protocol. Management further believes that, while local access competition in Sonera's sparsely populated service areas will remain more limited than in urban regions, the number of local access customers in such regions will decline as customers move to urban areas and the use of mobile phones increases.

In May 2000, Sonera began offering consumers the ability to subscribe for a broadband service based on ADSL technology. The service known as Sonera Home ADSL uses existing telephone cables and has a transfer rate of 256 kilobits per second in both directions. This service provides a quicker connection to the Internet via the Sonera Internet ADSL service improving consumer's ability to, for example, download web pages, play games and transfer files. In addition, the transmission capacity of the ADSL technology will enable the provision of other services which require the transmission of large amounts of data including video calls and conferences as well as other e-commerce applications.

The following table sets forth information regarding local call traffic generated by Sonera's fixed line subscribers for the periods indicated:

	Year ended December 31,		
	1997	1998	1999
Traffic (in millions of minutes)(1)	2,044	1,994	1,869

(1) Minutes accrued from calls originating on Sonera's fixed network and terminated within the same telecommunications area.

Long Distance Voice Services. Sonera provides domestic long distance voice services for both residential and business customers. In 1999, Sonera's domestic long distance voice services generated net sales of €28 million, which accounted for approximately 38 percent of the estimated €74 million domestic long distance call market. Sonera experienced a sharp decline in its domestic long distance market share following the introduction of competition in the Finnish domestic market. Within several months of the liberalization of the domestic long distance voice market at the beginning of 1994, Sonera's share of the long distance market fell from 100 percent to approximately 40 percent, as the local operators of the Finnet Group launched an aggressive campaign to attract local access customers utilizing agreements in which subscribers could pre-select Kaukoverkko Ysi, the long distance provider of the Finnet Group, as their long distance provider. Since the beginning of 1995, Sonera's market share in the domestic long distance market has been stable at or near 40 percent.

The following table sets forth information regarding domestic long distance voice traffic generated by Sonera's subscribers for the periods indicated, in terms of minutes accrued from calls utilizing Sonera's trunk network, including long distance calls placed by subscribers of other service operators which are routed through Sonera's trunk network:

	Year ended December 31,		
	1997	1998	1999
Traffic (in millions of minutes)(1)	829	749	667

(1) Minutes accrued from calls utilizing Sonera's trunk network including long distance calls placed by subscribers of other service operators which are routed through Sonera's trunk network.

International Voice Services. Sonera is the leading provider of international voice services in Finland. In 1999, Sonera's international voice services generated revenues of €120 million, which accounted for approximately 53 percent of the estimated €200 million international call market in Finland. Prior to 1994, Sonera had an exclusive right to provide international calling services in Finland. The international call market was opened to competition in 1994 and customers typically choose international long distance carriers on a call-by-call basis by dialing a prefix associated with that providers' service. Prior to September 30, 1998, all international calls made using the general European international access code "00" were routed randomly through the networks of the various Finnish national operators according to their respective market shares. Since September 30, 1998, operators have been permitted to enter into pre-selection agreements with residential customers allowing for the automatic routing of calls through an operator's network. The introduction of pre-selection enables the local operators of the Finnet Group to market pre-selected international telephone services of Finnet International to their local access customers, which may have an adverse effect on Sonera's share of the market for international calling services. However, marketing of pre-selection agreements by international carriers has been modest to date. See "—Regulation—Numbering and Carrier Selection."

The following table sets forth information regarding Sonera's outgoing international call traffic by geographic region and incoming international call traffic plus transit traffic for the periods indicated:

	Year ended December 31,		
	1997	1998	1999
	(millions of minutes, except for percentages and ratios)		
Outgoing traffic:(1)			
Sweden	71.8	72.0	75.1
Germany	19.3	18.5	18.8
Russia	17.5	15.1	13.4
United Kingdom	15.8	15.4	15.6
Estonia	13.4	14.1	14.1
United States	10.3	9.5	9.1
All other countries	78.0	80.3	82.8
Total outgoing traffic	226.1	224.9	228.9
Growth in total outgoing traffic (% per period)	(0.7)	(0.5)	1.8
Total incoming traffic plus transit traffic(2)	301	278	277(3)
Growth in total incoming traffic plus transit traffic (% per period)	(1.3)	(7.6)	(0.4)
Ratio of incoming traffic plus transit traffic to outgoing traffic	1.3	1.2	1.2

(1) Outgoing international traffic includes all Finland-originated traffic, including calls placed by subscribers of other service operators which are routed through Sonera's international network.

(2) Incoming international traffic includes all Finland-terminated international calls, including calls terminating with subscribers of other service operators which are routed through Sonera's international network, as well as international transit traffic utilizing Sonera's international network.

(3) Principles for keeping international incoming and transit traffic statistics changed in 1999. Prior to 1999, the calculation was based on payments from foreign operators instead of directly from the network. Information for periods prior to 1999 has not been restated.

In 1999, Telia Finland had approximately nine percent of the Finnish market for international calls based on accrued call minutes which share it captured primarily by offering low tariffs on calls made to Sweden. Management believes revenues from international traffic will come under increasing pressure as tariffs are reduced in response to increased competition. Since the international voice market was liberalized in 1994, lower international tariffs have led to slightly increased international traffic. However, the revenues from such increased traffic has not fully offset reductions in international tariffs, nor does management expect anticipated traffic increases to offset fully expected international tariff declines over the next several years.

Tariffs

General. In general, the prices of local and long distance telephone services in Finland are relatively low by international standards. According to the Eurodata Foundation, as of February 1999, tariffs in Finland for residential customers were the eighth lowest and for business customers were the seventh lowest within the OECD. Sonera lowered its fixed-line connection fee for standard connection in 1999 in order to attract more customers to its fixed network. Management expects international tariffs to decrease further in the next few years as competition continues in the international call market.

The following table sets forth Sonera's average prices for initial connection fees, standard monthly subscription charges and variable charges for different types of fixed-line telephone calls as of the dates indicated:

	Year ended December 31,		
	1997	1998	1999
		(€)	
Fixed-line tariffs(1)			
Initial connection fee for standard connection	134.55	134.55	82.03
Standard average monthly subscription charge:			
Area 1	9.24	10.48	10.48
Area 2	10.06	11.30	11.30
Area 3	10.61	11.86	11.86
ISDN initial connection fee(2)	84.09	84.09	84.09
ISDN standard monthly subscription charge(2)	11.72	10.34	10.34
2 Mbps initial connection fee	2,522.82	2,522.82	2,522.82
2 Mbps monthly subscription fee(3)	107.64	107.64	107.64
Charge for a domestic one minute peak rate call:(4)			
Local	0.01	0.01	0.01
Domestic long distance	0.05	0.05	0.06
From fixed line network to a mobilephone	0.22	0.22	0.22
Charge for an international one minute peak rate call:			
Sweden	0.20	0.16	0.14
Germany	0.45	0.40	0.40
Estonia	0.23	0.23	0.23
United States	0.69	0.59	0.45
United Kingdom, Russia	0.45	0.45	0.45

(1) Sonera quotes its tariff rates in Finnish markka. Tariffs in the table above have been translated into euro using the irrevocable conversion rate €1.00 = FIM 5.94573.

(2) Fees indicated are for residential connections.

(3) The average subscription fee is based on a standard 36-month contract.

(4) Excluding fixed initial call charge, which was €0.07 per call prior to July 1, 1999, and €0.08 per call thereafter.

Fixed Network Interconnection. Under Finnish telecommunications regulations, Sonera is required to provide interconnection to its public switched telephone network for calls to and from competing domestic operators. In 1999, Sonera received interconnection fees of €23 million, principally from competing Finnish local telephone operators.

The current interconnection regime between Sonera, Helsinki Telephone Corporation, Radiolinja, Kaukoverkko Ysi and Finnet International became effective as of May 1, 1999. During 1999, Sonera has entered into similar interconnection agreements with the majority of other Finnish operators. See "Item 1. Description of Business—Regulation—Interconnection."

Settlement Arrangements. Sonera pays other carriers for the use of their networks for outgoing international calls and receives payments from other carriers for the use of its network for incoming international calls pursuant to bilateral settlement arrangements. Sonera's incoming international traffic has generally exceeded its outgoing international traffic, with the result that Sonera is a net importer of international minutes. Sonera settles its traffic balance payments with other carriers through bilaterally determined accounting rates under the general auspices of the International Telecommunications Union. In recent years, international accounting rates have declined significantly due to initiatives by the FCC and increased competition among international carriers. As a result, Sonera's net revenues from international settlements have declined.

Data Services

General. Data services consist primarily of data communications and network and systems management services for business customers. Data services is a growing area for Sonera, having generated revenues of €168 million in 1999 as compared to €149 million in 1998 and €111 million in 1997. The growth has been attributable primarily to favorable economic developments and rapid technological advances, including growth in Internet use.

Sonera's data services include two business units, basic data services, and the rapidly growing LAN interconnection and management services and systems for servers and workstations. Sonera's basic data transfer services include DataPak X.25 packet-switching services, and its FastNet managed leased line services. Sonera's LAN interconnection and management services include DataNet, which provides managed communications packages that utilize a number of underlying technologies including frame relay and ATM. In recent years, Sonera's strategic focus has shifted from standardized data transmission to the development of higher value-added services, such as LAN interconnection and management services, which offer customers comprehensive communications solutions. Customers of Sonera's data communications services include the largest corporations in Finland, small- to medium-sized enterprises and public organizations. The following table sets forth the total number of customer connections for each of Sonera's DataPak, FastNet and DataNet services as of the dates indicated:

	Year ended December 31,		
	1997	1998	1999
DataPak(1)	9,926	9,182	8,456
FastNet(2)	11,127	10,929	10,329
DataNet(3)	6,858	9,205	8,792

(1) DataPak is Sonera's X.25 packet-switching service.

(2) FastNet is Sonera's managed leased line service. Historical total connections for FastNet are estimated as of each of the dates indicated.

(3) DataNet is Sonera's LAN interconnection and management service. Principles for keeping DataNet statistics were changed in 1999. Prior to 1999, Internet connections through DataNet were included in the calculation of the total number of customer connections. Comparable figures for 1997 and 1998 would have been 5,907 and 7,618 respectively.

Since 1997, the number of subscribers to DataPak and FastNet services has declined while the growth of DataNet has continued as business customers in Finland increasingly opt to utilize managed communications solutions. DataPak services enable the transfer of smaller volumes of data through Sonera's X.25 packet-switched network from a customer's location to other locations connected to the network. Sonera's FastNet leased line services offer fixed "point-to-point" connections between separate locations, which may be used by the subscriber to handle high volume voice, data or video transmission between selected locations. Sonera's leased lines utilize a proprietary intelligent network management system that facilitates the monitoring and maintenance of such lines and permits them to be used as a platform for Sonera's DataNet services. DataPak offers customers world-wide coverage and FastNet offers leased line connections in Finland, Sweden, the Baltic States, the Benelux countries, Germany, the United Kingdom and some areas within Russia.

Sonera's DataNet services are a rapidly growing segment of its data services that provide customers with a comprehensive communications package tailored to such customer's needs. Since 1996, business customers have increasingly opted to utilize comprehensive communications solutions such as DataNet rather than standardized basic data transfer services. Sonera was the first telecommunications operator in Europe, and the second in the world, to provide LAN interconnections to its customers, and is the leading provider of intranets in Finland. Sonera has developed intranets with a variety of features, including intranets with different security options, mobile and remote access, e-commerce applications and other extranet applications and directory services, as well as intranets with various e-mail, GSM, fax and pager services. Sonera also offers customers a variety of bandwidths (i.e., services with different transmission capacities) for their intranet connections, including ISDN, ADSL, frame relay or ATM connections. Sonera's intranets use open communications, browsing and programming standards, thus allowing for seamless communication within the network. As an extension of its intranet services, Sonera also offers extranets to its corporate customers, a variation of the corporate intranet that is connected to external parties such as suppliers, distributors and customers. Through both its own network and through agreements under which Sonera leases capacity from other operators, Sonera can provide DataNet connections in most of Europe, North America, South America, Japan, South Africa and several countries in the Asia Pacific region.

Leased Lines

Sonera is a provider of leased lines, which are fixed point-to-point connections for the transmission of voice and data traffic between two geographically separate points. Sonera's leased line service does not include the provision of managed leased lines, which are offered as part of its data communication services. Customers lease lines from Sonera both for their own use and for use in providing telecommunications services to third parties. Although the total number of lines leased by Sonera has decreased since 1996, total transmission capacity of Sonera's leased lines has increased significantly due principally to the increase in the number of higher capacity digital lines leased. Sonera's leased line customers pay an initial connection fee based upon the type of line leased (analog or digital) and monthly rental charges based on the type of line leased, the length of the line and the duration of the lease.

Technology and Infrastructure

Management believes that Sonera has one of the most technologically advanced fixed line networks in the world. Sonera's network features fully digital local, trunk and international switching, fully digital transmission, with regional and trunk transmission based mostly on fiber optic cable infrastructure, wide access to ISDN, a new switching platform capable of providing ADSL service from most of its nodes, which are network elements that provide access to the network for other telecommunications equipment and computers, and a national trunk network that is mainly equipped with SDH (Synchronous Digital Hierarchy) transmission systems, which facilitate high-speed digital transmission through fiber optic cables. Sonera's nationwide fixed network functions as the backbone for its operations, supporting not only Sonera's local, long distance and international traffic, but also mobile and data communications trunk traffic.

Due in large part to its advanced network technology, Sonera has been able to rationalize its network, thereby increasing the productivity and cost effectiveness of its network as well as reducing the number of employees engaged in network development and operation. Between December 31, 1992 and December 31, 1998, the number of switches used by Sonera was reduced from 89 to 40 and by the end of 1999, the number of Sonera's fixed network switches was reduced further to 25. From 1991 to 1999, concurrently with the reduction in the number of switches, Sonera's network capacity increased by 54 percent. Currently, the average age of switches in Sonera's fixed network is less than two and a half years.

The reliability of Sonera's fixed network has resulted largely from Sonera's digital restoration system, which permits rapid rerouting of transmission in the event of cable or switch malfunction. The reliability of

Sonera's network is further enhanced by highly efficient maintenance services. The accessibility and reliability of Sonera's network is shown in the following table:

	Year ended December 31,		
	1997	**1998**	**1999**
Transmission network availability (%)	99.98	99.99	99.99
Call success rate (%)	98.10	99.00	98.90

Local Network. Sonera's local network is one of the most highly digitalized in the world. Digitalization of the network began in 1979, and was completed in 1996. In the future, fixed network services will concentrate increasingly on ISDN and ADSL technology, on other broadband technologies as well as on the Internet protocol. During 1999 ISDN basic subscriptions accounted for 5.8 percent of wired lines as compared to 3.6 percent in 1998. At the beginning of June 2000, Sonera began offering a broadband-based ADSL connection which is intended for small and medium-sized companies as well as certain consumers and offers a fixed Internet connection at a fixed monthly rate. The transfer speed of the ADSL connection is up to two megabits a second. At present, Sonera is offering ADSL services in 22 locations in Finland. By the end of 2000, ADSL coverage in Sonera's traditional local service areas is expected to be 60 percent. In the area where competitors dominate the local network, Sonera's objective is to be the high capacity service provider for 90 percent of companies and 40 percent of consumers in these areas.

At December 31, 1999, Sonera's domestic network consisted of 592,337 standard telephone access lines, 36,413 ISDN lines and 3,509 2 Mbps lines. Sonera's new switching platform for its local network features a standardized interface between its switches and concentrators, making it easier to add network elements designed by different manufacturers, and facilitating the offering of new services, including ISDN. Sonera's local network covers approximately 80 percent of Finland's geographic area and 28 percent of the population.

Outside of its traditional service areas, Sonera has approximately 3,500 kilometers of fiber optic cable loops in place in the largest cities in Finland primarily to provide corporate customers with data transfer and voice services. In the aggregate, Sonera has built fiber optic links to approximately 7,500 office buildings, production facilities, industrial parks and business centers located throughout Finland. The installation of fiber optic cable loop slowed down in the Helsinki city area in the latter part of 1999 and is expected to remain so through 2000 due to limitations placed on earthworks by the Helsinki city council.

Regional and National Trunk Network. Sonera's regional and trunk networks are fully digitalized and mainly utilize fiber optic cable capable of operating at transmission speeds of up to 2.5 Gbps. As of December 31, 1999, a total of approximately 25,000 kilometers of fiber optic cable had been installed for use in Sonera's trunk network. The installation of fiber optic cable in regional and trunk networks continues at a rate of approximately 1,000 kilometers per year.

Sonera continues to modernize the transmission system in its trunk networks by installing uniform SDH technology. SDH, which is a relatively inexpensive technology, allows for enhanced reliability. Through the use of a stand-by national network and self-healing local rings, the SDH optical network is protected against single cable failures. The SDH modernization project will be continued as part of Sonera's ongoing investment in its infrastructure. The SDH modernization is expected to reduce the operation and capital cost of Sonera's fixed network and management expects that the modernization will be completed by the end of 2003. Sonera's current transmission and rerouting system also utilizes PDH (Plesiochronous Digital Hierarchy) technology, which predates SDH technology. Sonera is continuing to replace PDH with SDH as part of its SDH modernization project. In the future, Sonera will develop its national network solely on the basis of fiber optic cables and SDH technology while the regional network will utilize digital radiolinks as well.

Sonera has also implemented WDM (Wave Length Division Multiplexing) technology on some of its national and regional trunk network fibers which have relatively low capacity. WDM, which multiplies the capacity of fiber optic cables using laser beam amplification, has allowed Sonera to increase the capacity of some of its existing fiber optic cables rather than having to lay down new fiber optic cables.

Sonera also operates a number of switched digital networks used principally for the provision of X.25, frame relay and ATM data services. Sonera is a principal developer of ATM technology and was the first telecommunications provider in the world to offer commercial ATM service. ATM permits data, text, voice and multimedia signals to be transmitted simultaneously between network access points at speeds of up to 155 Mbps or more. By utilizing ATM technology, Sonera can provide superior LAN interconnections, data transmission and flexible bandwidth delivery. Management believes that Sonera's ATM trunk network is one of the most efficient transmission networks in the world. See "Fixed Network Voice and Data Services—Data Services."

International Network. For international switched traffic, Sonera uses two state-of-the-art SS7 international switches located in Helsinki and the Finnish city Hämeenlinna. These switches handled approximately 506 million minutes of international traffic in 1999 comprising 229 million minutes of outbound traffic and 277 million minutes of inbound and transit traffic. In addition, Sonera has an international switch in Stockholm.

Sonera has invested €36 million in submarine cable systems since 1990 and maintains capacity in several European and trans-Atlantic submarine cables. Sonera has also agreed to invest €15 million in TAT-14, the new trans-Atlantic submarine cable which is scheduled for completion in 2000. Sonera also has a 50 percent interest in two 2.5 Gbps capacity fiber optic cables connecting Finland and Estonia. Sonera owns and operates a high capacity gateway network based on fiber optic cable which connects Stockholm, Helsinki and St. Petersburg. A fiber optic cable between St Petersburg and Moscow, the building of which was commissioned by a consortium between Sonera and Russian power utilities, was completed in 1999. In February 2000, Sonera received a license for the commercial exploitation of the fiber optic cable. The new fiber optic cable is expected to strengthen Sonera's position in international transit traffic and enable Sonera to offer ATM-based broadband services and Internet-based services in Moscow. The uninterrupted fiber optic cable is Europe's longest (1,000 km), and it is an extension of the cable which Sonera and Lenenergo built from Finland to St Petersburg in 1993. The total cost of the fiber optic cable project was about €37 million. See "International and Other Significant Investments—Other Investments—Foreign Subsidiaries—Russian Operations."

Equipment Sales and Other Operations

Revenues from Equipment Sales and Other Operations grew by 16 percent from €149 million in 1998 to €173 million in 1999. The following table sets forth the revenues of Equipment Sales and Other Operations by principal lines of business for the periods specified.

	Year ended December 31,		
	1997	**1998**	**1999**
	(in € millions)		
Equipment Sales	80	96	114
Construction and Maintenance	37	31	24
Other operations	30	22	35
Total	147	149	173

Equipment Sales

During 1999, Sonera's subsidiary Sonera Systems Ltd sold, installed and maintained switchboard and telephone systems, payment terminals, computers as well as other data processing and telecommunications equipment. The company also supervised the Telering and Datainfo retail chains. Revenues from equipment sales amounted to €114 million in 1999 an increase of 19 percent as compared to the previous year.

The Telering chain comprises 20 Sonera-owned and 60 franchising stores. Mobile phone sales were Telering's largest single sales segment, as in previous years. The Datainfo chain is Finland's leading distributor of personal computers and software, and it is also a supplier of maintenance and network services for computers. The chain has 45 independent franchising stores.

Export operations were developed further via the subsidiaries in Estonia and Latvia. IsoWorks Oy, a joint venture between Sonera Systems and ICL, which specializes in the repair and maintenance of customer equipment, began operations in early October 1999. About 200 people transferred from Sonera Systems to the new company's employ.

As part of the new organizational structure that went into effect from the beginning of 2000, Sonera Systems Ltd's equipment sales were transferred to Sonera Solutions Ltd as a transfer in kind. At the same time, Telering Ltd was spun off from Sonera Solutions as an independent company. IsoWorks Oy will continue operations as a separate company that is owned by Sonera and ICL.

In 1996, Sonera established a wholly-owned subsidiary, Sonera Credit, primarily to support Sonera's core sales operations by providing equipment and other financing services to Sonera's customers. Sonera Credit's services are also available to customers of Finland Post Group and TietoEnator. Sonera Credit operates as a separate entity, making its own credit determinations and bearing its own credit risk. For the year ended December 31, 1999, Sonera Credit recorded leasing sales of €50 million.

Construction and Maintenance

Sonera provides a full range of network installation and maintenance services through its wholly-owned subsidiary, Primatel Ltd. On July 1, 1999, Sonera transferred its construction and maintenance business to Primatel, which operates as an independent subsidiary, providing network installation and maintenance services for both Sonera and outside customers including other telephone companies and end-users of telecommunication services such as public utilities, corporations and residential customers. Management believes that, as a separate company, Primatel will be better able to focus on its own distinctive strategic objectives, operational needs and marketing policies as well as further development of its ownership structure.

Primatel's operations are conducted under four business units: (1) Engineering, which constructs, tests and maintains fixed line and mobile network technical elements, including switching and transmission systems as well as base station technical elements; (2) Networks, which installs and maintains optical and copper cable networks; (3) Real Estate Networks, which installs, maintains and repairs safety networks at customer premises; and (4) Transmast Ltd., a 40 percent owned joint venture company with Fortum Corporation, the parent company of a Finnish energy group, which installs and maintains masts and antennas for other network operators, including telecommunications operators and broadcasting companies. At December 31, 1999, construction and maintenance operations employed 1,918 employees, as compared to 2,157 employees at December 31, 1998. The reduction in the workforce was carried out through redeployment of employees to other areas, early retirement, selective dismissals and lay-offs. In 1999, revenues from construction and maintenance services to outside customers amounted to €24 million.

Other Operations

The strong growth in the mobile phone penetration rate has lead to a further decline in the use of public phones. In 1999, the number of public phones operated by Sonera fell by approximately 3,000 and was 5,300 at the end of the year. Through its subsidiary, Lippupalvelu Oy, Sonera provides ticket reservations and sales services. Lippupalvelu operates through a premium rate national service number and retail outlets in selected major Finnish cities. Sonera's wholly-owned telecommunications consulting subsidiary, Telecon Oy, provides consulting services relating to network planning, construction, development and operation to other providers of fixed network voice communications and data and media services. Telecon's primary customers are Sonera's associated companies. In addition, Sonera, through its subsidiary EMCEC Oy, provides equipment radiation testing for manufacturers and distributors of telecommunications and electronic equipment, principally to ensure that such products meet European Union radiation requirements. In 1999, revenues from these other businesses amounted to €35 million.

International and Other Significant Investments

Sonera has made significant investments in telecommunications companies outside of Finland that it believes have substantial growth potential and in which it can apply technical and commercial know-how developed in the Finnish home market and in other markets. Sonera's principal investments have been substantial minority positions in providers of mobile telecommunications services in which Sonera can leverage its expertise in building and operating advanced GSM networks as well as its strengths in sales, marketing and customer service. Sonera has made its investments in mobile telecommunications providers in rapidly growing markets such as Turkey, the Baltic States and Hungary. In the U.S., Sonera has made significant investments in PCS operators Powertel, Aerial, and VoiceStream. Pursuant to Aerial's merger with VoiceStream in May 2000, Sonera now has 7.9 percent ownership interest, on a fully diluted basis, in VoiceStream. Sonera has also made substantial investments in providers of fixed-line services in the Baltic States, which have historically had strong economic ties to the Nordic Countries. In more developed European markets, including Sweden, Germany and the Benelux countries, Sonera's aim has been to establish subsidiaries that focus on providing business communications services, including data and media services. Sonera also has a substantial equity investment in TietoEnator, a leading supplier of information technology in Finland and Sweden. Sonera views its investments in international mobile and fixed-line operators as integrated parts of domestic operations, and it administers such holdings through the respective business areas.

The following table sets forth Sonera's principal international investments, Sonera's percentage ownership interest in these companies and total actual cost of shares in these companies:

Company name	Country	Percent of ownership	Actual cost of shares[1]
	As of December 31, 1999		
		(%)	(in € millions)
Mobile operators:			
Turkcell Iletisim Hizmetleri A.S.	Turkey	41.0	122
Aerial Communications, Inc.[2]	United States	19.7	397
Powertel, Inc.[3]	United States	9.1	119
Pannon GSM Rt.	Hungary	23.0	71
AS Eesti Mobiiltelefon	Estonia	24.5	—[4]
Latvijas Mobilais Telefons SIA	Latvia	24.5	—[4]
UAB Omnitel	Lithuania	27.5	78
North-West GSM ZAO	Russia	23.5	4
LibanCell S.A.L.	Lebanon	14.0	4
Fixed network operators:			
AS Eesti Telefon	Estonia	24.5	19[5]
Lattelekom SIA	Latvia	44.1	211
AB Lietuvos Telekomas	Lithuania	30.0	238
Other:			
HanseNet Telefongesellschaft mbH & Co. KG	Germany	50.0	8
TietoEnator[6]	Finland	20.3	135
724 Solutions Inc.[7]	Canada	22.0	23

(1) Includes Sonera's total actual cost of shares resulting from the investment in the share capital of the company in question.

(2) Pursuant to the completion of the merger of Aerial and VoiceStream on May 4, 2000, Sonera currently holds a 7.9 percent interest, on a fully diluted basis, in the surviving company VoiceStream.

(3) In September 1999, Sonera acquired a 9.1 percent ownership, on a fully diluted basis, in Powertel, Inc. Upon completion of a U.S.$125 million investment in Powertel, which was agreed upon in May 2000, Sonera will have an 11.8 percent ownership interest in Powertel.

(4) Sonera has invested less than €500,000 in the share capital of each of Eesti Mobiiltelefon and Latvijas Mobilais Telefons.

(5) Includes €9 million paid in February 1999 for additional shares in Eesti Telekom, the parent company of Eesti Mobiiltelefon and Eesti Telefon.

(6) In July 1999, Sonera's 27.3 percent interest in Tieto Corporation changed into a 20.3 percent interest in TietoEnator Corporation, upon the merger of Tieto Corporation with Enator AB. Previously, Sonera also had a 4.99 percent interest in Enator AB.

(7) The shares were acquired in August 1999. After the initial public offering by 724 Solutions in January 2000, Sonera's interest decreased to 18.1 percent.

Mobile Telecommunications Operations

Turkcell. Sonera has a 41 percent holding in Turkcell, the leading GSM cellular provider in Turkey. Very strong growth continued in the Turkish market during 1999 and the country's mobile phone penetration more than doubled, from 5 percent in 1998 to 12.5 percent in 1999. Turkcell continued to focus resources on developing the market, and the company retained its strong market share of almost 70 percent. During the year Turkcell's revenues rose to nearly €1.5 billion. The number of customers grew by 134 percent and stood at 5.5 million at the end of the year. Turkcell's contribution to Sonera's earnings doubled to €154 million in 1999 compared to €82 million in 1998. Turkcell currently provides comprehensive, high-density coverage of an area that includes approximately 62 percent of the total population of Turkey, as well as all of the 80 largest Turkish cities. In July 1999, Turkcell signed a U.S.$550 million contract with LM Ericsson for the supply of equipment to increase Turkcell's network capacity from five million to seven million subscribers. In July 1999, Turkcell expanded its coverage area by launching a GSM service in the Turkish Republic of Northern Cyprus. Sonera's share of Turkcell's net income was €154 million in 1999 on a preliminary basis.

Turkcell's consolidated financial statements for the years ended December 31, 1997, 1998 and 1999 are included in this report.

The following table sets forth some information regarding Turkcell and the Turkish mobile telecommunications market:

	As of or for the year ended December 31,		
	1997	1998	1999
	(in € millions(1), except percentages and market data)		
Revenues(2)	142	649	1,484
Operating profit	64	266	539
Net income	34	191	346
Sonera's share of net income(3) (%)	34.0	41.0	41.0
Equity income consolidated to Sonera(4)	12	82	154
Total assets	449	1,339	2,838
Shareholders' equity	109	386	816
Net debt(5)	290	677	1,408
Number of subscribers at end of period (in thousands)	1,137	2,330	5,466
Penetration rate of mobile telephone services in Turkey (%)	2.7	5.0	13.0

(1) U.S. dollar amounts have been translated into Finnish markkas (i) with respect to income statement items, at the Bank of Finland average exchange rate for the relevant accounting period and (ii) with respect to the balance sheet items at the Bank of Finland middle rate as of the relevant balance sheet date, which FIM amounts have been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(2) Until April 30, 1998, the figures given represent net revenues of Turkcell, after taking into account fees calculated on Turkcell's gross revenues paid by Turkcell under the 1993 revenue sharing agreement with Türk Telekom. As from May 1, 1998, the figures given represent Turkcell's gross revenue.

(3) Sonera acquired an additional seven percent interest in Turkcell in April 1998.

(4) Before any amortization of goodwill. In 1998 and 1999, amortization of goodwill recorded by Sonera with respect to Turkcell was €3 million and €4 million, respectively. Sonera did not record any amortization of goodwill with respect to Turkcell in 1997.

(5) Net debt consists of interest-bearing debt less cash and short-term investments.

Turkcell was formed in 1993 as a joint venture whose principal owners included the Cukurova Group, the third largest industrial conglomerate in Turkey. In 1993, Turkcell was awarded a 15-year revenue sharing agreement with Türk Telekom, Turkey's state-owned monopoly fixed-line operator, giving it the right to operate a GSM network. Under the terms of the agreement, Turkcell built and operated the GSM network and marketed GSM services to subscribers while Türk Telekom set tariffs for Turkcell's services, performed subscriber billing and collection and permitted Turkcell access to Türk Telekom's network. Turkcell's original revenue sharing agreement with Türk Telekom provided that Turkcell receive 32.9 percent of revenues billed for connection fees, monthly fees and outgoing calls and ten percent of revenues billed for incoming calls, an arrangement which resulted in Turkcell receiving between 25 percent and 26 percent of the gross revenues generated by subscribers to its GSM system.

In April 1998, Turkcell was granted a 25-year GSM license (the "Turkcell License") upon payment of an up front license fee of U.S. $500 million. The payment of the license fee was initially financed through a U.S. $575 million bridge loan facility, which was refinanced in July 1998 with an issuance of U.S. $300 million of high yield debt and a borrowing under a U.S. $575 million credit facility from a consortium of international banks. The Turkcell License eliminated certain of the operating constraints of the 1993 revenue sharing agreement with Türk Telekom. Under the terms of the Turkcell License, Turkcell is entitled to collect the revenues generated from the operation of its GSM system and is obligated to pay a fee equal to 15 percent of the monthly gross revenues to the Treasury of Turkey, as well as certain interconnection and other service fees to Türk Telekom. The Turkcell License also gives the Turkish Ministry of Communications certain powers to set and approve charges for GSM services provided by Turkcell.

During the term of the Turkcell License, Turkcell is obligated to provide GSM network coverage to 50 percent of the population of Turkey by 2001 and to 90 percent of the population by 2003, subject in each case to exceptions for rural areas. The Turkcell License also requires Turkcell to provide certain services in addition to general GSM phone service, including free emergency calls, as well as a variety of premium rate services such as short messages, fax capability and three-party conference calls, and to meet service quality requirements established by certain European standards institutions. The Ministry of Communications in Turkey may terminate the Turkcell License under certain circumstances, including Turkcell's failure to perform its obligations under the Turkcell License, in which event Turkcell could be required to deliver its GSM system to the Ministry of Communications.

Turkcell plans to continue the build-out of its GSM network and has already commenced offering its subscribers new services and pricing packages unavailable under the old revenue sharing agreement. As of December 31, 1999, Turkcell provided service to its subscribers in 77 countries through roaming agreements with 155 operators. Turkcell is also contemplating to expand its scope of business to entail provision of Internet, corporate solutions and multimedia services.

Turkcell has an ownership interest in three GSM operators outside of Turkey: Azercell Telecom MMM, Geocell Ltd. and TOO GSM Kazakhstan AOA. Turkcell owns a 56 percent indirect interest in Azercell, which operates a GSM network in Azerbaijan. As of December 31, 1999, Azercell had 179,000 subscribers to its GSM network. Turkcell also owns an indirect 40 percent interest in Geocell, which operates a GSM network in Georgia. As of December 31, 1999, Geocell had 17,000 subscribers. In October 1998, Turkcell acquired a 51 percent interest in GSM Kazakhstan, which holds one of two GSM licenses in Kazakhstan, for U.S. $25 million. The purchase price was financed through contributions from Turkcell's shareholders. As part of the transaction, Sonera, together with the other principal shareholders of Turkcell, has committed to enter into guarantees in respect of GSM Kazakhstan's bank debt in the aggregate amount of U.S.$ 34 million. GSM Kazakhstan commenced commercial operations in March 1999 and its coverage area currently extends into the four largest cities in Kazakhstan. As of December 31, 1999 GSM Kazakhstan had 26,000 subscribers. In March 1999, Turkcell established a 99.9 percent owned mobile operator subsidiary, Kibris Mobil Telekomünikasyon Limited Sirketi (Cyprus Mobile Telecommunications, Inc.), in Northern Cyprus. Cyprus Mobile commenced its operations in July 1999.

Turkcell competes with one other GSM provider in Turkey, Telsim, which was also granted in April 1998 a 25-year GSM license on terms believed to be similar to the Turkcell License. Telsim, which commenced service in 1994 under a revenue sharing agreement similar to that of Turkcell, had approximately 2,400,000 subscribers as of December 31, 1999, representing approximately 30 percent of the total Turkish GSM market. The only analog cellular provider, Türk Telekom, commenced NMT 450 operations in 1986 and, as of December 31, 1999, had approximately 124,000 cellular subscribers. The government of Turkey originally stated its intention to issue three additional GSM licenses. According to the Turkish Ministry of Transport, Türk Telekom will receive one license. A second new license was awarded to a consortium formed by Telecom Italia and Isbank, one of the largest private banks in Turkey, subject to certain conditions. In the public tender for the third new license held in April and May 2000 no bids were received. It is possible, however, that a third GSM license may still be awarded in Turkey.

Pursuant to the terms of a shareholders' agreement entered into with the other original shareholders of Turkcell, Sonera is entitled to nominate three individuals to serve on Turkcell's seven member board of directors. The shareholders' agreement also provides for certain rights of refusal with respect to transfers of Turkcell shares. Sonera has also entered into a technical assistance agreement with Turkcell pursuant to which it provides assistance relating to planning and construction services and site management of Turkcell's network, as well as assistance relating to the planning and training of Turkcell's business and technical departments. In connection with the U.S. $575 million financing in relation to the Turkcell License, Turkcell's shareholders committed to make additional capital contributions by the end of 1998 in an aggregate amount of U.S. $100 million. Sonera's share of such commitment was U.S. $41 million, which it has paid in full. As of December 31, 1999 Sonera also had outstanding guarantees to various lenders with respect to €97 million of debt incurred by Turkcell and its affiliates in connection with the purchase of network equipment and draw-downs of bank facilities. As of December 31, 1999, each of Turkcell's shareholders, including Sonera, had pledged 25 percent of their Turkcell shares as security for the U.S. $575 million financing in relation to Turkcell's 25-year GSM license.

Sonera is the only principal shareholder of Turkcell that operates its own mobile telecommunications network. The other significant shareholders of Turkcell include the Cukurova Group, with an aggregate 45.9 percent equity interest and MV Holding A.S., with a 7.0 percent beneficial ownership interest. In May 2000, Turkcell and the Cukorova Group settled an on-going dispute with Turkcell shareholder Bilka Bilgi Kaynak ve Iletisim A.S. in which Bilka claimed that it was deprived of the right to participate in Turkcell's equity increases in June 1998, resulting in the dilution of its ownership interest. After the entry of the final judgement of the Turkish Court of Appeals declaring that Turkcell's board of directors' decision in June 1998 to disapply Bilka's pre-emptive rights to subscribe to the disputed shares null and void, Turkcell and the Cukorova Group executed a settlement agreement with Turkcell. Under the terms of the agreement, Bilka received a portion of the disputed shares of Turkcell for their nominal value, giving Bilka a four percent equity interest in Turkcell, and waived its right to challenge the validity of past decisions made by the Turkcell board of directors. Bilka also agreed to cooperate in the planned initial public offering of Turkcell.

In October 1999, Sonera and the Cukurova Group entered into a shareholders agreement providing for the establishment of a new holding company in Turkey, Turkcell Holdings. Under the terms of the agreement, Sonera contributed Turkcell shares representing 24.02 percent of the share capital of Turkcell to the Turkish holding company. Sonera owns 47.09 percent of the shares of the holding company with the balance being owned by the Cukurova Group. Turkcell Holdings holds 51 percent of the share capital of Turkcell. The proposed restructuring was completed in the last quarter of 1999 following receipt of required governmental approvals. The new structure will enable Sonera and the Cukurova Group to sell a larger shareholding in Turkcell in the proposed public offering of Turkcell while maintaining the balance of their equity interests through their ownership of the Turkish holding company.

In 2000, Turkcell and its principal shareholders, Sonera and the Cukurova Group, established a joint holding company named Fintur Holding B.V. to which Turkcell transferred most of its interest in GSM operators outside Turkey as well as its digital television distribution company. Sonera, through an investment of U.S. $127 million, acquired a 35.3 percent equity holding in Fintur.

In June 2000, Sonera's Board of Directors authorized the sale of a portion of the shares in Turkcell held by Sonera Holding B.V. in connection with an initial public offering of Turkcell shares. The offering commenced in the second half of June 2000 and is expected to close in July 2000. Sonera expects to sell approximately ten percent of Turkcell's outstanding shares in the public offering.

In late November 1999, the Turkish Parliament confirmed the introduction of a temporary tax on mobile subscriptions. This tax, in effect from December 1, 1999 to December 31, 2000, will amount to

25 percent of a subscriber's total monthly telephone bill net of VAT and will be collected by mobile operators. Turkcell's management expects the tax to have a negative impact on mobile usage in Turkey but is not currently in a position to estimate the magnitude of the tax.

Turkcell is currently involved in a dispute with the Turkish Ministry of Finance in connection with the payment of VAT on the upfront fee for the Turkcell license. Should the matter be decided in favor of the Turkish Ministry of Finance, Turkcell could be required to pay overdue interest and penalties of up to approximately U.S.$ 150 million. Turkcell is also involved in a dispute with the Turkish Ministry of Transportation and the Treasury of Turkey in connection with the method of calculating the monthly license fee owed to the Treasury of Turkey.

Over the past four years, the Turkish economy has experienced inflation rates averaging over 70 percent per annum. To combat the persistently high levels of inflation in Turkey, the Turkish government has implemented certain policies, including austerity measures, which could have a negative impact on the Turkish economy and on the profitability of Turkcell.

Aerial. In September 1998, Sonera invested U.S.$200 million in Aerial Operating Co., the principal operating subsidiary of Aerial Communications, Inc. (Aerial), in exchange for an initial 19.4 percent ownership interest in Aerial Operating Co. Prior to the merger of Aerial and VoiceStream, Aerial was a provider of PCS based digital mobile communications services in the United States holding licenses to provide PCS services in areas covering 27.7 million of the U.S. population. Aerial's service areas included Minneapolis, the Florida cities of Tampa, St. Petersburg and Orlando, Houston, Pittsburgh, Kansas City and Columbus. Aerial launched its PCS service in each of its service areas, other than Orlando, in the first half of 1997 and, as of December 31, 1999, had approximately 422,900 subscribers, an increase of 111,000 subscribers from 1998. As of December 31, 1999, Aerial owned or leased 1,278 cell sites and expanded its network to reach more than 80 percent of the total population in its service areas. For the year ended December 31, 1999, Aerial recorded revenues of €212 million and had a net loss of €159 million.

The following table sets forth certain historical information regarding Aerial and the U.S. mobile telecommunications market:

	As of or for the year ended December 31,		
	1997	**1998**	**1999**
	(in € millions[1], except percentages and market data)		
Revenues	49	139	212
Operating loss	(190)	(252)	(197)
Net loss	(216)	(325)	(159)
Sonera's share of net income[2](%)	—	19.4	19.7
Equity loss consolidated to Sonera[3]	—	(22)	(34)
Total assets	876	824	968
Shareholders' equity	175	21	409
Net debt[4]	583	710	371
Number of subscribers at end of period (in thousands)	125	312	423
Penetration rate	20	25	30

(1) U.S. dollar amounts have been derived from publicly available information regarding Aerial and translated into Finnish markkas (i) with respect to income statement items, at the Bank of Finland average exchange rate for the relevant accounting period and (ii) with respect to the balance sheet items, at the Bank of Finland Middle Rate as of the relevant balance sheet date, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(2) Sonera acquired its 19.4 percent equity interest in Aerial Operating Co. in September 1998.

(3) Before any amortization of goodwill. In 1999, amortization of goodwill recorded by Sonera with respect to Aerial was €17 million and in 1998 it was €5 million. Sonera did not record any amortization of goodwill with respect to Aerial Operating Co. in 1997. Aerial Operating Co. recorded income from a tax refund allocated to it by TDS (Telephone and Data Systems, Inc.) in the first quarter of 1999 in connection with the proposed spin-off of Aerial.

(4) Net debt consists of interest-bearing debt less cash and short-term investments.

On September 20, 1999, Aerial, TDS and VoiceStream, a leading provider of PCS based digital mobile communication services in the United States, announced that they had entered into a definitive agreement to merge the two companies. TDS and the largest shareholders of VoiceStream, including affiliates of Hutchison Telecommunications Limited, irrevocably agreed to vote in favor of the merger at their respective shareholders' meetings. On March 30, 2000, the FCC granted final approval for the merger and the merger was completed on May 4, 2000. The merger of Aerial and VoiceStream continues the ongoing consolidation trend among PCS providers in the United States. It follows the announcement of the merger of VoiceStream and Omnipoint Corporation which was completed on February 25, 2000.

In November 1999, Sonera made an additional investment of U.S.$230 million in Aerial at an equivalent purchase price of U.S.$22.00 per share pursuant to its September 1998 investment agreement with TDS and Aerial (relating to Sonera's initial investment in Aerial Operating Co.). In addition, U.S.$420 million of Aerial debt currently owed to TDS was exchanged for Aerial equity at a ratio of U.S.$22.00 per Aerial share. As a consequence of these transactions, Aerial had 116 million shares outstanding immediately prior to the merger of Aerial and VoiceStream.

Pursuant to the merger agreement, shareholders of Aerial received 0.455 shares of VoiceStream for each Aerial common share and series A common share that they held prior to the merger. Previously, in February 2000, in connection with the merger of VoiceStream and Omnipoint, VoiceStream issued 8,771,930 new shares to Sonera at a purchase price of U.S.$57.00 per share (or U.S.$500 million in the aggregate) representing 3.6 percent of the outstanding shares of VoiceStream.

As a result of the completion of (1) the merger of Aerial into VoiceStream and (2) Sonera's additional investment of U.S.$230 million in Aerial and U.S.$500 million in VoiceStream, Sonera has invested an aggregate of U.S.$930 million in the combined entity incorporating VoiceStream, Omnipoint and Aerial, and owns 7.9 percent, on a fully diluted basis, of the combined entity. Sonera has the right to designate one director to the 17-member board of directors of the combined entity.

Sonera and VoiceStream also entered into an investor agreement relating to the ownership and transfer of VoiceStream shares to be held by Sonera. Under the terms of the agreement, Sonera is restricted, subject to certain exceptions, from acquiring over 19.9 percent of the voting securities of VoiceStream until September 2004. Sonera is also restricted, subject to certain exceptions, from taking certain actions that would cause an election contest at VoiceStream, a tender or exchange offer for any voting securities of VoiceStream or result in a change of control of VoiceStream. The investor agreement also contains certain restrictions on Sonera's ability to dispose of its securities in VoiceStream in a block totaling more than five percent of VoiceStream's voting shares. It is also anticipated that, upon completion of the VoiceStream-Omnipoint merger, Hutchison, TDS, Sonera and other major shareholders of VoiceStream will enter into a voting agreement which will consolidate in a single agreement existing rights of each of the parties to designate Board of Director candidates and for each party to vote for the director candidates so designated.

Following the merger of Omnipoint and VoiceStream in February 2000 and the completion of the merger of VoiceStream and Aerial on May 4, 2000, VoiceStream together with its affiliates is the largest GSM operator in the United States, holding licenses to provide PCS based digital mobile communication services in areas covering more than 200 million persons in the United States. Its service areas include 23 of the 25 largest population centers in the United States including New York, Pittsburgh, Orlando, Chicago, Minneapolis, Houston, Kansas City, Denver, Seattle and Portland. As of May 31, 2000 VoiceStream had approximately three million subscribers. For the year ended December 31, 1999, Aerial, Omnipoint and VoiceStream recorded total revenues of approximately U.S.$226 million, U.S.$404 million and U.S.$476 million, respectively, operating losses of approximately U.S.$210 million, U.S.$477 million and U.S.$323 million, respectively, and had net losses of U.S.$169 million, U.S.$687 million and U.S.$455 million, respectively.

The principal shareholders of the combined entity incorporating VoiceStream, Omnipoint and Aerial are affiliates of Hutchison, TDS and Sonera.

The merger between VoiceStream and Aerial, together with the related transactions, brings Sonera closer to its target of having a significant stake in a strong GSM operator with nation-wide operations. Sonera plans to build a strong strategic relationship with VoiceStream, and to work with VoiceStream to introduce emerging wireless data, mobile portal and other mobile electronic commerce services throughout the United States. Sonera also intends to foster a strong working relationship between the operating personnel of VoiceStream and Sonera.

The new combined entity is also expected to face a number of difficult challenges. Integrating the operations of both Omnipoint and Aerial with those of VoiceStream will place great demands on the combined entity's management. In addition, Sonera expects that it will be both difficult and costly for VoiceStream to establish a national brand.

On September 21, 1999, a party reporting to be an Aerial stockholder filed a putative class action complaint on behalf of stockholders of Aerial in the Court of Chancery of the State of Delaware in New Castle County. The complaint names as defendants Aerial, TDS, certain directors of Aerial and TDS, and VoiceStream. The complaint alleges a breach of fiduciary duties by the defendants, including in connection with the proposed replacement of $420 million of debt owned by Aerial to TDS with equity at $22.00 per share of Aerial common stock. The complaint alleges that TDS is receiving benefits at the expense of Aerial's public stockholders and sought to have the Aerial merger with VoiceStream enjoined, or, if consummated, to have it rescinded and to recover unspecified damages, fees and expenses. The defendants filed a dispositive motion with the court in February 2000 and the matter is still pending. The defendants have further stated that they do not believe that this lawsuit will have a material adverse effect on the Aerial merger with VoiceStream and related transactions.

Sonera's consolidated earnings for the second quarter will include a gain booked on account of the Aerial/VoiceStream merger. The amount of the gain is determined by the difference between VoiceStream's market value at the time of the merger and the carrying value of Aerial on Sonera's consolidated balance sheet. On March 31, the carrying value of Aerial on Sonera's consolidated balance sheet was €308 million. Sonera has received an advance ruling from the Central Tax Board of Finland, according to which the Aerial/VoiceStream merger is considered a transaction for which Sonera is liable to pay tax in Finland. The amount of the tax is determined by the difference between the market value at the time of the merger and the original acquisition cost, resulting in an estimated total tax payment of approximately €216 million. Sonera has appealed the ruling to the Supreme Administrative Court of Finland. Sonera's position is that the merger should be treated as a normal merger under the Finnish tax legislation which should not trigger a taxable gain or loss. Management is not currently in a position to predict with any certainty the timing or likely outcome of its appeal to the Supreme Administrative Court.

Powertel. In September 1999, Sonera acquired a 9.1 percent ownership interest, on a fully diluted basis, in Powertel, Inc., one of the largest GSM-based PCS operators in the United States, for a purchase price of U.S.$122.7 million. This was effected through Sonera's purchase of 100,000 shares of Powertel's Series A convertible preferred stock from LM Ericsson. On May 30, 2000, Sonera agreed to acquire approximately 1.7 million additional shares of Powertel for a purchase price of U.S.$125 million. Upon the completion of the investment, Sonera will own 11.8 percent of Powertel equity, on a fully diluted basis. On May 30, 2000, Sonera also agreed to invest U.S.$75 million in Eliska Wireless Ventures I, Inc. (Eliska) which will give Sonera a 30.1 percent stake in the newly formed company. Eliska's other shareholders include Powertel and Eliska Wireless Investors I, L.P. with 49.9 percent and 20.0 percent stakes respectively. Eliska has contracted to buy the PCS licenses and other assets of DiGiPH PCS, Inc., a GSM operator in Alabama, Mississippi and Florida for U.S.$375 million. Upon completion of the transaction, which is subject to regulatory approvals and is anticipated to occur by the end of 2000, Eliska's business will operate through Powertel using the Powertel brand.

Sonera expects its investment in Powertel and Eliska to enhance Sonera's presence in the U.S. mobile telecommunications market. Sonera and Powertel have also agreed to explore the possibilities for introducing new value-added services to Powertel's markets. Powertel holds licenses to provide PCS in areas covering 24.4 million of the U.S. population. Powertel's service areas include Atlanta (Georgia), Jacksonville (Florida), Memphis (Tennessee), Jackson (Mississippi), Birmingham (Alabama) and 13 basic trading areas in Kentucky and Tennessee. Powertel launched its PCS services in Jacksonville and Montgomery (Alabama) in October 1996 and has launched PCS services in a total of 34 markets in the southeast parts of the United States. As of December 31, 1999, Powertel had 546,364 PCS subscribers. For the year ended December 31, 1998, Powertel recorded revenues of U.S.$175 million, had an operating loss of U.S.$172 and a net loss of U.S.$271 million. In 1999, Powertel recorded revenues of U.S.$283 million, had an operating loss of U.S.$146 million and had a net loss of U.S.$134 million which amount includes non-recurring gains of U.S.$129 million from the sale of cellular telephone assets and wireless towers. Powertel's shares are quoted on Nasdaq.

The following table sets forth certain information regarding Powertel and the U.S. mobile telecommunications market:

	As of or for the year ended December 31,		
	1997	1998	1999
	(in € millions[1], except percentages and market data)		
Revenues	69	158	266
Operating loss	(118)	(155)	(137)
Net loss	(118)	(239)	(117)
Sonera's shareholding [2](%)	—	—	9.1
Total assets	1,257	1,183	1,433
Shareholders' equity	290	43	(70)
Net debt[3]	586	774	891
Number of subscribers at end of period (in thousands)	119	295	546
Penetration rate of mobile services in the United States (%)	20	25	30

(1) U.S. dollar amounts have been derived from publicly available information regarding Powertel and translated into Finnish markkas (i) with respect to income statement items, at the Bank of Finland average exchange rate for the relevant accounting period and (ii) with respect to the balance sheet items, at the Bank of Finland Middle Rate as of the relevant balance sheet date, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(2) Sonera acquired its 9.1 percent equity interest, on a fully diluted basis, in Powertel in September 1999. On May 30, 2000, Sonera agreed to acquire an additional 2.7 percent equity interest in Powertel for U.S.$ 125 million.

(3) Net debt consists of interest-bearing debt less cash and short-term investments.

Pannon. Sonera has a 23 percent shareholding in Pannon GSM, the second largest mobile telephone operator in Hungary. Hungary's mobile phone penetration rate grew to 16 percent in 1999. As of December 31, 1999, Pannon had approximately 668,000 subscribers an increase from 432,000 subscribers at the end of 1998, giving it approximately 42 percent of the Hungarian mobile telephone market. Pannon's network covers approximately 99 percent of Hungary's population and approximately 95 percent of its geographic area. For the year ended December 31, 1999, Pannon's revenues amounted to €313 million, an 18 percent increase over revenues of €266 million in 1998.

The following table sets forth certain information regarding Pannon and the Hungarian mobile telecommunications market:

	As of or for the year ended December 31,[1]		
	1997	1998	1999
	(in € millions[2], except percentages and market data)		
Revenues	149	266	313
Operating profit	34	41	87
Net (loss) income	6	(4)	51
Sonera's share of net income[3](%)	—	23.0	23.0
Equity (loss) income consolidated to Sonera[4]	—	(0.4)	10
Total assets	243	302	465
Shareholders' equity	43	35	78
Net debt[5]	149	200	168
Number of subscribers at end of period (in thousands)	260	432	668
Penetration rate of mobile services in Hungary (%)	6.9	10.7	16.0

(1) The selected financial data set forth above is based on financial reports received from Pannon in the preparation of Sonera's consolidated financial statements and the data presented may therefore differ from the data included in the financial statements published by Pannon for the relevant years.

(2) For 1997, Hungarian forint amounts have been translated into Finnish markkas using the Bank of Finland middle rate at the end of the period, which FIM amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573. For 1998 and 1999, Hungarian forint amounts in income statement items have been translated into Finnish markkas using the Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland middle rate in effect on December 31, 1998 and 1999, respectively, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(3) Until 1996 Sonera had a 14.6 percent equity interest in Pannon. In October 1996 Sonera acquired an additional 3.5 percent interest and a further 4.9 percent interest in Pannon in August 1998, increasing its shareholding to 23.0 percent.

(4) Before any amortization of goodwill. In 1999, amortization of goodwill recorded by Sonera with respect to Pannon was €6 million. In 1998, amortization of goodwill recorded by Sonera with respect to Pannon was €2 million. Sonera did not record any amortization of goodwill with respect to Pannon in 1997.

(5) Net debt consists of interest-bearing debt less cash and short-term investments.

Pannon launched its GSM service commercially in March 1994 pursuant to a license awarded in September 1993 by the Hungarian Ministry for Transport, Telecommunications and Water Management (the "Hungarian Ministry"). Under the terms of the license, Pannon has the right, for 15 years from the date of the license, to provide public GSM 900 services, and may, with the agreement of the Hungarian Ministry, extend the term of the license for an additional period of seven and one-half years. The other providers of mobile telecommunications in Hungary are Westel 900 GSM Mobil Tavkozlesi Rt., a provider of GSM 900 services, and Westel Radiotelefon Kft., a provider of analog mobile telecommunications services. In June 1999, the Hungarian Ministry granted three 15-year GSM 1800 licenses, one to both Pannon and Westel 900 as well as one to a new GSM provider Vodafone Airtouch (formerly Primatel) that won the license tender held in spring 1999. Pannon paid U.S.$46 million for the license.

The granting of GSM 1800 licenses in Hungary was part of an arrangement between the Hungarian Ministry and the current operators in which the current operators agreed to waive their rights for additional GSM 900 frequencies against the receipt of GSM 1800 licenses. Additionally, the current operators agreed to provide Vodafone an opportunity to roam in their networks for a maximum of three years ending on June 30, 2004, at the latest. According to the agreement entered into between the Hungarian Ministry and the operators, Pannon and Westel 900 will be allowed to start using GSM 1800 frequencies: (1) in Budapest twelve months after the date of meeting the technical and contractual conditions for the roaming service to be provided by Pannon to Vodafone, but not later than March 1, 2001 and (2) outside Budapest from March 1, 2001. As a roaming and interconnection agreement was signed in November 1999 by Vodafone and Pannon, Pannon can begin using GSM 1800 frequencies in Budapest in November 2000. Under the terms of the agreement between Pannon and Vodafone, Pannon can terminate the agreement fifteen months from its execution and Vodafone can terminate it after twelve months. Each party is required to give the other party three months notice of its intention to terminate the agreement.

Pannon offers its subscribers a wide range of value-added features, including the ability to send SMS messages to e-mail addresses and receive e-mail messages in SMS format, voice mail and conference call services. Pre-paid services started in 1997, and in 1998, Pannon introduced a pre-paid service with rechargeable SIM cards. In 1999, Pannon started to offer voice over IP for international calls. While Pannon's network has been fully built out and covers essentially the entire geographical area of Hungary, Pannon continues to make additional investments in its network to increase quality, improve indoor coverage and expand the overall capacity of its network. By the end of 1999 Pannon had entered into roaming agreements with 130 operators in more than 60 countries.

Sonera provides business and technical expertise to assist the operation of Pannon's GSM network. Sonera currently has two nominees including the Chairman serving on Pannon's seven member board of directors and one nominee on Pannon's five member supervisory board. Pannon's other principal shareholders include Royal KPN N.V. and Telenor AS. Sonera and the other shareholders of Pannon have entered into a shareholders' agreement which provides for certain rights of first refusal with respect to transfers of Pannon shares. In August 1998, Tele Danmark A/S sold the majority of its Pannon equity interest, of which Sonera acquired a 4.9 percent interest for an aggregate of U.S.$47.6 million. Sonera issued a put option to Tele Danmark, exercisable between December 1999 to June 2000, under which Sonera has an obligation to acquire an additional 1.9 percent interest in Pannon for U.S.$20 million. Sonera was also granted a call option by Tele Danmark with respect to the same shares on terms substantially similar to that of the put option. The call option expired unexercised in November 1999. In July 1999, Pannon issued debt securities in a principal amount of €125 million to international investors. The credit rating agencies Standard & Poor's Ratings Group and Moody's Investors Services, Inc. have rated the bond debt securities BB- and Ba3, respectively.

Eesti Mobiiltelefon. Through its shareholding in Eesti Telekom, a publicly listed Estonian corporation, Sonera has an indirect 24.5 percent ownership interest in Eesti Mobiiltelefon. Eesti Mobiiltelefon, a wholly-owned subsidiary of Eesti Telekom, is the largest of three GSM operators in Estonia. As of December 31, 1999, Eesti Mobiiltelefon had approximately 234,700 subscribers using its GSM network and 9,200 subscribers using its NMT 450 networks, giving it approximately 63 percent of the total Estonian mobile telephone market. Eesti Mobiiltelefon's GSM network covers approximately 99 percent and 98 percent of Estonia's population and geographic area, respectively. For the year ended December 31, 1999, Eesti Mobiiltelefon's revenues amounted to €103 million, a 23 percent increase over revenues of €84 million in 1998.

The following table sets forth certain information regarding Eesti Mobiiltelefon and the Estonian mobile telecommunications market:

	As of or for the year ended December 31,(1)		
	1997	1998	1999
	(in € millions(2), except percentages and market data)		
Revenues	56	84	103
Operating profit	22	29	38
Net income	18.0	20.1	34.1
Sonera's share of net income (%)	24.5	24.5	24.5
Equity income consolidated to Sonera	4.4	4.9	8.4
Total assets	53	66	85
Shareholders' equity	42	54	73
Net debt(3)	(4.0)	(5.1)	(15)
Number of subscribers at period end (in thousands)	102	152	244
Penetration rate of mobile telephone services in Estonia (%)	9.8	16.8	27.5

(1) The selected financial data set forth above is based on financial reports received from Eesti Mobiiltelefon in the preparation of Sonera's consolidated financial statements and the data presented may therefore differ from the data included in the financial statements published by Eesti Mobiiltelefon for the relevant periods.

(2) For 1997, Estonian kroon amounts have been translated into Finnish markkas using the Bank of Finland middle rate at the end of the period, which FIM amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573. For 1998 and 1999, Estonian kroon amounts in income statement items have been translated into Finnish markkas using the Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland middle rate in effect on December 31, 1998 and 1999, respectively, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(3) Net debt consists of interest-bearing debt less cash and short-term investments.

Eesti Mobiiltelefon commercially launched its NMT service in 1991 and its GSM service in 1995. Eesti Mobiiltelefon has an NMT and GSM license granted by the Estonian Ministry of Transport and Communications (the "Estonian Ministry") that is valid until August 31, 2006. Eesti Mobiiltelefon also has a license granted by the Estonian Ministry to provide GSM 1800 services that is valid until August 31, 2006. Competing providers of mobile telecommunications services in Estonia include Radiolinja Eesti AS, a subsidiary of the Finnish GSM operator Radiolinja, and AS Ritabel, which together have a 38 percent share of the Estonian GSM market and a 37 percent share of the total Estonian mobile telecommunications market.

Eesti Mobiiltelefon offers its subscribers a wide range of value-added features, including the ability to send SMS messages to other mobile phones and to e-mail addresses and to receive e-mail messages in the form of SMS messages. Eesti Mobiiltelefon has roaming agreements with mobile communications operators in approximately 83 countries at the end of 1999.

Sonera provides both GSM operating and technical expertise to Eesti Mobiiltelefon. Sonera's ownership interest in Eesti Mobiiltelefon is held through Eesti Telekom, a publicly listed Estonian corporation. Other shareholders of Eesti Telekom are Telia, which holds an indirect 24.5 percent equity interest, and the Republic of Estonia, which holds a 27.3 percent equity interest. The remaining 23.7 percent is owned by the public. Prior to the initial public offering of Eesti Telekom, both its group structure and ownership structure were restructured. The restructuring was effected on the basis of an agreement entered into between the Republic of Estonia and the minority shareholders of Eesti Telekom's subsidiaries. Pursuant to the restructuring agreement, the shareholders of Eesti Mobiiltelefon and Eesti Telefon, including Sonera, exchanged their shares in such subsidiaries for publicly-traded shares of Eesti Telekom.

Sonera and Telia together currently have four nominees and the Republic of Estonia has two nominees serving on Eesti Telekom's ten member supervisory council. The remaining four members have been elected by the annual general meeting of shareholders of Eesti Telekom. Eesti Mobiiltelefon has its own four member supervisory council in which Sonera and Telia together have two nominees.

Estonian telecommunications legislation was revised in preparation for Estonia's expected membership in the European Union and came into effect on March 19, 2000. The implementing legislation is still under development. There can be no assurance that the interpretation and implementation of new telecommunications legislation in Estonia will not have an adverse effect upon Eesti Mobiiltelefon. A number of lawsuits regarding Eesti Telekom's recent initial public offering and the restructuring process have been brought against Eesti Telekom, the Republic of Estonia and several other parties including Sonera and Telia. These claims attempt to, among other things, invalidate the restructuring and the subsequent sale of shares in the initial public offering. While Eesti Telekom has successfully defended itself in a number of the suits, management is currently not in a position to estimate the outcome of the remaining lawsuits but it believes that the defendants have good defenses against the claims presented.

Latvijas Mobilais Telefons. Sonera has a 24.5 percent shareholding in Latvijas Mobilais Telefons, the largest GSM operator in Latvia. As of December 31, 1999, Latvijas Mobilais Telefons had approximately 201,000 subscribers for its GSM and NMT 450 networks combined, giving it approximately 72 percent of the total Latvian mobile telephone market. For the year ended December 31, 1999, Latvijas Mobilais Telefons' revenues amounted to €103 million, a 49 percent increase over revenues of €69 million in the prior year.

The following table sets forth certain information regarding Latvijas Mobilais Telefons and the Latvian mobile telecommunications market:

	As of or for the year ended December 31,(1)		
	1997	**1998**	**1999**
	(in € millions(2), except percentages and market data)		
Revenues	39	69	103
Operating profit	8	25	44
Net income	6.6	12.9	31
Sonera's share of net income (%)	24.5	24.5	24.5
Equity income consolidated to Sonera	1.7	3.1	7.7
Total assets	50	78	99
Shareholders' equity	28	40	72
Net debt(3)	12	7	2
Number of subscribers at period end (in thousands)	61	125	201
Penetration rate of mobile telephone services in Latvia (%)	3.1	6.8	11.5

(1) The selected financial data set forth above is based on financial reports received from Latvijas Mobilais Telefons in the preparation of Sonera's consolidated financial statements and the data presented may therefore differ from the data included in the financial statements published by Latvijas Mobilais Telefons for the relevant years.

(2) For 1997, Latvian lat amounts have been translated into Finnish markkas using the Bank of Finland middle rate at the end of the period, which FIM amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573. For 1998 and 1999, Latvian lat amounts in income statement items have been translated into Finnish markkas using the Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland middle rate in effect on December 31, 1998 and 1999, respectively, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(3) Net debt consists of interest-bearing debt less cash and short-term investments.

Latvijas Mobilais Telefons commercially launched its NMT service in 1992 and its GSM service in 1996. Latvijas Mobilais Telefons' GSM license was renewed in December 1997 for a term of five years. Pursuant to the license, Latvijas Mobilais Telefons has the right to develop and operate an NMT 450 and a GSM network in Latvia. Pursuant to the terms of Latvijas Mobilais Telefons' interconnection agreement with Lattelekom, Latvijas Mobilais Telefons began receiving revenues from incoming calls to its mobile network commencing in April 1998. Although Latvijas Mobilais Telefons' license is on a non-exclusive basis, the only competing provider of mobile telecommunications services in Latvia is Baltcom GSM, which has approximately 28 percent of the total Latvian mobile communications market. Latvijas Mobilais Telefons offers its subscribers a wide range of value-added features, including voice mail, call forwarding, caller identification, SMS messaging and forwarding of SMS messages to e-mail addresses as well as fax and data capability. In July 1999, Latvijas Mobilais Telefons and Baltcom GSM were granted GSM 1800 licenses. Latvijas Mobilais Telefons began using the new frequency at the end of 1999 and Baltcom GSM in early 2000. Latvijas Mobilais Telefons has roaming agreements with approximately 174 mobile telecommunications operators in 72 countries.

Sonera provides both GSM operating and technical expertise to Latvijas Mobilais Telefons. Sonera currently has two nominees serving on Latvijas Mobilais Telefons' seven member board of directors. Latvijas Mobilais Telefons' other shareholders include Telia, with a 24.5 percent interest, Latvian State Radio and TV Center, with a 23 percent interest, Lattelekom with a 23 percent interest, and an entity controlled by the Ministry of Transport of the Republic of Latvia has a 5 percent interest.

Latvian telecommunications legislation is currently being revised in preparation for Latvia's expected membership in the European Union. Management is currently not in a position to assess the impact on Latvijas Mobilais Telefons of the anticipated passage of new telecommunications legislation in Latvia.

Omnitel. In September 1998, Sonera purchased a 27.5 percent indirect holding in Omnitel, the largest of three GSM operators in Lithuania. As of December 31, 1999, Omnitel had approximately 196,000 subscribers using its GSM network, giving it approximately 62 percent of the total Lithuanian mobile telephone market. Omnitel's GSM network covers approximately 98 percent and 95 percent of Lithuania's population and geographic area, respectively. For the year ended December 31, 1999, Omnitel's revenues amounted to €83 million as compared to €82 million in 1998.

The following table sets forth certain information regarding Omnitel and the Lithuanian mobile telecommunications market:

	As of or for the year ended December 31,(1)		
	1997	**1998**	**1999**
	(in € millions(2), except percentages and market data)		
Revenues	46	82	83
Operating profit	4.7	19.4	44
Net income	3.5	16.5	30.6
Sonera's share of net income (%)	—	27.5	27.5
Equity income consolidated to Sonera(3)	—	2.0	8.4
Total assets	64	84	106
Shareholders' equity	15	30	67
Net debt(4)	34	42	10
Number of GSM subscribers at period end (in thousands)	79	146	196
Penetration rate of mobile telephone services in Lithuania (%)	4.2	6.3	8.7

(1) The selected financial data set forth above is based on financial reports received from Omnitel in the preparation of Sonera's consolidated financial statements and the data presented may therefore differ from the data included in the financial statements published by Omnitel for the relevant years.

(2) For 1997, Lithuanian lita amounts have been translated into Finnish markkas using an exchange rate of 1.35 Finnish markkas per Lithuanian lita, which FIM amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573. For 1998 and 1999, Lithuanian lita amounts in income statement items have been translated into Finnish markkas using the Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland middle rate in effect on December 31, 1998 and 1999, respectively, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(3) Before any amortization of goodwill. In 1998 and 1999, amortization of goodwill recorded by Sonera with respect to Omnitel was €2 million and €7 million, respectively. Sonera did not record any amortization of goodwill with respect to Omnitel in 1997. Sonera's shareholding in Omnitel was acquired on September 2, 1998. Accordingly, Sonera's equity income from Omnitel in 1998 only includes the last four months of 1998.

(4) Net debt consists of interest-bearing debt less cash and short-term investments.

Omnitel commercially launched its GSM 900 service in March 1995. Omnitel's current GSM 900 license was granted in October 1997 by the Lithuanian Ministry of Communications and Information and is valid until October 2007, subject to renewal thereafter. Omnitel's license covers the construction and operation of a GSM mobile communication network on a nationwide basis in a two times 4.3 MHz spectrum frequency band. The license contains certain service requirements such as maximum levels of unsuccessful or disrupted calls. Omnitel competes principally with UAB Bite GSM, a provider of GSM 900 mobile telecommunications services, UAB Tele2, a provider of GSM 1800 services and UAB Comliet, a provider of NMT mobile telecommunications services. Omnitel was granted a GSM 1800 license in 1998, for which it made a one-time payment of U.S.$221,000. Omnitel offers its subscribers a wide range of value-added features, including voice mail, call forwarding, call waiting, caller identification, three-way conferencing and SMS messaging. Omnitel also provides commercial Internet services, data transmission services, using X.25 and X.28 protocol, and nationwide paging services. Omnitel had roaming agreements with 111 mobile telecommunications operators in 57 countries as of March 31, 2000.

Omnitel's other shareholders are Telia, also with a 27.5 percent shareholding; Motorola Lithuania Telecom, a Lithuanian subsidiary of Motorola Corporation, with a 35 percent shareholding; and the Kazickas family, with a ten percent shareholding. Sonera and Telia may each nominate two of the seven members of the Omnitel board of directors. A Sonera nominee currently occupies the position of Chairman of the board of directors through the end of September 2000 when a nominee of Telia will assume the chairmanship. Subject to certain conditions, each shareholder may require Omnitel to repurchase its Omnitel shares. The shareholders may be required to make additional capital contributions to Omnitel provided that any proposal for capital contributions must be approved by a supermajority of the shareholders. In November 1997, Omnitel entered into a loan agreement with Overseas Private Investment Corporation and another in May 1998 with Merita Bank plc. The shareholders of Omnitel have guaranteed these loans and have, in connection with such guarantees, pledged all their shareholdings in Omnitel.

North-West GSM. Sonera has a 23.5 percent shareholding in North-West GSM ZAO, a GSM service provider in the northwestern part of Russia, including the St. Petersburg, Archangelsk, Murmansk, Karelia and Vologda regions. As of December 31, 1999, North-West GSM had approximately 133,000 subscribers using its GSM network. North-West GSM's network covers approximately 90 percent of the population in St. Petersburg and Leningrad oblast and 25 percent of its geographic area, respectively, and between 30 to 50 percent of the population in its other service areas. For the year ended December 31, 1999, North-West GSM's revenues amounted to €80 million, a nine percent decrease over revenues of €88 million in 1998.

The following table sets forth certain information regarding North-West GSM and the Russian mobile telecommunications market:

	As of or for the year ended December 31,[1]		
	1997	1998	1999
	(in € millions[2], except percentages and market data)		
Revenues	58	88	80
Operating profit	17.5	29.4	19.7
Net income	11.3	16.3	5.9
Sonera's share of net income (%)	23.5	23.5	23.5
Equity income consolidated to Sonera	2.7	3.8	1.2
Total assets	82	84	108
Shareholders' equity	20	32	43
Net debt[3]	3	10	0.3
Number of subscribers at period end (in thousands)	56	92	133
Penetration rate of mobile telephone services in Russia (%)	0.3	0.3	0.9

(1) The selected financial data set forth above is based on financial reports received from North-West GSM in the preparation of Sonera's consolidated financial statements and the data presented may therefore differ from the data included in the financial statements published by North-West GSM for the relevant years.

(2) For 1997, U.S. dollar amounts have been translated into Finnish markkas using the Bank of Finland middle rate at the end of the period, which FIM amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573. For 1998 and 1999, U.S. dollar amounts in income statement items have been translated into Finnish markkas using the Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland middle rate in effect on December 31, 1998 and 1999, respectively, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(3) Net debt consists of interest-bearing debt less cash and short-term investments.

North-West GSM commercially launched its GSM service in the St. Petersburg area in December 1994 and in most of its other service areas in 1997. North-West GSM's licenses in its five principal service areas are valid until dates ranging from 2004 to 2007. In December 1999, North-West GSM acquired 100 percent of the equity of North-West DCS ZAO a holder of a GSM-1800 license. This acquisition permits North-West GSM to provide dual band service and adds Kaliningrad, Novgorod and Pskov to the regions in which it is licensed. As of December 31, 1999, North-West GSM had a 63 percent share of the market for mobile telecommunications services in its service areas. The two principal competitors of North-West GSM are Delta Telecom, which operates an NMT based service, and Fora Communications, which operates an AMPS based service. North-West GSM's management believes that North-West GSM operates the most advanced mobile network in Russia, giving it a competitive advantage over other providers of primarily analog based services.

North-West GSM offers its subscribers a wide range of value-added features, including voice mail, call forwarding, caller identification and SMS messaging, data and fax capabilities as well as WAP and electronic payment services. North-West GSM has roaming agreements with approximately 195 mobile communications operators including operators of GSM 900, GSM 1800 and GSM 1900 networks in approximately 91 countries. North-West GSM also provides national roaming pursuant to agreements with 13 other GSM operators operating in many densely populated areas in Russia, including the cities of Moscow, Nizhni-Novgorod, Samara and Krasnodar.

Sonera provides operating, financial and technical expertise to North-West GSM. North-West GSM's other shareholders include a group of Russian telecommunications companies and financial institutions, which hold, in the aggregate, 51 percent of North-West GSM, and Telia and Telenor, which each hold

12.7 percent interests in North-West GSM. Of the ten members of the North-West GSM board of directors, five are nominated by the Russian shareholders. Of the remaining five directors, Sonera has the right to nominate two directors, Telia and Telenor have the right to nominate one director each, and Sonera, Telia and Telenor together have the right to nominate one director. The transfer of shares in North-West GSM is subject to certain restrictions, including rights of refusal and consent rights of other North-West GSM shareholders.

The European Bank for Reconstruction and Development (EBRD) has agreed to lend North-West GSM up to U.S.$40 million to finance development of the GSM network. To secure North-West GSM's obligations thereunder, each shareholder has agreed to pledge up to 50 percent of its respective shares to the EBRD. The loan agreement also restricts North-West GSM's ability to pay dividends, incur additional indebtedness and make certain expenditures without the permission of the EBRD. In accordance with the EBRD loan agreement, Sonera has pledged 50 percent of its shares in favor of the EBRD, including dividends or distributions that may be paid thereon. North-West has drawn U.S.$19 million under the EBRD loan agreement. North-West GSM began repayment in January 2000 pursuant to the terms of the loan agreement.

Since August 1998, Russia has been undergoing a period of increased economic and political instability, marked by a currency devaluation, a severe banking crisis and changes of governments. Due to the recent economical and political instability in Russia, the growth in North-West GSM's subscriber base ceased and the number of inactive subscribers increased during the last quarter of year 1998. Since the beginning of 1999, North-West GSM has experienced a slow but steady growth of its subscriber base although the number of inactive subscribers has remained quite substantial. A prolonged economic or political crisis in Russia could have a material adverse effect upon the value and prospects of North-West GSM.

LibanCell. Sonera has a 14 percent holding in LibanCell, one of two GSM operators in Lebanon. As of December 31, 1999 LibanCell had approximately 318,000 subscribers, a 28 percent increase from the previous year, giving it approximately 50 percent of the Lebanese mobile telephone market in 1999. LibanCell's network covers approximately 95 percent of Lebanon's population and approximately 90 percent of its geographic area. For the year ended December 31, 1999, LibanCell's net revenues amounted to €156 million, a 37 percent increase over net revenues of €114 million in 1998.

The following table sets forth certain information regarding LibanCell and the Lebanese mobile telecommunications market:

	As of or for the year ended December 31,(1)		
	1997	1998	1999
	(in € millions(2), except percentages and market data)		
Net revenues	80	114	156
Operating profit	37	54	72
Net income	22	39	47
Sonera's shareholding (%)	14.0	14.0	14.0
Dividends received	2	3	3
Total assets	170	226	247
Shareholders' equity	48	73	97
Net debt(3)	68	23	7
Number of subscribers at period end (in thousands)	192	248	318
Penetration rate of mobile telephone services in Lebanon (%)	9.6	12.0	15.7

(1) The selected financial data set forth above is based on financial reports received from LibanCell in the preparation of Sonera's consolidated financial statements and the data presented may therefore differ from the data included in the financial statements published by LibanCell for the relevant years.

(2) Lebanese pound amounts with respect to financial years 1997 have been translated into Finnish markkas using an exchange rate of 0.00330 Finnish markka per Lebanese pound and with respect to financial year 1998 using an exchange rate of 0.00338 Finnish markka per Lebanese pound, which FIM amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573. For 1999, U.S. dollar amounts in income statement items have been translated into Finnish markkas using the Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland middle rate in effect on December 31, 1999, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00=FIM5.94573.

(3) Net debt consists of interest-bearing debt less cash and short-term investments.

LibanCell commercially launched its GSM service in May 1995, pursuant to an agreement with the Republic of Lebanon granting LibanCell the right to build, operate and transfer a GSM network in Lebanon. The ten-year license expires in 2004 and LibanCell has an option to extend the license for an additional two years. Under the terms of the license, LibanCell's GSM network will revert back to the Republic of Lebanon after the expiration of the license. LibanCell pays certain fixed amounts to the Republic of Lebanon annually together with a percentage of revenues generated by airtime, connection and subscription fees, and international call fees ranging from 20 percent in the first eight years to 50 percent in the final two years of the extended license term. The license also restricts LibanCell's ability to increase rates for network usage. On April 22, 2000, the Lebanese Ministry of Post and Telecommunications served a payment order on LibanCell for the amount of U.S.$300 million in connection with alleged violations by LibanCell of the terms of its mobile operator license. France Telecom Mobiles International, the other GSM operator in Lebanon, was also requested to pay U.S.$300 million. In response, on May 12, 2000, LibanCell filed a request for arbitration of the matter pursuant to the terms of the 1994 contract between LibanCell and the Republic of Lebanon, Ministry of Post and Telecommunications. The matter is still pending and LibanCell's management is not currently in a position to predict the timing or likely outcome of the proceeding.

Pursuant to an agreement between Sonera and LibanCell, Sonera provides technical expertise and services to assist LibanCell in complying with the minimum requirements of the build, operate and transfer license. In return for these services, Sonera receives four percent of LibanCell's annual net income. Sonera currently has one nominee serving on LibanCell's five member board of directors. Sonera is the only principal shareholder of LibanCell that operates its own telecommunications network, the other principal shareholders being Lebanese Telecommunications Company SARL, Lebanese Communication Holding SAL and Almabani Liban. Although the shareholders can freely sell their shares to one another, sales of shares to parties other than shareholders are subject, first, to a right of first refusal held by LibanCell and, thereafter, to a right of first refusal held by the other shareholders proportionally in accordance to their holdings. Any transfer of shares is also subject to the prior approval of the Lebanese Ministry of Posts and Communications.

The only other provider of mobile telecommunications services in Lebanon is France Telecom Mobile Liban, which serves approximately 50 percent of the Lebanese market. However, the Lebanese government has made public that it is considering launching a state-owned cellular phone company to compete with the two current providers. The terms regarding exclusive rights granted to LibanCell in the current license agreement between LibanCell and the Republic of Lebanon would allow the new company to start its operations in 2003.

Fixed Line Operations

Eesti Telefon. Through its holding in Eesti Telekom, a publicly listed Estonian corporation, Sonera has an indirect 24.5 percent interest in Eesti Telefon. Eesti Telefon, a wholly-owned subsidiary of Eesti Telekom, is currently the dominant provider of fixed-line telecommunications services in Estonia. As of December 31, 1999, Eesti Telefon had approximately 510,000 subscriber lines. For the year ended December 31, 1999, Eesti Telefon's revenues amounted to €154 million, a 12 percent increase in euro terms over revenues of €138 million in 1998.

The following table sets forth certain information regarding Eesti Telefon and the Estonian fixed-line telecommunications market:

	As of or for the year ended December 31,[1]		
	1997	1998	1999
	(in € millions[2], except percentages and market data)		
Revenues[3]	99	138	154
Operating profit	19	22	25
Net income[4]	14	16	9
Sonera's share of net income (%)	24.5	24.5	24.5
Equity income consolidated to Sonera[5]	3.4	4.0	0.5
Total assets	153	162	173
Shareholders' equity	67	80	80
Net debt[6]	67	65	61
Number of access lines at period end (in thousands)	469	493	510
Penetration rate of fixed-line telephone services in Estonia (%)	32.2	34.5	35.3

(1) The selected financial data set forth above is based on financial reports received from Eesti Telefon in the preparation of Sonera's consolidated financial statements and the data presented may therefore differ from the data included in the financial statements published by Eesti Telefon for the relevant periods.

(2) For 1997, Estonian kroon amounts have been translated into Finnish markkas using the Bank of Finland middle rate at the end of the period, which FIM amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573. For 1998 and 1999, Estonian kroon amounts in income statement items have been translated into Finnish markkas using the Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland middle rate in effect on December 31, 1998 and December 31, 1999, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(3) In 1999, the company changed its recognition of interconnection revenues and costs to the gross method, which increased the revenues and costs compared to the previous years. Revenues for 1997 and 1998 have been adjusted so as to be comparable to the 1999 revenues.

(4) Due to the changes in Estonian tax law in effect from January 1, 2000 the company was required to write-off deferred tax assets. This had a negative effect on net income in 1999.

(5) The 1999 consolidated equity income to Sonera includes corrections from the previous years.

(6) Net debt consists of interest-bearing debt less cash and short-term investments.

Eesti Telefon currently has exclusive rights through December 31, 2000 and non-exclusive rights thereafter until 2018 to provide local, domestic long distance and international telephone services in Estonia. During the past three years, Eesti Telefon has made a substantial investment in its fixed-line telecommunications network, adding approximately 71,000 access lines and increasing the rate of penetration from approximately 30.0 lines per 100 inhabitants as of the end of 1996 to approximately 35.3 lines per 100 inhabitants at the end of 1999. In addition, the number of Eesti Telefon's telephone lines connected to digital switches increased from 27.6 percent at the end of 1996 to 55.7 percent as of December 31, 1999. Customers connected to the digital system can also subscribe to such services as call waiting, call forwarding, conference calls and voice mail. Eesti Telefon also offers ISDN services in the majority of Estonia's most populated regions. In 1997, Eesti Telefon completed the installation of fiber optic cable for both its domestic and international transmission networks. It is expected that Eesti Telefon will continue to make substantial investments in the modernization of its network.

Sonera provides technical know-how and expertise to Eesti Telefon. In cooperation with Sonera, Eesti Telefon created a data communications system between Estonia and Finland based on ATM technology and has plans to develop a basic ATM network covering the entire country. Eesti Telefon also offers X.25 and frame relay data transmission services as well as Internet access services.

Sonera's indirect ownership interest in Eesti Telefon is held through Eesti Telekom, a publicly listed Estonian corporation. Prior to the initial public offering of Eesti Telekom shares, Eesti Telekom and its operative companies, Eesti Mobiiltelefon and Eesti Telefon, completed a restructuring pursuant to an agreement between the Republic of Estonia and the other shareholders of Eesti Mobiiltelefon and Eesti Telefon. Pursuant to the restructuring agreement, the shareholders of Eesti Mobiiltelefon and Eesti Telefon, other than the Republic of Estonia, which already prior to the restructuring owned its shares in the operative companies through Eesti Telekom, exchanged their shareholdings in such companies for publicly tradeable shares of Eesti Telekom. See "—Mobile Telecommunications Operations—Eesti Mobiiltelefon" for a description of the ownership structure of Eesti Telekom. A number of lawsuits regarding the recent initial public offering and the restructuring of Eesti Telekom have been brought against Eesti Telekom and other parties to it, including Sonera. See "—Mobile Telecommunications Operations—Eesti Mobiiltelefon" for a description of these lawsuits.

Estonian telecommunications legislation was revised in preparation for Estonia's expected membership in the European Union and went into effect on March 19, 2000. Among other changes, the new legislation imposes a licensing requirement on telecommunications operators and the terms of Eesti Telefon's license are currently being negotiated. There can be no assurance that the interpretation and implementation of the new telecommunications legislation in Estonia will not have an adverse effect upon Eesti Telefon.

Lattelekom. Sonera has a 44.1 percent indirect shareholding in Lattelekom, currently the sole provider of fixed-line telephone services in Latvia. In September 1998, Sonera, which initially indirectly held a 13.2 percent of the share capital of Lattelekom, acquired an additional 30.9 percent indirect interest in Lattelekom from Cable and Wireless. Presently, the other shareholders in Lattelekom are the Republic of Latvia, which holds a 51.0 percent interest in Lattelekom and the International Finance Corporation, which holds a 4.9 percent indirect interest. As of December 31, 1999, Lattelekom had approximately

732,000 subscriber lines. For the year ended December 31, 1999, Lattelekom's revenues amounted to €207 million, a 15 percent increase over revenues of €178 million in 1998.

The following table sets forth certain information regarding Lattelekom and the Latvian fixed-line telecommunications market:

	As of or for the year ended December 31,[1]		
	1997	1998	1999
	(in € millions[2], except percentages and market data)		
Revenues	148	178	207
Operating profit	25	40	36
Net income[3]	18	32	34
Sonera's share of net income (%)[4]	13.2	44.1	44.1
Equity income consolidated to Sonera[5]	2.5	8.8	15.0
Total assets	303	374	444
Shareholders' equity	232	248	317
Net debt[6]	27	53	55
Number of access lines at period end (in thousands)	740	742	732
Penetration rate of fixed-line telephone services in Latvia (%)	30.0	30.1	30.2

(1) The selected financial data set forth above is based on financial reports received from Lattelekom in the preparation of Sonera's consolidated financial statements and the data presented may therefore differ from the data included in the financial statements published by Lattelekom for the relevant years.

(2) For 1997, Latvian lat amounts have been translated into Finnish markkas using the Bank of Finland middle rate at the end of the period, which FIM amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573. For 1998 and 1999, Latvian lat amounts in income statement items have been translated into Finnish markkas using the Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland middle rate in effect on December 31, 1998 and December 31, 1999 respectively, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(3) Lattelekom's net income includes its equity income in its associated company Latvijas Mobilais Telefons, in which it holds a 23 percent equity interest.

(4) Sonera acquired an additional 30.9 percent interest in Lattelekom in September 1998. Sonera holds its interest in Lattelekom through a holding company, Tilts Communications, the only asset of which is a 49 percent equity interest in Lattelekom. Sonera currently holds a 90 percent interest in Tilts Communications, the other Tilts Communications' shareholder being IFC. Prior to September 1998, Sonera held a 27 percent interest in Tilts Communications, and Sonera has historically treated Tilts Communications as an associated company, including its earnings in Sonera's consolidated accounts in accordance with the equity method of accounting. Since September 1998, Sonera has consolidated the accounts of Tilts Communications and presents IFC's minority interest in Tilts Communications separately in Sonera's consolidated income statement and balance sheet.

(5) Before any amortization of goodwill. Sonera recorded amortization of goodwill of €1 million, €8 million and €19 million with respect to Lattelekom in 1997, 1998 and 1999, respectively.

(6) Net debt consists of interest-bearing debt less cash and short-term investments.

Lattelekom has made substantial investments in its fixed-line telecommunications network, with cumulative investments from the beginning of 1994 to the end of 1999 amounting to approximately €491 million. During that period, the number of access lines has grown by approximately 81,000. The rate of penetration has increased from approximately 26.4 lines per 100 inhabitants as of the end of 1994 to approximately 30.2 lines per 100 inhabitants at the end of 1999. At the end of 1999, approximately 314,000 customer lines of Lattelekom, 43 percent of all lines, were connected to digital switches, compared to 37 percent in 1998 and two percent in 1994. The digital system offers customers additional services such as call waiting, call forwarding and other value-added services. Lattelekom is also offering an ISDN service to its customers which are currently served by digital switches. The number of people in Latvia waiting for the installation of fixed-line service was approximately 20,000 at the end of 1999, a significant decrease from approximately 40,000 at the end of 1998. Lattelekom expects that it will continue to make substantial investments in the modernization of its network.

Although voice telephone services remain its core business, Lattelekom has begun to offer many other types of telecommunications services, including Internet access, data transmission and local area network connections. Lattelekom offers its customers data transmission services and virtual private network services using X.25 protocol, a world-wide protocol for transmitting data in packet switched format.

Lattelekom has exclusive rights to provide local, domestic long distance and international fixed-line telecommunication services throughout Latvia through 2013. However, as part of its push for WTO (World Trade Organization) and European Union memberships, the government of Latvia is seeking to shorten the exclusivity period during which Lattelekom may act as the exclusive fixed-line service provider in Latvia to the end of 2002. Sonera takes the position that such a unilateral reduction of the exclusivity period would constitute a breach of the agreement pursuant to which Sonera originally acquired its beneficial interest in Lattelekom, and Sonera is negotiating with the Latvian government regarding compensation to be paid both to Lattelekom and to its shareholders directly for losses that will be sustained in the event of a unilateral reduction of the license exclusivity period.

Pursuant to agreements with Lattelekom and the Republic of Latvia, Tilts Communications provides Lattelekom management, employee training and assistance in the procurement of equipment and supplies for which Tilts Communications received fees of €4 million in 1999 and €9 million in 1998. Tilts Communications has also agreed to improve Lattelekom's network and infrastructure. Sonera, on a pro rata basis as a shareholder in Tilts Communications, has provided performance guarantees to Lattelekom in respect of Tilts Communications' foregoing obligations.

Sonera currently has four nominees serving on Lattelekom's 11-member board of directors. Executives nominated by Sonera also serve as the Chief Executive Officer, deputy Chief Executive Officer and Chief Financial Officer of Lattelekom.

Latvian telecommunications legislation is currently being revised in preparation for Latvia's expected membership in the European Union. There can be no assurances that the interpretation and implementation of new telecommunications legislation in Latvia will not have an adverse effect on Lattelekom.

Lietuvos Telekomas. In July 1998, Sonera acquired a 30 percent indirect shareholding in Lietuvos Telekomas, currently the sole provider of fixed-line telecommunication services in Lithuania. As of December 31, 1999, Lietuvos Telekomas had approximately 1,161,000 access lines. For the year ended December 31, 1999, Lietuvos Telekomas' revenues amounted to €231 million, a 13 percent increase over revenues of €204 million in 1998.

The following table sets forth certain information regarding Lietuvos Telekomas and the Lithuanian fixed-line telecommunications market:

	As of or for the year ended December 31,[1]		
	1997	1998	1999
	(in € millions[2], except percentages and market data)		
Revenues	152	204	231
Operating profit	27	49	39
Net income	22	22	34
Sonera's share of net income (%)[3]	—	30	30
Equity income consolidated to Sonera[4]	—	6.6	10.2
Total assets	320	356	492
Shareholders' equity	223	233	302
Net debt[5]	47	77	140
Number of access lines at period end (in thousands)	1,048	1,110	1,161
Penetration rate of fixed-line telephone services in Lithuania (%)	28.3	30.0	31.4

(1) The selected financial data set forth above is based on financial reports received from Lietuvos Telekomas in the preparation of Sonera's consolidated financial statements and the data presented may therefore differ from the data included in the financial statements published by Lietuvos Telekomas for the relevant years.

(2) For 1997, Lithuanian lita amounts have been translated into Finnish markkas using the Bank of Finland middle rate at the end of the period, which FIM amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573. For 1998 and 1999, Lithuanian lita amounts in income statement items have been translated into Finnish markkas using Bank of Finland average exchange rate for the period and in balance sheet items using the Bank of Finland middle rate in effect on December 31, 1998 and 1999, respectively, which Finnish markka amounts have then been converted into euros at the irrevocable conversion rate between the Finnish markka and the euro of €1.00 = FIM 5.94573.

(3) Sonera acquired its 30.0 percent indirect interest in Lietuvos Telekomas in July 1998.

(4) Before any amortization of goodwill. In 1999, amortization of goodwill recorded by Sonera with respect to Lietuvos Telekomas was €16 million. In 1998, amortization of goodwill recorded by Sonera with respect to Lietuvos Telekomas was €8 million. Sonera did not record any amortization of goodwill with respect to Lietuvos Telekomas in 1997.

(5) Net debt consists of interest-bearing debt less cash and short-term investments.

Lietuvos Telekomas has the exclusive right up to December 31, 2002, to be the sole operator of Lithuania's public fixed telephone network and the sole provider of public fixed telephone services in Lithuania. During the past three years, Lietuvos Telekomas has made substantial investments in its fixed-line communications networks. At the end of 1999, approximately 41 percent of the switching capacity of Lietuvos Telekomas was digital as compared to 29 percent at the end of 1998. Thirty-three percent of access lines in use were connected to digital exchanges at the end of 1999 as compared to 24 percent at the end of 1998. The digital system offers customers additional services such as call waiting, conference calling and other value-added services. At the end of 1999, Lietuvos Telekomas had an access line waiting list of approximately 74,000, compared to 80,000 at the end of 1998. Lietuvos Telekomas has been investing significantly in the modernization of its network, with 1999 net cash flow to investing activities in the amount of €134 million.

Lietuvos Telekomas offers a nationwide data transmission service, that utilizes X.25 or X.28 protocols, two world-wide protocols for transmitting data in packet switched format, via leased lines or via modem using public switched telephone network. Lietuvos Telekomas also offers X.400 e-mail services.

In December 1997, Lietuvos Telekomas was also granted a ten-year mobile license covering both GSM 900 and GSM 1800 service. However, Lietuvos Telekomas and Omnitel, the principal provider of GSM services in Lithuania, have the same controlling majority owners. Lietuvos Telekomas has relinquished its GSM 900 and GSM 1800 licenses. For the same reasons, UAB Lintel, a wholly owned subsidiary of Lietuvos Telekomas, sold its 28.4 percent interest in Bite GSM, a second GSM operator in Lithuania, to Tele Danmark A/S for U.S. $50 million on September 22, 1999, with the agreement becoming effective on January 13, 2000. In order to be better able to provide wireless local loop (WLL) solutions in Lithuania, Lietuvos Telekomas increased its ownership in UAB Comliet, an analog mobile network operator in Lithuania, from 41 percent to 100 percent on December 15, 1999. In order to gain approval of the transaction from the Lithuanian competition authorities, it was agreed that UAB Comliet will discontinue its NMT analog mobile services by the end of the year 2000.

Sonera currently has two nominees serving on Lietuvos Telekomas' nine member board of directors. A Sonera executive has been appointed as the general manager of Lietuvos Telekomas. Lietuvos Telekomas' other shareholders are Telia, which also holds an indirect 30 percent equity interest, and the Republic of Lithuania, which retains an approximately 10 percent interest. In 1999, in accordance with Lithuanian legislation, the State of Lithuania offered approximately five percent of the share capital of Lietuvos Telekomas to employees of Lietuvos Telekomas, thus reducing its interest in the company from 40 percent to approximately 35 percent. In June 2000, the State of Lithuania sold, as part of an international and domestic offering, an additional 25 percent interest in Lietuvos Telekomas, thus reducing its interest in the company to approximately 10 percent.

Other Significant Investments

TietoEnator. Sonera has a 20.3 percent shareholding in TietoEnator, a leading supplier of information technology in the Nordic Countries. TietoEnator provides processing and network services, software services and industry specific professional services including consulting, development and maintenance of software and information systems, application of software packages and service integration. TietoEnator markets its products primarily to companies in the banking, insurance, telecommunications, postal, energy, trade, forest products and the base and manufacturing industries. For the year ended December 31, 1999, the pro forma revenues of TietoEnator amounted to €1,229 million. TietoEnator combines the Finnish Tieto and the Swedish Enator AB. Sonera's current interest in TietoEnator is a consequence of its 27.3 percent holding in Tieto, which was initially acquired by PT Finland for €101 million in 1996 and transferred to Sonera in connection with the demerger and its 4.99 percent holding in Enator acquired in stock market transactions in 1998.

The Finnish Competition Authority conditioned the approval of the combination of Tieto and Enator on Sonera's sale of shares representing 50 percent of its shareholding in TietoEnator by June 11, 2001. Sonera also agreed to propose only one member to the board of directors of TietoEnator at the annual shareholders meeting which took place on March 29, 2000 instead of the two members as was previously the case.

The following table sets forth certain information regarding Tieto, one of the companies which combined in July 1999 to form TietoEnator:

	As of or for the year ended December 31,[1] 1997	1998
	(in € millions, except percentages)	
Net sales	409	473
Operating profit	46	71
Net income	32	53
Sonera's share of net income (%)[2]	27.3	27.3
Equity income consolidated to Sonera[3]	8.7	15
Total assets	243	260
Shareholders' equity	153	162
Net debt[4]	(36)	(21)
Market capitalization	907	2,050

(1) The selected financial data set forth above is based on publicly available financial reports of Tieto.

(2) Shares in Tieto were acquired by Sonera in October 1996.

(3) Before any amortization of goodwill or eliminations relating to transactions between Sonera and Tieto. Sonera recorded amortization of goodwill of €7 million and €7 million with respect to Tieto in 1997 and 1998, respectively.

(4) Net debt consists of interest-bearing debt less cash and short-term investments.

The following table sets forth certain information regarding Enator, the other company which combined in July 1999 to form TietoEnator:

	As of or for the year ended December 31,[1] 1997	1998
	(in € millions, except percentages)	
Net sales	543	608
Operating profit	25	34
Net income	23	31
Sonera's shareholding (%)[2]	—	4.99
Dividends received	—	—
Total assets	266	308
Shareholders' equity	122	149
Net debt[3]	(12)	(39)
Market capitalization	605	857

(1) The selected financial data set forth above is based on publicly available financial reports of Enator.

(2) Shares in Enator were acquired throughout 1998.

(3) Net debt consists of interest-bearing debt less cash and short-term investments.

The following table sets forth certain information regarding TietoEnator for 1999 and 1998, on a pro forma basis:

	As of or for the year ended December 31, 1999(1)	
	1998	1999
	(in € millions, except percentages)	
Net sales	1,079	1,229
Operating profit	105	108
Net income	98	69
Sonera's share of net income(2) (%)	—	20.3
Equity income consolidated to Sonera(3)	—	7
Total assets	561	703
Shareholders' equity	313	353
Net debt(4)	(79)	(107)
Market capitalization	—	4,771

(1) The selected financial data above is based on publicly available financial reports of TietoEnator. The pro forma financial data for the periods presented is based on the pooling method of accounting under Finnish GAAP.

(2) Sonera's share in TietoEnator is 20.3 percent as from July 9, 1999, the date when Sonera's shares in Tieto and Enator were exchanged into shares in TietoEnator.

(3) Equity income consolidated to Sonera starting from July 1999, before any amortization of goodwill or eliminations relating to transactions between Sonera and TietoEnator. Sonera recorded amortization of goodwill of €4 million with respect to TietoEnator for the six months ended December 31, 1999.

(4) Net debt consists of interest-bearing debt less cash and short-term investments.

TietoEnator provides customers the ability to outsource entire projects and corporate functions. TietoEnator tailors its services to meet specific customers' needs through close cooperation with its customers. The close working relationship between TietoEnator and Sonera has created synergistic benefits for each of the companies in recent years. TietoEnator has, for example, been one of the largest providers of information technology to Sonera. TietoEnator has also developed, in cooperation with Sonera, a customer management and invoicing system for Sonera's mobile communication operations and a telephone banking system for Leonia Bank, a Finnish commercial bank. Management believes that the reduction in Sonera's shareholding, as required by the Finnish Competition Authority, will not impair the close working relationship between Sonera and TietoEnator.

TietoEnator's shares are listed on the Helsinki Exchanges and the OM Stockholm Exchange. Other principal shareholders in addition to Sonera include various Finnish and Swedish insurance companies and other institutional shareholders. As of April 4, 2000, Sonera's Executive Vice President Kaj-Erik Relander acts as the Deputy Chairman of the board of directors of TietoEnator.

Foreign Subsidiaries

Sonera has several subsidiaries operating outside of Finland which focus principally on providing data and media communications services. Most of Sonera's foreign subsidiaries were established after 1994 and are largely still in the start-up phase of operations. Sonera's foreign subsidiaries had revenues of €26 million in 1997, €44 million in 1998 and €53 million in 1999 and incurred operating losses of €16 million in 1997, €21 million in 1998, and €36 million in 1999 principally related to Sonera's Swedish subsidiary Sonera Sverige AB ("Sonera AB"), Benelux subsidiaries Sonera Nederland B.V. and Sonera Belgium n.v/s.a., and German subsidiary Sonera Deutschland GmbH. The operating loss recorded in 1998 was partially offset by a non-recurring gain of €7 million from the sale of certain fixed voice services to

Axxon Telecom B.V., in which Sonera held a 40 percent ownership interest. Sonera sold its entire holding in Axxon in September 1999, recognizing approximately €3 million from the sale. For financial accounting purposes, Sonera includes the results of operations of its foreign subsidiaries in its Media Communications and New Services, Fixed Network Voice and Data Services and Equipment Sales and Other Operations business areas, as applicable.

Swedish Operations. Sonera's largest international subsidiary, Sonera AB, offers communications and information services in the Swedish market. Sonera AB is primarily involved in the development and marketing of telecommunications solutions including Internet, intranet and call center voice services to businesses and public entities. In 1997, Sonera AB formed a partnership with Enator, a Swedish nationwide data service provider and one of the predecessor entities of TietoEnator, to develop and market new telecommunications packages for municipal networks. As part of the partnership agreement, Enator transferred operational responsibility for its network, the customers of which are principally Swedish municipal agencies, to Sonera AB. In addition, in October 1997, Sonera AB acquired a 91 percent interest in Geddeholm CallCenter AB, a company operating voice telecommunications services in three cities in Sweden. Sonera AB generated revenues of €34 million in 1999, compared to €24 million in 1998 and €12 million in 1997.

German Operations. In 1997, Sonera established two subsidiaries in Germany, one based in Erfurt, a company which develops and operates electronic payment services principally for German banks, and another, based in Düsseldorf, which provides primarily data services, with the aim of expanding its operations to media communications in the future. In addition, Sonera has established an equally owned joint venture, HanseNet Telefongesellschaft mbH & Co. KG, with Hamburgische Elektrizitäts-Werke AG, a Hamburg based municipal electricity company. HanseNet provides voice, data and Internet services targeted at business customers in Hamburg and the surrounding area through Hamburgische Elektrizitäts-Werke's network. HanseNet commenced its operations in 1998 and its revenues for 1999 were €16 million.

Russian Operations. Sonera's Russian wholly-owned subsidiary ZAO Sonera Rus operates its own end-to-end fiber optic cable line with seven fiber pairs and a capacity of 140 Mbps between Helsinki and St. Petersburg, Russia. Transmission on the Helsinki-St. Petersburg cable is based on ATM technology and is supported by ZAO Sonera's ATM and FastNet nodes. The cable, which is used for the out-bound traffic of Sonera's and North-West GSM's Russian subscribers, and Russia-bound international transit traffic, including traffic generated by Sonera's Finnish customers, is ZAO Sonera's primary source of revenue. ZAO Sonera also leases capacity in its cable network to foreign and St. Petersburg based companies. The project commenced in the spring of 1998 by ZAO Sonera to extend its fiber optic cable line from St. Petersburg to Moscow was completed in February 2000 and at 1,000 km is Europe's longest. ZAO Sonera may further extend its operation to other major Russian cities in the future. As part of any future expansion, the trunk network would initially be operated through leased cable or satellite capacity and subsequently routed through ZAO Sonera's expanded network.

Benelux Operations. Sonera Nederland B.V. and Sonera Belgium n.v./s.a., Sonera's wholly-owned Netherlands and Belgium based subsidiaries, are principally involved in marketing Sonera's data and Internet services and technical solutions in the Netherlands and Belgium. Sonera also markets its cable TV QuickNet services in the Netherlands. In July 1999, Sonera acquired 100 percent of the shares of MultiWeb, a Dutch Internet service provider. In November, Sonera decided to merge MultiWeb with Sonera Nederland effective January 1, 2000.

Additional Investments. On December 31, 1999, Sonera made an investment totalling €9 million to acquire the sole limited partnership interest in TelAdvent L.P., a U.S. based partnership that has made investments in companies which are of financial and strategic interest to Sonera, including companies that develop information and data communications technology. Sonera also holds an 11 percent interest in Advanced European Technologies N.V., a Netherlands based investment company that makes equity investments in a variety of technology oriented companies. Other investment funds in which Sonera held equity interests as of December 31, 1999, include Dejima, Inc., Digital Media & Communications II Limited Partnership, Icom Internet Competence Network N.V., Magnum Communications L.P. and Media Technology Equity Partners, L.P. See Note 20 to Sonera's consolidated financial statements.

Sonera may also from time to time make selective acquisitions or acquire minority interests in companies that have technologies, service concepts or personnel which can enhance the development of the products and services being offered by Sonera's New Services businesses area.

RESEARCH AND DEVELOPMENT

General

Sonera has long considered research and development to be of paramount strategic importance. Sonera's annual research and development expenditures have averaged between three to four percent of revenues between 1994 and 1999 and totaled €64 million in 1999, an increase of €12 million from 1998. In recent years, Sonera's research and development has focused on mobile, data and new media communications.

Sonera's research and development program has resulted in Sonera being among the first telecommunications operators in Europe and the world to commercially introduce a number of advanced mobile, fixed-line and data and media communications products and services. Sonera was the first telecommunications operator in Europe to offer commercial LAN interconnection, frame relay and ATM services. Sonera was also one of the first telecommunications operators in Europe to introduce networked multimedia Internet services and in 1998 became the first telecommunications operator in Europe to offer cable TV Internet access service. In the field of mobile telecommunications, in 1998, Sonera became the first operator in the world to introduce digital dual band service. In 1992, Sonera became one of the first telecommunications operators in the world to provide its corporate customers with a service integrating mobile handsets as part of a PBX through its Privatel service and, in 1996, was the first operator in Europe to offer customers an entirely wireless office exchange service through its Mobicentrex service. Sonera has also pioneered a number of value-added SMS applications, including wireless telebanking. In 1997, Sonera also became one of the first telecommunications operators to introduce a service that carries voice traffic over data networks using IP technology. In August 1999, Sonera became the first operator in the world to launch information services intended for WAP compliant mobile phones.

In light of the increasingly competitive and rapidly evolving Finnish, European and global telecommunications markets, Sonera expects to continue to devote significant resources to the research and development of new products, services and technologies. Currently, Sonera's principal research and development priorities include further development of broadband network services, synergies between fixed and mobile telecommunications, and electronic and mobile commerce. Sonera also seeks to be able to deliver the same types of services to customers irrespective of the type of network used, whether it be mobile, fixed-line, computer or TV-based. Examples of such services under development include an electronic shopping service that can be accessed through a mobile handset, a TV, a personal computer or a fixed-line telephone. In furtherance of its international strategy, Sonera is giving increasing priority to research projects that develop products and services that can be applied in its overseas ventures.

Sonera currently employs more than 550 engineers and researchers in its research and development activities. Research and development activities are carried out both within Sonera and in cooperation with equipment manufacturers, research institutions and other operators.

Sonera has a number of patent applications pending as well as several patents and licenses, none of which, individually, is material to its business. However, certain of Sonera's subsidiaries and growth businesses may have patents and other intellectual property that are material to their respective businesses. Sonera plans to continue to leverage its investment in research and development by seeking, where appropriate, international patent protection on its innovations. There can be no assurance, however, that any patent, if granted, will not be invalidated, circumvented, opposed or cancelled, or that the steps taken by Sonera to protect its rights will be adequate to prevent unauthorized use of its technology or to preclude competitors from developing products with features similar to Sonera's products. Third parties have opposed some Sonera patents and patent applications including patents relating to Sonera's SmartTrust solution. Management is currently in the process of reviewing these third party oppositions related to these challenges and is not in a position to predict the likely outcome of these opposition proceedings.

Mobile Communications

In its mobile communications research and development efforts Sonera concentrates on developing and commercializing new applications for mobile communications. The current focus of Sonera's mobile communications research and development is on (i) smart communications, including the utilization of agent technology and location information in the provision of SMS and other services, (ii) mobile multimedia, i.e., the development of new computer graphics based services using new mobile technologies, such as multi-slot HSCSD, GPRS and UMTS, and (iii) network planning and implementation of Ultra-UMTS, the third generation technology for establishing a high-speed radio connection between a mobile handset and a base station. Sonera has been test marketing a variety of innovative mobile services such as use of mobile handset for sending postcards and cellular chips in vending machines, which allow a subscriber to purchase goods by dialing a special number on his or her mobile handset and have the goods charged to the subscriber's mobile account. Sonera is also in trials involving various telemetry applications, i.e., the use of cellular chips in machines that enable them to send signals, allowing, for example, the automation of inventory ordering when a vending machine is empty. Other areas of Sonera's research and development efforts include network evolution, convergence of mobile and Internet services and mobile commerce.

Sonera is adopting and installing new network technologies with higher transmission speeds. Currently, Sonera's GSM network is limited to data transmission speeds of up to 9.6 Kbps, which is adequate for receiving and transmitting e-mail messages and short files, but is generally regarded as too slow for accessing the Internet or downloading graphics. To improve the data transmission capacity of its mobile network, Sonera has installed multiple time slot technology in its network, which allows for data transmission speeds of up to 43.2 Kbps. Sonera is also focusing on the implementation of GPRS, a packet-switched technology whereby cellular base stations can be connected directly to the Internet, bypassing the switching systems presently used to connect mobile traffic to the fixed-line network, improving mobile data transmission. It is currently estimated that, with the anticipated implementation of GPRS technology in Sonera's mobile network by the end of 2000, Sonera's mobile network will be capable of transmitting data at speeds up to 100 Kbps. Sonera is also developing new wireless data applications, which will use new high speed mobile communications network as a platform.

As part of its development of new wireless data solutions, Sonera is also focusing on the development of a global standard for the third generation mobile system, UMTS, which would succeed GSM. UMTS, which is based on CDMA (Code Division Multiple Access) as opposed to TDMA (Time Division Multiple Access) technology underlying the GSM system, would support broadband access at speeds ranging from 144 Kbps to 2 Mbps, and thus provide a foundation for a mobile telecommunications system with greater multimedia capability such as videoconferencing and efficient intranet and Internet access. UMTS is also expected to provide improved transmission quality and security. On May 19, 1998, the Telecommunications Council agreed that the European Union member states should take all actions necessary to allow for the harmonized introduction of UMTS services in their respective countries by January 1, 2002.

Sonera's current research and development activities include a joint research project, called "Mobile City Oulu," with the Finnish municipality of Oulu, Oulu University, the Technical Research Center of Finland and a number of mobile telecommunications equipment manufacturers, computer companies and retailers. The project is aimed at developing new mobile telecommunications services and applications for UMTS technology. Sonera also has a number of ongoing research and development projects with Nokia, some of which are focused on the development of new services using UMTS. Sonera seeks to capitalize on its development projects involving UMTS by being among the first operators to offer new services and advanced applications utilizing the new mobile technology. Sonera actively participates in the development of UMTS-networks through international mobile forums, which are preparing the standardization of UMTS technology. In addition, in 1997, Sonera entered into a joint research project with NTT Mobile Communications Network, Inc. (NTT DoCoMo), regarding the development and testing of UMTS-networks. The project has provided Sonera the opportunity to test Ultra-UMTS radio technology in DoCoMo's pilot third generation network and an opportunity to participate in the development and commercialization of new service applications for high speed mobile networks, prior to developing its own pilot network. In February 2000, Sonera announced its plans to open Sonera Mspace by 2001. Mspace will be a public exploration laboratory where Sonera customers can test out cutting-edge technology currently under development by Sonera. Management believes that this type of open laboratory test environment is the first of its kind world-wide.

Sonera is a member of the Joint Initiative Towards Mobile Multimedia (''JIMM''), a mobile operator's forum which seeks common technical approaches to enable speedier development of envisioned mobile multimedia technology. JIMM promotes a common platform of wireless applications and services based on third generation technology in order to be able to meet customer demand for global mobile multimedia. In addition to Sonera, members of JIMM include AT&T Wireless Services, Inc., British Telecom, Deutsche Telekom MobilNet GmbH, France Telecom, NTT DoCoMo, Singapore Telecom Mobile Pte Ltd, SK Telecom Co., Ltd., TIM and Vodafone.

Media Communications and New Services

Sonera will continue to invest in electronic commerce solutions, which are still primarily in the early commercial development phase. These include electronic trading and EDI (Electronic Document Interchange) messaging, which is a service for transmitting legally binding documents over an electronic network in a standardized format, as well as services that facilitate e-commerce such as telecommunications links to banks and credit card service providers. Sonera is also investigating further cooperation with TietoEnator, with a view to the development of advanced billing systems and customer management systems. Sonera is exploring the possibility of marketing such services to other telecommunications operators.

Fixed Network Voice and Data Services

Sonera's Fixed Network Voice and Data Services business area is currently focusing on the delivery of new broadband services, IP based products, customized services based on intelligent networks and electronic commerce. In conjunction with its launch of ADSL services in certain large cities in Finland in the first half of 1998, Sonera is seeking to develop a range of new broadband services for its ADSL customers. In those areas where it would otherwise be difficult to offer fixed-line broadband access service, Sonera is investigating the use of systems based on LMDS, a platform that allows for the wireless delivery of broadband services through radio technology. Sonera is also conducting research on the delivery of new value-added services through its new Nokia switching platform.

Sonera is one of the leading developers of services based on the transmission of voice traffic over controlled networks using IP technology. In 1997, Sonera introduced Neophone service in 1997, which enables the transmission of voice calls through Sonera's data networks, and is researching ways to increase the efficiency and quality of its IP telephony services. In addition, Sonera is developing new services that can be offered through the use of intelligent networks, which facilitate the delivery of customized telecommunications services to customers.

MARKETING

Sonera devotes significant resources to the marketing and distribution of its products and services. As of December 31, 1999, over 550 Sonera employees were engaged in sales and marketing activities. Sonera believes that its active marketing programs and extensive distribution network increase customer awareness of Sonera's products and services and bolster the ability of Sonera not only to provide "one stop service" to its business customers but also to offer customized services to its residential customers. Management believes the foregoing strengths give Sonera a significant advantage over its competitors.

To orient its business towards customer service, Sonera has created a customer-focused marketing organization to support Sonera's various businesses. Sonera's principal customer-focused marketing units consist of Sonera Solutions and Sonera Entrum.

Sonera Solutions is a separately incorporated business unit of Sonera that serves the largest corporate customers in Finland. Sonera Solutions currently is responsible for coordinating the marketing and sale of a complete range of fixed-line telecommunications, mobile telecommunications and data and media products and services to approximately 300 of the 400 largest corporations in Finland, generating, in the aggregate, revenues of €250 million and €304 million in 1998 and 1999, respectively. Sonera Solutions' marketing priority is to establish Sonera as the single source for large customers' comprehensive telecommunications needs. Sonera Solutions offers its customers fixed-line voice services, including local, domestic long distance and international calling, and value-added services based on intelligent network systems such as corporate numbering, as part of its Vipgate package. Vipgate customers can elect either to have Sonera act as the provider of all of their fixed-line telecommunications needs or to have Sonera provide specific fixed-line communications services. Vipgate customer agreements, which generally have terms ranging from one year to 18 months, also provide customers with a number of different billing options, including integrated bills for fixed-line, mobile and data services, or bills that are broken down by usage at various customer sites. Sonera Solutions also enters into separate agreements with its customers for mobile telecommunications and data and media services.

Sonera Solutions has a group of account managers who are responsible for the account relationships with Sonera's large customers. Sonera Solutions also employs sales representatives with particular industry specializations, including the forest and metal industry, the trade service industry, the information technology industry, and the finance and insurance industry, who assist the account managers in marketing industry specialized service offerings. In addition, Sonera Solutions employs technical support staff and solutions designers involved in designing and tailoring services for individual customers and providing ongoing technical assistance. Sonera Solutions utilizes the services of sales representatives from other Sonera marketing units, principally Sonera Entrum and mobile services, for certain special assignments or for customers' remote sites. Sonera Solutions is also responsible for Sonera's data services business.

Sonera's Business and Residential Services unit concentrates on serving SMEs, communities and residential customers. For its SME customers, the sales unit offers the Skaala solution, under which Sonera provides fixed line telecommunications, mobile telecommunications and data and media services. Account managers are responsible for customer relationships with the larger SME customers and sales representatives are responsible for medium-sized business customer accounts. Other distribution channels that Sonera makes use of include telephone sales and chains of resellers. For residential customers in Sonera's traditional service areas, the unit markets a complete line of standard fixed-line telecommunications services as well as value-added services such as voice mail, caller identification and call forwarding for which customers receive an integrated bill. The Business and Residential Services unit has nine separate sales areas throughout Finland and employs approximately 150 account managers and sales representatives. The unit also operates through a Sonera subsidiary, Sonera Innotele Oy, which has a sales force that is focused on SME customers in the Helsinki area. The Business and Residential Services unit has call centers for both business and residential customers which provide a single convenient point of contact with

Sonera and enable customers to address all of their telecommunications needs via telephone, including ordering services, registering complaints and making inquiries.

Sonera's Mobile Communications business area is responsible principally for marketing mobile telecommunications services to business and residential customers. The business area has a direct sales force which, in coordination with Sonera Solutions and Sonera Entrum, serves larger corporate customers. Sonera markets its mobile communications services to residential customers primarily through a large network of independent distributors and Sonera's own retail outlets. Sonera's strategic focus has been on offering a broad range of mobile telecommunications tariff and service packages to appeal to different customer segments. The Mobile Communications business area's customer service department, which operates five customer call centers 24-hours-a-day, seven-days-a-week, not only enables subscribers to order additional services, make bill inquiries, and report faults, but also provides dealer support. Sonera's Mobile Communications business area also offers SMS-based account inquiry services and distributes a magazine for its mobile subscribers. Sonera believes that the marketing and customer care initiatives of Sonera's Mobile Communications business area have contributed to subscriber growth and increased customer loyalty.

Sonera's other marketing and sales units include its Media Services unit, Telering and other sales and marketing operations. Sonera's Media Services unit is responsible primarily for marketing Sonera's new media products, including Internet and cable TV services, and business media services, and has approximately 80 sales representatives. Sonera Solutions is responsible for the sale, construction and maintenance of data processing and telecommunications equipment to Sonera's customers. Sonera Solutions also supervises Sonera's Telering retail chain, its Data-Info franchise network, and operates its TeleService maintenance and after-sales service operations, and also works in close coordination with Sonera Entrum in the provision of telecommunications equipment to Sonera's large business and SME customers. Sonera also maintains several marketing centers responsible for the publication of printed and Internet telephone directories and the marketing of Sonera's other operations.

Sonera's brand development is managed by its corporate communications unit. The unit works closely together with business units to build the value of the Sonera brand by developing strategic and product level advertising and marketing.

For general marketing activities and the development of public awareness of its services and products, Sonera devotes substantial resources to TV, radio, print and outdoor advertising.

COMPETITION

General

With the liberalization of local and long distance telephone services on January 1, 1994, and international telephone services on July 1, 1994, all telecommunication services in Finland were opened to full competition. Other sectors of telecommunications services, including mobile communications and data communications, were liberalized during the period ranging from 1987 to 1991. The telecommunications market in Finland is highly competitive, characterized by successive promotional campaigns and price competition, with the exception of local telephone service where the market is dominated by incumbent local operators which control, with minor exceptions, the local access market. Despite the liberalization of the market, true competition has not developed on the local access market and market shares have remained generally static.

In Finland, Sonera's main competitor is Helsinki Telephone Corporation, which is the largest local access operator in Finland and whose traditional service area is the Helsinki metropolitan area. Helsinki Telephone Corporation is also the parent of Radiolinja, a mobile communications operator; Datatie, a provider of data transmission services; and FinnetCom Oy, a provider of telecommunications services to corporate customers. In addition, Helsinki Telephone Corporation owns considerable direct and indirect minority interests in certain national telecommunications operators of the Finnet Group and certain local telephone companies including Tampere Telephone, Keski-Suomen Puhelin and Lounais-Suomen Puhelin.

Sonera also competes with various loose alliances of telecommunication operators in Finland, including the Finnet Group and Finnish 3G Ltd. Finnet is an alliance of local telephone companies, which includes the Helsinki Telephone Corporation and the consolidated partly-owned subsidiaries of Helsinki Telephone Corporation, as well as certain national telecommunication operators such as Kaukoverkko Ysi, a domestic long distance telephone operator; Finnet International, a provider of international service; and Oy Omnitele Ab, a provider of telecommunications consulting services. The alliance is based upon a common shareholding structure whereby the local telephone companies of the Finnet Group hold varying percentage interests in each of these national telecommunications operators. As a response to the aggressive growth strategy of Helsinki Telephone Corporation and its takeover of control in Radiolinja, 41 of the 46 Finnish local telephone companies, excluding Helsinki Telephone Corporation and its affiliates Tampere Telephone and Keski-Suomen Puhelin as well as two other local operators, established a company, Finnish 3G Ltd, for the purpose of applying for a third generation mobile license. Finnish 3G has signed a cooperation agreement with the Swedish telecommunication operator Tele2 AB, the second largest mobile operator in Sweden, that gives Tele2 the right to acquire an ownership interest in Finnish 3G at a later date. While the primary business of the local telephone companies that have interests in Finnish 3G consists of operating local networks in their respective service areas, Finnish 3G has recently been granted a nationwide third generation mobile technology based mobile license, and is expected to enter into the mobile communication services market when third generation mobile technology becomes commercially available. In addition, the local telephone companies that have interests in Finnish 3G own minority positions in Radiolinja and Datatie, two consolidated subsidiaries of Helsinki Telephone Corporation. Prior to January 2000, Sonera and Radiolinja were the only holders of national GSM 900 licenses in Finland. On January 21, 2000 Suomen 2G was granted a GSM 900 license by the Ministry of Transport and Communications. Suomen 2G was founded by twelve regional private company members of the Finnet group which are expected to be joined by another twenty-six telecommunications operators. Neither Helsinki Telephone Corporation nor the regional telephone companies of the Finnet group in which Helsinki Telephone holds a considerable interest are shareholders of Suomen 2G. Under the terms of its license, Suomen 2G is required to commence commercial activity by September 1, 2000.

In addition, Sonera competes with Telia Finland, a subsidiary of the Swedish state-owned telephone company, which in cooperation with Telia AB, a Swedish state-owned telecommunication operator, operates on the Finnish international and domestic long distance markets and also provides GSM 1800 mobile communications services as a branch office of Telia Mobile AB, a mobile operator subsidiary of Telia. Telia Finland maintains its own national and regional trunk network and infrastructure for local GSM 1800 mobile telephony. Other operators in the Finnish market include Global One Communications Ltd., a strategic alliance among France Telecom S.A., Deutsche Telekom AG and Sprint Corporation; Facilicom Finland Ltd., a Finnish subsidiary of a U.S. based telecommunications company; and RSL COM Finland Ltd., a U.S. based reseller of international and domestic voice services, all of which provide network and other services to their customers. In January 1999, RSL COM Finland signed a service provider agreement with Sonera, and it provides mobile communication services to its customers through Sonera's network. In addition, Sonera also expects to face increased competition from specialized market participants such as Colt Telecom Group plc and MCI Worldcom, Inc. The identity of new entrants on the Finnish telecommunications market and the extent of the impact on Sonera's market share will depend upon a variety of factors that are difficult to assess at present.

Mobile Communications

GSM Networks. The Finnish mobile telecommunications market has been open to competition since 1990. Sonera is the leading mobile communications operator in Finland with a 65 percent share of the combined digital and analog mobile market and 63 percent of the digital mobile market, in terms of revenues, as of December 31, 1999. Sonera provides GSM 900 mobile telephone services in competition with Radiolinja principally on the basis of price and quality of service. Radiolinja offers mobile communications services to large corporate customers, small- and medium-sized businesses and private customers nationwide. As of December 31, 1999, Radiolinja had an overall share of 37 percent in the GSM mobile telecommunications services market. Although Sonera and Radiolinja are currently the only two nationwide GSM 900 mobile telecommunications providers commercially active in Finland, the market is highly competitive. In addition, in January 2000, Suomen 2G was granted a GSM 900 license by the Ministry of Transport and Communications, which is expected to increase competition on the Finnish mobile telecommunications market.

In the fall of 1998 and the spring 1999, Radiolinja launched a number of promotional programs including offers of free airtime and complementary services for new subscribers. As part of its competitive strategy, Radiolinja has been reducing prices and offering lower tariffs for mobile to mobile calls within its network. Sonera has responded to Radiolinja's initiatives by matching free airtime offers for new subscribers and by offering all Sonera subscribers economical minute rates for calls between two Sonera GSM mobile phones. See "Description of Business—Mobile Communications—Tariffs."

Management considers it likely that Radiolinja will continue to market its services aggressively and reduce prices for its services in the future. In August 1998, Radiolinja and a dealer chain owned by both Radiolinja and Helsinki Telephone Corporation acquired Setele Oy, a specialist retail chain for mobile telecommunications equipment which operates 27 stores throughout Finland. Prior to the acquisition, Setele was part of Sonera's NMT-GSM distributor network and accounted for approximately six percent of Sonera's new subscriptions. This acquisition enhanced Radiolinja's distribution capacity. In January 1999, Sonera acquired a majority holding in Päämies, a joint marketing company for a specialist retail chain for mobile telecommunications equipment, which operates 54 stores throughout Finland. The acquisition extended Sonera's distribution network to an aggregate of 1,900 retail outlets.

In 1997, the Ministry of Transport and Communications granted GSM 1800 licenses to a number of network operators including nationwide licenses to Sonera, Radiolinja and Telia Finland, and local GSM 1800 licenses to certain local telephone companies. Telia Finland launched its GSM 1800 service in January 1998 and currently provides GSM 1800 service in 35 areas including all major cities in Finland. As of April 30, 2000, Helsinki Telephone Corporation, Telia Finland and 20 local telephone companies, which received local GSM 1800 licenses, had introduced local GSM 1800 mobile networks. Sonera expects competition in the provision of GSM 1800 services to become increasingly vigorous as additional local telephone providers develop their networks.

Allocation of additional frequency capacity to other operators could, in the future, increase the competitive environment in the GSM market. At present, there are no unallocated frequencies in the GSM 900 MHz band that are accessible using commercially available telecommunications equipment. The authorities have indicated that unallocated GSM 1800 frequencies, although limited, may be allocated on demand within the next few years. In such an event, these frequencies may be allocated to Sonera, Radiolinja, Telia Finland, or a new entrant to the GSM market which is able to demonstrate the ability to satisfy the service standards set forth in the Finnish Telecommunications Market Act.

The Ministry of Transport and Communications has announced that it currently has no plans to introduce mandatory national roaming for existing operators in their current frequencies. In the event that a national roaming scheme were introduced either for current or future frequencies, local mobile operators and Telia Mobile Finland would gain access to Sonera's national GSM 900 network. In April 1999, Telia Finland introduced national roaming for its GSM 1800 service in Sonera's network through an international roaming arrangement between Sonera and Swisscom AG. In April 1999, Sonera announced that because of potential technical hazards found in the technical solution, which, among other things, could interfere with the proper functioning of emergency calls and blocking of pay-per-call numbers, it would have to discontinue providing roaming services to the numbers that Swisscom has reserved for Telia Mobile Finland's Dual service, unless Swisscom were to indemnify it for possible legal claims relating to such potential technical hazards. In accordance with this announcement, Sonera began to close off its mobile network of Telia Finland's GSM Dual subscriptions on April 16, 1999. On April 16, 1999, Telia Finland filed a complaint with the European Commision against Sonera and Radiolinja in this matter in addition to the complaints it had filed with the Finnish Competition Authority and the Telecommunications Administration Centre earlier on September 23, 1998. On October 8, 1999, Radiolinja announced that Telia Mobile Finland and Radiolinja had signed a letter of intent pursuant to which Telia Mobile Finland will be granted the right to act as a service provider within Radiolinja's GSM network. Telia Finland withdrew its complaints against Radiolinja that was pending before the Finnish Competition Authority and the European Commission. Because the consummation of the service provider agreement enabled Telia Mobile Finland to gain access to Radiolinja's nationwide GSM network, the agreement is expected to result in increased competition in the GSM mobile telecommunications services market in Finland. See "Item 3. Legal and Regulatory Proceedings—National Roaming."

NMT Networks. Sonera is the sole provider of NMT mobile telephone services in Finland. Sonera's NMT operations face indirect competition from providers of other mobile communications services, principally GSM 900 and GSM 1800 services. Sonera has experienced a decline in its NMT subscriber base in recent years as NMT subscribers continue to switch to GSM service to take advantage of its higher transmission quality, greater value-added services, greater roaming capability and the smaller handsets used to access GSM networks. Management believes that the use of NMT services will continue to decline for the next few years as the majority of present NMT subscribers switch to GSM. As a result of the decreasing subscriber numbers, Sonera has announced that it will discontinue its NMT 900 service on December 31, 2000 and new NMT 900 subscriptions have not been taken after April 13, 1999. Sonera expects that, ultimately, the remaining users of NMT 450 mobile services will primarily be certain niche groups, including freight transport operators and seasonal users, who prefer it for its marginally broader network coverage as compared to GSM service.

Media Communications and New Services

Media Communications. The Finnish market for media communications, including the provision of Internet services and cable television, is highly competitive. Management believes that Sonera is the leading ISP in Finland, with a share of approximately 40 percent of the market as of December 1999. With respect to consumer media services, including Internet related services, Sonera competes mainly with Saunalahden Serveri Oy, a Finnish ISP, Helsinki Telephone Corporation and the Finnet Group. In the future, management expects to face competition from Scandinavian Online, a joint venture of Telia Finland, Telenor and Schibsted that provides Internet services in most of Scandinavia, and MTV3, a Finnish broadcasting company that operates a national commercial television channel. With respect to the provision of Internet access to business customers, Sonera competes principally with Helsinki Telephone Corporation, the Finnet Group and Eunet, a Finnish ISP, and expects to face competition from Telia Finland, Saunalahden Serveri and a range of IT companies in the future. Because Internet connections face mounting price pressures, such as the trend toward offering free Internet connections, the growth in revenues from new media functions will depend on larger volumes of content services and advertising income in coming years.

New Services. Sonera expects to face tough competition in both its mobile portal and wireless security solutions businesses. Among Sonera Zed's competitors are other providers of mobile communications, existing and newly created Internet portals, equipment manufacturers and software creators. As with the introduction of any new product or service, the breadth of the market for mobile portal services remains untested.

SmartTrust's competitors in the provision of wireless security solutions include PKI vendors, cryptography developers, systems integrators and application service providers, and manufacturers of wireless devices and SIM cards among others. In addition to the competition faced from competitors, the technologies at the core of SmartTrust's current solutions, namely RSA encryption algorithms and PKI, each face competition from other security technologies or architectures. Export controls with respect to encryption products in the United States are currently more stringent than those in other jurisdictions, including those in the European Union and its member states. However, many non-U.S. companies, including Sonera, have been able to take advantage of the strict U.S. export regulations by supplying products with strong encryption capabilities in the global market without serious competition from U.S. companies. This current comparative advantage vis-à-vis SmartTrust's U.S. competitors, however, is unlikely to continue. The U.S. government has recently announced plans to substantially loosen U.S. controls on the export of encryption technology and software. The ability of SmartTrust's U.S. competitors to more freely export products with strong encryption capabilities could adversely affect Sonera's wireless security solutions business.

Fixed Network Voice and Data Services

Local Voice Services. In addition to Sonera, there are currently 46 Finnet Group operators providing local telephone services in Finland. These local operators generally own their own networks and operate mainly in larger cities and towns. Traditionally, there has been only one local operator per area. Competition has not increased materially since the opening of the local voice market in 1994 due to the high upfront costs of building a local network and the long-term relationships between local telephone companies and their customers.

As a result of the foregoing, competition in local markets is limited, and has focused largely on business customers. Sonera has begun installing fiber optic cable loops in major cities and to lease lines from its competitors primarily to satisfy existing demand from its corporate customers and to build platforms for possible future competition in local markets. As a result, Sonera has gained a market share in the local access market of approximately four percent in Helsinki and certain other large cities in Finland. For the reasons identified above, Sonera has not faced increased competition in the areas in which it operates local networks, although the number of subscribers in its service areas, which are located principally in the sparsely populated areas of eastern and northern Finland, is expected to decrease slightly due to increased usage of mobile phones and expected declines in population in such areas. As of December 31, 1999, the overall market share of local telephone companies for local voice services calculated on the basis of access lines was 72 percent as compared to 28 percent for Sonera.

Long Distance Voice Services. Long distance calls in Finland have been subject to intense competition since the liberalization of the market in 1994. Competition has forced the prices of long distance calls in Finland to levels considerably below the average long distance calling rates in the European Union. Sonera's primary competitors are Kaukoverkko Ysi, a nationwide telephone operator and member of the Finnet Group, and Telia Finland. Both Kaukoverkko Ysi and Telia Finland operate their own trunk networks. During the year ended December 31, 1998, Sonera, Kaukoverkko Ysi and Telia Finland had approximately 38 percent, 56 percent and five percent shares of the domestic long distance market, respectively, calculated on the basis of minutes of use. Management believes that since 1995, Sonera's share of the domestic long distance market has been relatively stable.

International Voice Services. International voice services in Finland have also been open to competition since 1994. Sonera's principal competitors in the provision of international voice services are Finnet International, a nationwide telephone operator providing international telecommunications services to large corporate customers, small- and medium-sized businesses and private customers, and Telia Finland.

The international voice service market has been characterized by aggressive promotional campaigns and price reductions, particularly by Telia Finland, which has been offering low-rate tariffs on calls to other Nordic Countries. Management believes that competition will continue to increase in the international telecommunications market, resulting in further reductions of tariffs. During the year ended December 31, 1999, Sonera, Finnet International and Telia Finland had approximately 52 percent, 30 percent and nine percent shares of the international telecommunications market, respectively, calculated on the basis of called minutes. In addition, Sonera faces competition from service operators, and from international telecommunications operators and alliances, such as RSL COM, Facilicom, Global One, Uniworld and Tele Nordia which together hold an approximately nine percent market share.

Data Communications. The Finnish market for data communication was opened to full competition in 1990. Since that time, competition has been vigorous in all aspects of the data communications markets, including data transmission services, LAN interconnection and management services and leased lines. Management believes that Sonera is a leading provider in Finland for data transmission and LAN interconnection management services. In data communications services, Sonera's principal competitor is Datatie, a national operator of data transfer links owned by the Finnet Group. In leased lines services, Sonera's principal competitor is Kaukoverkko Ysi, a national long distance operator owned by the Finnet Group.

EMPLOYEES

Between 1991 and 1994, Sonera carried out a major reorganization of its workforce, which resulted in a 32 percent reduction in the average number of employees, from 10,174 in 1991 to 6,930 in 1994. The reorganization was driven by a number of factors, including the opening of the Finnish telecommunications market to competition, the digitalization of the network, which lessened the need for construction and maintenance staff to service the network, and a severe economic recession in Finland from 1991 to 1993. Since 1994, the average number of persons employed by Sonera has risen gradually, reaching 9,270 for the year ended December 31, 1999. In its recent recruitment efforts, Sonera has concentrated on hiring highly educated technical and business professionals for its high growth businesses, such as mobile communications and data and media services. Management believes that the number of personnel in its high growth businesses will continue to grow. On the other hand, the number of personnel employed by Primatel dropped from 2,157 at December 31, 1998 to 1,918 at December 31, 1999.

The average number of employees by business area during the years indicated was as follows:

Average Number of Personnel by Business Area(1)	1997	1998	1999
Mobile Communications	963	1,114	1,280
Media Communications and New Services	515	555	1,346
Fixed Network Voice and Data Services	2,106	2,485	2,442
Equipment Sales and Other Operations	4,383	4,455	4,202
Total	7,967	8,609	9,270

(1) The average number of employees for a given year is calculated by averaging the number of employees at the end of each month of such year. When calculating the average number of employees during a given period, the number of part-time employees is converted into an equivalent number of full-time employees.

As of December 31, 1999, approximately 65 percent of Sonera's employees were members of unions, with its field engineers belonging primarily to the Metal Workers' Union and the majority of its other unionized workers belonging to the Telecommunications Union. Sonera's unionized employees are covered by one collective bargaining agreement which is valid until January 31, 2001. Management believes that Sonera's relations with its employees are good.

Each active and retired employee of Sonera is entitled to statutory pension benefits. The statutory pension scheme in Finland for employees in the private sector is provided pursuant to the Employees' Pension Act (395/1961), as amended (TEL), a defined benefit pension arrangement with retirement, disability, unemployment and death benefits. In addition, Sonera has complemented the pension coverage of its employees through a voluntary supplemental pension.

Sonera's statutory pension obligations as well as certain supplemental pension obligations for its employees and the employees of its principal subsidiaries in Finland have been funded through the PT Pension Fund since January 1, 1994. PT Pension Fund was originally established to fund the pension obligations of PT Finland and continues to be used to fund the pension obligations of both Sonera and the Finland Post Group Ltd. Sonera makes monthly contributions to PT Pension Fund, which in 1999 amounted to 15.2 percent of the total wages and salaries paid to its employees prior to social costs. Pension obligations accrued with respect to Sonera's employees before the separation of Sonera's current operations from the Finnish State budget in 1994 are covered by the Finnish State. Sonera is responsible for ensuring that its pension obligations are fully funded at all times. Currently, Sonera's additional benefit obligations are fully funded. The PT Pension Fund is now closed to new beneficiaries with respect to additional benefits. Sonera's statutory benefit obligations are also fully funded except for certain amounts to be paid in the future under the Act for the Temporary Reduction in Insurance Premiums (1536/1993). The statutory benefits of certain minor Finnish subsidiaries of Sonera are funded through pension insurance. In addition, Sonera's pension obligations for subsidiaries located outside of Finland are covered according to local regulation and practice, generally through the payments to pension insurance companies. Contributions to Sonera's various pension schemes are based on periodic actuarial calculations and are charged to income when incurred. See Notes 1 and 21(b) to Sonera's consolidated financial statements.

Even though Sonera and Finland Post do not have a common parent company after the demerger, there are no legal requirements for dividing the PT Pension Fund in two, as long as the Finnish Sate holds at least 50 percent of all shares in both Sonera and Finland Post. However, Sonera is currently planning to separate its share of the assets and liabilities of the PT Pension Fund to set up its own pension fund in the future. Since the possible separation of assets would result in both Sonera and Finland Post receiving a proportionate share of plan assets in relation to their respective shares of total liabilities of the PT Pension Fund, management estimates that the separation would not significantly change Sonera's pension obligations and the funding status of those obligations.

The annual general meeting of shareholders of Sonera Group plc (presently, Sonera Corporation) held on April 23, 1999 approved an incentive program for Sonera's entire personnel in the form of bond loan with warrants. The subscription period for the bond loan with warrants concluded on May 21, 1999, and 5,326 employees, constituting approximately 60 percent of Sonera's personnel, subscribed to the loan. Sonera's wholly-owned subsidiary Telibra Oy subscribed for the remaining part of the issued loan, which will be offered to current and new employees in the future. The employee incentive program is intended to ensure the commitment of Sonera's employees and to enable Sonera to continue to attract highly qualified personnel and to support the development of Sonera's business, with a continued focus on shareholder value.

Sonera's shareholders approved the proposal of the Board of Directors to establish a similar incentive program for 2000 consisting of a bond loan with warrants attached to be offered to Sonera's personnel and to Telibra Oy, which may later offer the bond loan with warrants to persons employed by Sonera or to persons Sonera seeks to recruit. The warrants attached to the loan entitle the holders to subscribe to a maximum of 20,000,000 million shares in the aggregate. The subscription period for the bond loan with warrants attached is from May 15, 2000 to June 30, 2000. Subscriptions for the bond loan with warrants are subject to the approval of Sonera's Board of Directors. The bond portion of the loan with warrants carries no interest and matures on June 1, 2002. See "Item 12. Options to Purchase Securities from Registrant or Subsidiaries." On May 18, 2000, the Board of Directors established an employee incentive plan under which certain of Sonera's Russian employees will be entitled to receive cash compensation based upon the appreciation in value of the shares of Sonera Corporation and upon terms similar to the 2000 incentive program consisting of bond loans with warrants attached.

REGULATION

Overview

The Finnish telecommunications market has traditionally been one of the most liberalized in Europe. The telecommunications service industry has been gradually opened to competition since 1987, when the markets for data communications and business networks were partially liberalized. In 1994, more than three years ahead of most other European countries, the Finnish telecommunications market was fully liberalized and, since then, every segment of the market has been subject to competition.

Sonera is subject to the comprehensive regulatory regime applicable to the Finnish telecommunications industry under the Finnish Telecommunications Market Act (396/1997), as amended (the "Telecommunications Market Act"), and related regulations, decrees and administrative decisions, which replaced the Finnish Telecommunications Act (183/1987), as amended (the "Telecommunications Act"). Together with the Finnish and European Union competition rules, the Telecommunications Market Act, which became effective on June 1, 1997, is the principal body of law governing Sonera's activities. See "—Competition Law."

The stated purpose of the Telecommunications Market Act is to promote the efficiency of the Finnish telecommunications market so that telecommunications in Finland meets the reasonable needs of users and is competitive, technically advanced, of good quality, functionally reliable and secure, and reasonably priced. The Telecommunications Market Act also brought Finnish telecommunications law into line with European Union legislation in this area. See "European Union Law." Certain provisions of the Telecommunications Market Act have been implemented by ministerial decisions or decrees covering specific subjects such as interconnection, accounting separation and the rights of users.

The openness of the Finnish market is evidenced by the current licensing regime. The Telecommunications Market Act requires licensing only for the provision of telecommunications network services in the public mobile network. Such a license is granted to all applicants that meet the requirements set forth in the Telecommunications Market Act, subject to the availability of frequencies. The construction of public telecommunications networks and the provision of publicly available telephony services is normally subject to a notification procedure. A notification with information on the organization and the activities of the filing entity has to be submitted to the Ministry of Transport and Communications before commencement of operation by such entity. Provision of other telecommunications services does not require a license or filing of notification. See "—Allocation of Mobile Frequencies."

As part of its objective to promote further competition, the Telecommunications Market Act encourages new market entrants by introducing the concept of "significant market power," holders of which are subject to a higher degree of transparency in their accounting, more stringent fair pricing requirements and requirements not to discriminate. See "—Tariff Structure" and "—Interconnection." Pursuant to the Telecommunications Market Act, the Ministry of Transport and Communications considers a number of factors when deciding upon whether an operator is deemed to possess significant market power. However, in practice, operators with a market share exceeding 25 percent in a relevant market have been presumed to have significant market power in that market. By ministerial decision, Sonera currently has significant market power in long distance, international, international transit and mobile telecommunications throughout Finland and in local voice telephony in its traditional service areas.

A number of Sonera's other activities, including its cable TV operations, are also subject to regulation under legislation other than the Telecommunications Market Act, and related decisions of the Finnish Government and the Ministry of Transport and Communications.

Regulatory Institutions

Regulatory authority under the Telecommunications Market Act is divided between the Ministry of Transport and Communications and the Finnish Telecommunications Administration Center (the "TAC").

Like other telecommunications operators in Finland, Sonera is also subject to Finnish and European Union competition law which is applied by the FCA and the European Commission (DG for Competition), respectively. See "—European Union Law" and "—Competition Law." Other regulatory authorities that have jurisdiction over issues relating to Sonera's business operations include the Office of Data Protection Ombudsman, in relation to data protection regulation, and the Office of the Consumer Ombudsman and National Consumer Administration Finland, as well as the Finnish Market Court, both in relation to consumer protection and marketing regulation. See "—Tariff Structure."

The Ministry of Transport and Communications is responsible for drafting legislation, granting licenses for mobile network operators, administering fixed network operator and service operator notifications and issuing executive orders based on certain telecommunications regulations. The TAC, which commenced its operations on October 1, 1988, is an agency under the Ministry of Transport and Communications with responsibility for radio, telecommunications and postal administration and television license management. With respect to telecommunications, the powers of the TAC include supervising operators in the market, establishing and administering the numbering plan, assigning frequencies, overseeing technical standards and administering type approvals for telecommunications equipment.

European Union regulations and the World Trade Organization Telecommunications Agreement require that regulatory powers be separated from the ownership of state-owned telecommunication operators. In Finland, this separation has been implemented through the separation of regulatory functions and ownership functions within the Ministry and the creation of the TAC.

One of the TAC's particular responsibilities is to oversee the financial and operational aspects of interconnection arrangements among operators and service providers in the Finnish telecommunications sector. The TAC is authorized to investigate complaints and to seek to resolve disputes with respect to interconnection and other pricing-related matters. In the event the parties to a dispute are unable through negotiations to resolve the dispute, the TAC has the authority to impose a resolution on the parties.

The FCA has general jurisdiction under the Act on Competition Restrictions to investigate complaints by competitors or act on its own initiative with respect to competition law issues. In certain respects, the FCA and the TAC have overlapping jurisdiction to investigate and resolve disputes involving Sonera's relationships with its competitors and subscribers pursuant to the respective mandates under the Act on Competition Restrictions and the Telecommunications Market Act. See "—Competition Law." The Telecommunications Market Act and the Act on Competition Restrictions establish different market share and revenue based threshold tests and other guidelines for merger control and for administrative intervention with respect to operators with significant market power under the Telecommunications Market Act and operators with a "dominant market position" under the Act on Competition Restrictions. Although the telecommunications and the competition authorities have independent legislative mandates and responsibilities, the Telecommunications Market Act establishes a mechanism for inter-agency cooperation through a referral procedure where the Ministry of Transport and Communications or the TAC may transfer an investigation or certain parts of an investigation to the FCA. This minimizes the likelihood of unnecessary burdens being imposed on telecommunications operators due to the two agencies' overlapping jurisdictions.

Telecommunications Licensing and Notifications

Under the Telecommunications Market Act, a license from the Ministry of Transport and Communications is required for the provision of telecommunications network services in the public mobile network. Each license granted to a mobile communications network operator under the Telecommunications Market Act defines the operational area of the operator and may have an associated schedule of conditions setting forth obligations relating to essential requirements, such as the safety of network operations, the maintenance of the operability of the network and data protection. Licenses granted by the Ministry of Transport and Communications have a maximum term of 20 years and are renewable. The

Telecommunications Market Act limits the grounds on which the Ministry of Transport and Communications may reject a license application to the lack of financial resources, non-compliance with relevant telecommunications regulations and the unavailability of frequencies. The Ministry of Transport and Communications may not revoke the license of a telecommunications network operator in part or in full unless (1) an operator has failed to comply with the telecommunications regulations and has, after having been put on notice of the alleged breach, failed to enter into full compliance therewith within a reasonable time or (2) the nature and extent of the operator's activities have changed to the extent that grounds to reject a license application would exist.

Before granting a license for provision of telecommunication network services in a public mobile network, the Ministry of Transport and Communications is required to give public notice of the availability of new licenses. Applicants are required to provide, among other things, a description of their planned networks and interconnection points, an estimate on the investments needed to commence operation and a plan for funding such investments. If licenses cannot be granted to all applicants due to the limited number of frequencies, the Ministry of Transport and Communications shall grant licenses to applicants whose operations best meet the objectives of the Telecommunications Market Act, including promoting competition, satisfying market demands and advancing high technical standards, quality, reliability and reasonable pricing. See "—Overview" and "—European Union Law." Sonera's current license was granted on November 6, 1997, for a term of 20 years. The license covers the NMT 450, NMT 900, GSM 900 and GSM 1800 networks in Finland. The license does not contain any additional conditions to those expressed in the Telecommunications Market Act relating to the financial condition of an operator and the network coverage. Prior to January 2000, Sonera and Radiolinja were the only holders of national GSM 900 licenses in Finland. On January 21, 2000 Suomen 2G was granted a GSM 900 license by the Ministry of Transport and Communications. Suomen 2G was founded by twelve regional private company members of the Finnet group that are expected to be joined by another twenty-six telecommunications operators. Neither Helsinki Telephone Corporation nor the regional telephone companies of the Finnet group in which Helsinki Telephone holds a considerable interest will be shareholders of Suomen 2G. Under the terms of its license, Suomen 2G is required to commence commercial activity by September 1, 2000.

On March 18, 1999, Sonera received a third generation mobile license for a term of a 20 years. Sonera's license covers operation of public third generation mobile network in Finland with the exception of the province of Åland. On September 1, 1999, the coverage of Sonera's third generation mobile license was extended to the province of Åland. The license is conditional upon obtaining necessary permits to possess radio transmitters and obliges Sonera to commence activities no later than on January 1, 2002, in line with the decision 128/1999/EC of the European Parliament and the Council adopted on December 14, 1998 (the "UMTS Decision"). Additionally, the introduction of third generation mobile communication 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. See "—European Union Law—Licensing." Third generation mobile licenses were also issued to Radiolinja, Telia Mobile Finland and Finnish 3G.

Allocation of Mobile Frequencies

Spectrum is a limited resource necessary to operate a mobile network and is allocated by the TAC through an administrative procedure. Pursuant to the decisions of the TAC, Sonera has been allocated frequency bands of:

- 2x4.5 MHz (in the 453.0 through 457.5 MHz and 463.0 through 467.5 MHz frequency bands) for Sonera's NMT 450 services;
- 2x2.1 MHz (in the 890.0 through 892.1 MHz and 935.0 through 937.1 MHz frequency bands) in the Helsinki metropolitan area and 3.3 MHz (in 890.0 through 893.3 MHz and 935.0 through 938.3 MHz frequency bands) elsewhere in Finland for Sonera's NMT 900 services;

- 2x12.4 MHz (in the 892.2 through and 904.6 MHz and 937.2 through 949.6 MHz frequency bands) in the Helsinki metropolitan area and 2x11.4 MHz (in 894.0 through 905.4 MHz and 939.0 through 950.4 MHz frequency bands) elsewhere in Finland for Sonera's GSM 900 services;
- 2x7.2 MHz (in the 1,710.0 through 1,717.2 MHz and 1,805.0 through 1,812.2 MHz frequency bands) for Sonera's GSM 1800 services.

At present, there are some nationwide unallocated frequencies in the GSM 900 MHz extension band as well as in the GSM 1800 MHz band. As a result of declining usage of Sonera's NMT 900 services, frequencies from 900 MHz band are being released and reallocated by the TAC.

UMTS frequency allocation is subject to the co-ordination at the European Union level. The frequency bands were designated by decision ERC/DEC/(97)07 of the European Radiocommunications Committee (the "ERC") on June 30, 1997. The ERC decision designated the frequency bands 1900-1980 MHz, 2010-2025 MHz and 2110-2170 MHz to terrestrial UMTS applications, and accommodated UMTS satellite component applications with the bands 1980-2010 MHz and 2170-2200 MHz. In Finland, the TAC will draw up a plan for use of frequencies, defining the detailed frequency bands as well as conditions and restrictions related to the use of frequencies. Such plan is now under preparation. See "—Mobile Communications—Technology and Infrastructure."

Rights of Way

Pursuant to the Telecommunications Market Act, telecommunications network operators are entitled to use public roads, public areas and private properties for the installation of telecommunications cables. Prior to laying a cable, the telecommunications network operator must prepare a route plan, which it must make public by publishing it in a local newspaper and notifying estate owners affected by the plan. In drawing up the plan, landscape and environmental factors must be taken into account. Where possible, preference should be given to installing cables along public roads and public areas, which are available free of charge. Estate owners or any other party whose interests or rights are affected by the route plan have the right to file objections with the municipal building board within 30 days from the date the plan was made public.

Once the route plan has been approved, the telecommunications network operator has the right to undertake construction work along the approved route for the installation of the telecommunications cables, as well as equipment, minor structures and poles related to the network. The area affected by the installation must be restored after completion of the work. Private estate owners are entitled to full compensation for any loss and damage caused by the cable installation.

In 1999, a new Act on Land Use and Construction (132/1999, the "new Construction Act") was enacted by the Finnish Parliament. The new act entered into force January 1, 2000 and abolished the Construction Act of 1958. In connection with the new legislation, the relevant provisions of the Telecommunications Market Act governing the construction of telecommunications networks were also amended. The new legislation obligates network operators, among other things, to pay compensation for establishment of easements for purposes of laying cable in real estate other than public roads and areas. In addition, it provides for a special procedure establishing a right to install cables pursuant to which telecommunications operators would have a duty to negotiate with the owners of real estate to obtain their permission. If such negotiations are not successful, the local municipal building board may decide on the installation of the cable. In addition, the new legislation provides that, both public and private real estate holders have a right to receive compensation for inconvenience and expenses resulting from the establishment of easements, and that, in certain instances, the telecommunications operators will be obligated to compensate for damages resulting from any necessary removal of cables. Although the new Construction Act and the amended provisions of the Telecommunications Market Act could increase the costs of constructing telecommunications networks, management does not believe that implementation will have a material adverse effect on Sonera's operations.

Tariff Structure

Telecommunication operators in Finland, including Sonera, may freely determine tariffs for their telecommunications services with the exception of tariffs charged by operators with significant market power for communication from a local telecommunications network to a non-local telecommunications network or service within the same telecommunications area, which have been capped until June 30, 2000 at 60 percent of the tariffs charged at a corresponding time for internal communication of the same duration within the same telecommunication area. In addition, the Ministry of Transport and Communications may issue orders on the general principles of telecommunications tariffs, the calculation of costs and publicity and itemization of fees if the overall objectives of the Telecommunications Market Act are threatened by the tariff policies of significant market power operators or if required by European Union legislation. See "—Numbering and Carrier Selection and"—European Union Law."

Sonera's leased line and voice services are also subject to the provisions of the Telecommunications Market Act and the related decisions of the Ministry of Transport and Communications that implement European Union's framework directive relating to Open Network Provision ("ONP"), as well as to specific ONP-related directives. These directives introduced the concept of operators with significant market power, relating to leased lines and voice services. Such directives focus on the development of rates that are transparent, non-discriminatory, and cost-oriented, and impose cost accounting obligations designed to ensure that rates are cost-oriented. ONP rules are without prejudice to the application of the competition rules. See "—Competition Law" and "—European Union Law."

Effective January 1998, the Ministry of Transport and Communications determined that significant market power operators' tariffs for fixed public local telephone network services and for leased lines should be public, cost-related, transparent and non-discriminatory. However, reasonable volume discounts are explicitly permitted. Decisions of the Ministry of Transport and Communications provide that telecommunications operators with significant market power, including both fixed and mobile network operators, must offer interconnection to all telecommunications service operators on non-discriminatory terms and at a reasonable price in view of costs. The Ministry of Transport and Communications determined on June 28, 1999 that Sonera has significant market power with respect to the Finnish long distance, international, international transit and mobile telecommunications markets throughout Finland, and with respect to local voice services in its traditional service areas. Forty-nine other telecommunications operators in Finland are also deemed to have significant market power. On the local market, 45 of the regional companies belonging to the Finnet Group are deemed to have significant market power. On the long distance market, Kaukoverkko Ysi has been determined to possess significant market power. On the international telecommunications market, Finnet International has been determined to possess significant market power, as do Radiolinja and Ålands Mobiltelefon on the mobile market. The ministerial decision regarding significant market power shall expire on June 30, 2001.

Sonera's agreements with its residential customers are also subject to the requirements of the Finnish Consumer Protection Act (38/1978), as amended (the "Consumer Protection Act"). The Consumer Protection Act requires that a consumer contract must not include unreasonable terms and conditions. The Finnish Market Court is vested with the authority to prohibit the use of unreasonable terms and conditions in consumer contracts and the Consumer Ombudsman has the authority to impose that type of prohibition on a temporary basis. In addition, an aggrieved consumer may seek relief directly in a general court under the Consumer Protection Act. The Ministry of Transport and Communications has issued a decision on the general grounds for the delivery terms of telecommunications services providing for a minimum standard for delivery terms for household users. See "—Universal Service."

Interconnection

On June 30, 1997, the European Union adopted a directive on interconnection, and the requirements of the directive were later that year incorporated to the Finnish telecommunications regulation. Under the

Telecommunications Market Act and decisions issued by the Ministry, operators of public telecommunications networks in Finland have an obligation to negotiate interconnection agreements with each other for the purpose of offering their telecommunications services. The purpose of this obligation is to ensure that Finnish subscribers can contact subscribers to other networks in Finland or abroad. Under the Telecommunications Market Act and decisions issued by the Ministry, for operators without significant market power in interconnection, the obligation to interconnect extends to interconnecting with at least one other operator operating a public telecommunications network to ensure that its subscribers' communications can be routed to other networks or service providers. Interconnection should be granted without delay at the requested interface following a written request. Significant market power operators are under an obligation to behave in a transparent and non-discriminatory manner and to offer interconnection with their networks to all telecommunications service operators on non-discriminatory terms and at a reasonable price in view of costs. See "—Tariff Structure." Significant market power operators may not refuse a request for interconnection if the proposed terms are reasonable. In addition, fixed network operators with significant market power must provide subscribers with access to all long distance and international telecommunications services provided in their area. See "—Numbering and Carrier Selection."

If no agreement can be reached between the operators, the TAC will seek to settle any dispute through negotiations between the parties and may order the party deemed to be non-compliant to comply with its obligations under the Telecommunications Market Act. To ensure that the objectives of the Telecommunications Market Act are met, the Ministry of Transport and Communications and/or the TAC has the power to issue orders regarding the general principles for telecommunications fees, the calculation of costs in relation to fees and the publication and itemization of such fees. The Ministry of Transport and Communications and/or the TAC are also entitled to impose interconnection terms and tariffs on operators that are unable to reach an agreement on reasonable terms.

All operators with significant market power must publish the technical and pricing terms on which they will provide interconnection to other operators in a so-called "Reference Interconnection Offer" (the "RIO"). This offer must be itemized and related to reasonable costs incurred. In addition, a decision issued by the Ministry of Transport and Communications on February 19, 1999, obligates operators with significant market power to separately determine reference fees for incoming (terminating) and outgoing (access) interconnection traffic, unless they already had such reference fees in place. The aim of the new ministerial decision was to create a regulatory platform that would enable operators to offer end-to-end pricing for their services. The decision does not apply (1) with respect to access, (A) to communication transmitted from a local telecommunications network to another local telecommunications network or service within the same telecommunications area nor (B) to communication from a mobile communications network to a local telecommunications network or service or to another mobile communications network or its service, and (2) with respect to termination, to communication transmitted from a local telecommunication network to a mobile communication network or its service. See "—Numbering and Carrier Selection."

The Telecommunications Market Act and a related decision of the Ministry of Transport and Communications explicitly provide that interconnection charges may cover a reasonable profit on invested capital but provides no detailed methodology on how costs should be allocated. Significant market power operators must, however, offer a description of the calculation system used to arrive at their interconnection charges and make interconnection agreements publicly available, subject to the deletion of confidential information covering the business strategy of the parties. In addition, all telecommunication operators have a duty to collect, upon reasonable terms, telecommunications fees from their subscribers on behalf of other operators or to provide sufficient information for the invoicing of such services.

Historically, Finnish operators have entered into bilateral interconnection agreements on a collective basis. These interconnection agreements establish interconnection and related changes for the term of such agreements. See "Item 9.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Interconnection Arrangements."

Currently, a network operator must offer all network operators the subscriber lines which it offers to another telecommunications operator or to an end-user (so-called "local loop unbundling"). On June 12, 2000, the Finnish Government submitted a proposal (HE 73/2000) to amend the Telecommunications Market Act to the Finnish Parliament. The amendment, if implemented, would require telecommunications operators to lease a portion of their unused subscriber line transfer capacity in the fixed voice network (shared use of the local loop) to third parties for, for example, the provision of parallel high-speed subscriber lines. The obligation to lease would, under certain conditions, also require telecommunications operators to provide space for other operators' equipment on their property (co-location).

On November 20, 1998, Telia Finland filed a complaint with the TAC against Sonera that has the effect of challenging the legality of the mobile termination fees under the interconnection agreement. See "Item 3. Legal and Regulatory Proceedings—Interconnection Fees."

Because of the high market shares of local telephone operators in their respective areas, the terms upon which interconnection is offered are expected to be material to the development of competition in the Finnish fixed telecommunications market. Notwithstanding the above regulations, there can be no certainty that Sonera will be able to negotiate favorable interconnection contracts as part of its efforts to provide competitive communications service in new markets.

National Roaming

Roaming consists of providing mobile connections to other operators' subscribers while they are outside the network coverage of their own service operator. At the national level, roaming is of relevance to situations where the geographic scope of a particular mobile network operator's network is limited, which is the case with the new GSM 1800 local networks in Finland.

At present, there is no regulatory nor commercial national roaming system in force in Finland and, in September 1998, the Ministry of Transport and Communications announced that it currently has no plans to introduce mandatory national roaming for GSM 900 and GSM 1800 networks. However, there can be no assurance that Finnish or European Union regulatory authorities will not require telecommunications operators in Finland to offer national roaming, particularly in the event that European Union legislation or international practice would become more favorable to national roaming.

The terms upon which any national roaming scheme would be offered would be of great significance to the development of competition on the Finnish mobile telecommunications market. The availability and cost of roaming would influence existing operators' decisions of whether to build their own nationwide networks or simply rely on the networks of Sonera and other nationwide mobile network operators. Conversely, in the event national roaming were to be mandated on terms and conditions, which do not provide an adequate return on Sonera's investment in its GSM networks, Sonera's mobile communications business could be materially adversely affected.

On September 23, 1998, Telia Finland filed a complaint with the TAC and the FCA claiming that both Sonera and Radiolinja were in violation of the Telecommunications Market Act and Finnish competition law in refusing to conclude national roaming agreements with Telia Finland. Sonera has responded to the complaints by denying Telia Finland's claims and stating that it views the failure to conclude a national roaming agreement with Telia Finland as a disagreement concerning the pricing of a commercially based service. On March 12, 1999, the TAC issued a decision on the complaint in favor of Sonera. In response, Telia Finland filed a procedural complaint against the TAC before the Helsinki Administrative Court (formerly the County Administrative Court of Uusimaa). Telia Finland has appealed the decision of the Helsinki Administrative Court, rendered in favor of the TAC on April 13, 2000, to the Supreme Administrative Court. The matter is still pending. On January 12, 2000, the FCA issued a decision maintaining that the pricing of national roaming applied by Sonera does not require any action on the part of the FCA. The FCA is of the opinion that a telecommunications operator has several different ways of gaining access to a national telecommunications network, e.g. a service provider agreement. In its decision, the FCA further states that Sonera does not, either alone or together with Radiolinja, have a dominant market position in the access markets of national mobile networks. Telia Finland has filed an appeal with the Competition Council with respect to the FCA's decision in Sonera's favor. Radiolinja, however, was not named as a party to the appeal. Sonera filed a response to the appeal on April 10, 2000. The appeal is still pending and management is currently not in a position to assess when the proceedings will be brought to a conclusion nor their final outcome. See "Item 3. Legal and Regulatory Proceedings."

In March 1999, Telia Finland introduced national roaming for its GSM 1800 service in Sonera's network through the international roaming arrangement that Swisscom had with Sonera. In April 1999, Sonera announced that because of certain technical hazards found in the technical solution, which among others would interfere with the proper functioning of emergency calls and blocking of pay-per-call numbers, it would have to discontinue connecting traffic to the numbers that Swisscom has reserved for Telia Finland's Dual service, unless Telia Finland would indemnify it for possible legal claims. In accordance with this announcement, Sonera started to close off its mobile network of Telia Finland's GSM Dual subscriptions on April 16, 1999. On April 16, 1999, Telia Finland filed a complaint with the European Commission against Sonera in this matter and the case is still pending. See "Item 3. Legal and Regulatory Proceedings."

In the proposal of the Finnish Government which was submitted to the Finnish Parliament on June 12, 2000, the Finnish Government proposed an amendment to the Telecommunications Market Act which, if implemented, would require those GSM 900 network operators who have been deemed to have significant market power to conclude, under certain conditions, roaming agreements with third generation mobile network operators permitting such third generation mobile operators to roam on their GSM 900 networks. The amendment, if implemented, would empower the TAC to define the terms of such roaming agreements within parameters to be set forth in the Telecommunications Market Act in the event the parties are unable to conclude such agreements on a commercial basis.

Numbering and Carrier Selection

The TAC is responsible for administering the national numbering plan. See "—Regulatory Institutions." Upon application by a telecommunications operator, the TAC assigns numbers and addresses on a transparent, equal and non-discriminatory basis. The TAC must ensure that applications relating to numbers and addresses are handled without delay.

The TAC is also charged with overseeing number portability. Geographic number portability in the public switched network was introduced as a pilot scheme in Helsinki on June 1, 1997, and, it has been mandatory in the whole of Finland since September 30, 1998. The regulatory framework requires local number portability (within an existing area) and nation-wide number portability using a newly allocated numbering area. Operators with significant market power are required to offer number portability at cost oriented prices. The legislative framework does not enforce any other mandatory provisions for the allocation of costs and conditions for the establishment of number portability. To date, the TAC has not announced any plans for the introduction of mobile number portability.

Carrier selection is the facility that allows a user to choose a long distance or international carrier independent of its local loop provider. This can be achieved in different ways: (1) by pre-selection: the carrier is chosen by the user; (2) by call-by-call procedures: the user typically inserts a prefix before a dialed number; or (3) randomly based on the carriers' market shares of long distance or international calls.

Under the Telecommunications Market Act and related decisions of the Ministry, telecommunications operators with significant market power are obliged to provide residential customers, where technically feasible, the ability to select their preferred long distance operator or international operator on a call-by-call basis. Sonera's prefix on long distance calls is "101" while Telia Finland and Kaukoverkko Ysi have the prefixes "1041" and "109," respectively. In the long distance call market, Sonera has a number of other competitors who also have their own prefixes in addition to the ones indicated above. Where the customer neither selects a prefix nor has made a pre-selection of an operator, traffic is allocated among the operators whose services can be used without a separate service agreement and whose market share has been at least five percent of the prefix-traffic based on market shares during the preceding two to six months. On the international market, Sonera has the "990" prefix while Telia Finland and Finnet International have the "994" and "999" prefixes, respectively. In the international call market, Sonera has a number of other competitors who also have their own prefixes in addition to the ones indicated above. If customers use the "00" international access code without designating a specific operator's prefix, traffic is randomly allocated among the international operators based on market share per numbering area during the preceding two to six months.

The interconnection decision provides that fixed network significant market power operators must offer pre-selection, if so requested, of an international or long distance operator chosen by a user, so that a call dialed without any prefix or with the "00" prefix will be automatically routed to a long distance or an international telecommunications service indicated by the user. Mobile network operators are required to offer pre-selection only for international calls. Fixed network operators with significant market power have been required to offer "00" pre-selection since September 30, 1998, and mobile operators with significant market power since January 1, 1999.

The European Commission, however, has commenced the first stage of formal infringement proceedings under Article 226 of the Treaty on European Union against Belgium, France, Italy, the Netherlands, Austria and Finland for an alleged failure to implement the Numbering Directive 98/61/EC. Under Article 12(5) of the Interconnection Directive 97/33/EC as amended by the Numbering Directive 98/61/EC, operator number portability and carrier pre-selection were to have been made available by January 1, 2000 at the latest.

Carrier pre-selection enables subscribers, including those using ISDN networks, to access alternative operators without the need to dial a prefix as well as to override any pre-selected choice on a call-by-call basis by dialing a short prefix. Operator number portability allows subscribers to retain their assigned number(s) on the fixed and ISDN networks regardless of which operator they choose as their service provider.

In the proceeding against Finland the European Commission alleges both incomplete implementation and incorrect application of the Numbering Directive based on the alleged failure to provide carrier pre-selection for local calls and calls to mobile phones. The Finnish Government responded on April 27, 2000 and is of the opinion that Finland has implemented the directive 98/61/EC in a correct way representing both the purpose and the spirit of the directive.

Universal Service

Universal service entails an obligation to provide access to the public telephone network and to deliver an affordable telephone service to all users reasonably requesting it. More specifically, pursuant to European Union legislation, universal service obligations include the provision of access to a fixed network which will allow usage of voice services, fax and data transmission services, operator assistance, emergency and directory inquiry services (including subscriber directories) and public payphones. However, neither mobile services, with the exception of free emergency calls and directory assistance, nor Internet services are included in the universal service requirement.

A few European countries which have introduced universal service requirements have also implemented funding schemes to allocate the costs of providing the service among all organizations providing public telecommunications networks or publicly available telecommunications services. Two methods for collecting and distributing universal services are considered: either a universal service fund at the national level or a system of supplementary charges collected directly by the operator providing universal service from other operators interconnecting with its network. In Finland, no scheme for allocating the costs of providing universal service has yet been devised, nor has one been proposed by the Ministry of Transport and Communications or the TAC.

Currently, the Finnish telecommunications regulations do not specifically require Sonera to offer universal service. However, the Telecommunications Market Act sets forth a general objective that telecommunications services should be provided in accordance with the reasonable needs of users and be reasonably priced. The Ministry's current interpretation of this requirement is that fixed network operators that possess significant market power are obliged to provide basic services, but neither at rates below their competitive market rates nor using equally priced nationwide tariffs and subscription charges.

To control the costs of operating its extensive fixed network, Sonera has examined more cost-effective ways of providing network connections to the most rural regions. It has achieved preliminary results with fixed mobile terminals which are dwelling-installed, and use the standard GSM network for transmission, and to which an ordinary fixed line terminal can be connected. For low-medium traffic to and from remote areas, providing so-called "fixed wireless" connections is more cost-effective than maintaining a sizeable fixed network local loop for a limited number of subscribers. The Ministry of Transport and Communications has communicated to Sonera and other telephone operators that the installation of fixed wireless units using NMT and GSM networks for residential customers will satisfy the requirement for providing telecommunications services set forth in Telecommunications Market Act. In addition, the Ministry of Transport and Communications noted that telephone operators will not have the right to change the type of technology used in the provision of services without the subscribers' permission, except when the standard of service and the level of pricing for their services remains the same.

Telecommunications Data Privacy Act

On April 22, 1999, the Finnish Parliament adopted the Act on the Protection of Privacy and Data Security in Telecommunications (the "Telecommunications Data Privacy Act") that implements the European Union directive (97/66/EC) on the protection of individuals with regard to the free movement and processing of personal data in telecommunications networks (the "Telecommunications Data Protection Directive"). The Telecommunications Data Privacy Act entered into force on July 1, 1999. The purpose of the Act is to protect the confidentiality of personal data, ensuring, among others, the user's right to protect his or her telecommunications messages by technical means such as encryption. The Act also extends the obligation of the personnel of companies providing telephone services to cover also the personnel of companies providing e-mail or Internet services. The Act provides for strict rules as regards a telecommunications operators' right to process user data, such as traffic data, the subscription number or the length of a call and governs disclosing of user and caller identity, storing of billing records and itemization of calls. For example, as a general rule, the itemization of calls has been expanded to show all but the last three digits of a call made, instead of the earlier four digits. As of the entry into force of the Act, direct marketing through automatic calling systems is possible only with the consent of the consumer, allowing the prevention of any mass sending of text and e-mail messages. As regards directories, the Act obligates the telecommunication operators to give, on equal terms, the information published in directories to be published in some other directory, thereby aiming to increase competition in directory business. According to the Act, the telecommunications operators are obliged to manage the directories of subscribers and national directory services. A private person is entitled to have his or her personal data contained in directories of subscribers partially or fully omitted from the directory or changed free of charge. Telecommunications operators are required to safeguard the data security of their own networks and to inform the users of any risks. A telecommunications operator violating the Telecommunications Data Privacy Act or the regulations thereunder, may be ordered to correct its error or omission, or face fines or a possible suspension of all of its operations.

In its April 27, 2000 working document, the European Commission proposed an expansion of the current provisions of the Telecommunications Data Protection Directive on traffic data to ensure, among other things, that all communications services providers (including Internet service providers) must obtain consent of the subscriber before using traffic data processed for the transmission of a communication for marketing purposes or for the provision of value-added services.

Access to Telephone Call and Caller Records

On August 20, 1999, the Finnish Government issued a proposal (HE 34/1999) to amend the Finnish Police Act, which proposal, if implemented, would, among other things, expand the rights of the police to receive information including data of calls made or received and identification of callers in connection with crime prevention. Even though the police has in the past compensated Sonera for the direct costs resulting from services provided by Sonera to the police as well as various operations conducted by the police using Sonera's network and equipment, increased use of Sonera's resources by the police may result in additional costs to Sonera. As of June 2000, the proposal was still under discussion in the applicable parliamentary committees. Management does not believe that the amendment of the Finnish Police Act would materially increase the operating cost of Sonera's networks.

Television and Radio Broadcasting

Provision and transmission of television and radio programs via wires or radio waves, including satellite transmission, is regulated by the Finnish Act on Television and Radio Operations (744/1998), as amended (the "Television and Radio Act"). According to the Television and Radio Act, broadcasting of and radio signal via radio waves requires a license issued by the Finnish Government. These licenses can be obtained only after the Finnish Government has made a public notification of the availability of new licenses. When granting the licenses, the Finnish Government is obligated to consider, among other things, the effect of such licenses on the entire radio and television market, with a view to promoting freedom of speech, versatility of the programs and the needs of various interest groups. The licenses are valid for a maximum of ten years. Other television and radio operations are not subject to a licensing requirement. Prospective operators are merely required to submit a notification to the TAC prior to commencing operations.

The TAC has general jurisdiction to oversee compliance with the Television and Radio Act as well as the rules and regulations thereunder. The consumer ombudsman exercises a parallel right with the TAC to oversee certain provisions relating to consumer protection. The Finnish Government may revoke a license or order operations carried out under the notification procedure to be stopped if the operator, after having been put on notice of the alleged breach, continues to be in serious breach of the Television and Radio Act. The license for television and radio operations can also be annulled due to the unavailability of appropriate frequencies. The Television and Radio Act also provides for the obligation of telecommunications operators that own or hold a right to operate a telecommunications network primarily for the transmission of television and radio programs to transmit, without charge, programs of certain other program providers as defined in the Television and Radio Act. In addition, the Television and Radio Act contains provisions on quotas for European content and content produced by independent producers as well as other content related issues such as advertising.

The Television and Radio Act provides for the right of the Ministry of Transport and Communications and the TAC to receive information from the operators needed to carry out its oversight and regulatory tasks. The licensed operator must also inform the Ministry of Transport and Communications when the voting participation, or the percentage ownership, of any of its shareholders reaches, exceeds or falls below $\frac{1}{10}$, $\frac{1}{5}$, $\frac{1}{3}$, $\frac{1}{2}$, or $\frac{2}{3}$ of the operator's total share capital. A shareholder owning more than 20 percent of the shares or votes of a licensed operator must give the Ministry of Transport and Communications and the TAC a notice regarding any change, to its knowledge, in which the voting participation and the percentage ownership of any shareholder of the licensed operator reaches, exceeds or falls below $\frac{1}{10}$, $\frac{1}{5}$, $\frac{1}{3}$, $\frac{1}{2}$, or $\frac{2}{3}$ of the operator's total share capital.

European Union Law

General

Finland is a member state of the European Union and, as such, is required to implement European Union legislation in its national law and to comply with European Union legislation when applying its national law. European Union legislation can take a number of forms. Regulations have general application and are binding in their entirety and directly applicable in all member states. Directives are binding, but national authorities may choose the form and method of implementation. In certain circumstances, the European Court of Justice or a national court may declare that a directive is directly applicable in a member state, even if it has not been formally adopted through national legislation by the deadline set forth in such directive. Council decisions are also binding and require implementation by national regulatory authorities. Recommendations are not, however, binding, unlike regulations, council decisions and directives. Resolutions are policy statements that have political significance but no legal character.

European Union institutions have enacted numerous directives providing for an open and seamless telecommunications market within and between the member states, following two distinct and complementary processes: (1) liberalization and (2) harmonization. A first series of directives, adopted pursuant to Article 86(3) of the EC Treaty on state monopolies or undertakings with special or exclusive rights, mandated the full liberalization of national telecommunications markets and the abolition of the monopoly rights of state-owned or licensed operators by January 1, 1998. A second series of directives, adopted pursuant to Article 95 of the EC Treaty on harmonization of member states' regulatory requirements, provides for open and efficient access and use of public telecommunications networks and services across member states' territories (the "ONP" directives).

Liberalization Directives

The services liberalization directive was adopted on June 28, 1990 (the "Services Directive"). The Services Directive provided for the new liberalization of telecommunications services other than voice telephony, mobile telecommunications, telex and satellite communications. The Services Directive has been progressively amended to liberalize satellite telecommunications services other than public switched voice services (October 1994), telecommunications services provided over cable television networks (October 1995) and mobile services (January 1996). Completing the liberalization process, on March 13, 1996 a new directive (1) required the full liberalization, as of July 1, 1996, of the use of alternative infrastructures (such as telecommunications infrastructures of railways) for the provision of all telecommunications services other than voice telephony and, in addition (2) required complete liberalization of voice telephony and (3) the provision of public telecommunications infrastructure by January 1, 1998.

On June 23, 1999, the European Commission adopted a directive further modifying the Services Directive. The so-called "Network Separation" directive introduces a requirement that any telecommunications organization which is either controlled by a member state or which has been granted special or exclusive rights over radio frequencies should operate its cable TV networks under a separate entity from its public telecommunications network, always provided the operator has a dominant position in a substantial part of the common market. This goes further than the current provisions on accounting separation set forth in the Telecommunications Market Act. According to the Ministry, the modified Directive will not concern operators in Finland as there are no exclusive or other special concession in place for operation of cable TV network. The Commission has not responded to the Ministry's interpretation. The Commission may eventually demand that the Telecommunication Market Act has to be changed, and, as a consequence, Sonera could be obligated to incorporate its cable TV interest into a separate legal entity. Management does not believe that this legal separation will have an adverse effect on Sonera's results of operations or financial condition.

ONP Directives

The ONP directives 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 services provided in accordance with ONP requirements. On June 28, 1990, along with the first of the liberalization directives, the European Union adopted a basic ONP framework directive. It was followed by directives on leased lines in June 1992 and on voice telephony in December 1995. Recommendations for dealing with packet switching data services and ISDN offerings have also been adopted.

The interconnection directive adopted on June 30, 1997, establishes principles for setting interconnection charges and allocating the cost of universal service obligations, requires accounting safeguards to avoid unfair cross-subsidization, and allocation of telephone numbers, defines the role of national regulators and establishes a common dispute resolution procedure. On October 6, 1997, the ONP framework and the ONP leased line directives were modified to adapt them to a competitive telecommunications environment. On January 14, 1998, the Council and the European Parliament adopted a directive on the application of ONP to voice telephony and on universal service obligations for telecommunications. This directive updated the ONP voice telephony directive of December 1995 in the context of full liberalization of telecommunications infrastructures and services across the European Union (with the exception of some member states) on January 1, 1998. Finally, on September 24, 1998, the Council and the European Parliament adopted an amendment to the interconnection directive accelerating the introduction of operator number portability in fixed networks through the European Union and to create a legal basis for the introduction of carrier pre-selection. The European Commission has issued a recommendation on termination charges in the fixed network and a recommendation on local loop unbundling.

The 1999 Review

On November 10, 1999, the European Commission published its review of the telecommunications regulatory environment (the "1999 Review"), which proposed to amend the current regulatory framework through a new set of principles and directives. The European Commission stressed that future regulation should be technologically neutral and cover all communications infrastructure and associated services. The European Commission proposed a new liberalization directive that would consolidate and simplify the current liberalization directives, which have been applied to open up to competition all telecommunications services including voice, satellite, data, mobile, paging and telex. See "—Liberalization Directives." In addition, a new framework directive was also proposed, along with four specific directives, which may supplement or replace the existing ONP Directives. See "—ONP Directives." These four directives would cover: (i) licensing and authorizations; (ii) access and interconnection; (iii) universal service; and (iv) data protection in telecommunications. The simplified Community-specific legislation would be accompanied by non-binding measures such as recommendations, guidelines and codes of conduct. The European Commission has also proposed placing greater reliance on the general competition rules.

On April 26, 2000, the European Commission adopted a document outlining the results of its public consultation on the 1999 Review, together with an overview of the proposed regulatory framework (the "1999 Review Results"). In the 1999 Review Results, the European Commission proposes, among other things, to base the notion of significant market power on the concept of dominant position in particular markets, calculated in accordance with the competition law practice. The envisaged new framework would also ensure that national regulatory authorities do not impose significant market power obligations on small newly emerging markets. The European Commission proposes introducing obligation on mobile operators to offer number portability. However, departing from the European Commission's initial proposal, the 1999 Review Results do not envisage any specific regulatory obligations in the Community legislation to impose, e.g., access for service providers to cable TV networks or to mobile networks, or to impose carrier selection or pre-selection on mobile operators.

In line with the principles laid down in the 1999 Review Results, the European Commission has also made publicly available working documents setting out the proposed regulatory framework for electronic communications networks and services and organized a public hearing on this issue on May 10-11, 2000. As the European Commission has not yet formally proposed its new regulatory framework, it is difficult to predict its precise impact on Sonera's business.

Unbundling of the Local Loop

The local loop is the physical copper line circuit in the local access network connecting the customer's premises to the telecommunications operator's local switch, concentrator or equivalent facility. Local loop unbundling means the granting by incumbent operators of unbundled access to their local loop and associated facilities. The European Commission views local loop unbundling as a necessary step towards the provision of a full range of communications services, including broadband multimedia and high-speed Internet (the local loop can be adapted for provision of high-speed broadband services by applying Digital Subscriber Line technologies).

On April 26, 2000, the European Commission adopted a recommendation on unbundled access to the local loop. The recommendation calls on all member states to enact appropriate legal and regulatory measures for public fixed network operators with significant market power to provide unbundled access to the copper local loops by December 31, 2000, under transparent, fair and non-discriminatory conditions. Furthermore, the European Commission has announced its intention to introduce the requirement of local loop unbundling into the new access and interconnection directive which is expected to be tabled shortly. As Finland currently provides for local loop unbundling, management does not expect the European Commission recommendation or the future legislation to have a material adverse effect on Sonera's business or financial results.

Licensing

The European Union 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 European Union 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 is required to be in place no later than 2000, but UMTS services are 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. The licensing process commenced in Finland on December 15, 1998 and Sonera obtained a license for third generation mobile communications systems on March 18, 1999. On March 13, 2000, Xfera Moviles S.A. a Spanish company of which Sonera is a founding shareholder and of which it holds a 15 percent equity stake was granted a third generation mobile network license in Spain. The company is currently preparing its notification to the European Commission Merger Task Force regarding the formation and shareholder composition of the company. While management does not expect the creation of the joint venture to raise antitrust difficulties, the European Commission does have the power to block the transaction or attach conditions to its clearance. On April 4, 2000, Sonera's subsidiary, Spectrum Company, decided to withdraw from the auction of a UMTS license in the United Kingdom. See "Item 1. Description of Business—Recent Developments—Mobile Communications."

The proposed new regulatory framework for electronic communication services and networks proposes that all such services and networks should be covered under a general authorization, and specific rights of use should be limited to the assignment of frequencies and numbers only. See "—European Union Law—The 1999 Review."

Liability of Internet Service Providers

Subscribers to Sonera's Internet services may access content on Sonera's portals or on other web-sites via hyperlinks on its portals, download this content and transmit it to others over the internet. They may also upload content onto Sonera's servers, either onto their individual web pages hosted by Sonera, in chat rooms, bulletin boards or news groups. In addition, they may use the email accounts provided by Sonera to send and receive content by email. Any of these actions by subscribers could potentially result in claims against Sonera as a service provider based on infringement of intellectual property rights of third parties, including copyright and trademark infringement, as well as defamation and publication or transmission of obscene material. Sonera attempts to reduce its exposure to this potential liability through, among other things, the general terms and conditions it applies to subscribers to its Internet services and through its portal disclaimers.

Sonera's activities are increasingly subject to self-regulation laid down in industry codes of conduct. On January 25, 1999, the European Union adopted an action plan to combat illegal and harmful content on the Internet (the "Action Plan"). Under the Action Plan, European Union member states agree to promote, encourage and support the development of industry self-regulation and content-monitoring schemes regarding the safer use of the Internet, industry filtering tools and rating system to protect minors, as well as to promote international cooperation on these points.

Electronic Commerce

On May 4, 2000 a directive on certain legal aspects of information society services, in particular electronic commerce, in the internal market (the "Electronic Commerce Directive") was adopted. The Electronic Commerce Directive aims to ensure the free movement of information, including electronic commerce, within the European Union member states, based on a country of origin principle. The Electronic Commerce Directive regulates the legal recognition of electronic contracts, the formation of electronic contracts, the information to be provided by the service provider to the consumer, and solicited and unsolicited commercial communications with consumers.

The Electronic Commerce Directive also contains rules on liability of intermediary service providers for mere conduit, as well as for caching and hosting activities. In principle, intermediary service providers cannot be held liable if they only act as a mere conduit, that is, as long as they do not initiate the transmission, select the receiver of the transmission or select or modify the information contained in the transmission. Similarly, for caching the intermediary service provider cannot be held liable as long as it: (a) does not modify the information; (b) complies with the conditions on access to information; (c) complies with the rules regarding the updating of information; (d) does not interfere with the lawful use of technology to obtain data on the use of the information; and (e) acts expeditiously to remove or disable access to the information upon receiving actual knowledge that the information at the initial source has been removed or access to it has been disabled, or have has been ordered to do so by a court or an administrative authority. Furthermore, for hosting activities, intermediary service providers cannot be held liable if the provider does not have actual knowledge of illegal activity or information and was not aware of facts or circumstances from which illegal activity or information is apparent. Where the provider receives such information, it can avoid liability by acting expeditiously to remove or disable access to the information. The Electronic Commerce Directive does not deal with the liability for hyperlinks; it indicates, however, that the European Commission should address this issue in the future.

European Union member states must implement the Electronic Commerce Directive within 18 months of its entry into force (which will be on the day of its publication in the Official Journal of the European Communities). As European Union member states will have a margin of discretion in implementing the Electronic Commerce Directive, their national laws relating to electronic commerce may vary. It is, therefore, difficult to predict the Electronic Commerce Directive's precise implications for Sonera until the implementation of the Directive is completed.

Copyright

As far as liability issues are concerned, the Electronic Commerce Directive is closely linked to the proposed directive on copyright and related rights in the information society (the "Draft Copyright Directive"). The Draft Copyright Directive was adopted by the European Commission on December 10, 1997. It is currently still in the legislative process and may be adopted before late 2000. The Copyright Directive is supposed to be implemented by European Union member states within one year of its entry into force.

The Draft Copyright Directive introduces, among other things, an exclusive right to make on-demand transmissions available to the public, and to harmonize reproduction and distribution rights. Among exceptions to the general rule of the protection of the reproduction right, the Draft Copyright Directive envisages an exception for transient cache copies. The liability stipulations in the Electronic Commerce Directive will have to be read together with the final text of the Draft Copyright Directive, which is highly controversial. The Copyright Directive also deals with technological measures to protect against copyright infringements and attempts to provide legal protection against the circumvention of these measures.

Electronic Signatures

Closely connected with Sonera's electronic commerce activities is the use of electronic signatures. The European Union adopted a directive on a community framework for electronic signatures on December 13, 1999 (the "Electronic Signatures Directive") which establishes a framework in which third parties, also known as "certification service providers", issue "qualified certificates" to enable the verification of electronic signatures. The Electronic Signatures Directive also sets out criteria for the legal recognition of electronic signatures. The Electronic Signatures Directive is required to be implemented by European Union member states by July 19, 2001.

Encryption Regulation

With the development of information and communications technologies that allow vast quantities of data to be transmitted, copied and stored quickly and easily, encryption is fast becoming an integral part of personal and business computing. While uniform international policy on encryption has been elusive, several countries have implemented regulations and policies on the use of encryption and other countries may do so in the future. The European Union has played a key role in liberalizing restrictions on encryption. The European Commission requires European Union member states to report to it any national proposals to impose technical rules for marketing, use, manufacture or import of encryption products. The European Commission also seeks to dismantle internal European Union controls on commercial encryption products. Regulation 3381/94/EC of December 19, 1994 established a common framework for export controls of various dual-use goods within the European Union. Encryption products that can be used for both civil and military purposes and are listed in the relevant Council decision can only be exported on the basis of an authorization.

In May 1998, the European Commission issued a proposal for a new regulation on export controls of dual-use goods and technology. The proposed regulation envisages, among other things, to create a general European Union license for certain exports. The new arrangement would also transpose the *de facto* convergence of European Union member states licensing policies with regard to seven named Wassenaar Arrangement countries (including the United States, Canada and Japan) into a harmonized Community license, as well as extend the application of this general license to the Czech Republic, Hungary and Poland. The Council announced in its conclusions after the Lisbon summit that the proposed new regulation should be adopted as rapidly as possible during the year 2000. There can be no assurance, however, that the proposed regulation will be adopted in its original form proposed by the European Commission or within the proposed timetable.

In addition, the U.S. has recently seen significant activity in legislation and regulations affecting such areas as digital signatures and electronic commerce, both at the federal and the state levels. State governments appear to have moved more quickly than the federal government in implementing legislation in certain areas, such as with respect to digital signatures, which can sometimes lead to disparate or inconsistent regulatory schemes from state to state. It is anticipated, however, that further legislative development in these areas at the U.S. federal level will result in greater uniformity and predictability. The area of encryption controls has been the exclusive province of the federal government and this area has seen significant liberalization in the last several years. In January 2000, the U.S. government enacted legislation which eases encryption export controls. Under the new rules, "retail" encryption (*e.g.* encryption generally available to and designed for use by consumers or for financial transactions) may be exported to any end-user, including governments, after a one-time review by the [U.S. Commerce Department]. Non-retail encryption products may be freely transferred to non-government end-users after a one-time review. Licenses are still required, however, for export of non-retail products to governments. Encryption of any key length may be exported without licenses to subsidiaries of U.S. firms, and foreign nationals working in the United States no longer require licenses to work on encryption. Recent U.S. federal court decisions indicate that any future effort by the U.S. government to restrict the transfer of encryption source codes may be legally prescribed. This liberalization is subject to U.S. political embargoes against countries such as Cuba, Iran, Iraq, Libya, and North Korea administered by the Treasury Department Office of Foreign Assets Control. The liberalization nevertheless is significant and has enhanced the international competitiveness of U.S. competitors of the SmartTrust product.

Distance Selling

Sonera's activities in the field of electronic commerce will also be subject to a directive on the protection of consumers in respect of distance contracts (the "Distance Selling Directive") which sets out rules for contracts concluded at a distance, including contracts for goods and services sold over the Internet. The Distance Selling Directive requires suppliers to provide consumers with specific information, including their name, address, price and delivery costs, before a contract is concluded. Consumers generally have a seven-day right of withdrawal. The Distance Selling Directive prohibits "inertia selling" (the supply of goods or services without prior request) and suppliers are restricted in their use of automatic calling or facsimile machines or unsolicited e-mails to communicate with consumers. Consumers must have effective means of redress.

The Distance Selling Directive does not apply to contracts such as those relating to financial services, contracts concluded with telecommunications operators through the use of public pay-phones, and contracts concluded at an auction. European Union member states must implement the Distance Selling Directive by June 4, 2000.

Distance Marketing of Financial Services

Given Sonera's plans to promote financial services over the Internet, a proposed directive on the distance marketing of consumer financial services, originally presented by the European Commission on November 19, 1998 may have an impact on Sonera's activities.

The proposed Directive on Distance Marketing of Financial Services aims to establish a regulatory framework for the marketing of financial services at a distance within the European Union to ensure consumer protection in the area of retail financial services (i.e. insurance, banking, and investment services) offered by electronic means. The proposed Directive on Distance Marketing of Financial Services includes a "period of reflection" and "withdrawal" right for consumers, as well as a prohibition on providing unsolicited distance services.

Media Regulation

The European Union regulatory framework with respect to media contains regulation on both infrastructure and content.

Infrastructure. To promote the launch of digital TV services, the European Union adopted on October 24, 1995, Directive 95/47/EC on the use of standards for the transmission of television signals (the "Transmission Standards Directive"). The Transmission Standards Directive requires, among other things, that: (i) conditional access providers offer broadcasters access on fair, reasonable and non-discriminatory terms, (ii) hardware manufacturers use the European common scrambling system to make it technically possible to receive all digital TV services through the decoder, and (iii) broadcasters use European standards for TV transmission; it does not, however, mandate any particular standard or type of service. The Transmission Standards Directive does not apply to cable TV operators.

On November 20, 1998, the European Parliament and Council adopted Directive 98/84/EC on the legal protection of services based on, and consisting of, conditional access (the "Conditional Access Directive"). Conditional access services include pay-TV, video-on-demand, music-on-demand, electronic publishing and a wide range of other on-line services. The Conditional Access Directive requires European Union member states to prohibit and provide appropriate sanctions against all commercial activities related to unauthorized access to a protected service, such as the sale of pirate decoders, smart cards or software. It also prohibits member states from invoking "anti-piracy" grounds to restrict the free movement of legitimate services and conditional access devices originating in another member state. The Conditional Access Directive forms part of a package of measures related to electronic commerce. See"—Liability of Internet Services Providers." European Union member states are required to implement the Conditional Access Directive by May 28, 2000. The substance of the Conditional Access Directive was incorporated into two Finnish acts—the Telecommunications Market Act and the Radio Act.

Content. On October 3, 1989, the European Union adopted Directive 89/552/EEC on the coordination of certain provisions concerning the pursuit of television broadcasting activities which was amended on June 30, 1997 by Directive 97/36/EC (the "Revised Television Without Frontiers Directive"). The Revised Television Without Frontiers Directive was designed to establish a harmonized framework for the free movement of television broadcasting services in the European Union. The aim of the Revised Television Without Frontiers Directive is to promote a European market in broadcasting and related activities, such as television advertising and the production of audiovisual programs. It covers promotion of the production and distribution of European works, television advertising and sponsorship, the protection of minors, the right of reply, law applicable to television broadcasts, and access of the public to major (sports) events. The most controversial provision lays down a European content quota, by which broadcasters must ensure that, wherever practicable, the majority of their content consists of European programming. The European content quota provisions do not apply to television broadcasts that are intended for local audiences and do not form part of a national network.

In an attempt to align existing European regulation to the rapid technological changes, the European Commission published in December 1997, the Green Paper on the Convergence of the Telecommunications, Media and Information Technology Sectors (the "Green Paper on the Convergence") proposing several options to deal with the convergence issue. In its communications summing up the consultation process, the European Commission recognized that future regulation needs to be transparent, clear and proportionate and distinguish between transport (transmission of signals) and content. Reforms in the regulation of infrastructure and associated services were proposed as part of the 1999 Review. See"—The 1999 Review." A number of flanking actions with respect to both content and infrastructure are also foreseen, including the verification of the transposition and application by the European Union member states of the Revised Directive on Television without Frontiers and a report on the implementation of the Transmission Standards Directive.

Competition Law

General

In Finland, since the commencement of the liberalization of the telecommunications market in 1987, competition law has gradually been applied to telecommunication services and is currently being applied fully to services offered by Sonera. Finnish competition law, including the Act on Competition Restrictions, prohibits the abuse of a dominant market position, restrictive practices relating to prices and agreements or collusive behavior among market participants restricting competition. The Telecommunications Market Act provides that the Ministry of Transport and Communications and the TAC may refer any matter, to the extent that it may infringe the competition law, to the Finnish Competition Authority.

The Finnish Competition Authority monitors the application of the competition law and in the event of an infringement, the Finnish Competition Authority may propose to the Competition Council that it orders the infringing parties to pay a fine or bring to an end the infringement, or both. The maximum fine may be increased where justified on the basis of the seriousness of the infringement and the prevailing circumstances, but the amount cannot exceed ten percent of the preceding year's turnover of the parties involved, on a consolidated basis. When considering the competition restrictions and their harmful consequences on the telecommunications market, the Finnish Competition Authority and the Competition Council must also take into account the provisions of the Telecommunications Market Act and potential conflicts therewith.

In addition to Finnish competition law, Sonera must adhere to the European Union competition rules, the main principles of which are set forth in Articles 81 and 82 of the EC Treaty, as well as national competition laws in jurisdictions where Sonera operates. Article 81 prohibits agreements or collusive behavior between companies which behavior 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 market 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. The European Commission may impose fines in the event of a breach amounting to up to ten percent of a company's turnover 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 Sonera's shares are owned by the Finnish State or the Finnish State exercises a significant influence over Sonera, the European Commission will have the authority to address individual decisions to the Finnish State to ensure Sonera's compliance with European Union competition rules. In this regard, the European Commission will be able to initiate proceedings against Sonera directly under Articles 81 and 82 of the EC Treaty, or against the Finnish State under Article 86 of the EC Treaty. As a result, Sonera may have to face two different proceedings, one of which it cannot directly influence and in which it is not a party.

Merger Control

Since October 1, 1998, mergers and acquisitions by companies exceeding certain turnover thresholds have been subject to the prior notification to and approval by the Finnish competition authorities. The Finnish Competition Council may, upon a proposal by the Finnish Competition Authority, prohibit a transaction which results in the creation or strengthening of a dominant position of the parties, as a result of which competition would be significantly impeded in the Finnish market or in any significant part thereof. The Competition Council may also approve the transaction conditionally, ordering the parties to dispose of part of their business. If the transaction in question falls within the scope of the European Union merger control regulation, such European Union regulation overrides the Finnish rules and the transaction must be notified to and approved by the European Commission. Similar national merger control rules also exist in most other countries in which Sonera operates. These kind of regulations may negatively affect Sonera's ability to acquire other companies, particularly in countries where Sonera already has a large market shares or is deemed to occupy a dominant market position.

World Trade Organization Telecommunications Agreement

In February 1997, 69 governments, including Finland, made multilateral commitments as part of the WTO Telecommunications Agreement to liberalize the market for basic and certain telecommunications services. The agreement became effective on February 5, 1998.

As a member of the European Union, Finland's commitment to the WTO Telecommunications Agreement includes complete liberalization of services (facilities-based and resale) for all market segments (local, long distance and international). The commitment of the European Union also covers satellite networks and services and all mobile and personal communications services and systems. Unlike some other European countries, Finland requested no derogation. In addition, the European Union is committed to the Reference Paper on Regulatory Principles. In its recent 1999 Review Results, the European Commission noted that a new round of the General Agreement on Trade and Services negotiations and other international negotiations would likely take place in conjunction with the work on the new European Union communications regulatory framework. See "—The 1999 Review." The European Commission aims to ensure that the new European Union communications regulatory framework and the results of these negotiations are fully consistent with each other.

Item 2. Description of Property

Sonera's principal properties consist of telecommunications network infrastructure located throughout Finland including fixed network switches, mobile switching centers, concentrators, base station control units and base station equipment, transmission equipment, cables, equipment for radio communication and related buildings. Sonera leases some of the sites on which its concentrators and base stations are located under 30-year renewable leases. Sonera transferred its base station operations, which include primarily the real estate and the leases for the base station sites and related buildings to its subsidiary Unibase Oy. Sonera owns the real estate on which its corporate executive offices are located and a number of other office buildings. Otherwise, Sonera rents office space and space for its equipment and system sales operations under five to ten-year leases.

The Company's principal executive offices are located at Teollisuuskatu 15, Helsinki, Finland.

Item 3. Legal and Regulatory Proceedings

General

Sonera is involved in a number of legal proceedings in the ordinary course of its business. These proceedings primarily involve claims arising out of commercial law issues and regulatory matters. Sonera is also involved in administrative proceedings relating principally to competition law and consumer protection issues. Except for the administrative proceedings described below, which relate primarily to alleged abuse of dominant market power by Sonera, neither Sonera Corporation nor any of its subsidiaries is involved in any legal, arbitration or regulatory proceedings, which, if adversely decided, could reasonably be expected to have a material adverse effect on Sonera's results of operations or financial condition. However, the possibility of additional claims by competitors or other proceedings, particularly in reliance on competition law, cannot be ruled out and such claims or proceedings could have a material adverse effect on Sonera's results of operations and financial condition.

Interconnection Fees

On November 20, 1998, Telia Finland filed a complaint with the TAC against Sonera claiming that interconnection fees charged by Sonera for connecting calls to its mobile network are not reasonably related to actual costs as is required for operators with significant market power under the Finnish interconnection regime. Sonera responded to the TAC's inquiry on December 18, 1998 providing the requested information and denying the allegations that it is in breach of the Telecommunications Market Act and related ministerial decisions. On July 23, 1999, the TAC submitted a request for additional information to Sonera to which Sonera responded on August 31, 1999. The complaint is still pending. Management is currently not in a position to assess the final outcome of the TAC's inquiry into Sonera's alleged unlawful interconnection fees regarding termination of calls to its mobile network. However, in the event that the TAC or another relevant regulatory or judicial body were to require Sonera to make significant reductions to its mobile interconnection fees, it could have an adverse effect upon Sonera's results of operations and financial condition.

National Roaming Cases

On September 23, 1998, Telia Finland filed a complaint with the FCA against Sonera and Radiolinja. Telia Finland requested the FCA to investigate whether Sonera and Radiolinja—by pricing national roaming in a manner that, according to Telia Finland, was unreasonable and discriminative—were engaged in an effort to restrict competition in the GSM mobile network market. On January 12, 2000, the FCA issued a decision maintaining that the pricing of national roaming applied by Sonera does not require any action on the part of the FCA. The FCA is of the opinion that a telecommunications operator has several different ways of gaining access to a national telecommunications network, for example, through a service provider agreement. In its decision, the FCA further stated that Sonera does not, either alone or together with Radiolinja, have a dominant position in the market for access to national mobile networks. In response, Telia Finland has appealed the FCA's decision in favor of Sonera to the Competition Council. Telia Finland did not, however, appeal the decision with respect to the FCA's findings in favor of Radiolinja. In response to Telia Finland's appeal, Sonera submitted a statement as requested by the Competition Council on April 10, 2000 in which it stated that it does not have a dominant position in the market for access to national mobile networks and therefore the pricing of national roaming it applies cannot constitute an abuse of a dominant position. In addition, Sonera argued that under Article 9 of the Act on Competition Restrictions the pricing cannot be said to have had harmful effects on Telia Finland in view of the alternative means of access to the market which were and continue to be available to it. The case is still pending and management is currently not in a position to predict with any certainty the timing or likely outcome of the proceedings.

On September 1998, Telia Finland filed also a complaint with the TAC against Sonera and Radiolinja claiming that the two operators had violated the anti-discriminatory provisions of the Finnish Telecommunications Market Act by failing to conclude national roaming agreements with Telia Finland. On March 12, 1999, the TAC made a determination on Telia Finland's claim in favor of Sonera. In response, Telia Finland filed a complaint against the TAC in the Helsinki Administrative Court claiming that the proceeding against Sonera should be reinstated. The Helsinki Administrative Court rendered a decision in favor of the TAC on April 13, 2000. Telia Finland has filed an appeal with the Supreme Administrative Court and the matter is still pending.

On April 16, 1999, Telia Finland filed a complaint with the European Commission (DG IV) claiming that Sonera and Radiolinja had abused their dominant positions in the mobile market in Finland by interfering with Telia Finland's service provider agreement with Swisscom AG. Telia Finland claimed that Sonera and Radiolinja had unlawfully discontinued providing roaming services to subscribers to Telia Mobile Finland's new dual subscription plan to Sonera's GSM 900 network. In its complaint, Telia Finland requested that Sonera be required to provide GSM network access to Telia Mobile Finland's dual service subscribers through Swisscom on the same terms as international roaming subscribers. Telia Finland also requested the European Commission to impose individual fines of at least €20 million on each of Sonera and Radiolinja for infringement of European Union competition law as well as to, pending the adoption of its decision, take interim measures to compel Sonera and Radiolinja to maintain the status quo. However, as a consequence of Telia Finland's execution of a service provider agreement with Radiolinja in the latter part of 1999, Radiolinja is no longer a party to the action. The action arises out of Telia Finland's introduction of a GSM dual service in Finland in April 1999, which combined the subscriptions of Telia Mobile Finland with those of Swisscom subscribers roaming in Finland under the international roaming agreement between Sonera and Swisscom. On April 6, 1999, Sonera gave a notice of termination to Swisscom which had the effect of terminating the roaming agreement between the two companies on October 6, 1999. On April 28, 1999, the European Commission requested that the Ministry of Transport and Communications should act as an intermediary in a conciliation procedure to resolve the dispute. On June 23, 1999, Telia Finland discontinued negotiations and resubmitted its complaint to the European Commission. Sonera has responded to the European Commission's request for information stating that it was forced to discontinue connecting traffic from dual subscription customers of Telia Mobile Finland because of technical hazards that could result from the dual service of Telia Mobile Finland, including possible interference with emergency calls and blocking of pay-per-call numbers. Sonera also stated that neither Telia Finland nor Swisscom had agreed to indemnify Sonera for possible legal claims relating to such potential hazards. In addition, Sonera stated that the service had been introduced without giving Sonera a possibility to test the technology used in the service even though a significant part of Telia Mobile Finland's dual subscription traffic was intended to be connected through Sonera's network. Sonera remains prepared to offer Telia Mobile Finland national roaming services on a commercial basis. The European Commission informed Sonera in October 1999 that pursuant to Article 6 of Commission Regulation 2842/98 it had notified Telia Finland that, in the Commission's preliminary view, Telia Finland's application for interim measures was not justified. Sonera and Swisscom entered into a new international roaming agreement which went into effect on March 16, 2000. Telia Finland's complaint against Sonera before the European Commission is still pending. Management is currently not in a position to predict with any certainty the timing or likely outcome of the proceedings.

The TAC is currently investigating pricing and discount policies of several Finnish telecommunications operators with respect to their leased line operations. Sonera received a request for information from the TAC on January 29, 1999, to which it has duly responded providing the requested information. On January 25, 2000, Telepohja Oy filed a complaint with the FCA requesting the FCA to investigate whether Sonera is abusing its alleged dominant position in the local telecommunications market of Sonera's traditional local network areas. In the complaint, Telepohja asserted that (i) Sonera's monthly rental prices for subscriber lines and leased lines are excessive, especially in rural areas; (ii) the difference in prices charged in urban areas as compared to rural areas are not related to costs; and (iii) the installation fees charged by Sonera are unreasonable. On January 25, 2000, Telepohja also filed a complaint with the TAC on the same issue. Telepohja asked the TAC to investigate whether Sonera's pricing described above is in compliance with the Telecommunications Market Act, in view of Sonera's significant market power in certain local telecommunications markets. The complaints are still pending and management is currently not in a position to assess when the proceedings will be brought to a conclusion or what the final outcome of the proceedings will be.

In November 1999, MTV 3—Tele Oy filed a complaint against Sonera with the FCA claiming that the fees charged by Sonera for commercial SMS services are excessive. Sonera's response to the complaint on November 29, 1999 stated that the SMS services it offers are reasonably priced and explained the division of fees and costs between the service provider and the content provider. The complaint is currently pending and Management is not currently in a position to assess when the proceedings will be brought to a conclusion or what the final outcome of the proceedings will be.

On April 19, 2000, the Finnet Association filed a complaint with the FCA against Sonera claiming that Sonera is abusing its dominant position in the market for mobile services as well as negatively impacting competition in the neighboring markets by giving loyalty benefits to customers of small and medium-sized business enterprises including benefits for international calls made using Sonera's mobile networks. Sonera submitted its response to the FCA on June 9, 2000. Management is currently not in a position to predict with any certainty the timing or likely outcome of the proceedings.

On May 2, 2000, Televerkko Oy filed a complaint with the FCA against Sonera claiming that Sonera is abusing its dominant market position in the market for mobile services in connection with the pricing of its SMS services to content providers. The FCA is investigating the pricing of Sonera's SMS services as well as the cost to Sonera to provide SMS services to content providers. The FCA has notified Sonera that the pricing of Sonera's SMS services should be cost based, non-discriminatory and transparent. Sonera submitted the requested information to the FCA on May 31, 2000. Management is currently not in a position to predict with any certainty the timing or likely outcome of the proceedings.

On April 25, 2000, the Finnet Association filed a complaint with the FCA against Sonera and K-Alliance (K-Plus Oy) regarding Sonera's participation in the K-Plus Oy's loyal customer program. The Finnet Association requested the FCA to investigate whether Sonera is abusing its dominant position in the market for mobile services by linking use of its network with the ability to earn points in K-Plus Oy's loyal customer program. Sonera submitted its response to the FCA on May 26, 2000. Management is currently not in a position to predict with any certainty the timing or likely outcome of the proceedings.

On May 17, 2000, Sonera received a request for information from the FCA in connection with alleged bundling of ADSL and internet services. The FCA began the investigation based on several complaints it has received from private individuals. Sonera responded to the FCA on May 30, 2000.

Sonera has also applied for exemptions from the application of Finnish competition law to some of its activities. On April 3, 2000, Isoworks Oy, a joint venture between Sonera Systems Oy and ICL Data Oy received a five year exemption from the application of Finnish competition law. In addition, on May 19, 2000 Certall Finland Oy, an encryption services provider whose shareholders include Sonera's wholly-owned subsidiary SmartTrust Oy, as well as Merita, Leonia, Osuuspankkikeskus, TietoEnator and the Post of Finland was granted a conditional exemption from the application of Finnish competition law through June 1, 2003. The conditions connected with the exemption require Certall to maintain a non-discriminatory pricing policy and to follow generally accepted standards when offering its services.

Control of Concentrations

Sonera has a 20.3 percent holding in TietoEnator Corporation, one of the leading IT services providers in the Nordic Countries. The FCA conditioned its approval of the merger of Tieto Corporation and Enator AB on Sonera's agreement to sell half of its holding in TietoEnator by June 11, 2001. In addition, Sonera undertook to give up one of its two seats on TietoEnator's Board of Directors and did so at the company's annual general meeting on March 29, 2000.

On December 21, 1999, the FCA gave its conditional approval for the transaction pursuant to which Sonera purchased a 37 percent holding in WOW-verkkobrandit Oy, a subsidiary of Talentum Oyj. The FCA was informed of the acquisition on September 14, 1999, and the matter was transferred to phase two proceedings on October 13, 1999. In order to remove any problems related to competition, the parties presented certain commitments ensuring that Sonera will treat the joint venture and its competitors equally in the acquisition and distribution of network content and that Sonera will not leverage its know-how solely in the joint venture. Furthermore, the parties undertook to remove certain arrangements from their company acquisition agreements.

On January 20, 2000, the FCA initiated phase two proceedings in connection with the transaction pursuant to which Sonera will initially acquire a 20 percent holding and by March 31, 2003 an aggregate 34 percent holding in Digita, a subsidiary of the Finnish Broadcasting Company. The aim of the continued proceedings was to examine, among other things, how the operations of the parties in the market affect competition. The FCA had three months to decide whether to approve the acquisition as such, set certain conditions for the transaction, or recommend to the Competition Council that the transaction be blocked. On April 17, 2000, the FCA found the remedies proposed by the parties insufficient and proposed that the Competition Council block the transaction. Sonera filed a response in conjunction with the Finnish Broadcasting Company on May 2, 2000. The Competition Council began deliberations on May 3, 2000 and has a time limit of three months to decide whether it will approve the transaction, approve the transaction with conditions or block the transaction.

Xfera Moviles S.A. of Spain, of which Sonera holds 15 percent of the outstanding shares, was granted a third generation mobile network license in Spain on March 13, 2000. The signing and formalization of the license took place on April 18, 2000. Xfera is in the process of preparing its notification to the European Commission Merger Task Force as required under European Union law regarding the formation and shareholder composition of the company. Management is currently not in a position to assess the duration of the notification proceedings or the final outcome of the proceedings.

European Union Sector Inquiries

Article 12 of the procedural regulations implementing Article 81 and 82 (Regulation 17/62) empowers the European Commission to initiate general inquiries into those sectors of the economy where it believes competition may be restricted or distorted ("sector inquiries"). The ability to conduct sector inquiries enables the European Commission to investigate pricing structures and other practices that would indicate the existence of an anti-competitive situation across an entire industry. The Commission need not have any indication of infringement by a specific company or companies before commencing a sector inquiry.

Once the European Commission has formally decided to open a sector inquiry, it has the power to request and obtain from a member state's national government and other competent authorities as well as from individual companies any information it deems necessary to the inquiry. The European Commission may impose fines on companies or other business associations for refusing to reply, failing to reply by set deadlines or providing incorrect information in response to a formal request for information.

On July 27, 1999, the European Commission commenced a sector inquiry across the European Union focusing on three areas of the telecommunications sector—leased lines, mobile roaming and access to and use of the residential local loop. The sector inquiry will be carried out in three phases. Sonera responded to the Commission's inquiry into leased lines in December 1999 and mobile roaming in March 2000. Sonera has not yet received a request for information in connection with the inquiry into access to the local loop.

Except as noted above, Sonera has responded to all requests for information issued by the FCA, the TAC and the European Commission in relation to all above matters, and the agencies are currently evaluating such responses, as well as certain submissions by other interested parties. Management is unable to predict with any certainty the timing or the likely outcome of the disposition of the proceedings pending before the FCA, the TAC and the European Commission.

Since the full liberalization of the Finnish telecommunications market in 1994, Sonera and other telecommunications operators in Finland have been subject to increased administrative and legal scrutiny, often in the form of an administrative investigation initiated by Finnish or European Union regulatory bodies and legal claims brought with little or no notice. Management expects that administrative oversight of the Finnish telecommunications industry will gradually shift to European Union institutions as a consequence of the recent liberalization of the markets of most European Union member states. Therefore, the possibility of additional claims by competitors or other proceedings, particularly in reliance on competition law, cannot be ruled out and such claims or proceedings could have a material adverse effect on Sonera's results of operations and financial condition.

Tax Matters

Sonera's consolidated earnings for the second quarter will include a gain booked on account of the Aerial/VoiceStream merger. The amount of the gain is determined by the difference between VoiceStream's market value at the time of the merger and the carrying value of Aerial on Sonera's consolidated balance sheet. On March 31, the carrying value of Aerial on Sonera's consolidated balance sheet was €308 million. Sonera has received an advance ruling from the Central Tax Board of Finland, according to which the Aerial/VoiceStream merger is considered a transaction for which Sonera is liable to pay tax in Finland. The amount of the tax is determined by the difference between the market value at the time of the merger and the original acquisition cost, resulting in an estimated total tax payment of approximately €216 million. Sonera has appealed the ruling to the Supreme Administrative Court of Finland. Sonera's position is that the merger should be treated as a normal merger under the Finnish tax legislation which should not trigger a taxable gain or loss. Management is not currently in a position to predict with any certainty the timing or likely outcome of its appeal to the Supreme Administrative Court.

Item 4. Control of Registrant

Ownership Structure

The issued registered share capital of Sonera Corporation is €317,654,783.65 consisting of 738,732,055 shares with no nominal value. Each share entitles the holder to one vote at general meetings of shareholders.

The following table lists, as of June 15, 2000, the total number of Sonera's shares owned by (i) the Finnish State, the only person or entity known to Sonera to be the beneficial owner of 10 percent or more of Sonera's shares, and (ii) members of Sonera's Supervisory Board, Board of Directors and Management Group, as a group:

Shareholder	Number of shares	Holding, %
Finnish State	393,590,181	53.3
Members of Sonera's Supervisory Board, Board of Directors and Management Group (as a group)(1)	50,588	—*

* Less than 0.1 percent.

(1) Members of Sonera's Board of Directors and Management Group also hold warrants exercisable for 407,000 shares.

Relationship with the Finnish State

The Finnish State currently owns 53.3 percent of the outstanding share capital of Sonera Corporation. From September 28 to October 12, 1999, the Finnish State arranged an offering in which it offered 127 million Sonera shares to domestic and international investors as well as retail investors. As a result, the Finnish State's holding in Sonera fell from 77.8 percent to 60.2 percent. In addition, the managers in the offering announced on October 20, 1999, that they would exercise the entire over-allotment option of 16.95 million shares, after which the Finnish State's holding in Sonera fell to 57.9 percent. The bonus shares in the offering arranged by the Finnish State in 1998 were entered in the book-entry accounts of those entitled to them on November 17, 1999, after which the State's holding in Sonera fell to 57.6 percent.

In March 2000, the Finnish State sold an additional 22 million shares at the price of €92 per share to institutional investors on a private placement basis. In November 1999, the Finnish Parliament authorized the Finnish Government to lower the Finnish State's holding further to a floor of 34 percent and on June 21, 2000 the Finnish Parliament authorized a reduction of the Finnish State's shareholding to zero.

On the basis of the 1999 offering, the Finnish State will give a maximum of 1.1 million bonus shares on November 20, 2000 to those entitled to such shares, thereby reducing the Finnish State's holding from its current level to 53.1 percent. See "Item 1. Description of Business—History—Follow—On Offerings of Sonera Shares."

It has been the practice of the Finnish State not to intervene in the day-to-day management of Sonera, and Sonera has conducted and conducts its day-to-day operations in a manner similar to that of other Finnish corporations. Management believes that the Finnish State will continue to observe such practice of non-intervention.

As the owner of a majority of the outstanding share capital of Sonera Corporation, the Finnish State has the power to decide matters submitted for a vote of shareholders, including matters such as the approval of the annual financial statements, declarations of annual dividends, capital increases and the election and removal of the members of the supervisory board and the board of directors of Sonera. See "Item 10. Directors and Officers of Registrant—Supervisory Board; and—Board of Directors."

Under the Finnish Act on Audits of State-Controlled Companies (968/1947), the State Audit Office has the right to conduct audits of companies that are state-controlled, as defined in this act. In connection with an audit, companies are required to disclose such documents as the Audit Office may demand.

In connection with the October 12, 1999 offering and subject to certain exceptions, the Finnish State has agreed not to sell any shares or any securities convertible into or exchangeable for shares for a period of 365 days following the date of that offering, without the prior approval of Goldman Sachs International, on behalf of the Underwriters (which consent shall not be unreasonably withheld).

Guidelines on the Finnish State's Shareholding Policy

On September 16, 1999, the Finnish Council of State approved a policy decision (the "guidelines") on the principles and goals for the Finnish State's policies as a shareholder in companies in which the Finnish State has a significant ownership interest (each, a "state-controlled company"). The guidelines, which replaced similar guidelines adopted on June 23, 1994, provide general principles that each of the ministries responsible for the supervision of state-controlled companies is to observe in connection with the exercise of the Finnish State's shareholder rights and in connection with the Finnish State's internal decision-making in relation to the administration of its ownership interests in such companies. The guidelines relate to companies in which the Finnish State is a majority shareholder as well as, within the limits permitted by the particular company's ownership structure, companies in which the Finnish State maintains a significant minority shareholding. The guidelines are not binding upon the state-controlled companies or their governing bodies but rather serve as guidelines for each of the ministries responsible for the supervision of such companies.

The guidelines provide that state-controlled companies are required to be operated profitably in accordance with sound business principles and with good capital adequacy. In addition, state-controlled companies should be able to operate on the same basis as other comparable companies and should operate in accordance with the Finnish Companies Act (734/1978), as amended (the "Companies Act"), and other applicable laws and regulations.

As regards dividend distributions, the guidelines provide that dividends to be paid by state-controlled companies shall be determined separately for each company with a goal of supporting the positive value development and that dividend distributions should be at a level comparable to general dividend payment levels in the particular company's industry sector and should be internationally competitive with a view to the company's valuation. Dividend policies for each company shall be determined primarily on the basis of the particular company's profitability with a goal of securing a relatively stable annual dividend flow. Dividend policies should also take into account any specific considerations related to the particular company's capital adequacy as well as its market conditions and competitive situation.

Pursuant to the guidelines, decisions relating to expansion of a particular company's operations within its existing field of business, through acquisitions or the establishment of subsidiaries, shall be made by the appropriate governing bodies of such company. The guidelines, however, require that decisions involving expansion beyond a company's existing field of business as well as other strategic decisions be consented to by the principal shareholder of the company. Under the Companies Act, an amendment to a Finnish corporation's field of business specified in its articles of association requires approval by a shareholders' meeting. Under the guidelines, if such company has a special position in Finland due to government action or other circumstances, changes in the company's field of business and any acquisitions by the company are to be monitored by the appropriate ministry.

Under the guidelines, expansion of the state-controlled companies' operations outside of Finland is considered appropriate particularly if such expansion is necessary in order to secure a sufficiently large market area, receipt of technology, procurement of raw materials or other similar reasons. Foreign investments that are of particular importance with respect to the operations of a particular state-controlled company or the Finnish economy are to be approved by the principal shareholder of the company prior to a final decision by the company with respect thereto.

The guidelines set a goal for state-controlled companies to be exemplary employers that act in accordance with the prevailing contracts with labor unions and continuously and actively develop their personnel policies. Each state-controlled company is required to give reasonable advance notice to the relevant ministry of any temporary or permanent termination of a substantial number of employees.

The guidelines provide that the operations of each state-controlled company shall be the responsibility of the management and governing bodies of such company in accordance with the Companies Act. The principal governing party of each state-controlled company shall be the board of directors of such company, which typically should include outside experts and a representative of the appropriate ministry. Supervisory boards are deemed appropriate for state-controlled companies with considerable importance for the Finnish society and/or economy as a whole. As a general rule, supervisory boards shall be discontinued at the time when the Finnish State relinquishes its majority control of a particular company unless particular reasons exist for retaining the supervisory board. In the event that a particular ministry, as the Finnish State's principal representative, exceptionally wishes to effect a business decision having an impact on a state-controlled company that is contrary to the position of the management of such company, the relevant decision shall be taken at such company's shareholders' meeting. Under the guidelines, the development of the management of state-controlled companies shall be carried out so as to secure an effective management and supervision by the owner as regards the shareholding of the Finnish State as well as possible special interests of the Finnish public.

In relation to incentive programs to be adopted by state-controlled companies, the guidelines provide that decisions concerning incentive programs shall be taken separately for each company with a goal of securing the competitiveness of such company in recruiting management personnel. For publicly-listed companies, the goal is to encourage management ownership of shares in the company. At the time of the implementation of an incentive program for a particular company's management, incentive programs for other personnel of such company should also be simultaneously developed and adopted.

The guidelines also include general principles for any future broadening of the ownership base in a state-controlled company and other transactions affecting the Finnish State's ownership, including that decisions shall be taken separately for each company, that the goal for each company shall be a stable ownership base, that representatives of the Finnish State should be appointed to the governing bodies of each company in proportion to the Finnish State's ownership interest, and that, as regards foreign ownership, the rules applicable to state-controlled companies shall be the same as for other Finnish companies, unless specific reasons exist for limiting foreign ownership.

Item 5. Nature of Trading Market

The principal trading market for the Company's shares is the Helsinki Exchanges. The following table below sets forth, for the periods indicated, the reported high and low market quotations for the shares on the Helsinki Exchanges based on its Daily Official List.

	Price Per Share	
	High	Low
	(in €)	
1998		
Fourth Quarter (from November 10, 1998)	16.82	9.92
1999		
First Quarter	17.35	12.40
Second Quarter	23.00	15.32
Third Quarter	28.00	20.31
Fourth Quarter	71.10	23.95
2000		
First Quarter	97.00	47.50
Second Quarter (up to June 15, 2000)	71.00	39.70

Effective as of January 1, 1999, shares of companies listed on Helsinki Exchanges trade in euros. The share price information set forth above for 1998 represents the euro equivalent of such share prices in Finnish markka at the conversion rate of FIM 5.94573 to one euro.

Since October 13, 1999 the shares have been traded in the United States on the Nasdaq National Market under the symbol "SNRA" in the form of American Depositary Shares ("ADSs") which are evidenced by American Depositary Receipts ("ADRs"). Each ADS represents one share. The depositary for the ADSs is Citibank, N.A. (the "Depositary").

The Depositary has advised the Company that, as of June 15, 2000, 1.9 percent of the outstanding shares were held in the United States in the form of ADSs by 79 record holders. A significant number of ADSs are held of record by broker nominees. The number of beneficial owners is unknown but is considered to be materially higher than the number of record holders.

The table below sets forth the high and low sales prices quoted for the Sonera ADSs on the Nasdaq National Market.

	U.S. dollars per ADS	
	High	Low
1999		
Fourth Quarter (from October 13, 1999)	73.13	25.19
2000		
First Quarter	93.13	53.50
Second Quarter (up to June 15, 2000)	71.00	35.94

Item 6. Exchange Controls and Other Limitations Affecting Security Holders

Exchange Controls

The shares may be bought by non-residents of Finland ("non-residents") on the Helsinki Exchanges without any Finnish exchange control consent. Furthermore non-residents may receive dividends without a Finnish exchange control consent, the transfer out of Finland being subject to payment by the Company of withholding taxes. Non-residents having acquired shares may receive shares pursuant to a bonus issue or through participation in a new issue without Finnish exchange control consent. Shares may be sold in

Finland by non-residents, and the proceeds of such sale may be transferred out of Finland in any convertible currency. There are no Finnish exchange control regulations applying to the sale of shares by non-residents to other non-residents.

Voting

A shareholder may attend and vote at a general meeting in person or through an authorized representative. Each share is entitled to one vote.

In order to attend and vote at a general meeting, a shareholder generally must be registered in the register of shareholders, which is kept by the Finnish Central Securities Depository, Ltd. in accordance with the Companies Act and the Act on the Book-Entry Securities System of 1991, as amended. Voting rights may not be exercised by a shareholder if his shares are registered in the name of a nominee, as is the case for registered holders and beneficial owners of the ADSs. A registered holder or a beneficial owner of the ADSs, like other beneficial owners whose shares are registered in the name of a nominee, may vote such shares provided that he arranges to have his name entered in the register of shareholders as of the record date of meeting, which must be no later than five days prior to a general meeting, until the day of meeting. Shareholders that have not transferred their shares to the Finnish book-entry system may also attend and vote at general meetings if they were registered in the share register maintained by the Company before the date on which the shares should have been transferred to the book-entry system at the latest and provide evidence of their ownership of shares on the date of the general meeting. In addition, in order to attend and vote at a general meeting, a shareholder must notify the Company of its intention to do so no later than the last registration date specified in the notice concerning the general meeting, which under Sonera's articles of association may not be earlier than two months and not later than twelve days before the meeting.

A shareholder whose shareholding is registered in the name of a nominee may not attend and vote at a general meeting. A beneficial owner wishing to exercise such rights must cancel the nominee arrangements and seek individual registration no later than five days prior to the relevant general meeting.

There a no quorum requirements for general meetings.

At a general meeting, most resolutions are passed by a majority of the votes cast. However, certain resolutions, such as a resolution to amend the articles of association, a resolution to issue shares in contravention of shareholders' preferential subscription rights and, in certain cases, a resolution regarding a merger or liquidation of Sonera, require a majority of two-thirds of the votes cast and shares represented at the general meeting.

Control of Foreign Ownership

Restrictions on foreign ownership of Finnish companies were abolished as of January 1, 1993. However, under the Act on the Control of Foreigners' Acquisition of Finnish Companies of 1992 (the "Control Act"), clearance by the Ministry of Trade and Industry would be required if a foreign person or entity, other than a person or entity from another member state of the EEA (European Economic Area) or the OECD, or a Finnish entity controlled by one or more such foreign persons or entities, were to acquire a holding of one-third or more of the voting power of Sonera Corporation. The Ministry of Trade and Industry could refuse clearance where the acquisition would jeopardize important national interests, in which case the matter is referred to the Finnish Government. In accordance with the treaty by which Finland entered the EEA, the applicability of the clearance requirements of the Control Act was abolished from January 1, 1996 with respect to acquisitions by entities from the member states of the EEA or the OECD.

Possible Unavailability of Pre-Emptive Rights For U.S. Holders

U.S. holders of the shares and ADSs may not be able to exercise any preemptive rights and preferential rights in respect of their shares unless a registration statement under the Securities Act of 1933 is effective with respect to these rights or an exemption from the registration requirements thereunder is available.

Item 7. Taxation

The following summary is based on tax laws of Finland and the United States on the date of this report, and is subject to changes in Finnish or United States law, including changes that could have a retroactive effect. The following summary is not exhaustive and does not take into account or discuss the tax laws of any country other than Finland or the United States. Prospective investors are advised to consult their own tax advisors as to the Finnish, United States or other tax consequences of the purchase, ownership and disposition of shares or ADSs, including, in particular, the effect of tax laws in any other jurisdiction.

FINNISH TAXATION

General

Residents and non-residents of Finland are treated differently for tax purposes. The worldwide income of persons resident in Finland is subject to taxation in Finland. Non-residents of Finland are taxed on Finnish source income only.

Generally, an individual is deemed a resident of Finland if such individual resides in Finland for more than six consecutive months or if the permanent home or dwelling of such individual is in Finland. Earned income, including salary, is taxed at progressive rates while capital income, including dividend income from a company listed on the Helsinki Exchanges, is taxed at a flat rate, which, as of January 1, 2000, is 29 percent. Entities established under the laws of Finland are regarded as residents of Finland.

Companies

Finnish companies are subject to national corporate income tax on their worldwide income. With effect from January 1, 2000, the rate of such tax is 29 percent.

Finland applies an imputation or *avoir fiscal* system for profits distributed as dividends in order to eliminate double taxation of companies and their shareholders. Under the *avoir fiscal* system, there is a minimum tax payable to the Finnish tax authorities by a Finnish company depending on the amount of profit distributed as dividends. As of the tax year 2000, the applicable minimum tax is $^{29}/_{71}$ of the dividends distributed to the shareholders. To the extent that this minimum tax exceeds or is less than the corporate tax charge payable to the Finnish taxation authorities calculated on taxable income, a supplementary tax liability will be imposed or a tax surplus established (as appropriate). Any surplus generated may generally be used, for a period of ten years, to offset any supplementary tax which may become payable in subsequent years.

Shareholders

The following is a summary of certain Finnish tax consequences relating to the purchase, ownership and disposition of shares.

Tax Credit on Dividends

The dividend income received from a company listed on the Helsinki Stock Exchange and the related tax credit are taxable income for shareholders who are residents of Finland. As of January 1, 2000, dividend payments are subject to a tax rate of 29 percent. Under the *avoir fiscal* system, a tax credit is available to resident shareholders on the payment of dividends by a Finnish company. As of January 1, 2000, the amount of tax credit is equal to $^{29}/_{71}$ of the dividends received. In taxation, the tax credit is offset against the resident shareholder's tax liability and, thus, no taxes are generally payable by resident shareholders in respect of dividends received from a Finnish company.

The tax credit is not available to non-residents, unless so provided in a double taxation treaty with Finland that contains the appropriate provisions. Currently, the only such tax treaty in force is with Ireland, entitling certain shareholders resident in Ireland to a tax credit equal to one-half of the credit available to residents in Finland. A Finnish permanent establishment of a company resident in the EEA, however, is entitled to the imputation tax credit if the shares are deemed to belong to the Finnish permanent establishment.

Withholding Tax on Dividends

Non-residents are subject to Finnish withholding tax on dividends paid by a Finnish company. In the absence of any applicable treaty, the rate of such withholding tax is 29 percent. Finland has entered into double taxation treaties with many countries pursuant to which the withholding tax rate is reduced on dividends paid to persons entitled to the benefits under such treaties. In the case of the treaties with the following countries, Finnish withholding tax rates are typically reduced to the percentages given: Austria: 10 percent; Canada: 15 percent; Denmark: 15 percent; France: zero; Germany: 15 percent; Ireland: 15 percent; Italy: 15 percent; Japan: 15 percent; The Netherlands: zero; Norway: 15 percent; Spain: 15 percent; Sweden: 15 percent; Switzerland: five percent; the United Kingdom: zero; and the United States: 15 percent. A further reduction in the withholding tax rate is usually available to corporate shareholders for distributions on qualifying holdings (usually at least ten or 25 percent of the capital of the distributing company). The Finnish company paying the dividend is responsible for deducting any applicable Finnish withholding tax.

A reduction of such withholding tax rate can be obtained at the source upon the submission of a Source Tax Card or the required information (name, date of birth, any personal or corporate code in the home country and address) to the payor prior to the payment of dividends. If such a Source Tax Card or such information is not submitted in a timely manner, a refund of tax withheld in excess of the applicable treaty rate can be obtained upon application to the local tax authority.

No withholding tax is levied under Finnish laws on dividends paid to corporate entities which reside in the European Union and directly hold at least 25 percent of the capital of the distributing Finnish company, provided that such entities are not entitled to the tax credit under the Finnish *avoir fiscal* system and are subject to a general corporation tax in their respective countries of residency, as specified in Directive 90/435/EEC.

Finnish Capital Gains and Other Taxes

Any capital gains arising from the sale of shares by Finnish resident individuals and estates are taxed as capital income. Any gain or loss is calculated as the sales price less the original acquisition costs and the selling expenses. Alternatively, in lieu of applying the actual acquisition costs, individuals and estates may choose to apply an assumed acquisition cost equal to 20 percent of the sales price, and, if the shares sold have been held for a minimum of ten years, 50 percent of the sales price. Finnish residents must report any sales of securities made in the tax year on their tax return. Capital gains are of individuals and estates taxed at a flat rate of 29 percent. For individuals and estates, capital losses are primarily deductible from capital gains arising in the same year and the following three years.

Revenues arising from the sale of shares by Finnish resident companies is counted as part of gross income, while the acquisition cost of the shares is deductible in the taxation of the relevant company. The applicable corporate tax rate is currently 29 percent.

Non-residents will normally not be subject to Finnish taxes on capital gains realized on the transfer of shares. Transfers of the shares by non-residents by way of gift or by reason of the death of the owner are subject to Finnish gift or inheritance tax, respectively, if either the transferor or the transferee is a resident of Finland. Inheritance tax treaties may limit the taxation of inheritance received by a non-resident in Finland.

Finnish Transfer Tax

There is no transfer tax payable in Finland on share transfers made on the Helsinki Exchanges. If the transfer is not made on the Helsinki Exchanges, a transfer tax at the rate of 1.6 percent of the relevant sales price is payable by the buyer. However, if the buyer is neither a resident of Finland nor a Finnish branch of a foreign credit institution nor a Finnish branch of a foreign investment firm, the seller must collect the tax from the buyer. If neither the buyer nor the seller is a resident of Finland or a Finnish branch of a foreign credit institution or a Finnish branch of a foreign investment firm, the transfer of shares will be exempt from Finnish transfer tax. No transfer tax is payable in connection with the issuance of new shares.

UNITED STATES FEDERAL INCOME TAXATION

The following is a summary of the principal United States federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of shares or ADSs, which are evidenced by American Depositary Receipts. This summary addresses only the United States federal income tax considerations of holders that are initial purchasers of the shares or ADSs at the initial issue price and that will hold shares or ADSs as capital assets. This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, grantor trusts, regulated investment companies, dealers or traders in securities or currencies, tax-exempt entities, persons that will hold shares or 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 United States dollar or holders that own (or are deemed to own) ten percent or more (by voting power or value) of the stock of Sonera. Moreover, this summary does not address the U.S. federal estate and gift or alternative minimum tax consequences of the acquisition, ownership and disposition of shares or ADSs. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), United States Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Annual Report. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The United States Treasury Department has expressed concern that depositaries for American Depositary Receipts, or other intermediaries between the holders of shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of United States foreign tax credits by United States holders of such receipts or shares. Accordingly, the analysis regarding the availability of a United States foreign tax credit for Finnish taxes and sourcing rules described below could be affected by future actions that may be taken by the United States Treasury Department.

For purposes of this summary, a "United States Holder" is a beneficial owner of shares or ADSs that, for United States federal income tax purposes, is: (i) a citizen or resident of the United States, (ii) 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), (iii) an estate the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust, if such trust validly elects to be treated as a United States person for United States federal income tax purposes or if (A) a court within the United States is able to exercise primary supervision over its administration and (B) one or more United States persons have the authority to control all of the substantial decisions of such trust. A "Non-United States Holder" is a beneficial owner of shares or ADSs that is not a United States Holder.

Ownership of ADSs in General

For United States federal income tax purposes, a holder of ADSs generally will be treated as the owner of the shares represented by such ADSs.

Distributions

Subject to the discussion below under "Passive Foreign Investment Company Considerations," the gross amount of any distribution by the Company of cash or property (other than certain distributions, if any, of shares or ADSs distributed *pro rata* to all shareholders of Sonera including holders of ADSs) with respect to shares or ADSs will be includible in income by a United States Holder as dividend income to the extent such distributions are paid out of the current or accumulated earnings and profits of the Company as determined under United States federal income tax principles. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate United States Holders. To the extent, if any, that the amount of any distribution by the Company exceeds the Company's current and accumulated earnings and profits as determined under United States federal income tax principles, it will be treated first as a tax-free return of the United States Holder's adjusted tax basis in the shares or ADSs and thereafter as capital gain. The Company does not maintain calculations of its earnings and profits under United States federal income tax principles.

Any such dividend paid in euros (or any currency other than U.S. dollars) will be included in the gross income of a United States Holder in an amount equal to the U.S. dollar value of the euro (or, if not euros, the currency in which the dividend was paid) on the date of receipt. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Dividends received by a United States Holder with respect to shares or ADSs will be treated as foreign source income, which may be relevant in calculating such holder's foreign tax credit limitation. Subject to certain conditions and limitations, any Finnish tax withheld on dividends may be deducted from taxable income or credited against a United States Holder's United States federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by the Company generally will constitute "passive income," or, in the case of certain United States Holders, "financial services income."

Subject to the discussion below under "Backup Withholding Tax and Information Reporting Requirements," a Non-United States Holder of shares or ADSs generally will not be subject to United States federal income or withholding tax on dividends received on shares or ADSs, unless such income is effectively connected with the conduct by such Non-United States Holder of a trade or business in the United States.

Shares received by Employees Subject to U.S. Taxation

Any employee who is subject to U.S. federal income tax on his or her compensation from Sonera who purchases shares or ADSs at a price representing a discount from the fair market value of those shares or ADSs will be subject to U.S. federal income and employment taxes with respect to such discount. Such employee should recognize ordinary income at the time of the receipt of such shares or ADSs equal to the fair market value of such shares or ADSs minus the amount paid for such shares or ADSs. The issuance of such shares or ADSs at a discount to such employee may be subject to U.S. wage withholding.

Sale or Exchange of Shares or ADSs

Subject to the discussion below under "Passive Foreign Investment Company Considerations," a United States Holder generally will recognize gain or loss on the sale or exchange of shares or ADSs equal to the difference between the amount realized on such sale or exchange and the United States Holder's adjusted tax basis in the shares or ADSs. Such gain or loss will be capital gain or loss. In the case of a noncorporate United States 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 such United States Holder's holding period for such shares or ADSs exceeds one year. Gain or loss, if any, recognized by a United States Holder generally will be treated as United States source income or loss for United States foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

Subject to the discussion below under "Backup Withholding Tax and Information Reporting Requirements," a Non-United States Holder of shares or ADSs generally will not be subject to United States federal income or withholding tax on any gain realized on the sale or exchange of such shares or ADSs unless (i) such gain is effectively connected with the conduct by such Non-United States Holder of a trade or business in the United States or (ii) in the case of any gain realized by an individual Non-United States Holder, such holder is 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.

Passive Foreign Investment Company Considerations

A Non-U.S corporation will be classified as a passive foreign investment company (a PFIC) for U.S. federal income tax purposes in any taxable year in which, after applying the look-through rules for 25 percent or more owned subsidiaries, either (i) at least 75 percent of its gross income is passive income or (ii) on average 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 includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Sonera believes that it was not a PFIC in its 1999 taxable year. Sonera's status in future years will depend on its assets and activities in those years. 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. However, since Sonera's status will depend on the nature of its income, assets and business from time to time, we can not give you assurance that Sonera will not be a PFIC in any future year.

Notwithstanding the discussions above under the captions "Distributions" and "Sale or Exchange of Shares or American Depositary Shares" if Sonera were to become a PFIC, a United States Holder of shares or ADSs would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and excess distributions with respect to, the shares or ADSs. If Sonera were to become a PFIC, a United States Holder of shares or ADSs 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 some of these elections will not apply in the case of the shares or ADSs. United States Holders should consult their own tax advisors regarding the tax consequences that would arise if Sonera were to become a PFIC.

Backup Withholding Tax and Information Reporting Requirements

United States backup withholding tax and information reporting requirements generally apply to certain payments to certain noncorporate holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, shares or ADSs by a payor or middleman within the United States to a holder of shares or ADSs (other than an "exempt recipient," including a corporation, a payee that is not a United States person that provides an appropriate certification and certain other persons). A payor or middleman within the United States will be required to withhold 31 percent of any payments of the proceeds from the sale or redemption of shares or ADSs within the United States to a holder (other than an "exempt recipient") if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such backup withholding tax requirements.

United States Treasury Regulations issued on October 6, 1997, as amended, would modify certain of the rules discussed above generally with respect to payments on shares or ADSs made after December 31, 2000. In particular, a payor or middleman within the United States will be required to withhold 31 percent of any payments of dividends on, or proceeds from the sale of, shares or ADSs within the United States to a holder (other than an exempt recipient such as a corporation or a payee that is not a United States person and that provides an appropriate certification) 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. In the case of such payments by a payor or middleman within the United States to a foreign simple trust, foreign grantor trust or foreign partnership (other than a payment to a foreign simple trust, foreign grantor trust or foreign partnership that qualifies as a "withholding foreign trust" or a "withholding foreign partnership" within the meaning of such United States Treasury Regulations and a payment to a foreign simple trust, foreign grantor trust or foreign partnership that is 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 or middleman may rely on a certification provided by a payee that is not a United States person only if such payor or middleman does not have actual knowledge or a reason to know that any information or certification stated in such certificate is incorrect.

Item 8. Selected Financial Data

The annual selected consolidated financial data presented below have been derived from Sonera's consolidated financial statements.

Sonera's consolidated 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, together with a reconciliation of net income and shareholders' equity recorded under Finnish GAAP to net income and shareholders' equity under U.S. GAAP, see Note 21 to Sonera's consolidated financial statements.

You should read the following selected consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the consolidated financial statements of Sonera and the unaudited condensed consolidated interim financial statements of Sonera, including the notes to those financial statements.

The interim financial information included in these financial statements 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.

The 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. The 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 FIM. However, the consolidated financial statements of Sonera 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 FIM.

Solely for the convenience of the reader, the euro amounts have been translated into U.S. dollars at the rate of €1.00 = U.S.$0.9574 (U.S.$1.00 = €1.0445), the Noon Buying Rate for the euro on March 31, 2000.

	Year ended December 31,						Three months ended March 31,		
	1995	1996	1997	1998	1999	1999	1999	2000	2000
	€	€	€	€	€	U.S.$	€	€	U.S.$
	(in millions, except per share data)								
INCOME STATEMENT INFORMATION									
Amounts in accordance with Finnish GAAP									
Revenues	991	1,125	1,352	1,623	1,849	1,770	426	487	466
Other operating income	12	15	18	24	45	43	7	9	9
Operating expenses	(647)	(720)	(881)	(1,060)	(1,226)	(1,174)	(276)	(334)	(320)
Depreciation and amortization	(202)	(242)	(204)	(261)	(281)	(269)	(67)	(72)	(69)
Write-downs on fixed assets	—	(8)	—	(37)	—	—	—	—	—
Operating profit	154	170	285	289	387	370	90	90	86
Equity income in associated companies	1	6	19	59	110	106	18	20	19
Financial income and expenses	13	7	5	(2)	—	—	(1)	3	3
Profit before income taxes and minority interest	168	183	309	346	497	476	107	113	108
Income taxes	(47)	(54)	(89)	(94)	(126)	(121)	(29)	(31)	(30)
Minority interest	—	(1)	(0)	1	(1)	(1)	—	1	1
Extraordinary items, net of income taxes	—	—	—	—	—	—	—	(41)	(39)
Net income	121	128	220	251	370	354	78	42	40
Earnings per share[1]	0.17	0.18	0.31	0.35	0.51	0.49	0.11	0.06	0.06
Cash dividends per share and ADS[2]	0.04	0.04	0.05	0.18	0.08	0.08	—	—	—
Amounts in accordance with U.S. GAAP									
Net income	—	—	203	237	338	324	—	—	—
Basic and diluted earnings per share and ADS	—	—	0.28	0.33	0.47	0.45	—	—	—

	Year ended December 31,						Three months ended March 31,		
	1995	1996	1997	1998	1999	1999	1999	2000	2000
	€	€	€	€	€	U.S.$	€	€	U.S.$
	(in millions, except financial ratios)								
OTHER INCOME STATEMENT DATA									
Operating profit margin (%)[3]	15.6	15.1	21.1	17.8	20.9	20.9	21.1	18.5	18.5
Net income margin (%)[4]	12.2	11.4	16.2	15.5	20.0	20.0	18.3	8.6	8.6
CASH FLOW INFORMATION									
Cash provided by operating activities	365	374	455	508	442	423	91	74	71
Cash used in investing activities	(345)	(340)	(531)	(1,126)	(771)	(738)	(88)	(676)	(647)
Capital expenditures	(339)	(379)	(373)	(351)	(338)	(324)	(49)	(64)	(61)
Investments in shares	(14)	(133)	(22)	(898)	(410)	(393)	(13)	(519)	(497)
Cash (used in) provided by financing activities	(15)	(40)	93	632	309	296	(27)	696	666
OTHER RATIOS									
EBITDA (as adjusted for write-downs on fixed assets)[5]	356	420	489	587	668	639	157	162	155
EBITDA margin (as adjusted for write-downs in fixed assets)(%)[6]	36.0	37.3	36.1	36.2	36.1	36.1	36.9	33.3	33.3

	Year ended December 31,					Three months ended March 31,			
	1995	1996	1997	1998	1999	1999	1999	2000	2000
	€	€	€	€	€	U.S. $	€	€	U.S.$
	(in millions, except financial ratios)								
BALANCE SHEET INFORMATION									
Amounts in accordance with Finnish GAAP									
Fixed assets and other long-term investments									
Intangible assets	21	24	42	53	69	66	52	71	68
Property, plant and equipment	827	950	1,090	1,123	1,159	1,110	1,106	1,154	1,105
Long-term investments and receivables	90	229	293	1,231	1,826	1,748	1,273	2,346	2,246
Current assets									
Inventories	13	18	15	22	36	34	34	39	37
Receivables	229	200	281	292	404	387	322	443	424
Cash and short-term investments	201	30	145	93	115	110	90	305	292
Total assets	1,381	1,451	1,866	2,814	3,609	3,455	2,877	4,358	4,172
Shareholders' equity	1,020	1,123	1,312	1,424	1,801	1,724	1,525	1,773	1,697
Minority interest	3	2	—	12	14	13	12	15	14
Non-current liabilities									
Long-term debt	1	1	171	788	1,124	1,076	778	1,804	1,727
Other long-term liabilities	44	69	86	91	115	110	93	102	98
Current liabilities									
Current debt	53	41	2	135	172	165	118	189	181
Other current liabilities	260	215	295	364	383	367	351	475	455
Total shareholders' equity and liabilities	1,381	1,451	1,866	2,814	3,609	3,455	2,877	4,358	4,172
Net debt/book capitalization (%)(7)	(13.7)	1.0	1.9	35.2	38.0	38.0	33.1	44.6	44.6
Equity-to-assets (%)(8)	74.3	78.0	70.9	51.5	50.6	50.6	54.0	41.3	41.3
Amounts in accordance with U.S. GAAP									
Shareholders' equity	—	—	1,341	1,446	1,896	1,815	—	—	—
Total assets	—	—	1,898	2,848	3,757	3,597	—	—	—

(1) Earnings per share for each period commencing with the three month period ended March 31, 2000 will reflect the change in Sonera's accounting treatment of Turkcell results. The effect of such change is treated as an extraordinary item for the three month period ended March 31, 2000. Earnings per share without extraordinary items for the three month period ended March 31, 2000 is €0.12.

(2) Dividends for each year were declared and paid on the basis of profits and retained earnings as of the end of the previous year.

(3) Operating profit margin is the ratio of operating profit to revenues expressed as a percentage.

(4) Net income margin is the ratio of net income to revenues expressed as a percentage.

(5) EBITDA (as adjusted for write-downs on fixed assets) equals operating profit before depreciation and amortization and write-downs on fixed assets. EBITDA (as adjusted for write-downs and fixed assets) is not intended to represent cash flow from operations and should not be considered as an alternative to net income as an indicator of Sonera's operating performance or to cash flows as a measure of liquidity. Management believes that EBITDA (as adjusted for write-downs and fixed assets) is a standard measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. Accordingly, this information has been disclosed to permit a more complete comparative analysis of Sonera's operating performance relative to other companies in its industry. However, Sonera's definition of EBITDA (as adjusted for write-downs and fixed assets) does not show significant trends related to the following items: depreciation and amortization; write-downs on fixed assets; equity income in associated companies; financial income and expense; and income taxes.

(6) EBITDA (as adjusted for write-downs and fixed assets) margin is the ratio of EBITDA (as adjusted for write-downs and fixed assets) to revenues expressed as a percentage.

(7) Net debt as a percentage of book capitalization. Net debt means total debt (which includes current and long-term interest-bearing debt) less cash and short-term investments. Book capitalization means total debt plus shareholders' equity and minority interest.

(8) Equity-to-assets ratio is the ratio of shareholders' equity and minority interest to total assets less advances received.

Dividends

At Sonera's annual general meeting of shareholders held on March 22, 2000, Sonera declared a dividend of €0.12 per share in respect of the fiscal year 1999. The dividend, totaling €87 million, was paid on April 3, 2000 to shareholders of record on March 27, 2000.

PT Finland paid total cash dividends of €34 million, €34 million, €54 million and €185 million to the Finnish State, its sole shareholder, for the fiscal years ended December 31, 1994, 1995, 1996 and 1997, respectively. These dividends were funded mainly through group contributions made to PT Finland by Telecom Finland, Finland Post Ltd and other subsidiaries of PT Finland in accordance with their respective profitability during such years. Accordingly, Sonera has recorded in its consolidated financial statements, as its share of dividends paid by PT Finland, dividends paid of €31 million, €28 million, €38 million and €132 million in respect of the fiscal years ended December 31, 1994, 1995, 1996 and 1997, respectively. Sonera paid total cash dividends of €61 million to its shareholders in respect of the fiscal year ended December 31, 1998. These dividends may not be indicative of future dividend payments by Sonera.

The following table sets forth the annual dividends per share paid during each of the financial years indicated:

Year Ended December 31,	Dividend Paid per Share €	Dividend Paid per Share U.S.$
1995	0.04	0.06
1996	0.04	0.05
1997	0.05	0.06
1998	0.18	0.20
1999	0.08	0.09
2000	0.12	0.11

(1) After the annual general meeting of shareholders has approved the annual financial statements and the amount of dividends, the amount is deducted from retained earnings and recorded as a liability until the time of payment. Dividend amounts have been restated in euros using the irrevocable conversion rate of €1.00 = FIM 5.94573 and translated into U.S. dollars at the Noon Buying Rate for the relevant dividend payment date.

The determination to pay dividends, and the amount of the dividends, will depend upon, among other things, the following:

- Sonera's earnings;
- Sonera's financial condition;
- Sonera's capital requirements;
- development requirements;
- cash provided by operating activities;
- applicable restrictions on the payment of dividends under Finnish law; and
- other factors as Sonera's Board of Directors may deem relevant.

Subject to the foregoing constraints, the objective of the Board of Directors of Sonera is to recommend to shareholders the payment of an aggregate dividend representing approximately one-fourth of Sonera's annual consolidated net income for any particular year.

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. As of December 31, 1999, the total distributable funds of Sonera Corporation amounted to €1,139 million, and for Sonera on a consolidated basis to €1,292 million.

Dividends paid to holders of Sonera's shares (in the form of shares or ADSs) who are non-residents of Finland will generally be subject to Finnish withholding tax at a rate of 29 percent. Such shareholders may, however, be subject to a lower withholding tax rate and may be allowed an imputation tax credit to reduce the tax on dividends where there is a double taxation treaty with Finland that contains appropriate provisions. The current convention between the Government of the United States of America and the Government of the Republic of Finland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital does not contain provisions that extend such imputation credits to U.S. Holders of Sonera's shares (in the form of shares or ADSs). See "Item 7. Taxation—Finnish Taxation."

Exchange Rates

The following table 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. For any time or period before January 1, 1999, such Noon Buying Rates have been derived from the Noon Buying Rates for the Finnish markka converted into euro at the irrevocable conversion rate between the Finnish markka and the euro.

Year	Average(1)	High	Low	Period End
1994	0.8708	0.9790	0.7650	0.7986
1995	0.7339	0.8101	0.7030	0.7309
1996	0.7738	0.8162	0.7296	0.7742
1997	0.8774	0.9419	0.7759	0.9171
1998	0.8989	0.9466	0.8240	0.8518
1999	0.9445	0.9984	0.8466	0.9930
2000 (through June 15, 2000)	1.0541	1.1247	0.9676	1.0493

(1) The average of the Noon Buying Rates on the last business day of each month during the relevant period.

Commencing January 4, 1999, the shares of Sonera have traded on the Helsinki Exchanges in euros. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the shares on the Helsinki Exchanges and, as a result, are likely to affect the market price of the ADSs on the Nasdaq National Market. Sonera declares any cash dividends in euros, and exchange rate fluctuations will effect the U.S. dollar amounts received on conversion of cash dividends on the shares represented by ADSs.

Item 9. Management's Discussion and Analysis of Financial Condition and Result of Operations

The following discussion should be read in conjunction with Sonera's consolidated financial statements included elsewhere in this report. The consolidated financial statements have been prepared in accordance with Finnish GAAP, which differ in certain significant respects from U.S. GAAP. See Note 21 to Sonera's consolidated financial statements for a discussion of the principal differences between Finnish GAAP and U.S. GAAP relevant to Sonera.

OVERVIEW

Changes in the Telecommunications Market

The Finnish telecommunications market is characterized by high penetration in both mobile and fixed line services as well as a high degree of market liberalization. The competitive situation in the Finnish telecommunications market has significantly changed since the full liberalization of the market in 1994. Prior to the liberalization, PT Finland, Sonera's predecessor company, was the monopoly provider of domestic long distance and international telephony and local telephony services were provided by local telephone companies, each with a monopoly in the provision of local access in its respective service area. There are several providers of international telephony services in Finland today, and in 1999 Sonera's market share was approximately 53 percent of the estimated €200 million international call market in Finland. In 1999, domestic long distance telephony services were also provided by several providers of which the largest were Sonera, Kaukoverkko Ysi (the Finnet Group) and Telia Finland.

Mobile telecommunications services were introduced in Finland in 1968. Initially, Sonera was the sole provider of mobile telecommunications services in Finland through its analog NMT (Nordic Mobile Telephone) and ARP networks. In 1990, the Ministry of Transport and Communications issued nation-wide GSM 900 licenses to Sonera and Radiolinja and, in 1995, it issued nation-wide GSM 1800 licenses to the holders of the GSM 900 licenses and to Telia Finland and local GSM 1800 licenses to certain local telephone companies. In March 1999, the Ministry of Transport and Communications granted four third generation mobile licenses. These licenses where granted free of charge to the three holders of nationwide GSM 900 or GSM 1800 licenses, Sonera, Radiolinja and Telia Mobile Finland, and one new mobile operator, Finnish 3G Ltd, which is controlled by the Finnet Group. All recipients of the third generation mobile service license have announced that they intend to launch their third generation services in 2002. Prior to January 2000, Sonera and Radiolinja were the only holders of national GSM 900 licenses in Finland. On January 2000, Suomen 2G was granted a GSM 900 license by the Ministry of Transport and Communications. Suomen 2G was founded by twelve regional private company members of the Finnet group that are expected to be joined by another twenty-six telecommunications operators. Neither Helsinki Telephone Corporation nor the regional telephone companies of the Finnet group in which Helsinki Telephone holds a considerable interest are shareholders of Suomen 2G. Under the terms of its license, Suomen 2G is required to commence commercial activity by September 1, 2000.

The European Union required that all European telecommunications markets be liberalized by 1998. The principal consequence of the increased liberalization has been declining tariffs which, when coupled with the introduction of significant new technological innovations, have led the European telecommunications sector to become highly competitive. The new competitive environment has led to substantial structural changes and rapid consolidation of the European telecommunications sector.

Mobile penetration has increased rapidly in Europe in the past few years, principally as a result of declining acquisition cost of mobile handsets and lower tariffs. GSM, the uniform digital mobile standard across Europe, has also contributed positively to the development of penetration rates. The average penetration rate within the European Union has increased from seven percent in 1995 to 39 percent in 1999, compared to U.S. penetration rates of 13 percent in 1995 and 30 percent in 1999.

Changes within Sonera

Originally, Sonera's predecessor company, PT Finland, was a provider of long distance and international telephony services as well as a provider of local access in the eastern and northern parts of Finland. Over time, however, Sonera's business has increasingly become weighted towards the provision of mobile telecommunications services and, in 1999, mobile telecommunications represented more than 50 percent of Sonera's total revenues.

The high mobile penetration rate and the limited population in Finland is expected to restrict future growth in the domestic mobile market. In order to spawn further growth, Sonera has in recent years acquired several shareholdings in mobile communications providers internationally. Another integral part of Sonera's growth strategy is the developing and marketing of network independent mobile communications services, including mobile transaction security and mobile Internet applications. These applications and services are "network independent" because they are designed to function on all major digital mobile technologies and on a broad range of mobile handsets. Sonera intends to market these independent mobile communications services to other mobile communications providers, to financial institutions as well as to other e-commerce providers.

To distinguish the different characteristics of the domestic fixed-line services and the mobile and media and other services, Sonera reorganized its operations into two areas as of January 1, 2000: Mobile & Media and Telecom. The Mobile & Media area was created to focus on Sonera's growth businesses, incorporating mobile communications and media, including new service businesses while the Telecom area will concentrate on stable cash generating businesses, incorporating Sonera's fixed-line voice and data services and other operations. See "Item 1. Description of Business—Restructuring of Operations in 2000."

Provider of Mobile, Data and New Media Services

Since the late 1980s, Sonera has transformed itself from an operator engaged primarily in fixed network voice services into a provider of advanced telecommunications services increasingly focused on mobile telecom and data and media communications. Increased revenues from mobile telecommunications services have been the primary contributor to Sonera's revenue growth. In 1999, Sonera derived approximately 52 percent of its revenues and approximately 89 percent of its operating profit from domestic mobile telecommunications services. Revenues from mobile telecommunications have risen from €606 million in 1997 to €966 million in 1999, an increase of approximately 59 percent. Sonera's mobile subscriber base has grown from 1,586,102 as of December 31, 1997, to over 2.1 million at the close of 1999, representing approximately 64 percent of the Finnish mobile telecommunications market. The Finnish mobile telecommunications market continues to grow despite penetration rates which, at 67 percent at the end of 1999, are among the highest in the world. Management expects growth in penetration rates to continue in part due to the development of new applications for mobile handsets, including wireless data applications and wireless transaction based services. Future growth is also expected to result from the continuing evolution of Finland as a wireless telecommunications environment in which subscribers may have more than one mobile connection. However, management also believes that revenues generated by new applications for mobile handsets and multiple mobile connections are unlikely to sustain the rates of revenue and profit growth generated from enrolling new subscribers and that, accordingly, the Finnish mobile telecommunications market in the future is likely to grow at a slower rate than in the past several years.

Revenues from data services and media services have also contributed to Sonera's revenue growth. Revenues from data services have risen from €111 in 1997 to €168 in 1999, an increase of 51 percent. Revenues from Media Communications and New Services have risen from €90 million in 1997 to €140 million in 1999, an increase of 51 percent. New and more advanced services being developed by

Media Communications and New Services are not expected to become significant drivers of Sonera's revenue growth until several years from the present.

Competition

The telecommunications industry in Finland has been one of the most liberalized in Europe, having been fully opened to competition since 1994. As a result of the significant changes in the markets partly resulting from increased liberalization in other parts of Europe Sonera expects to experience increased competition in each of its business areas. See "—Overview—Changes in the Telecommunications Market; and—Changes within Sonera" and "Item 1. Description of Business—Competition." Management expects that liberalization in the Finnish telecommunications market will continue to affect Sonera's results of operations in the future. Because of continued market liberalization, Sonera will face increasing competition from a variety of domestic and international telecommunications providers. In the mobile telecommunications market, new competing providers of GSM 1800 services are expected to exert increasing pricing pressure on Sonera's GSM services. Prior to January 2000, Sonera and Radiolinja were the only holders of national GSM 900 licenses in Finland. In January 2000, Suomen 2G was granted a GSM 900 license by the Ministry of Transport and Communications. Suomen 2G was founded by twelve regional private company members of the Finnet group that are expected to be joined by another twenty-six telecommunications operators. Neither Helsinki Telephone Corporation nor the regional telephone companies of the Finnet Group in which Helsinki Telephone holds a considerable interest are shareholders of Suomen 2G. Under the terms of its license, Suomen 2G is required to commence commercial activity by September 1, 2000. The introduction of GPRS, a GSM-based packet switched mobile data transmission technology, and other high speed and advanced mobile technologies, as well as the greater variety of new services these technologies are capable of supporting, are also expected to have a significant impact on the future competitive environment in the Finnish mobile market. In addition, the commercial introduction of third generation mobile technology, a CDMA-based (Code Division Multiple Access) packet switched mobile data transmission technology, will open the market for one additional mobile operator, Finnish 3G Ltd, and strengthen the position of Telia Mobile Finland which, together with Sonera and Radiolinja, received third generation mobile licenses in March 1999. Third generation mobile services will allow for the provision of new value-added services. Sonera's ability to compete will therefore be largely dependent upon its ability to develop and introduce such services. See "Item 1. Description of Business—Competition."

In the fixed network voice market, Sonera's approach to competing for local access to customers outside of its traditional service areas may be influenced by the cost of unbundled local loop access to the networks of the local telephone companies. Finnish regulatory authorities have required, effective as of September 30, 1998, that long distance and fixed network operators like Sonera with significant market power offer subscribers the ability to pre-select their international voice carrier. Pre-selection has not yet materially affected the competitive situation in international voice traffic. See "Item 1. Description of Business—Competition."

The effects of competition, and in particular the possible introduction of national roaming in the Finnish mobile market, could have a material impact on Sonera's results of operations and financial condition. The magnitude of the impact on Sonera's results of operations and financial condition will be dependent upon Sonera's ability to enhance its competitive position and the terms on which competitors can enter the Finnish mobile market. See "Item 3. Legal and Regulatory Proceedings—National Roaming Cases" and "Item 1. Description of Business—Regulation—Interconnection;—National Roaming; and—Numbering and Carrier Selection."

Business Area Profitability

Sonera has reported business segment revenue, operating profit, asset and capital expenditures and investment in share information on the basis of newly applicable segment reporting requirements (SFAS

No. 131). Under the new requirements, Sonera determines its business segments on the basis of reporting categories in Sonera's management accounts. Sonera's five business segments are: (1) Mobile Communications, (2) Media Communications and New Services, (3) Fixed Network Voice and Data Services, (4) Equipment Sales and Other Operations and (5) International and Other Significant Investments. The fifth business segment includes Sonera's equity income from its associated companies. In presenting segment information, Sonera makes various adjustments to properly allocate the costs of internal services and certain administrative overhead expenses. Due to significant interdependencies and overlaps among the various operating units, the information on operating profits with respect to each segment may not be indicative of the amounts that would have been reported if these segments were operationally or legally independent of one another. However, management believes that such allocations accurately reflect the degree of utilization by such business segments of Sonera's corporate resources. See Note 19 to the consolidated financial statements.

Investments in Associated Companies and Other Equity Interests

Earnings in companies in which Sonera has a significant influence ("associated companies") are included in Sonera's consolidated accounts in accordance with the equity method of accounting. Generally Sonera considers that it has significant influence when it holds between 20 to 50 percent of the share capital and voting rights of another company. Sonera treated Aerial as an associated company in 1999 despite having had only a 19.7 percent ownership interest in it since Sonera considered itself to have significant influence due to its right to appoint two members to the board of directors of Aerial and its right to participate in the budget, management and strategy processes of Aerial Operating Co. as well as its right to increase its interest in Aerial Operating Co. to 20 percent subject only to its own discretion. In May 2000, Sonera's shares of Aerial were converted into shares of VoiceStream in which Sonera holds a 7.9% interest, on a fully diluted basis. With respect to other companies which are not treated as associated companies or subsidiaries, Sonera records only dividends received from such companies in its consolidated income statements. Sonera's principal investments have been substantial minority positions in providers of mobile telecommunications services in rapidly growing developing markets such as Turkey, the Baltic States and Hungary where Sonera has been able to leverage its expertise in building and operating advanced GSM networks as well as its strengths in the areas of sales, marketing and customer service. Sonera has also made substantial investments in providers of fixed network communications in the Baltic States. Sonera's equity income from associated companies increased from €19 million in 1997 to €110 million in 1999, principally as a result of improved profitability of its associated companies, particularly Turkcell.

While Sonera has set a goal for its associated companies to be largely self-financing in the future, such companies will continue to require the commitment of personnel and other resources on the part of Sonera to assist them in such areas as network construction and operation and sales and marketing. See "—Liquidity" and "—Capital Resources."

In connection with its significant investments in associated companies in 1998, goodwill amortization in 1999 was €78 million compared to €35 million in 1998, principally reflecting the amortization of goodwill in connection with its new investments in 1998, which included additional investments in Turkcell, Lattelekom and Pannon and new investments in Lietuvos Telekomas, Omnitel and Aerial Operating Co. Sonera amortizes goodwill recognized in connection with its acquisition of equity interests in associated companies over their estimated useful life, generally not exceeding ten years.

In July 1999, Tieto Corporation, a Finnish company in which Sonera had a 27.3 percent interest, and Enator Aktiebolag (publ), a Swedish company in which Sonera had a 4.99 percent interest, merged to form TietoEnator Corporation, in which Sonera has approximately a 20.3 percent interest. In conjunction with the merger, Sonera has, pursuant to the demand of the Finnish competition authorities, undertaken to halve its existing equity interest in TietoEnator by June 11, 2001.

In September 1999, Sonera acquired a 9.1 percent interest, on a fully diluted basis, in Powertel, Inc., a provider of PCS services in selected markets in the southeastern part of the United States.

On September 20, 1999, VoiceStream Wireless Corporation and Aerial announced that they had entered into a definitive agreement to merge the two companies. This merger was completed on May 4, 2000 and follows the merger announcement of VoiceStream and Omnipoint Corporation in February 2000. In connection with the Aerial/VoiceStream merger, Sonera made an additional equity investment in November 1999 of U.S.$230 million in Aerial and Aerial Operating Co. as well as an additional equity investment of U.S.$500 million in VoiceStream in February 2000. Following the completion of the Aerial/VoiceStream merger, Sonera holds a 7.9 percent interest, on a fully diluted basis, in the new entity. See "Item 1. Description of Business—International and Other Significant Investments—Aerial."

Sonera intends to continue to expand its presence selectively in markets outside of Finland through additional investment in mobile telecommunications providers where management believes there are significant opportunities for growth. Sonera also plans to enhance the value of its existing investments, by using its technical and commercial know-how developed in the Finnish home market and in connection with its international activities to assist its associated or affiliated companies in improving their operations. In light of the relatively low penetration levels and the rapid growth of telecommunications markets in the regions in which the majority of the associated companies operate, as well as the new investments undertaken in 1998 and 1999, management expects Sonera's equity income from associated companies to continue to grow as a portion of total net income.

Interconnection Arrangements

Interconnection allows a telecommunications operator to connect its network to the network of another telecommunications operator. Interconnection therefore ensures that subscribers to one network can contact subscribers to other networks and access the services of other telecommunications operators. Historically, Finnish operators have entered into bilateral interconnection agreements on a collective basis. These interconnection agreements establish interconnection and related charges for the term of such agreements. Current interconnection agreements between Sonera, Helsinki Telephone Corporation, Radiolinja, Kaukoverkko Ysi Oy and Finnet International Oy became effective as of May 1, 1999 (the "1999 Interconnection Regime"). During 1999, Sonera entered into interconnection agreements with terms similar to the 1999 Interconnection Regime with a majority of the other Finnish operators. See "Item 3.—Legal and Regulatory Proceedings" and "Item 1. Description of Business—Regulation."

The 1999 Interconnection Regime had a negative effect upon Sonera's interconnection revenues, and, in particular, revenues generated by Sonera's fixed-line trunk services and mobile network services. This is principally because the 1999 Interconnection Regime provides for higher fees for access and termination of calls which benefits the local fixed-line operators at the expense of trunk and mobile operators. The net effect on Sonera's annual operating profit was a reduction of approximately €15 million. In order to partly offset the negative impact on profitability of domestic calls as a result of the new regime, Sonera changed its own pricing in July by raising the per-call charge and lowering the time charge. Mobile termination fees charged by Sonera under the 1999 Interconnection Regime are currently under legal challenge, and may therefore be subject to revision. See "Item 3.—Legal and "Item 1. Description of Business—Regulatory Proceedings."

RESULTS OF OPERATIONS

Revenues

In 1999, Sonera's revenues were derived from the following four business segments:

- Mobile Communications;
- Media Communications and New Services;

• Fixed Network Voice and Data Services; and

• Equipment Sales and Other Operations.

Fixed Network Voice and Data Services consists of the following lines of business: (1) fixed network voice services; (2) data services; and (3) leased lines.

Equipment Sales and Other Operations includes (1) equipment sales; (2) construction and maintenance; and (3) other operations, such as public phones, ticket sales services, network consulting services and radiation testing services. See "Item 1. Description of Business."

Earnings from associated companies are included in Sonera's consolidated accounts in accordance with the equity method of accounting under "Equity income in associated companies" and are not included as part of Sonera's revenues.

The following table sets forth Sonera's revenues by business area and line of business and as a percentage of total revenues for the periods indicated:

	Year ended December 31,					
	1997		1998		1999	
	€	%	€	%	€	%
	(in millions, except percentages)					
Mobile Communications:						
Subscription, connection and other charges	73	5.4	96	5.9	103	5.6
Traffic revenues	509	37.6	675	41.6	829	44.8
Other wireless services	24	1.8	28	1.7	34	1.8
Subtotal	606	44.8	799	49.2	966	52.2
Media Communications and New Services	90	6.7	115	7.1	140	7.6
Fixed Network Voice and Data Services:						
Fixed network voice services:						
Domestic voice	245	18.1	258	15.9	250	13.5
International voice	134	9.9	128	7.9	120	6.5
Data services	111	8.2	149	9.2	168	9.1
Leased lines and network capacity	19	1.4	25	1.5	32	1.7
Subtotal	509	37.6	560	34.5	570	30.8
Equipment Sales and Other Operations:						
Equipment sales	80	5.9	96	5.9	114	6.2
Construction and maintenance	37	2.7	31	1.9	24	1.3
Other operations	30	2.3	22	1.4	35	1.9
Subtotal	147	10.9	149	9.2	173	9.4
Total	1,352	100.0	1,623	100.0	1,849	100.0

Mobile Communications

Revenues from Mobile Communications are derived principally from the provision of GSM and NMT mobile communications services. Revenues generated by GSM and NMT communications services include connection fees and monthly subscription charges and traffic revenues. Revenues from Mobile Communications also include revenues derived from other wireless services such as paging services, satellite and closed network radio services, logistical control services, mobile consultancy services and special products.

Revenues from subscription, connection and other charges consist of revenues from monthly subscription charges, initial connection fees and complementary service charges, including fees for value-added services such as voice mail and call waiting, for Sonera's GSM and NMT services. Revenues from subscription, connection and other charges depend primarily on the total number of subscribers, the mix of services utilized by subscribers and charges applicable to such services.

Traffic revenues consist of traffic charges paid by mobile subscribers, interconnection fees and roaming fees from calls made by subscribers of international mobile network operators while in Finland and calls made or received outside of Finland by Sonera's subscribers using another mobile provider's network. Traffic revenues also include revenues from SMS messages, SMS-based content and transaction services, and other value-added services. SMS (short message service) is a GSM technology based mobile communication service which allows users to send messages from a mobile handset or an Internet site to another mobile handset directly or via a message center operator. Traffic revenues depend principally upon the total number of subscribers, traffic volume, the mix of services utilized by subscribers and tariffs applicable to such services.

The table below sets forth revenues and other statistical information regarding Sonera's subscription, connection and other charges and traffic revenues in respect of Sonera's GSM and NMT mobile services for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
	(in € millions)			(% change)	
Revenues:					
Subscription, connection and other charges	73	96	103	31.5	7.3
Traffic revenues	509	675	829	32.6	22.8
Average number of subscribers:					
Separated by type of service:					
GSM	807,367	1,314,509	1,767,771	62.8	34.5
NMT	591,189	444,484	266,292	(24.8)	(40.1)
Total	1,398,556	1,758,993	2,034,063	25.8	15.6
Separated by type of subscriber:					
Business(1)	383,976	417,282	442,677	8.7	6.1
Residential(1)	1,014,580	1,341,711	1,591,386	32.2	18.6
Total	1,398,556	1,758,993	2,034,063	25.8	15.6
Total traffic (millions of minutes)(2)	1,728	2,452	3,173	41.9	29.4
Total number of SMS messages (millions of messages)	36.9	206.4	438.8	459.3	112.6
Average monthly minutes of use per subscriber (minutes)(3)	103	116	130	12.6	12.1
Average monthly SMS messages per subscriber	3.7	13.0	20.7	251.4	59.2
Average monthly revenue per subscriber (in euro)(4)	34.7	36.5	38.8	5.2	6.3

(1) Business and residential subscribers have been divided according to tax identification number.

(2) Includes outgoing mobile to mobile and mobile to fixed line voice calls and calls from subscribers of other operators roaming in Sonera's network.

(3) Average monthly minutes of use per subscriber is calculated by dividing total outgoing traffic for Sonera's NMT and GSM services by the average number of subscribers for the period for both types of service divided by the number of months in the period.

(4) Average monthly revenue per subscriber is calculated by dividing revenues for the period of Sonera's NMT and GSM services by the average number of subscribers for the period for both types of service divided by the number of months in the period.

Subscription, connection and other charges. Revenues from subscription, connection and other charges increased in 1999 as compared to 1998 and in 1998 as compared to 1997 primarily due to an increase in the number of Sonera's GSM subscribers. Subscriber growth was particularly strong in the second half of 1998 due principally to Sonera's special 1998 Christmas promotion. Sonera's average initial connection fees, monthly subscription charges and charges for other services have decreased since 1997 principally due to the drop in connection charges under certain pricing plans and corporate discounts.

Management believes Sonera's GSM subscriber growth reflects an expanding market for mobile telecommunications services in Finland. Mobile penetration rates in Finland increased rapidly at an average of one percentage point per month in 1997 and 1998, and, at a somewhat slower pace, during 1999. Management believes that declining mobile tariffs, the availability of smaller, more versatile mobile handsets, improved service offerings and changes in consumer behavior were significant factors in the increase in its GSM subscriber base from December 31, 1996 through December 31, 1999. Other factors contributing to growth in the GSM subscriber base include marketing initiatives introduced by Sonera in 1995, including the offer of free calling time in connection with new subscriptions, and the continued decline in mobile handset prices. The recent increase in Sonera's GSM subscriber base has mainly been attributable to growth in the number of residential users.

The subscriber attrition or "churn rate" of Sonera's GSM service, which has traditionally been low by international standards, also plays an important role in determining the size of Sonera's subscriber base. Sonera's GSM churn rate, which reflects the total number of GSM subscriber deactivations during a period as a percentage of the average number of Sonera's GSM subscribers for the period was 11.5 percent, 14.0 percent, and 14.6 percent in 1997, 1998 and 1999, respectively.

Subscription, connection and other charges from Sonera's NMT services decreased in 1999 as compared to 1998 and in 1998 as compared to 1997, primarily due to a decrease in NMT 900 subscribers as a growing number of such subscribers migrated to GSM services. The number of subscribers to Sonera's NMT 450 services declined at a slower pace than NMT 900 service during 1999 as compared to 1998 and in 1998 as compared to 1997, principally due to continued use of Sonera's NMT 450 network by its core subscriber base of taxi, freight carriers and summer users who rely on NMT 450 for its coverage of remote areas. Sonera's total NMT subscriber base decreased by 40 percent in 1998 as compared to 1997 and by an additional 41 percent during 1999. Sonera has announced that it will terminate the operation of its NMT 900 network on December 31, 2000. The operation of Sonera's NMT 450 network will be continued in its existing format. Management expects revenues from its NMT services to continue to decline in the future. See "Item 1. Description of Business—Mobile Communications—Subscribers."

Traffic revenues. Traffic revenues consist of traffic charges paid by Sonera's mobile subscribers, interconnection fees and roaming fees. Traffic revenues also include revenues from SMS messages, SMS based content and transaction services, and other value-added services. Traffic revenues increased substantially in 1999 and in 1998 as compared to the previous year primarily as a result of growth in the GSM subscriber base, an increase in average monthly usage per GSM subscriber and increased use of SMS services, as well as increases in roaming revenues and mobile interconnection fee revenues. Increases in traffic revenues were partially offset by a decline in the NMT subscriber base and a decrease in the average monthly minutes of use per NMT subscriber, as well as decreases in GSM and NMT traffic tariffs.

Average monthly revenue per subscriber for Sonera's mobile services increased in 1999 as compared to 1998 and in 1998 as compared to 1997 primarily as a result of increased usage of mobile phones by Sonera's GSM subscribers and the substantial increase in the usage of value-added services, including SMS. NMT subscribers generally generate lower revenues than GSM subscribers. Average monthly revenue per subscriber for Sonera's mobile services increased despite (1) the negative effect of tariff reductions implemented throughout the period in response to increased competition in the market and (2) the overall increase in the number of residential subscribers as a percentage of Sonera's total GSM subscriber base. Residential subscribers generally generate lower revenues than business subscribers due to different tariff packages and calling habits.

The increase in average monthly usage by GSM residential and business subscribers was due to declining mobile tariffs, the availability of smaller, more versatile mobile handsets with improved battery lives, and the development of new applications for mobile phones as well as the introduction of additional value-added services to Sonera's customers. Increases in average monthly usage have, however, been partly offset by an increase in the number of lower volume users in the subscriber base. Management expects that, as the mobile penetration rate in Finland increases, growth in the average monthly usage per GSM subscriber will continue to be affected by the inclusion of an increased number of lower volume users in the subscriber base.

An increase in the use of SMS, a service Sonera first began offering in May 1995, by Sonera's GSM subscribers has also contributed to the increase of Sonera's mobile communications traffic revenues. SMS messages, which are billed on a per message basis, do not, however, have an effect on the average monthly minutes of use per subscriber due to the extremely short airtime per message required for transmitting SMS traffic. The number of SMS messages sent by Sonera's GSM subscribers increased approximately six times from 1997 to 1998 and more than doubled from 1998 to 1999. During 1999, non-voice services generated about eight percent of total mobile communications revenues as compared to about 4.5 percent in 1998. This increase resulted from the increase in the number of SMS messages from 206.4 million in 1998 to 439 million in 1999.

Average monthly usage by Sonera's NMT subscribers decreased in both 1998 and 1999 as compared to the previous year, primarily due to the continued migration of higher volume NMT 900 subscribers to GSM services influenced in part by the GSM handset exchange offers extended by Sonera and other Finnish mobile operators to Sonera's NMT subscribers. The average monthly usage of Sonera's NMT 450 subscribers declined only slightly during 1999, principally due to continued use of Sonera's NMT 450 network by its core subscriber base who rely on NMT 450 for its ability to reach remote areas. See "Item 1. Description of Business—Mobile Communications—Traffic."

Sonera's GSM and NMT traffic tariffs have declined since 1995 primarily in response to increased competition from Radiolinja's GSM 900 services, and more recently from GSM 1800 operators. To the extent that competing providers of GSM 1800 services are able to launch nationwide services through national roaming agreements, management expects that Sonera will face increased pricing pressure on its GSM service in the future. See "Item 3.—Legal and Regulatory Proceedings—National Roaming." and "Item 1. Description of Business—Regulation—National Roaming."

Roaming revenues consist of (1) the total amounts billed by Sonera for calls made outside Finland by Sonera's customers using another GSM network and (2) amounts paid to Sonera by foreign GSM network operators with respect to calls made by customers of such operators while in Finland. Roaming revenues accounted for approximately nine percent and eight percent of Sonera's Mobile Communications traffic revenues in 1998 and 1999 respectively. Roaming revenues increased in absolute terms in 1999 as compared to 1998 and in 1998 as compared to 1997 due to both increased revenues generated by Sonera's GSM subscribers travelling outside of Finland and by subscribers of international GSM network operators visiting Finland. These increases have resulted primarily from higher GSM penetration rates across much of Europe and from the consummation by Sonera of new roaming agreements which have increased the geographical scope of roaming coverage throughout the period.

Mobile interconnection fees, which only include fees charged to other Finnish mobile operators for terminating calls on Sonera's mobile network, accounted for approximately nine percent of Sonera's Mobile Communications traffic revenues in 1999 and approximately six percent in 1998. Revenues from mobile interconnection fees increased in 1999 as compared to 1998 and in 1998 as compared to 1997, reflecting the increase in calls originating on other operators' mobile networks which terminated on Sonera's mobile network as a result of the increased size of Sonera's and other operators' subscriber bases.

Mobile interconnection fees, including fees for terminating traffic to Sonera's mobile network, are covered by bilateral interconnection agreements. Mobile interconnection tariffs have been generally stable since 1996. Mobile termination fees charged by Sonera under the interconnection agreements currently in effect are under legal challenge, and may therefore be subject to revision. See "—Overview—Interconnection Arrangements" and "Item 3.—Legal and Regulatory Proceedings—Interconnection."

Other wireless services. Other wireless services comprise Sonera's paging services, satellite services, closed network radio services, logistical control services, mobile consultancy services and special products. The following table sets forth certain information regarding revenues from other wireless services for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
	(in € millions)			(% change)	
Other wireless services	24	28	34	16.7	21.4

Revenues from other wireless services increased in 1999 and 1998 as compared to the previous year principally due to increased revenues from radio services and mobile consultancy services. These increases were partially offset by declining revenues from paging services and ARP services, Sonera's mobile vehicle radio telephone system which predates NMT and GSM. Revenues derived from logistical control services were generally stable throughout the period. Management expects that revenues from its paging and ARP services will continue to decline as users of these services migrate to GSM services. Sonera terminated the operation of its ARP network on December 31, 1999 with the exception of the province of Lapland where the operation of Sonera's ARP network will be continued until December 31, 2000.

Media Communications and New Services

In total, Sonera's Media Communications and New Services business area generated revenues of €140 million in 1999, or approximately 8 percent of Sonera's total revenues for the year.

The following table sets forth the revenues of Sonera's Media Communications and New Services business area by for the periods specified:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
	(in € millions)			(% change)	
Media Communications and New Services	90	115	140	27.8	21.7

Media Communications

Media Communications consists of new media, business media and directory services operations. Sonera's new media services include consumer and corporate Internet services, cable TV services and special calling services. Sonera's business media operations offer a variety of communications, marketing and customer care solutions for business customers, such as toll-free numbers and local access charge corporate numbers, multifax services, telephone and video conference calling and remote working, as well as e-commerce services. Sonera's directory services consist of electronic and operator assisted directory assistance as well as printed directories. Revenues from Media Communications are generated from subscription fees, rental fees for hosting services, on-line advertising fees, calling and transaction fees for services and fees from advertising in printed directories. Revenues from media services depend on the cost and mix of services subscribed, tariff levels and the mix of transmission volumes, durations and combinations.

Revenues from Sonera's Media Communications increased in 1999 as compared to 1998 and in 1998 as compared to 1997 principally as a result of (1) increased revenues from directory services and (2) the growth in the number of subscribers to its Internet access and hosting services, as well as increased use of Sonera's Internet services provided by Sonera's foreign subsidiaries. The number of subscribers to Sonera's Internet access services increased from approximately 100,000 in February 1998 to more than 216,000 subscribers in December 1999, and management expects its Internet access subscriber growth to continue as Internet penetration rates in Finland increase and Internet portal services continue to develop. Increased demand for calling plan services, including toll free numbers, also contributed to the increase in media services revenue for the period, as well as revenues from remote work services. Revenues from cable TV services, fax services and telephone and video conference calling were generally stable throughout the period. Revenues from charged service calls, on the other hand, have been declining since 1997, principally due to increased competition and decreased demand. In July 1999, Sonera acquired MultiWeb B.V., a Dutch Internet service provider which it merged with its subsidiary Sonera Nederland B.V. on January 1, 2000.

Due to the increased pricing pressures on Internet service access, including the increasing trend of offering Internet access service at no charge, revenue growth from media communications is likely to be dependent upon growth in content-based services and advertising revenue in the future.

New Services

Sonera's new services business is in its early stage of commercial development and has not generated significant revenues to date. Historically, Sonera SmartTrust has derived substantially all of its revenue from its operation of a secure electronic payment network for Finnish customers. In the future, Sonera SmartTrust is expected to generate revenues primarily from licensing the rights to its wireless security solutions to service providers, such as banks and brokers, and wireless operators, as well as to certificate authorities, smart card manufacturers and systems integrators. Sonera Zed seeks to offer a range of customized Zed mobile value-added services to mobile operators and their customers throughout the world. During 2000, Sonera Zed has entered into agreements with various mobile operators including Hutchison Telecom in Germany, Smart Communications in the Philippines, KPN Mobile in the Netherlands as well as Powertel and Turkcell to provide Zed services in the markets of these operators.

Management expects that e-commerce services, on-line advertising and electronic directory services, and the products and services of the new service businesses unit will be a source of revenue growth in the future.

Fixed Network Voice and Data Services

Fixed Network Voice and Data Services are comprised of fixed network domestic and international voice services, data services and leased lines. Revenues from Fixed Network Voice and Data Services were €509 million, €560 million and €570 million in 1997, 1998 and 1999 respectively. The increases in each period were primarily due to increased revenues from data services, which is the fastest growing business line within Sonera's Fixed Network Voice and Data Services business area.

Fixed Network Voice Services

Revenues from fixed network voice services consist of domestic voice revenues and international voice revenues.

Domestic voice revenues. Domestic voice revenues consist of (1) subscription, connection and other charges, (2) traffic charges for local and long distance calls placed by Sonera's subscribers and (3) interconnection revenues. Revenues from subscription, connection and other charges consist principally of revenues from monthly subscription charges, initial connection fees, complementary service charges, including monthly fees for services such as voice mail, call waiting and other value-added services, and certain equipment rental charges. Revenues from subscription, connection and other charges depend primarily on the total number of lines subscribed and the mix of standard lines (traditional copper wire access lines), ISDN lines (copper wire access lines with a transmission system which allows for the transmission of two streams of information at the same time) and 2 Mbps lines (copper wire access lines with a transmission system which allows for the transmission of multiple streams of information at the same time). Revenues from traffic charges for local and long distance calls are dependent upon the number of calls made, the mix between local calls and higher priced long distance calls, call duration and applicable tariffs.

Interconnection revenues include fees paid to Sonera by the local operators of the Finnet Group and other operators of fixed networks in Finland as well as by Radiolinja, Telia Finland and other mobile operators for interconnection with Sonera's fixed-line network. Interconnection revenues consist of three main components: access, transit and termination fees. Smaller items which are also counted in calculating interconnection revenue include routing service fees and international pre-selection fees. See "Overview—Interconnection Arrangements" and "Item 1. Description of Business—Regulation—Interconnection."

The table below sets forth domestic voice revenues and certain information regarding traffic and Sonera's access lines for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
	(in € millions)			(% change)	
Domestic voice revenues:					
Local calls[1]					
Subscription, connection and other charges	161	169	199	5.0	17.8
Long distance calls[2]	27	26	28	(3.7)	7.7
Interconnection revenues	57	63	23	10.5	(63.5)
Total	245	258	250	5.3	(3.1)
Domestic traffic (in millions of minutes):					
Local calls[1]	2,044	1,994	1,869	(2.4)	(6.3)
Long distance calls[2]	829	749	667	(9.7)	(10.9)
Total	2,873	2,743	2,536	(4.5)	(7.5)
Number of access lines at end of period:					
Standard	695,437	656,524	592,337[4]	(5.6)	(9.8)
ISDN	12,606	24,772	36,413	96.5	47.0
2 Mbps	2,289	2,820	3,509	23.2	24.4
Total equivalent lines[3]	789,319	790,668	770,433	0.2	(2.6)

(1) Revenues and minutes accrued from calls originating on Sonera's fixed network and terminated within the same telecommunications area.

(2) Revenues and minutes accrued from calls utilizing Sonera's trunk network including long distance calls placed by subscribers of other service operators which are routed through Sonera's trunk network. Revenues from long distance calls exclude interconnection revenues.

(3) For purposes of calculating total equivalent lines, ISDN lines are counted as two standard lines and 2 Mbps lines are counted as 30 standard lines.

(4) Principles for keeping access lines statistics was changed in the beginning of 1999. Prior to the change, residential ISDN lines were registered both as standard and ISDN lines. Certain 2Mbps lines were also registered both as standard and as 2Mbps lines. Information for periods prior to 1999 has not been restated.

Domestic voice revenues decreased slightly in 1999 as compared to 1998, mainly attributable to decreases interconnection revenues. However, domestic voice revenues increased slightly in 1998 and 1997 as compared to the prior year, due principally to increases in subscription, connection and other charges and interconnection revenues, which were somewhat offset by decreases in long distance voice revenues. Revenues from subscription, connection and other charges increased in each of 1999 and 1998 as compared to the previous year principally as a result of increases in monthly subscription charges as well as an increase in subscribers ordering value-added services. In 1997, 1998 and 1999, as part of its overall strategy of continuing to rebalance its fee and tariff structure, Sonera increased its basic monthly subscription charge for standard access lines, whereas it lowered its connection fee in 1999. On the other hand, revenues from subscription, connection and other charges have been negatively affected by the decrease in the number of standard access line connections as residential subscribers have moved away from Sonera's traditional service areas located principally in the more sparsely populated areas of eastern and northern Finland. Although the number of equivalent lines has generally been stable, mainly attributable to an increase in the number of ISDN and 2 Mbps lines, these higher capacity lines typically have lower monthly subscription charges than standard access lines on a per equivalent line basis. Due to the change of principles for keeping access lines statistics, the number of total equivalent lines in 1999 is somewhat lower as compared to the prior year. The growth in the number of ISDN and 2 Mbps lines throughout the period reflects Sonera's strategy of building fiber optic local loop infrastructure in the largest cities in Finland primarily to attract business subscribers. Fiber optic loop infrastructure offers greater transmission capacity and less distortion than traditional copper wire. Local loop refers to localized cable, microwave link or other infrastructure which connects a subscriber to the nearest switch or concentrator. Sonera has recently introduced a new pricing structure for local calls in which it raised the call connection charge and lowered the time-based charges in order to stimulate increased Internet usage.

While domestic long distance call revenues decreased in 1998 as compared to the previous year as subscribers continued to switch from fixed-line services to mobile telecommunications services, they increased slightly in 1999. On July 1, 1999, Sonera increased its domestic long distance tariff in response to both increased costs and the decline in domestic long distance traffic. Management believes that Sonera will continue to experience a gradual decline in domestic long distance traffic in the future as subscribers switch from fixed-line services to mobile telecommunications services.

Interconnection revenues decreased significantly in 1999 as compared to 1998 principally due to the impact of the 1999 Interconnection Regime. Interconnection revenues increased in 1998 as compared to 1997 due primarily to growth in traffic terminating on Sonera's mobile and fixed-line networks from mobile operators and members of the Finnet Group and increases in interconnection fees charged to other telecommunications operators. Interconnection revenues are gross amounts before deduction of interconnection fees paid by Sonera to other telecommunications operators, which are included as expenses under "services bought" in the income statement. See "—Operating Expenses" and "—Overview—Interconnection Arrangements."

International voice revenues. Revenues from international voice services consist of revenues from outgoing international calls and incoming international calls, including charges with respect to international transit traffic, and calls generated by Sonera's foreign subsidiaries. Revenues from international voice services depend on (1) the total number, duration and destination of outgoing calls originating in Finland and the applicable tariffs, (2) the total number and duration of incoming calls and the rates charged by Sonera to foreign operators for carrying such calls on its network, (3) the total number and duration of international transit traffic calls and (4) the total number, duration and destination of outgoing calls made through services provided by Sonera's consolidated foreign subsidiaries.

The following table sets forth information concerning international traffic revenues and outgoing and incoming international traffic for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
	(in € millions)			(% change)	
International traffic revenues:					
Outgoing international[1]	73	67	66	(8.2)	(1.5)
Incoming international[2]	55	51	44	(7.3)	(13.7)
Foreign subsidiaries	6	10	10	66.7	—
Total	134	128	120	(4.5)	(6.3)
International traffic (in millions of minutes):					
Outgoing international[3]	226	225	229	(0.4)	1.8
Incoming international[4]	301	278	277[5]	(7.6)	(0.4)

(1) Outgoing international revenues include revenues generated from Finland-originated international calls, including calls placed by subscribers of other service operators which are routed through Sonera's international network. These amounts show gross revenues before deduction of settlement payments to foreign operators to carry Sonera's outgoing traffic, which are reflected as "external services" expenses in the income statement.

(2) Incoming international revenues include revenues generated from Finland-terminated international calls, including calls terminating with subscribers of other service operators which are routed through Sonera's international network, as well as international transit traffic utilizing Sonera's international network.

(3) Outgoing international traffic includes Finland-originated international calls, including calls placed by subscribers of other service operators which are routed through Sonera's international network.

(4) Incoming international traffic includes all Finland-terminated international calls, including calls terminating with subscribers of other service operators which are routed through Sonera's international network, as well as international transit traffic utilizing Sonera's international network.

(5) Principles for keeping international incoming and transit traffic statistics changed in 1999. Prior to 1999, the calculation was based on payments from foreign operators instead of directly from the network. Information for periods prior to 1999 has not been restated.

Revenues from outgoing international traffic declined in 1999 and 1998 as compared to the previous year primarily from decreases in international calling tariffs. Management expects revenues from outgoing international traffic to continue to decrease due to the impact of anticipated, continued price reductions. The recent implementation of regulations requiring pre-selection of international operators has not materially affected Sonera's market share of international traffic. However, international pre-selection may, together with the anticipated increase in competition from providers of Internet telephony services, have an adverse effect upon Sonera's future international traffic revenues. See "Item 1. Regulation—Numbering and Carrier Selection."

Sonera makes settlement payments to foreign operators to complete or route outgoing calls after they leave Sonera's network. Such payments are shown as a cost under "services bought" which is a component of "operating expenses" in the income statement. See "—Operating Expenses."

Revenues from incoming international traffic declined in 1999 as compared to 1998 and in 1998 as compared to 1997 principally as a result of decreases in the settlement rates charged by Sonera to foreign telecommunications operators for terminating calls on Sonera's networks. Under international telecommunications settlement arrangements, Sonera receives payments from other carriers for the use of its network for international calls terminating in or transiting via the Sonera network. Sonera expects that settlement rates will continue to decline, particularly between Finland and other member states of the European Union and between Finland and the United States. See "Item 1. Description of Business—Fixed Network Voice and Data Services—Fixed Network Voice Services—Settlement Arrangements."

Data Services

Data services consists of basic data services, (i.e., digital transmission of packet switched data through wired networks) as well as LAN (Local Area Network) services and intranet services, which consist of network maintenance and management services provided for companies to support their internal networks. Sonera's basic data services comprises its managed leased line service, FastNet, and its managed packet-switched services, DataPak. Sonera's LAN and intranet services include its DataNet LAN interconnection and system management services for corporate customers. Revenues from basic data services are generated from monthly subscriptions and additional fees based on usage (with respect to DataPak services) or capacity (with respect to FastNet services). Revenues from LAN and intranet services are generated from monthly subscriptions based on service levels as well as fees from system management services. Revenues from data services depend on the cost and mix of services subscribed, tariff levels and the mix of transmission volumes, durations and combinations.

The following table sets forth information concerning revenues from data services for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
		(in € millions)		(% change)	
Basic data services	49	59	60	20.4	1.7
LAN and intranet services	62	90	108	45.2	20.0
Total	111	149	168	34.2	12.8

The growth in revenues from data services in 1999 as compared to 1998 and in 1998 as compared to 1997 primarily reflected increased demand for systems solutions, including LAN management services and systems integration and management services, as well as increased use of Sonera's data services provided by Sonera's foreign subsidiaries. During 1999, the growth of Sonera's revenues from data services was slower than during 1998. The slower rate of growth has primarily resulted from a slower rate of growth in basic data services. Revenues from LAN and intranet services also continued to grow at a somewhat slower pace than earlier due to limited new demand among corporate customers. In 1997, revenues from Sonera's LAN and intranet services surpassed revenues from its DataPak managed packet-switching services and its FastNet managed leased lines services for the first time, reflecting increased demand of business customers for systems solutions to satisfy their data communications needs. The estimated number of connections to Sonera's DataNet services increased from 5,907 at December 31, 1997 to 8,792 as of December 31, 1999, whereas the estimated number of connections to Sonera's FastNet and DataPak decreased from 11,127 to 10,329 and from 9,926 to 8,456, respectively, during the same period. Management expects revenues from Sonera's basic data services to remain relatively stable over the next few years while revenues from its DataNet LAN and intranet services and system management business are expected to increase.

Leased Lines

Revenues from leased lines are generated from initial connection fees and monthly rental charges which vary upon the type of line leased and the total transmission capacity.

The following table sets forth information with respect to revenues from leased lines for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
		(in € millions)		(% change)	
Leased lines and capacity	19	25	32	31.6	28.0

Leased line revenues increased in 1999 and 1998 as compared to the previous year, primarily as a result of increased provision of leased lines to domestic and international operators.

Equipment Sales and Other Operations

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
		(in € millions)		(% change)	
Equipment Sales	80	96	114	20.0	18.8
Construction and Maintenance	37	31	24	(16.2)	(22.6)
Other Operations	30	22	35	(26.7)	59.1
Total	147	149	173	1.4	16.1

Equipment Sales

Revenues from telecommunications equipment sales include revenues from the sale of individual telephones, mobile handsets and computers targeted at residential customers, and the sale, construction and maintenance of more complex telephone terminals, private computerized telephone switching systems (PBXs or private branch exchanges), electronic payment terminals and complete network systems targeted at business customers. Revenues from Sonera's equipment sales also include sales financed by Sonera Credit Ltd, which provides lease financing for Sonera's customers.

The increase in revenues from equipment sales in 1999 as compared to 1998 and in 1998 as compared to 1997 year was due in part to increased volumes of mobile handsets sold as customers upgraded handsets to dual band service and smaller models as well as to Sonera's purchase of additional retail outlet chains. These acquisitions include a 59 percent majority holding in Päämies-kauppiaat Oy, a joint marketing company for a chain of mobile phone distributors with 54 stores around Finland, in January 1999, and Data-Info Oy, a management company for a franchising chain that specializes in sales of equipment, systems and service for data services in December 1997. In 1999, 1998 and 1997 Sonera's equipment sale revenues benefited from increased sales volumes of mobile handsets, PBX equipment, Internet service packages and LAN systems equipment.

Construction and Maintenance

In July 1999, the construction and maintenance services business of Sonera was transferred to a wholly-owned subsidiary, Primatel Ltd. Primatel provides installation and maintenance services both to Sonera and third parties, including other telecommunications operators and end-users such as public utilities, corporations and residential customers.

Revenues derived from construction and maintenance fluctuate based upon the level of network construction orders. Primatel's principal customers have been Sonera's mobile and fixed-line network operations. Management's goal is to increase the amount of construction and maintenance services Primatel provides to third parties in the future.

Other Operations

Revenues from other operations consist of revenues from various non-core businesses such as network consulting services, public phones, ticket sales and radiation testing services.

In 1999 as compared to 1998, revenues from other operations increased while they decreased in each of 1998 and 1997 as compared to the previous year, in each case primarily as a result of changes in the demand for network consulting services provided to Sonera's associated companies and other customers.

Other Operating Income

Other operating income consists mainly of revenues from rental income, gains from the sale of business operations, gains from the sale of fixed assets and penalty fees charged to subscribers in connection with the collection of overdue receivables.

The following table sets forth information concerning other operating income for the periods indicated:

	Year ended December 31,		
	1997	1998	1999
		(in € millions)	
Rental income	4	3	3
Gains from sales of business operations and shares	1	5	24
Gains from sales of fixed assets	3	2	1
Fees charged on collection of overdue receivables	9	9	11
Other items	1	5	6
Total	18	24	45

Other operating income increased in 1999 as compared to 1998, primarily due to gains from sales of business operations and shares. In 1999, Sonera recorded a gain of €15 million from the sale of its Mobicentrex business, and smaller gains from the sale of its 40 percent interest in Axxon Telecom B.V. and its 4.5 percent interest in Star Telecom. In 1998, other operating income increased as compared to 1997, mainly due to the gain realized from the sale of Sonera's Belgian, Dutch and German fixed-line voice service businesses to Axxon Telecom B.V. in the summer of 1998. See Note 2 to Sonera's consolidated financial statements.

Operating Expenses

Operating expenses consist of (1) the cost of sold equipment and materials, (2) services bought, (3) personnel expenses, (4) rental expenses and (5) other operating expenses. The following table sets forth Sonera's operating expenses broken down by type and as a percentage of total revenues for the periods indicated:

	Year ended December 31,					
	1997		1998		1999	
	€	%	€	%	€	%
	(in millions, except percentages)					
Cost of equipment and materials	100	7.4	116	7.2	142	7.7
Services bought	313	23.2	367	22.6	431	23.3
Personnel expenses	257	19.0	309	19.0	340	18.4
Rental expenses	39	2.9	40	2.5	47	2.5
Other operating expenses	172	12.8	228	14.0	266	14.4
Total	881	65.2	1,060	65.2	1,226	66.3

Cost of equipment and materials. Cost of equipment and materials consists of costs (1) incurred with respect to the purchase of equipment for resale to customers and (2) associated with telecommunications hardware and materials to provide and maintain services rendered to customers.

In 1999, as compared to 1998 and in 1998 as compared to 1997, the cost of equipment and materials increased principally as a result of increases in the purchases of mobile handsets, Internet packages, LAN systems equipment and other telecommunications equipment for resale.

Services bought. Expenses associated with services bought include (1) payments made to other telecommunications operators, including interconnection fees to domestic telecommunications operators, leased line fees and settlement payments (payments to foreign operators for carrying and terminating international traffic originating from Sonera's network) to international network operators, and (2) payments for other services bought, including network repair and maintenance subcontracting and other subcontracting services and commissions to dealers for new mobile subscriptions and to vendors for sales of public telephone cards. The following table sets forth Sonera's costs of services bought and the percentage changes therein for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
		(in € millions)		(% change)	
Payments to other operators for use of networks	170	227	295	33.5	30.0
Payments for other external services	143	140	136	(2.1)	(2.9)
Total	313	367	431	17.3	17.4

Costs of services bought increased in 1999 as compared to 1998 and in 1998 as compared to 1997 as a result of increased payments to other operators. Payments to other operators increased throughout the period principally due to increased mobile interconnection costs arising out of the growth in mobile traffic volumes and increased payments to international operators both as a result of increased international network settlement charges and higher leased line costs to support increased international data transmission traffic.

Personnel expenses. Personnel expenses include wages and salaries, pension expenses and certain other expenses such as social security, insurance and other legally mandated payroll costs. The following table sets forth Sonera's personnel expenses and the percentage changes therein for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
		(in € millions)		(% change)	
Wages and salaries	204	248	279	21.6	12.5
Pension expenses	26	30	29	15.4	(3.3)
Other personnel expenses	27	31	32	14.8	3.2
Total	257	309	340	20.2	10.0

Wages and salaries increased in 1999 as compared to 1998 due to a an eight percent increase in the average number of employees and the recruitment of a greater number of higher paid skilled and managerial employees in the mobile and data communications fields as well as in Sonera's international operations. Wages and salaries increased in 1998 as compared to 1997 due to an eight percent increase in the average number of Sonera's employees, and average annual wage increases of approximately three percent. Personnel costs relating to the construction of telecommunications networks in the amounts of 19 million, €17 million and €23 million for 1999, 1998 and 1997 respectively, have been capitalized and are not presented as personnel expenses in Sonera's income statement. While management believes that the number of personnel in its high growth businesses will continue to grow, it intends to continue downsizing the construction and maintenance unit, and potentially other units, primarily through reduced hiring, redeployment to other areas within Sonera, early retirement, selective dismissals and layoffs.

As required by Finnish pension legislation, Sonera makes monthly contributions to the PT Pension Fund to fund pension obligations for most of its employees. Sonera's contribution to the PT Pension Fund during the period from 1997 to 1999 averaged 11.6 percent of the total wages and salaries paid to its employees prior to social costs. See "Item 1. Description of Business—Employees." A lower percentage than in previous years was realized in 1999, as the return on the assets of PT Pension Fund was higher than in previous years, resulting in a lower additional funding need.

Other personnel expenses consist of amounts paid in respect of social security and other legally mandated payments which depend on the base level of wages and salaries and the number of employees. Other personnel expenses increased largely in line with those factors in 1999 and 1998 as compared to 1997.

Rental expenses. Rental expenses, which relate primarily to the lease of office space, increased in 1999 and 1998, as compared to 1997 due to Sonera's leasing of additional office space to accommodate the increased number of employees throughout the period.

Other operating expenses. Other operating expenses include marketing costs, general administration costs, certain research and development expenses, office maintenance, voluntary personnel costs such as education and health care programs offered to employees, travel costs, insurance, consulting and certain other expenses. The following table sets forth Sonera's other operating expenses and the percentage changes therein for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
	(in € millions)			(% change)	
Other operating expenses	172	228	266	32.6	16.7

Other operating expenses increased significantly in 1999 as compared to 1998 and in 1998 as compared to 1997 primarily as a result of increased marketing expenses and administration expenses. Increased marketing expenses related principally to brand marketing and advertising campaigns for Sonera's mobile communications, international voice and Internet services. Increased administration expenses include expenses related to the implementation of a new management software system, SAP R/3, a new sales and customer software system, and increased consultancy expenses. In 1998, Sonera also incurred additional expenses in connection with the preparation for its initial public offering and in connection with the significant number of international investments as well as a number of development projects, including its year 2000 and euro projects, many of which are ongoing. See "—Year 2000 Program" and "—Introduction of the Euro." Other expenses, including office space maintenance costs and bad debt costs, which averaged approximately 0.4 percent of Sonera's annual revenues throughout the period, remained largely unchanged.

Depreciation and Amortization

The following table sets forth depreciation and amortization and the percentage changes therein for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
		(in € millions)		(% change)	
Telecommunications networks	170	206	211	21.2	2.4
Other property, plant and equipment	27	43	52	59.3	20.9
Amortization of intangible assets	7	12	18	71.4	50.0
Subtotal	204	261	281	27.9	7.7
Write-downs					
Telecommunication networks	—	34	—	—	—
Buildings	—	3	—	—	—
Subtotal	—	37	—	—	—
Total	204	298	281	46.1	(5.7)

Depreciation increased in the first six months of 1999 as compared to the same period in 1998 and in 1998 as compared to1997 primarily as a result of continued capital expenditure to digitalize its fixed network and to broaden the coverage and capacity of its mobile network. The increase in depreciation between 1998 and 1997 was also due in part to a write-down of approximately €34 million in 1998 of certain assets related to Sonera's NMT networks and a write-down of €3 million in connection with certain unoccupied facilities owned by Sonera. In the future, depreciation and amortization is expected to increase as a result of ongoing investment in both Sonera's mobile and fixed-line networks.

EBITDA (as adjusted for write-downs on fixed assets) and Operating Profit

EBITDA (as adjusted for write-downs on fixed assets) equals operating profit before depreciation and amortization and write-downs on fixed assets. EBITDA (as adjusted for write-downs on fixed assets) should not be considered as an alternative to net income as an indicator of Sonera's operating performance, or as an alternative to cash flow from operations as a measure of liquidity. Management believes that EBITDA (as adjusted for write-downs on fixed assets) is a standard measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. Accordingly, this information has been disclosed to permit a more complete comparative analysis of Sonera's operating performance relative to other companies in the industry. However, Sonera's definition of EBITDA (as adjusted for write-downs on fixed assets) may differ from the definition of EBITDA used by other companies.

EBITDA (as adjusted for write-downs on fixed assets) does not show significant trends related to the following items: depreciation and amortization; write-downs on fixed assets; equity income in associated companies; financial income and expense; and income taxes. For a discussion of the trends relating to these items, see "—Depreciation and Amortization", "—Equity Income in Associated Companies," "—Financial Income and Expense" and "—Income Taxes."

The following table sets forth EBITDA (as adjusted for write-downs on fixed assets) and operating profit for Sonera and its four operating business areas and the percentage changes therein for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
	(in € millions)			(% change)	
EBITDA (as adjusted for write-downs on fixed assets) (in euro millions):					
Mobile Communications	280	361	468	28.9	29.6
Media Communications and New Services	19	21	(47)	10.5	n/a
Fixed Network Voice and Data Services	173	187	200	8.1	7.0
Equipment Sales and Other Operations	17	18	47	5.9	161.1
Sonera	489	587	668	20.0	13.8
EBITDA margin (as adjusted for write-downs on fixed assets) (%)(1):					
Mobile Communications	44.3	43.6	47.4	—	—
Media Communications and New Services	17.4	16.5	(26.9)	—	—
Fixed Network Voice and Data Services	26.6	26.6	27.1	—	—
Equipment Sales and Other Operations	5.6	5.2	10.0	—	—
Sonera	36.2	36.2	36.1	—	—
Operating profit (in euro millions):					
Mobile Communications	201	222	345	10.4	55.4
Media Communications and New Services	14	14	(60)	—	n/a
Fixed Network Voice and Data Services	67	63	98	(6.0)	55.6
Equipment Sales and Other Operations	3	(10)	4	n/a	n/a
Sonera	285	289	387	1.4	33.9
Operating profit margin (%)(2):					
Mobile Communications	31.8	26.8	34.9	—	—
Media Communications and New Services	12.8	11.0	(34.3)	—	—
Fixed Network Voice and Data Services	10.3	9.0	13.3	—	—
Equipment Sales and Other Operations	1.0	(2.9)	0.8	—	—
Sonera	21.1	17.8	20.9	—	—

(1) EBITDA (as adjusted for write-downs on fixed assets) margin is the ratio of EBITDA (as adjusted for write-downs on fixed assets) to revenues, expressed as a percentage. In calculating EBITDA (as adjusted for write-downs on fixed assets) margin for each business area, the EBITDA (as adjusted for write-downs on fixed assets) for each business area is divided by the total revenues for such business area. Internal revenues and expenses for each business area are included in the calculation of EBITDA margin for each business area. See Note 19 to Sonera's consolidated financial statements.

(2) Operating profit margin is the ratio of operating profit to revenues, expressed as a percentage. In calculating operating profit margin for each business area, the operating profit for each business area is divided by the total revenues for such business area. Internal revenues and expenses for each business area are included in the calculation of operating profit margin for each business area. See Note 19 to Sonera's consolidated financial statements.

Sonera's EBITDA (as adjusted for write-downs on fixed assets) increased in 1999 as compared to 1998 and in 1998 as compared to 1997 primarily as a result of revenue growth from Mobile Communications. In 1999, the increase was partly offset by the negative EBITDA (as adjusted for write-downs on fixed assets) recorded by Media Communications and New Services. Sonera's EBITDA (as adjusted for write-downs on fixed assets) margin remained stable throughout the period. Management expects EBITDA margin to drop during the next few years due to intense outlays on new services.

Mobile Communications experienced a decrease in EBITDA (as adjusted for write-downs on fixed assets) margin in 1998 as compared to 1997, principally due to increased marketing costs, increased dealer commission costs and increased mobile to mobile interconnection costs.

The EBITDA (as adjusted for write-downs on fixed assets) margin for Media Communications and New Services decreased in 1999 as compared to 1998, principally due to substantial research and development costs for new services and products in the new service businesses unit and start-up costs for new businesses in 1999.

The EBITDA (as adjusted for write-downs on fixed assets) margin for Fixed Network Voice and Data Services increased slightly in 1999 as compared to 1998 principally due to proportionally lower operating expenses. The EBITDA (as adjusted for write-downs on fixed assets) margin for Fixed Network Voice and Data Services was largely unchanged in 1998 as compared to 1997.

The EBITDA (as adjusted for write-downs on fixed assets) margin for Equipment Sales and Other Operations increased in 1999 and 1998 as compared to prior year principally due to capital gains on the disposal of business operations and shares as well as other group-level items, which are not allocated to other business areas.

Sonera's operating profit, which is equal to EBITDA (as adjusted for write-downs on fixed assets) after taking into account depreciation and amortization and write-downs on fixed assets, increased in 1999 and 1998 as compared to 1997.

Sonera's operating profit increased during these periods as a result of increases in revenues, particularly from Mobile Communications and Fixed Network Voice and Data Services, which increases were partially offset by increases in operating expenses and depreciation and amortization expenses. The increased depreciation and amortization expenses resulted from increased capital expenditures on Sonera's GSM network in recent years. The increase in revenues for 1998 was also offset by a write-down on fixed assets resulting primarily from a write-down of approximately €34 million related to Sonera's NMT network.

Sonera's net income increased in 1999 and 1998 as compared to 1997. These increases resulted primarily from increased operating profit throughout the period. The increase in net income during 1998 also resulted from a significant increase in equity income from associated companies which was offset slightly in that year by an increase in net financial expenses. The foregoing increases were offset in 1999, 1998 and 1997 by corresponding increases in income tax expense. See "—Income Taxes."

Equity Income in Associated Companies

Investments accounted for by using the equity method of consolidation are investments in associated companies that Sonera does not control but over which it exercises a significant influence. Generally, Sonera considers that it has significant influence when it holds between 20 to 50 percent of the share capital and voting rights of another company. Prior to May 2000, Sonera treated Aerial Operating Co. as an associated company despite having only a 19.7 percent interest in Aerial, since Sonera considered itself to have significant influence in the company as a result of Sonera's right to elect two members to its board of directors, rights to participate in its budget, management and strategy processes, and the right to increase Sonera's interest in the company to 20 percent at Sonera's sole discretion. In May 2000, as a result of the Aerial/VoiceStream merger, Sonera's shares of Aerial were converted into shares of VoiceStream in which Sonera has a 7.9% interest, on a fully diluted basis. Equity income in Sonera's associated companies is affected mainly by the results of the following companies:

	Sonera's equity interest as of December 31, 1999(1)
Mobile network operators:	
Turkcell Iletisim Hizmetleri A.S.(2)	41.0
AS Eesti Mobiiltelefon(3)	24.5
Latvijas Mobilais Telefons SIA(4)	24.5
UAB Omnitel(5)	27.5
Pannon GSM Rt.(6)	23.0
North-West GSM ZAO(7)	23.5
Aerial Communications, Inc.(8)	19.7
Fixed network operators:	
AS Eesti Telefon(9)	24.5
Lattelekom SIA(10)	44.1
AB Lietuvos Telekomas(11)	30.0
Service operators:	
HanseNet Telefongesellschaft mbH & Co. KG(12)	50.0
Other significant associated companies:	
TietoEnator Corporation(13)	20.3
724 Solutions Inc.(14)	22.0

(1) Sonera's share of profits of associated companies between January 1, 1997 and December 31, 1999 was also affected by the results of P Plus Communications, in which Sonera sold its 28.5 percent interest in February 1998 and by the results of Axxon Telecom B.V. in which Sonera had a 40 percent interest between May 1998 and September 1999.

(2) Between June 1993 and April 1998, Sonera held a 34.0 percent interest in Turkcell. Sonera increased its percentage interest in Turkcell to 41.0 percent in April 1998.

(3) AS Eesti Mobiiltelefon is a wholly-owned subsidiary of AS Eesti Telekom, a publicly listed Estonian corporation, in which Sonera has a partly indirect 24.5 percent equity interest.

(4) Sonera acquired its 24.5 percent interest in Latvijas Mobilais Telefons SIA in October 1991.

(5) Sonera acquired its 27.5 percent interest in UAB Omnitel in September 1998.

(6) Between October 1993 and October 1996, Sonera held a 14.6 percent interest in, and from November 1996 to July 1998 held an 18.1 percent interest in, Pannon. Sonera increased its percentage interest in Pannon to 23.0 percent in August 1998.

(7) Sonera established North-West GSM ZAO in June 1993, together with other shareholders acquiring its 23.5 percent initial interest in it.

(8) Sonera acquired its initial 19.4 percent interest in Aerial Operating Co., Inc. in September 1998. Sonera made an additional investment in the Company in November 1999 together with the majority owner. Sonera's additional investment was USD 230 million (€218 million). Sonera's ownership has been calculated as if Sonera's shares in Aerial Operating Co., Inc. had been converted into shares of Aerial Communications, Inc. In May 2000, as a result of the Aerial/VoiceStream merger, Sonera's shares of Aerial were converted into shares of VoiceStream in which Sonera has a 7.9% interest, on a fully diluted basis.

(9) AS Eesti Telefon is a fully-owned subsidiary of AS Eesti Telekom, a publicly listed Estonian corporation, in which Sonera has a partly indirect 24.5 percent equity interest.

(10) In September 1998, Sonera increased its interest in Lattelekom to 44.1 percent. Previously, Sonera had a 13.2 percent interest in the company.

(11) Sonera acquired its 30.0 percent interest in Lietuvos Telekomas in July 1998.

(12) In July 1998 Sonera and Hamburgische Elektrizitäts-Werke AG established HanseNet as an equally owned joint venture.

(13) Sonera acquired its 27.3 percent interest in Tieto in October 1996. In July 1999, Sonera's interest in Tieto Corporation changed into a 20.3 percent interest in TietoEnator Corporation, upon the merger of Tieto Corporation with Enator AB. Sonera has pursuant to the request of the Finnish Competition authorities agreed to reduce its holding in TietoEnator to half by June 11, 2001.

(14) Sonera acquired its 22.0 percent interest in 724 Solutions in August 1999. Subsequently, in January 2000, Sonera's interest in the company was diluted to 18.1 percent.

Share of profit of associated companies substantially increased from the previous years, to €110 million in 1999 as compared to €59 million in 1998 and €19 million in 1997, due primarily to Sonera's increased share of net income of Turkcell, as well as increases in Sonera's share of the net income in Eesti Mobiiltelefon, Eesti Telefon, Lattelekom and North-West GSM during the period. These increases were partially offset by Sonera's share of the net loss of Aerial of €34 million in 1999 and €22 million in 1998 and P Plus Communications of €10 million in 1997 and also by increased goodwill amortization due to acquisitions in 1998. See "Item 1. Description of Business—International and Other Significant Investments" and Note 9 to Sonera's consolidated financial statements.

Financial Income and Expense

The following table sets forth financial income and expense for the periods indicated:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Dividend income	2	5	21
Interest income	6	12	14
Other financial income	1	2	6
Interest expense	(4)	(19)	(40)
Other financial expenses	(1)	(1)	(1)
Net exchange gains (losses)	1	(1)	—
Net financial income (expense)	5	(2)	—

Sonera's net financial expenses increased principally due to an increase in the interest expenses Sonera paid for its interest-bearing debt, partially offset by an increase in dividends received from its investments in venture capital funds and from its equity investments in companies which are not accounted for as associated companies or subsidiaries. Sonera's interest-bearing debt amounted to €1,296 million as of December 31, 1999, an over 600 percent increase over €173 million of interest-bearing debt as of December 31, 1997. The substantial increase in interest-bearing debt since 1997 was due to debt incurred to finance the significant investments in associated companies in 1998 and in 1999, partly offset by the positive cash flow from Sonera's domestic mobile operations. See "—Capital Resources" and Note 5 to the consolidated financial statements.

Income Taxes

The following table sets forth the tax charges incurred by Sonera, the percentage of income taxes paid by Sonera relative to its profit before income taxes and minority interest, and the Finnish statutory income tax rate for the periods indicated:

	Year ended December 31,		
	1997	1998	1999
	(in € millions, except percentages)		
Current tax expense	76	76	108
Deferred tax expense	13	18	18
Total	89	94	126
Income taxes, in relation to profit before taxes (%)	28.8	27.2	25.4
Finnish statutory income tax rate (%)	28.0	28.0	28.0

Under Finnish tax legislation, companies are required to pay taxes on an individual entity basis, regardless of whether they belong to a consolidated group. However, individual companies within a consolidated group are permitted under certain circumstances to transfer income to other Finnish entities within the consolidated group within a tax period. Such transfers are referred to as group contributions. In each of the years presented, as is common practice in Finland, subsidiaries transferred a portion of their taxable profits to Sonera (or PT Finland, as the case may be) to finance the dividends paid by Sonera (or PT Finland, as the case may be).

Deferred tax expenses result primarily from the difference between tax depreciation under Finnish tax legislation and depreciation calculated for purposes of Sonera's financial statements as well as provisions for withholding taxes on profits of associated companies.

The applicable Finnish corporate income tax rate was 28 percent in 1997, 1998 and 1999. However, the corporate income tax was raised to 29 percent, with effect from January 1, 2000. The difference between income tax expense (including current and deferred tax as well as tax adjustments) as a percentage of profit before income taxes and minority interest and the statutory tax rate in 1997 was due to, among other things, operating losses in 1997 of subsidiaries outside of Finland which may not be deductible against future profits. For 1998 and 1999, the difference between income tax expense (including current and deferred tax as well as tax adjustments) as a percentage of profit before income taxes and minority interest and the statutory tax rate was mainly due to equity income in associated companies which is not reflected in the individual accounts of Sonera Corporation or of any of its subsidiaries and thus not subject to taxation in Finland. See Note 6 to Sonera's consolidated financial statements.

Net Income

The following table sets forth Sonera's net income and earnings per share information for the periods indicated:

	Year ended December 31,			Year ended December 31,	
	1997	1998	1999	1998/1997	1999/1998
		(in € millions)		(% change)	
Net income	220	251	370	14.1	47.4
Number of shares at end of period (thousands)	720,000	722,000	722,000	0.3	—
Average during the period (thousands)	720,000	720,247	722,000	—	0.2
Earnings per share (in euros)(1)	0.31	0.35	0.51	12.9	45.7

(1) Net income divided by the average number of shares outstanding during the period.

Net income grew in 1999 and in 1998 as compared to the previous year principally as a result of the growth in revenues from Mobile Communications and, to a lesser extent, due to increased revenues from Fixed Network Voice and Data Services, as well as increased equity income from associated companies.

LIQUIDITY

The following table sets forth Sonera's cash flows for the periods indicated:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Cash provided by operating activities	455	508	442
Cash used in investing activities	(531)	(1,126)	(771)
Cash provided by financing activities	93	632	309
Effect of exchange rate changes on cash and cash equivalents	1	(1)	1
Net increase (decrease) in cash and cash equivalents	18	13	(19)
Cash and cash equivalents at the beginning of the year	26	44	57
Cash and cash equivalents at the end of the period	44	57	38

Cash provided by operating activities. Sonera's primary source of liquidity is cash provided by operating activities. Net cash provided by operating activities reflects funds generated from operations and changes in operating assets and liabilities. Cash provided by operating activities decreased by €66 million in 1999 as compared to 1998, primarily due to an increase in working capital and larger cash payments of taxes. Cash provided by operating activities increased by €53 million in 1998 as compared to 1997 primarily due to improved EBITDA (as adjusted for write-downs on fixed assets).

Cash used in investing activities. Cash flows used in investing activities are primarily driven by Sonera's capital expenditures and equity investments. Capital expenditures amounted to €338 million in 1999, €351 million in 1998 and €373 million in 1997. Equity investments were €410 million 1999, €898 million in 1998 and €22 million in 1997.

Cash provided by financing activities. Cash provided by financing activities is primarily driven by Sonera's borrowing activities and dividend payments. Sonera received net proceeds from current and long-term debt of €370 million in 1999, €750 million in 1998, and €131 million in 1997. Sonera made dividend payments of €61 million in 1999, €132 million in 1998 and €38 million in 1997. In 1998, Sonera made a dividend payment of €132 million to the Finnish State in anticipation of the demerger and the sale of shares in the initial public offering of Sonera.

Net working capital. From time to time, Sonera's current liabilities exceed current assets because Sonera, in keeping with its aim of having low levels of working capital, maintains low levels of cash and has a policy of having short payment terms on its receivables. However, management believes that Sonera is capable of meeting payables as they come due from its cash provided by operating activities. In addition, Sonera maintains committed credit facilities with available funds which can be used, if necessary, to meet current liabilities when they fall due.

CAPITAL RESOURCES

In general, Sonera meets its long-term financing needs through borrowings under syndicated and bilateral bank facilities and debt issuance programs. In January 1999, Sonera received long-term and short-term credit ratings which enable the diversification of Sonera's borrowings geographically, among different investors, and in a wider range of instruments. Standard & Poor's Rating Group assigned Sonera an AA- long-term rating and an A1+ short-term rating. On December 22, 1999, Standard & Poor's lowered Sonera's long-term and short-term credit ratings from their previous levels due to Sonera's announcement in September that it had agreed to make additional investments in Aerial and VoiceStream. Standard & Poor's current long-term credit rating is A+ and short-term rating is A1. Moody's Investor Service, Inc's long-term credit rating for Sonera is A2 and short-term rating is P1.

Sonera is currently a party to multicurrency revolving credit facilities in the principal amount of DEM 1,300 million (€665 million) and syndicated and bilateral term loans in the aggregate principal amount of €436 million. In addition, Sonera is a party to certain smaller loan agreements. In March 1999, Sonera established a €1.0 billion Euro Medium Term Note Program, which is listed on the London Stock Exchange, and in April 1999, €300 million was drawn under this facility. In 1999, Sonera also raised long-term bank loans totaling €242 million. Sonera used these long-term facilities to refinance other facilities that were originally used primarily to finance Sonera's equity investments in international telecommunications operators in 1998. See "Item 9A. Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity Risk."

In May 1999, Sonera established a €500 million short-term Euro Commercial Paper program. The credit-rating agencies Standard & Poor's Ratings Group and Moody's Investors Services, Inc. have rated Sonera's euro commercial paper A1 and P1, respectively. Sonera has also established a number of uncommitted domestic commercial paper programs to satisfy its short-term financing needs.

At year end 1999, Sonera had undrawn committed long-term revolving credit facilities of approximately €885 million and cash and short-term investments amounting to €115 million. Management believes that Sonera's cash provided by operations, together with cash and short-term investments and credit facilities, are sufficient to meet its present working capital needs. Sonera may, however, enter into additional financing arrangements to fund capital investments in the future.

To help implement its growth strategy, Sonera has earmarked up to €500 million over the next three years for the further development and commercialization of services and products, including e-commerce solutions, currently being developed by its new services business unit, assuming certain growth targets and other conditions are met. The investment so earmarked is expected to consist primarily of operating expenses, which will not be capitalized. These operating expenditures are expected to be funded primarily from cash provided by operations and capital markets transactions, including possible partial spinoffs of the businesses included within the new services business unit. As part of its growth strategy, Sonera may also make significant investments in mobile and other service providers, or providers of related technology or services, in the future which it expects to fund primarily from cash provided by operations, capital markets transactions and bank debt.

Sonera's total indebtedness was €1,296 million at December 31, 1999 compared to €923 million at December 31, 1998 and €173 million at December 31, 1997. Total indebtedness increased between December 31, 1997, and December 31, 1999, due to increased long-term borrowings principally to finance Sonera's international investments made in 1998 and 1999. Sonera's long-term debt is scheduled to be repaid in 2001 and thereafter. Scheduled repayments of indebtedness and possible prepayments are expected to be financed from cash provided by operating activities and from undrawn committed credit facilities, as well as additional financing arrangements. See Note 12 to Sonera's consolidated financial statements.

As of December 31, 1999, after taking into account Sonera's interest rate swaps and options, approximately 70 percent of Sonera's net indebtedness bore interest based on floating rates and approximately 30 percent bore fixed rates (with interest maturities ranging from 12 months to five years). Sonera's long- and short-term borrowings are primarily arranged by Sonera Corporation and, with limited exceptions, individual subsidiaries may not enter into their own financing arrangements.

As of December 31, 1999, Sonera had outstanding guarantees with respect to €103 million on behalf of its associated companies principally representing guarantees for the debt incurred in connection with the purchase of network equipment by Turkcell and its affiliates. As of December 31, 1999, each of Turkcell's shareholders, including Sonera, had pledged 25 percent of their respective shareholdings in Turkcell as security for the U.S.$ 575 million financing in relation to Turkcell's 25-year GSM license. See Note 16 to Sonera's consolidated financial statements.

Sonera's loan agreements contain certain standard covenant restrictions. As of December 31, 1999, Sonera was in compliance with these requirements.

In December 1998, Sonera entered into a cross-border finance lease-leaseback agreement under which Sonera leased some of its mobile telecommunications network equipment to a group of U.S. equity trusts which simultaneously leased the equipment back to Sonera. The ownership of the equipment, the total book value of which was €151 million and €128 million on December 31, 1998 and 1999, respectively, is retained by Sonera. Both the receivables from the lease and the obligations from the leaseback were settled at the inception of the lease agreements, and Sonera received a net cash consideration of €9 million. Sonera may consider the use of similar specialized financing techniques again in the future. See Notes 13 and 16 to Sonera's consolidated financial statements.

Sonera's net debt-to-book capitalization ratio, calculated as the ratio of total debt less cash and short-term investments to total debt plus shareholders' equity and minority interest was 38.0 percent, 35.2 percent and 1.9 percent as of December 31, 1999, 1998 and 1997, respectively. Sonera's equity-to-assets ratio, calculated as the ratio of shareholders' equity and minority interest to total assets less advances received, was 50.6 percent, 51.5 percent, and 70.9 percent as of December 31, 1999, 1998 and 1997, respectively. The increase in Sonera's net debt-to-book capitalization ratio between December 31, 1998 and December 31, 1999 is attributable to the increase in net debt, primarily to finance equity investments in foreign minority shareholdings. The increase in Sonera's net debt-to-book capitalization ratio and the decrease in equity-to-assets ratio between December 31, 1997 and December 31, 1998 was principally due to significantly higher net debt, mainly to finance equity investments in foreign associated companies and the dividend payment of €132 million made to the Finnish State prior to the partial privatization of Sonera in the form of initial public offering in November 1998.

CAPITAL EXPENDITURES AND INVESTMENTS

The table below sets forth Sonera's capital expenditures and equity investments for the periods indicated:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Capital expenditures	373	351	338
Investments in shares	22	898	410

Capital Expenditures

From 1997 through the end of 1999, Sonera made significant capital expenditures in connection with its mobile and fixed-line networks. Capital expenditures with respect to Sonera's mobile network were used principally to expand the coverage and capacity of the network and to build out its GSM 1800 network.

Capital expenditures with respect to Sonera's fixed-line network are used primarily to fully digitalize the network, to install fiber optic loops in the largest cities in Finland and to update its switching technologies. Capital expenditures for Mobile Communications accounted for 47.2 percent, 47.3 and 43.8 percent of total capital expenditures in 1997, 1998 and 1999, respectively, and capital expenditures for the Fixed Network Voice and Data services accounted for 39.1 percent, 35.9 percent and 34.3 percent of the total capital expenditures in 1997, 1998 and 1999, respectively.

Sonera's annual capital expenditures, including investment in the third generation mobile network, are expected to be approximately €350 million in 2000 and to increase to €400 million per year beginning in 2001. Sonera's capital expenditures relating to its mobile communications operations was €148 million in 1999. Total capital expenditure amounts reflect increased investments in higher capacity data transmission technologies such as ADSL (Asymmetric Digital Subscriber Line), which is a technology that allows for the transfer of data through copper wires at a speeds of up to six Mbps, and VDSL (Very high speed Digital Subscriber Line), which is a technology that allows for the transfer of data through copper wire and fiber optic access lines at speeds of up to 52 Mbps, which enable Sonera to provide additional value-added services, as well as increased expenditures on information technology, offset by an expected decline in capital expenditures with respect to Sonera's traditional mobile and fixed network voice services. Management expects that, beginning in 2000, Sonera will be required to make additional capital expenditures in connection with the provision of applications using GPRS and UMTS technology. However, overall capital expenditures on mobile communications operations for the next few years are expected to remain at the level of €180 million annually. Sonera expects to finance capital expenditures over the next several years from cash flow from operations.

Investments in Shares

As of December 31, 1999, the carrying value of Sonera's equity investments was €1,791 million. Since December 31, 1997, Sonera has made a number of investments which have substantially expanded its total level of investment in international associated companies and other minority shareholdings. In April 1998, Sonera purchased an additional seven percent interest in the share capital of Turkcell from LM Ericsson AB. In July 1998, Sonera acquired an indirect 30.0 percent interest in the share capital of Lietuvos Telekomas, the sole provider of fixed-line telecommunications services in Lithuania, for approximately €238 million. In August 1998, Sonera purchased an additional 4.9 percent interest in the share capital of Pannon from a subsidiary of Tele Denmark A/S for €44 million. In early September 1998, Sonera invested a total of €179 million to acquire an initial interest of 19.4 percent, subject to adjustment, in Aerial Operating Co. Sonera also increased its indirect interest in the share capital of Lattelekom in September 1998 from 13.2 percent to 44.1 percent by purchasing Cable and Wireless plc's interest in Lattelekom for a purchase price of approximately €219 million. In September 1998, Sonera purchased a 27.5 percent indirect interest in Omnitel, the leading provider of mobile telecommunications services in Lithuania, from Motorola, Inc. and the Kazickas family for a purchase price of €78 million. In August 1999, Sonera agreed to acquire a 9.1 percent interest, on a fully diluted basis, in Powertel, a provider of PCS 1900 services in selected markets in the southeastern parts of the United States, for a purchase price of U.S.$123 million (€119 million). The purchase price was paid in September 1999. In November 1999, Sonera made an additional investment in Aerial amounting to U.S.$ 230 million (€218 million).

Sonera financed its additional investments in Powertel and Aerial from cash flow from operations and borrowings under its existing credit facilities. In addition, Sonera may dispose of certain of its assets in the future. Such dispositions may include sales of shares in TietoEnator. In June 2000, Sonera's Board of Directors authorized the sale of a portion of the Turkcell shares held by Sonera B.V. in a public offering of Turkcell. Sonera has announced its intention to sell approximately ten percent of the outstanding Turkcell shares in the offering which is expected to close in July 2000. See "Item 1. Description of Business— International and Other Significant Investments-Mobile Telecommunications Operations-Aerial; and

"Turkcell" and "Item 1. Description of Business—International and Other Significant Investments-Other Investments-TietoEnator."

In 1997, Sonera made aggregate payments of €22 million in connection with capital contributions to Turkcell and LibanCell and the acquisition of Data-Info, a management company for a franchising chain in Finland.

Sonera continuously evaluates potential acquisitions and business opportunities and may, depending, among other things, on the availability and cost of financing, make investments in furtherance of its strategic plans that offer attractive potential for return on investment. See "Item 1. Description of Business—Strategy."

Share Issuance Authority

In March 2000, Sonera's annual general meeting of shareholders authorized the Board of Directors to increase the share capital through a directed issue. Under the authorization, the Board of Directors has the right, within one year of the resolution of the Annual General Meeting passed on March 22, 2000, to increase the share capital through one or more new issues not to exceed 25,000,000 new shares. The authorization includes the right to disapply shareholders' pre-emptive rights to subscribe for new shares, and the right to set the terms of subscription.

The Annual General Meeting of 1999 also authorized Sonera to issue 15,000,000 new shares as a directed issue. The authorization was valid through April 23, 2000. After the purchase of the shares of Across Wireless, the Board of Directors is authorized to issue a maximum of 23,267,945 new shares.

Share Repurchase Authority

In March 2000, Sonera's annual general meeting of shareholders authorized the Board of Directors to repurchase shares of Sonera Corporation. The authorization is valid until March 22, 2001. The maximum number of shares to be repurchased under the authorization is 14,440,000, representing two percent of the total shares of Sonera Corporation. These shares can be used as consideration for Sonera's acquisition of property related to its business, or as consideration for acquisitions in a manner and scope decided on by the Board of Directors. Any shares repurchased will be acquired on the Helsinki Exchanges for the publicly traded price at the time of the acquisition. Any acquisition of shares will reduce Sonera's distributable equity.

On April 26, 2000, the Board of Directors launched a share repurchase program. All acquisitions of shares will be announced in a stock exchange release before the beginning of the following trading day. As of June 15, 2000, Sonera had repurchased 550,000 shares.

INFLATION

Inflation in Finland as measured by the consumer price index during the years ended December 31, 1999, 1998, and 1997 was 1.2, 1.4 percent, 1.2 percent, respectively. During the periods under review, inflation in Finland has not had a significant impact on Sonera's operating results. However, most of Sonera's associated companies operate in countries with rates of inflation higher than that of Finland. Other than Turkey and Russia, in which Sonera's associated companies Turkcell and North-West GSM operate, respectively, none of such countries is currently experiencing hyperinflation. Changes in rates of exchange may or may not reflect differences in rates of inflation, making it difficult to quantify the individual or combined effects of these factors on reported income.

INTRODUCTION OF THE EURO

In the beginning of May 1998, Finland was approved as one of the first 11 European Union member states to join Stage Three of the Economic and Monetary Union from its commencement date. Stage

Three, which commenced on January 1, 1999, involves the eventual replacement of participating countries' national currencies with the euro. The final conversion rates of the euro and the currencies of the member states participating in Stage Three became effective from January 1, 1999. For the Finnish markka, such conversion rate is FIM 5.94573 to one euro. The euro is being introduced as an account currency through a transitional period which began January 1, 1999 and ends December 31, 2001. Beginning on January 1, 2002, euro notes and coins will be introduced and, from July 1, 2002, the euro will be the only means of payment in countries participating in the EMU.

Sonera established a management group in the first quarter of 1997 to analyze and establish guidelines for the conversion to a euro-operating environment. Sonera's EMU management group and several working committees of the group have been analyzing the impact of the euro on a number of aspects of Sonera's business, including corporate finance, accounting, human resources, invoicing, pricing and legal matters. Each of Sonera's operating units has also established its own EMU working group to develop unit-specific strategies and operating plans to convert to a euro-operating environment and to analyze both threats and opportunities created by the introduction of the euro.

Sonera began providing customers with invoices in both euros and Finnish markkas as of January 1, 1999. Sonera began reporting in euros for financial accounting purposes for the financial year that began on January 1, 1999. Sonera also anticipates that it will set and pay its wages and salaries in euros and price its services in euros beginning January 1, 2002. Sonera has not made any provision for the costs to prepare it for conversion to a euro-operating environment, and management is not currently in a position to make an accurate estimate of the amount of such future costs. However, as part of Sonera's year 2000 program and other ongoing systems updates, Sonera is concurrently making the necessary modifications to its existing telecommunications network and information technology software to permit Sonera to bill, invoice and report in euros.

Management does not believe that the euro conversion will have a material competitive impact on Sonera's business operations. However, management does expect Sonera to face pressure from its subscribers to round down charges when publishing price lists in euros, especially with respect to retail price lists.

Sonera is not a party to any derivatives or other financial instruments that will need to be modified or closed out as a result of the euro conversion.

Management believes that the euro conversion will not result in the termination of any of Sonera's operative contracts which are material to its business or enable one party to break or change its contractual obligations. Furthermore, since the fall of 1997 Sonera has been adding a clause to each of the contracts it enters into that provides for a substitution of the contract currency into euros (to the extent applicable) at or prior to the end of the transitional period.

RESULTS OF YEAR 2000 PROGRAM

Sonera experienced no Year 2000 related disruptions to business operations. To prepare for potential Year 2000 related issues, Sonera established its Year 2000 task force in February 1996. The task force was organized into separate teams which covered Sonera's business and administration IT-systems, products and services, telecommunications networks, customer interface (sales, marketing and customer service), legal affairs (agreements and vendor management), risk management, real estate and public relations. Sonera's Year 2000 task force was coordinated by a Year 2000 steering group which consisted of members of Sonera's upper management and a number of Year 2000 specialists.

In 1998, Sonera began changing and upgrading its fixed network switching platform hardware. This work was completed in September 1999. The remaining upgrades of the fixed network and the process of upgrading Sonera's mobile networks with respect to basic services and network components was completed in late 1999.

Although Sonera had little control over the Year 2000 readiness of its customers, suppliers and third party providers, it took appropriate action to determine their level of Year 2000 readiness and the potential impact on Sonera's operations. Year 2000 readiness, including the business continuity of key suppliers and third parties, was assessed by conducting surveys on such items as purchased services, software, hardware and other components. Year 2000 readiness of Sonera's interconnection partners was monitored through participation in European and international telecommunication specific Year 2000 programs, including ETIS AD2000 and ITU. As part of its Year 2000 project, Sonera sent out tens of thousands of letters to customers concerning Year 2000 activities being carried out by Sonera.

Sonera also prepared contingency plans which considered the critical functions of Sonera's business including its products and services, as well as its customer care, finance, telecommunication and IT systems and real estate in its different business divisions. Sonera identified and prepared plans for addressing the most likely Year 2000 risk scenarios in all critical business and telephone network processes, including faults in power supplies, interruptions in telecommunications devices and unexpected errors in products, services and computer systems. Also, as part of its Year 2000 contingency planning, Sonera established special recovery teams to support business continuity before and after January 1, 2000 as needed.

Sonera's Year 2000 project progressed according to plan and within budget. Sonera's total cost for Year 2000 compliance was approximately €15 million including all direct external year 2000 costs related to IT and non-IT items but excluding indirect external and internal costs which were treated as normal business development and maintenance costs. As a part of its normal operating procedure, Sonera will continue to monitor any potential Year 2000 related issues which may arise. Year 2000 related costs in 2000 or beyond, if any, are not expected to be material.

Item 9A. Quantitative and Qualitative Disclosures About Market Risk

General Principles for Financing and Financial Risk Management

Sonera's financing and its financial risks are managed according to directives issued by, and under the control of, Sonera's Board of Directors and its President and Chief Executive Officer. Sonera's financial management operations are centralized in Sonera's Treasury and Corporate Finance functions. Sonera's Treasury operates as Sonera's internal bank, and is responsible for the management of financing and financial risks.

The financial management policy approved by the Board of Directors defines operational principles for the management of Sonera's finances, and the limits for financial risks. Sonera's financial position and financial risks are reported to the Board of Directors on a regular basis. The objectives of the financial risk management policy are to identify financial risks relating to Sonera, including foreign exchange, interest rate, liquidity and credit risks, and to hedge those risks to provide financially stable conditions for the development of Sonera's business.

Derivative financial instruments are used in hedging foreign exchange and interest rate risks. Sonera does not hold positions in derivative instruments for speculative purposes.

Sonera continuously evaluates the market risks of financial assets and liabilities and derivative instruments, and the potential impact of these risks on Sonera's results of operations by comparing the components of Sonera's financial instruments to market values and by estimating the sensitivity of value changes to market factors.

Exchange Rate Risk

Sonera seeks to minimize the effects of exchange rate fluctuations on its results of operations and financial position. Sonera conducts its business mainly in euros.

Changes in exchange rates between the euro (previously, the Finnish markka) and other currencies in which Sonera has receivables, payables or other contractual items generate exchange gains and losses which impact Sonera's results of operations (transaction risk). Under its financial management policy, Sonera hedges all significant transaction risks with forward foreign exchange contracts, currency swaps and options. As of December 31, 1999 and 1998, the post-hedging open transaction risk of Sonera's Finnish companies group was €1 million and €5 million, respectively. A ten percent change in the value of the euro against all other currencies would have had an immediate impact of €0.1 million and €0.5 million on Sonera's net income, assuming that the open transaction exposure would have been at the level of December 31, 1999 and 1998, respectively, and that no new hedging measures would have been taken.

Changes in Sonera's transaction exposure and the related hedging measures after December 31, 1998 are attributable primarily to the introduction of the euro on January 1, 1999. Sonera's long-term borrowings denominated in ECU and German mark effectively became euro denominated loans as of January 1, 1999.

Changes in exchange rates between the euro (previously, the Finnish markka) and other currencies in which Sonera's foreign subsidiaries and associated companies report their results of operations and shareholders' equity to be included in Sonera's consolidated financial statements generate translation differences that affect consolidated shareholders' equity (translation risk). On December 31, 1999, Sonera's pro rata share of shareholders' equity in its non-euro subsidiaries and associated companies was €835 million as compared with €454 million at the end of 1998. During 1997, 1998 and 1999, Sonera did not hedge its translation risks. The decision whether to hedge in each case is made by taking into account the impact of hedging on Sonera's results of operations and cash flows, as well as the circumstances in local currency and capital markets, including the level of interest rates and the liquidity of the market. As of December 31, 1999 and 1998, a ten percent change in the value of the euro against all other currencies would have had an immediate impact of €84 million and € 45 million, respectively, on Sonera's consolidated shareholders' equity, assuming that Sonera's pro rata share of shareholders' equity in its foreign subsidiaries and associated companies would have been at the level of December 31, 1999 and 1998, respectively, and that no new hedging measures would have been taken.

Turkcell and certain other subsidiaries and associated companies in highly-inflationary countries report their financial statements either adjusted for inflation, or in U.S. dollars instead of the local currency.

The following table sets forth a breakdown of Sonera's consolidated shareholders' equity by currency on December 31, 1998 and 1999:

	As of December 31,	
Currency	**1998**	**1999**
	(%)	
Euro	68	54
Turkish lira	11	19
Latvian lat	8	10
US dollar	—	7
Lithuanian lita	6	5
Estonian kroon	2	3
Other currencies	5	2
Total	100	100

Interest Rate Risk

Sonera's net interest-bearing debt as of December 31, 1999 was €1,181 million, consisting of €1,294 million of interest-bearing loans and a €2 million bond loan with warrants issued to Sonera employees, offset by €115 million of cash and short-term investments. Sonera's borrowings and the management of liquid funds are centralized in the Treasury and Corporate Finance functions. With limited exceptions, subsidiaries manage their financing with intra-group loans.

Interest rate risks include cash flow risk (changes in interest income and expenses when interest rates change) and price risk (changes in values of financial instruments when interest rates change). Sonera manages its interest rate risks by diversifying its portfolio of investments and loans in fixed and floating rate instruments, and by using interest rate swaps, interest rate options and forward rate agreements.

The calculation of interest rate risk exposure is based on the interest rate maturities of loans and other financial instruments used. Sonera seeks to minimize the impact of a rise in interest rates, taking into account the prevailing interest rate levels, yield curves and volatilities. In accordance with Sonera's financial management policy, approximately 70 percent of Sonera's net interest-bearing debt on December 31, 1999 had floating interest rates (with interest rate maturities less than 12 months) and approximately 30 percent had fixed interest rates (with interest rate maturities ranging from 12 months to five years).

The average interest rate for Sonera's interest-bearing debt, including the impact of hedging measures, was 3.75 percent and 3.7 percent on December 31, 1999 and 1998, respectively. A parallel change of one percentage point in the level of interest rates would have had an impact of approximately €8 million and €5 million on the annual net interest expense, assuming that Sonera's net interest-bearing debt were to remain at the level of December 31, 1999 and 1998, respectively, and that no new hedging measures were taken.

Liquidity Risk

Liquidity risks relate to the availability of sufficient funding for debt service, dividend payment, capital expenditure and working capital requirements. Sonera seeks to minimize its liquidity risks by maintaining sufficient cash flow from operations, by having sufficient financing reserves, and by distributing the maturities of its loan portfolio across different years.

In accordance with its financial management policy, Sonera seeks to maintain its liquidity position (i.e., cash and short-term investments and committed long-term undrawn credit facilities less borrowings maturing within the next 12 months) at the level of at least €350 million. On December 31, 1999, Sonera's liquidity position totaled approximately €828 million. Additionally, Sonera has a €500 million euro commercial paper program and uncommitted domestic commercial paper programs for short-term financing needs.

The following table sets forth maturities of long-term drawn-down loans and undrawn committed credit facilities on December 31, 1999 as well as amounts drawn and undrawn under such long-term loans and facilities:

Maturities	Drawn down	Undrawn	Total
	(in € millions)		
Fall due by December 31, 2000	—	—	—
Fall due by December 31, 2001	104	600	704
Fall due by December 31, 2002	2	61	63
Fall due by December 31, 2003	219	114	333
Fall due by December 31, 2004	183	83	266
Fall due by December 31, 2005	107	27	134
Fall due by December 31, 2006	31	—	31
Fall due by December 31, 2007	31	—	31
Fall due by December 31, 2008	117	—	117
Fall due by December 31, 2009	330	—	330
Total	1,124	885	2,009

In January 1999, Sonera received long-term and short-term corporate credit ratings which management believes will enable the diversification of Sonera's borrowings geographically, among different investors, and across a wider range of instruments. In January 1999, Standard & Poor's Ratings Group assigned an AA- long-term rating and an A1+ short-term rating to Sonera. In December 1999, Standard & Poor's lowered Sonera's long-term and short-term credit ratings from their previous levels to A+ and A1, respectively, due to Sonera's announcement in September that it had agreed on making additional investments in Aerial and VoiceStream. Moody's Investors Services, Inc.'s long-term credit rating for Sonera, which was initially given in January 1999 and confirmed in September 1999, is A2, and the short-term rating is P1.

Credit Risk

Financial instruments are subject to the risk that counterparties may be unable to meet their contractual commitments. Investments in financial instruments, including short-term investments of excess cash, long-term investments in debt securities and loans receivable, as well as the use of derivative instruments, are centrally managed by the Treasury, and are limited to such counterparties and amounts as are approved by the Board of Directors.

The credit risk with respect to Sonera's trade receivables is diversified among a large number of customers, both private individuals and companies in various industries. Exposure to credit loss and subscriber fraud is actively monitored on a daily basis. Sonera's credit monitoring includes processing current credit information on subscribers from third-party sources. Bad debt expense in relation to consolidated revenues was 0.6 percent, 0.4 percent and 0.3 percent in 1997, 1998 and 1999, respectively.

Fair values of derivative financial instruments

The following table presents the carrying values and fair values for derivative financial instruments, using exchange and interest rates current at the indicated balance sheet date. While the contract amounts presented for derivative instruments illustrate the scope of Sonera's hedging activities, they do not necessarily represent amounts exchanged by the parties and, when considered separately, are not a measure of Sonera's risk exposure.

	As of December 31, 1998				As of December 31, 1999			
	Contract amount	Carrying value	Fair value	Average maturity	Contract amount	Carrying value	Fair value	Average maturity
	(in € millions)			(months)	(in € millions)			(months)
Forward selling of foreign exchange								
USD	39	—	(2)	2	43	(2)	(2)	2
SEK	1	—	—	—	19	—	—	5
HKD	14	—	—	—	—	—	—	—
Other currencies	1	—	—	—	—	—	—	—
Forward buying of foreign exchange								
USD	—	—	—	—	61	3	2	2
DEM	576	—	—	—	—	—	—	—
ECU	194	(1)	—	—	—	—	—	—
Currency swaps—sell								
SEK	2	—	—	1	—	—	—	—
Interest rate swaps								
Euribor	244	—	(3)	32	604	7	(15)	69
Purchased interest rate options								
Cap options, Euribor	—	—	—	—	120	1	3	38

For the carrying values and fair values of derivative instruments, a positive value represents receivable and a negative value represents liability.

Item 10. Directors and Officers of Registrant

SUPERVISORY BOARD

Sonera is managed by the Board of Directors and the President of Sonera Corporation under the supervision of its Supervisory Board.

The Supervisory Board is required to consist of 15 to 24 members. Each member is elected by the shareholders for a term of three years. The Supervisory Board is organized into three classes, each consisting of one-third of the members and elected separately on consecutive years. A person may not be elected to the Supervisory Board after having reached the age of 67 years.

The Supervisory Board is responsible for the supervision of Sonera's management and ensuring that Sonera's affairs are carried out in accordance with sound business principles and taking into account profitability, in compliance with the articles of association of Sonera Corporation and according to shareholder resolutions. The Supervisory Board may direct the Board of Directors and the President on issues of principal and long-term importance. In addition, the Supervisory Board is required to issue a statement for the Annual General Meeting of shareholders on Sonera Corporation's annual accounts, annual consolidated accounts and the auditors' report. The Supervisory Board is also required to issue a statement to the general meeting of shareholders on such reports of the Board of Directors as must be annexed to a proposal of the Board of Directors to issue new shares, or to authorize the Board of Directors to issue new shares, convertible bonds, option loans or warrants or to enter into a merger or demerger agreement.

The present members of the Supervisory Board and their respective years of birth, years of current term expiration, number of shares owned by them as of June 15, 2000 and principal occupations are as follows:

Name	Year Born	Current Term Expires	Shares Owned	Principal Occupation
Pauli Saapunki, Chairman	1945	2003	200	Member of Parliament
Pirjo-Riitta Antvuori, Vice Chairman	1945	2003	—	Member of Parliament
Tuomas Harpf	1957	2001	—	Managing Director, Suomen Viestintärahoitus Oy
Arja Alho	1954	2001	—	Master of Political Science
Reino Ojala	1945	2001	—	Special Advisor
Helena Vartiainen	1941	2001	—	Chairman of City Council
Tarja Cronberg	1943	2001	—	Executive Director, Council of North Karelia region
Tapio Hintikka	1942	2001	—	President and CEO, Oyj Hackman Abp
Raimo Kantola	1955	2001	—	Professor, Helsinki University of Technology
Tarmo Eskola	1945	2002	1,102	IT Director, UPM-Kymmene Corporation
Ritva Rastimo	1939	2002	430	Managing Director, Espoo Chamber of Commerce
Max Mickelsson	1970	2002	50	Secretary General for the Parliamentary Group of the National Coalition Party
Erik Lindfors	1946	2002	—	Secretary, Metal Workers' Union
Max Arhippainen	1963	2002	—	Senior Economist, Pellervo Economic Research Institute
Bjarne Kallis	1945	2002	602	Member of Parliament
Liisa Hyssälä	1948	2003	60	Member of Parliament
Olavi Tonteri	1944	2003	60	Colonel, Finnish Defense Forces
Mauri Salo	1946	2003	402	Member of Parliament
Lasse Viren	1949	2003	—	Member of Parliament
Leenamaija Otala	1951	2003	450	Docent, Pro Competence Oy

BOARD OF DIRECTORS

The Board of Directors has general responsibility for the management of Sonera in accordance with law and the articles of association of Sonera Corporation. The Board of Directors is composed of the Chairman, the Vice Chairman and between three and seven members, who may be no more than 65 years of age. Currently, the Board of Directors consists of a Chairman, a Vice Chairman and five members including two employee representatives. The employee representatives have the status of regular members of the Board of Directors with certain exceptions. The Chairman of the Supervisory Board has a right to be present at the meetings of the Board of Directors. Members of the Board of Directors are elected by the Annual General Meeting of shareholders for one year terms.

The present members of the Board of Directors, their respective years of birth, their respective years of nomination, number of Sonera's shares owned by them as of June 15, 2000, and their positions are as follows:

Name	Year Born	Director Since	Shares Owned	Shares Pursuant to Stock Options	Position
Markku Talonen . . .	1946	1998	1,732	110,000	Chairman
Liisa Joronen	1944	1998	5,823	—	Vice Chairman
Kalevi Alestalo . . .	1947	1998	1,825	—	Director
Jussi Länsiö	1952	2000	—	—	Director
Reijo Sulonen	1945	1998	880	—	Director
Tapio Vaahtokivi . .	1942	1998	817	1,000	Director, employee representative
Kari Vilkman	1951	1998	869	1,000	Director, employee representative

Markku Talonen has been the Chairman of the Board of Directors since 1998, and, prior to the demerger, was the Chairman of the Board of Directors of PT Finland. Pursuant to a resolution passed at the March 22, 2000 annual general meeting of Sonera's shareholders, he assumed the chairmanship on a full-time basis effective June 16, 2000. See "Item 11. Compensation of Directors and Officers." Mr. Talonen was the President and Chief Executive Officer of Orion Corporation. Mr. Talonen holds a Licentiate of Science degree in Engineering.

Liisa Joronen has been the Vice Chairman of the Board of Directors since 1998, and, prior to the demerger, was a member of the Board of Directors of PT Finland. In addition, Ms. Joronen is the Chairman of the Board of Directors of SOL Corporation and a member of the Supervisory Boards of Merita Bank and Ilmarinen Mutual Pension Insurance Company. Ms. Joronen holds a Master of Science degree in Economics and a Doctor of Philosophy degree in Pedagogics.

Kalevi Alestalo has been a member of the Board of Directors since 1998. Mr. Alestalo is the Consultant Counselor of the Ministry of Transport and Communications. He holds a Master of Science degree in Political Sciences (economics).

Jussi Länsiö was elected to the Board of Directors at the Annual General Meeting held on March 22, 2000. Mr. Länsiö is the Managing Director of Oyj Hartwall Abp. He holds a Bachelor of Science degree in Economics.

Reijo Sulonen has been a member of the Board of Directors since 1998, and, prior to the demerger, was a member of the Board of Directors of PT Finland. Mr. Sulonen serves as a professor at the Helsinki University of Technology. Mr. Sulonen holds a Doctor of Philosophy degree in Engineering.

Tapio Vaahtokivi has been an employee representative in the Board of Directors since 1998, and, prior to the demerger, was an employee representative in the Board of Directors of Telecom Finland. Mr. Vaahtokivi is the Chairman of Telecommunications Union, a labor union for telecommunications employees. He holds a Bachelor of Science degree in Engineering.

Kari Vilkman has been an employee representative in the Board of Directors since 1998, and, prior to the demerger, was an employee representative in the Board of Directors of Telecom Finland. Mr. Vilkman holds a Technician's degree in Telecommunications.

CORPORATE MANAGEMENT GROUP

The Management Group of Sonera consists of the President and Chief Executive Officer and the executive officers of Sonera Corporation. The Management Group of Sonera assists the President and Chief Executive Officer of Sonera Corporation in the management and coordination of the implementation of Sonera's strategic and operational goals. The present members of the Management Group, their respective years of birth, years in which they first joined Sonera (or any of our predecessor companies), number of Sonera's shares and stock options owned by them as of June 15 and their positions are as follows:

Name	Year Born	Year First Joined	Shares Owned	Shares Pursuant to Stock Options	Position
Aulis Salin	1938	1962	12,730	75,000	President and Chief Executive Officer
Aimo Eloholma	1949	1974	12,143	45,000	Executive Vice President
Harri Hollmén	1949	2000	—	—	Executive Vice President
Kim Ignatius	1956	2000	—	25,000	Executive Vice President and Chief Financial Officer
Jari Jaakkola	1961	1997	5,000	40,000	Executive Vice President
Kaj-Erik Relander	1962	1994	3,000	55,000	Executive Vice President
Juha Varelius	1963	1993	2,413	55,000	Executive Vice President

Aulis Salin is the President and the Chief Executive Officer of Sonera. Mr. Salin joined Sonera in 1962 and he has held positions in various departments. He holds a Master of Laws degree and a Master of Science degree in Engineering. Mr. Salin is scheduled to retire on January 1, 2001.

Aimo Eloholma is the Executive Vice President of the newly formed Telecom area. Mr. Eloholma joined Sonera in 1974 and he has held a number of positions in various fields of operation within Sonera including data communications, business development and sales and marketing. He holds a Master of Science degree in Engineering.

Harri Hollmén has been the Executive Vice President responsible for Sonera Plaza since April 10, 2000. Prior to joining Sonera, Mr. Hollmén was the chief executive officer of the Leonia Group. He holds a Master of Laws degree.

Kim Ignatius has been an Executive Vice President and the Chief Financial Officer of Sonera since April 1, 2000. Prior to joining Sonera in April 2000, Mr. Ignatius was the chief financial officer and a member of the executive board of Tamro Corporation, a Nordic pharmaceutical distributor and healthcare group. He holds a Bachelor of Science degree in Economics.

Jari Jaakkola is the Executive Vice President of corporate communications and investor relations. Prior to joining Sonera in 1997, Mr. Jaakkola was the director of corporate communications at Metsä-Serla Corporation. He holds a Bachelors of Arts degree.

Kaj-Erik Relander is the Executive Vice President of Sonera's Mobile and Media area and acting Chief Financial Officer through March 31, 2000. Prior to joining Sonera in 1994, Mr. Relander worked for SITRA, a Finnish private equity fund. He holds a Master of Science of Economics and a Masters of Business Administration degree. Mr. Relander has been appointed by the Board of Directors to assume the position of President and Chief Executive Officer of Sonera commencing on January 1, 2001.

Juha Varelius has been the Executive Vice President responsible for Sonera Services since April 1, 2000. Mr. Varelius joined Sonera in 1993. He holds a Masters of Science degree in Economics.

The business address of each member of the Supervisory Board, the Board of Directors, the President and Chief Executive Officer of Sonera Corporation and each member of our Management Group is c/o Sonera Corporation, Teollisuuskatu 15, FIN-00510 Helsinki.

Auditors

Pursuant to its articles of association, Sonera Corporation is required to have one to three auditors. Auditors are elected by the shareholders annually. Each auditor must be authorized by the Finnish Central Chamber of Commerce or a public accounting corporation authorized by the Finnish Central Chamber of Commerce. Sonera's auditors are Jorma Heikkinen, Authorized Public Accountant, and KPMG Wideri Oy Ab, independent accountants, with Solveig Törnroos-Huhtamäki, Authorized Public Accountant as the chief auditor. KPMG Wideri Oy Ab was elected as Sonera's auditors at the April 23, 1999 Annual General Meeting of shareholders and re-elected at the Annual General Meeting of March 22, 2000. Prior thereto Tilintarkastajien Oy-Ernst & Young, independent accountants, with Jorma Jäske as the responsible auditor, were Sonera's auditors.

In addition, the Board of Directors voted on March 6, 2000 to create an Audit Committee comprised of four members, and established guidelines under which the Audit Committee would operate. The current members of the Audit Committee are Liisa Joronen, Kalevi Alestalo, Jussi Länsiö and Markku Talonen, as chairman. The Audit Committee was chartered in June 2000.

Employment Agreements

Members of the Management Group and other executive officers have entered into employment agreements with Sonera, which, among other things, provide standard employment terms, including compensation and termination provisions. Pursuant to such agreements, executive officers receive a base salary and are eligible for a performance related bonus on an annual basis. In addition, all executive officers receive certain fringe benefits. Pursuant to these employment agreements, employment can typically be terminated upon six months' notice after which each executive remains subject to a confidentiality requirement and non-competition clauses. Retirement age for the members of the management team is between 60 and 65.

Item 11. Compensation of Directors and Officers

The aggregate compensation of members of the Supervisory Board, the Board of Directors, the President and the Executive Vice Presidents of Sonera for the year ended December 31, 1999, was approximately €3.1 million. Part of the aggregate compensation to the President and executive Vice Presidents was paid in the form of annual bonuses which were paid pursuant to Sonera's executive incentive program. The executive incentive program is based on Sonera's performance and provides executive officers and certain key employees with annual incentive payments based upon Sonera's financial results for the most recent financial year in comparison to past performance and budgeted performance targets. Members of the Supervisory Board and Board of Directors are paid a monthly fee and a fee for attending meetings of the Supervisory Board and the Board of Directors. At the annual meeting of Shareholders held March 22, 2000, Sonera's shareholders resolved that effective June 16, 2000, the Chairmanship of the Board of Directors will be a full-time position and the Chairman will be an executive officer of Sonera. In connection with this change, the Chairman of the Board of Directors will be paid a monthly fee of FIM 250,000 and will be entitled to participate in the incentive schemes available to Sonera's management and employees as applicable. Markku Talonen and Kalevi Alestalo were elected to the Compensation Committee that was established by the Board of Directors in February 1999 and were re-elected to the Compensation Committee at the meeting of the Board of Directors held on March 28, 2000.

Item 12. Options to Purchase Securities from Registrant or Subsidiaries

In April 1999, Sonera's annual general meeting approved a proposal by the Board of Directors to establish a 1999 equity incentive program to be offered to Sonera's personnel and to its wholly-owned subsidiary Telibra Oy consisting of a bond loan with warrants attached. The subscription period for the bond loan with warrants concluded on May 21, 1999. The bond portion of the loan with warrants carries no interest and matures on June 1, 2001.

There are two classes of warrants attached to the bond loan. Class A warrants are exercisable during the period from June 1, 2001 through June 30, 2005 at a price of €15.32 minus dividends distributed after May 1999 but prior to the subscription of shares, and Class B warrants are exercisable during the period from June 1, 2003 through June 30, 2005 at a price of €28.08 minus dividends distributed after October 1999 but prior to the subscription of shares. The warrants entitle the holders to subscribe to a maximum of 15,000,000 shares in the aggregate, which represent approximately two percent of the total share capital of Sonera Corporation.

The warrants may not be exercised, however, unless certain objective financial criteria are met. Employees who leave Sonera prior to June 1, 2000, with respect to Class A warrants and June 1, 2003 with respect to Class B warrants, other than due to retirement or death, will forfeit their right to exercise such warrants.

The 1999 equity incentive program was subscribed for by a total of 5,326 people, or about 60 percent of Sonera's personnel. Of the total bond loan amount of €2.5 million, approximately €1.6 million was directed at the personnel and the remainder was directed at Sonera's wholly-owned subsidiary Telibra Oy, which may later offer the bond loan with warrants to persons employed by Sonera or to persons Sonera seeks to recruit. As of March 31, 2000, there were 10,110,500 of warrants outstanding under the 1999 equity incentive plan. Management is currently not able to determine whether the performance measures associated with the share subscription rights will be met.

At the annual general meeting held March 22, 2000, Sonera's shareholders approved the proposal of the Board of Directors to establish a 2000 equity incentive program consisting of a bond loan with warrants attached to be offered to Sonera's personnel and to Telibra Oy, which may later offer the bond loan with warrants to persons employed by Sonera or to persons Sonera seeks to recruit. The warrants attached to the loan entitle the holders to subscribe to a maximum of 20,000,000 shares in the aggregate. The subscription period for the bond loan with warrants attached is from May 15, 2000 to June 30, 2000. Subscriptions for the bond loan with warrants are subject to the approval of Sonera's Board of Directors. The bond portion of the loan with warrants carries no interest and matures on June 1, 2002.

There are three classes of warrants attached to the bond loan. The share subscription period associated with Class A, Class B and Class C warrants will begin on November 2, 2002, May 2, 2003 and May 2, 2004 respectively. The share subscription period will end on June 31, 2008 for all three classes of warrants subscribed for in connection with the original issue. The exercise price in connection with the original issue of the warrants to participating employees and for warrants transferred by Telibra Oy to Sonera personnel on or before December 31, 2000 is expected to be €72.90 per share, the average price of a Sonera Corporation share during the period beginning February 1, 2000 and ending April 28, 2000. The share subscription price is subject to the approval of Sonera's shareholders. For warrants transferred by Telibra Oy after December 31, 2000, the share subscription price will be the average price of a Sonera Corporation share during the months of November and December immediately preceding the transfer if the transfer occurs between January 1 and June 30 or the average price of a Sonera Corporation share during the months of May and June immediately preceding the transfer if the transfer occurs between July 1 and December 31. The warrants may not be exercised, however, unless certain objective financial criteria are met. Employees who leave Sonera prior to November 2, 2002, November 2, 2003 or November 2, 2004 with respect to Class A, Class B and Class C warrants respectively, other than due to retirement of death, forfeit their right to exercise such warrants. There are currently no warrants outstanding under the 2000 equity incentive plan.

Item 13. Interest of Management in Certain Transactions

Not applicable.

PART II

Item 14. Description of Securities to be Registered

Not applicable.

PART III

Item 15. Defaults Upon Senior Securities

None.

Item 16. Changes in Securities and Changes in Security for Registered Securities and Use of Proceeds

None; not applicable.

PART IV

Item 17. Financial Statements

The Company has elected to provide financial statements for fiscal year 1999 and the related information pursuant to Item 18.

Item 18. Financial Statements

Reference is made to Item 19 for a list of all financial statements filed as a part of this Annual Report on Form 20-F.

Item 19. Financial Statements and Exhibits

(a) Financial Statements

The following financial statements together with the reports of the independent accountants are filed as part of this Annual Report on Form 20-F:

(b) The following document is filed as an exhibit of this Annual Report on Form 20-F.

1. Articles of Association of Sonera Corporation, as amended to date (English translation).

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements
of Sonera Corporation and subsidiaries
as of and for the years ended
December 31, 1997, 1998 and 1999

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Sonera Corporation

We have audited the consolidated balance sheets of Sonera Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Finland, which are substantially the same as those generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sonera Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the two years then ended in conformity with generally accepted accounting principles in Finland.

Generally accepted accounting principles in Finland vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected results of operations for the years ended December 31, 1999 and 1998, and shareholders' equity as of December 31, 1999 and 1998, to the extent summarized in Note 21 to the consolidated financial statements.

Helsinki, Finland
February 22, 2000 except for Note 21 as
to which the date is April 18, 2000

KPMG WIDERI OY AB

Solveig Törnroos-Huhtamäki
Authorized Public Accountant

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Sonera Corporation

We have audited the consolidated balance sheet of Sonera Corporation and subsidiaries as of December 31, 1997, and the related consolidated statements of income and cash flows for the year ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and Finland. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sonera Corporation and subsidiaries as of December 31, 1997, and the consolidated results of their operations and their cash flows for the year ended December 31, 1997 in conformity with generally accepted accounting principles in Finland.

Generally accepted accounting principles in Finland vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected consolidated net income for the year ended December 31, 1997 and consolidated shareholders' equity as of December 31, 1997 to the extent summarized in Note 21 to the consolidated financial statements.

Helsinki, Finland
October 13, 1998 except for Notes 19 and 21 as
to which the date is August 12, 1999

TILINTARKASTAJIEN OY - ERNST & YOUNG

Jorma Jäske
Authorized Public Accountant

SONERA CORPORATION AND SUBSIDIARIES

Consolidated Income Statements

	Note	As of December 31, 1997	1998	1999
		€	€	€
			(in millions, except shares and per share amounts)	
Revenues	(19)	1,352	1,623	1,849
Other operating income	(2)	18	24	45
Operating expenses:	(3)			
Cost of sold equipment and materials		(100)	(116)	(142)
Services bought		(313)	(367)	(431)
Personnel expenses		(257)	(309)	(340)
Rental expenses		(39)	(40)	(47)
Other operating expenses		(172)	(228)	(266)
Total operating expenses		(881)	(1,060)	(1,226)
Depreciation and amortization	(4)	(204)	(261)	(281)
Write-downs on fixed assets	(4)	—	(37)	—
Operating profit		285	289	387
Equity income in associated companies	(9)	19	59	110
Financial income and expenses	(5)	5	(2)	—
Profit before income taxes and minority interest		309	346	497
Income taxes	(6)	(89)	(94)	(126)
Minority interest		—	(1)	(1)
Net income		220	251	370
Earnings per share	(7)	0.31	0.35	0.51
Average number of shares (1,000)		720,000	720,247	722,000
Cash dividends per share		0.05	0.18	0.08

Amounts have been restated from Finnish markka into euros using the fixed exchange rate as of January 1, 1999 which was € 1.00 = FIM 5.94573.

The accompanying notes are an integral part of these Consolidated Financial Statements.

SONERA CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	Note	As of December 31, 1997	1998	1999
		€	€ (in millions)	€
ASSETS				
Fixed assets and other long-term investments	(8)			
Intangible assets		42	53	69
Property, plant and equipment				
Land		13	15	17
Buildings		121	125	114
Machinery and equipment		57	70	95
Telecommunications networks		847	835	858
Other tangible assets		15	32	45
Advances paid and construction in progress		37	46	30
		1,090	1,123	1,159
Long-term investments and receivables				
Investments in associated companies	(9)	206	1,148	1,637
Other shares and holdings	(20)	47	54	154
Long-term loans receivable		40	29	35
		293	1,231	1,826
Total fixed assets and other long-term investments		1,425	2,407	3,054
Current assets				
Inventories	(10)	15	22	36
Receivables				
Trade accounts receivable		217	271	335
Loans receivable		38	1	19
Prepaid expenses and accrued income		24	16	42
Other receivables		2	4	8
		281	292	404
Cash and short-term investments				
Short-term investments		101	36	77
Cash and cash equivalents		44	57	38
		145	93	115
Total current assets		441	407	555
TOTAL ASSETS		1,866	2,814	3,609

Amounts have been restated from Finnish markka into euros using the fixed exchange rate as of January 1, 1999 which was € 1.00 = FIM 5.94573.

The accompanying notes are an integral part of these Consolidated Financial Statements.

SONERA CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	Note	As of December 31, 1997	1998	1999
		€	€ (in millions)	€
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	(11)			
Share capital		303	304	310
Share premium fund		—	13	13
Additional paid-in capital		511	511	505
Accumulated currency translation adjustment		2	(12)	55
Retained earnings		276	357	548
Net income for the year		220	251	370
		1,312	1,424	1,801
Minority interest		—	12	14
Total shareholders' equity and minority interest		1,312	1,436	1,815
Non-current liabilities				
Long-term debt	(12)	171	788	1,124
Deferred tax liability	(6)	58	76	95
Other long-term liabilities	(13)	28	15	20
		257	879	1,239
Current liabilities				
Current debt	(12)	2	135	172
Advances received		14	16	11
Trade accounts payable		139	187	194
Accrued expenses and prepaid income		139	158	172
Other current liabilities		3	3	6
		297	499	555
Total liabilities		554	1,378	1,794
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,866	2,814	3,609

Amounts have been restated from Finnish markka into euros using the fixed exchange rate as of January 1, 1999 which was € 1.00 = FIM 5.94573.

The accompanying notes are an integral part of these Consolidated Financial Statements.

SONERA CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year ended December 31,		
	1997	1998	1999
	€	€ (in millions)	€
Operating activities			
Net income	220	251	370
Depreciation, amortization and write-downs on fixed assets	204	298	281
Net loss (gain) on disposal of fixed assets and business operations	—	4	(24)
Equity income in associated companies	(19)	(59)	(110)
Dividends received from associated companies	5	9	14
Deferred taxes	13	18	18
Other adjustments to cash	(5)	(4)	(28)
Change in working capital, net of acquisitions and disposals			
Decrease (increase) in inventories	2	(7)	(14)
Increase in non-interest bearing receivables	(43)	(43)	(108)
Increase in non-interest bearing liabilities	78	41	43
Cash provided by operating activities	455	508	442
Investing activities			
Capital expenditures	(373)	(351)	(338)
Acquisitions of subsidiaries, net of cash acquired	(1)	(2)	(9)
Investments in associated companies	(16)	(860)	(266)
Investments in other shares and holdings	(5)	(36)	(135)
Proceeds from sale of fixed assets	8	12	7
Proceeds from sale of subsidiaries, net of cash disposed	—	—	2
Proceeds from sale of associated companies	7	3	2
Proceeds from sale of other shares and holdings	1	—	10
(Increase) decrease in long-term loans receivable	(18)	4	(1)
(Increase) decrease in current loans receivable	(37)	38	(2)
(Increase) decrease in short-term investments	(97)	66	(41)
Cash used in investing activities	(531)	(1,126)	(771)
Financing activities			
Withdrawals of long-term debt	169	617	545
Repayments of long-term debt	—	—	(210)
(Decrease) increase in current debt	(38)	133	35
Equity issue	—	14	—
Dividends paid	(38)	(132)	(61)
Cash provided by financing activities	93	632	309
Effect of exchange rate changes on cash and cash equivalents	1	(1)	1
Net increase (decrease) in cash and cash equivalents	18	13	(19)
Cash and cash equivalents at beginning of year	26	44	57
Cash and cash equivalents at end of year	44	57	38

Amounts have been restated from Finnish markka into euros using the fixed exchange rate as of January 1, 1999 which was € 1.00 = FIM 5.94573.

The accompanying notes are an integral part of these Consolidated Financial Statements.

1. Accounting policies

Description of business

Sonera Corporation (the "Parent Company") and its subsidiaries (together, "Sonera", the "Company" or the "Group") provide a wide range of telecommunication services to residential and business customers, primarily in Finland. Sonera's major lines of business include mobile communications services, media communications and new services, fixed network domestic and international voice and data services, media communication services, and other services relating to the Group's operations, including equipment sales and construction and maintenance services. Sonera currently generates over 95 percent of its consolidated revenues from sales to customers in Finland. Sonera has also significant minority shareholdings in mobile and fixed network telecommunications operators abroad.

Basis of presentation

The Consolidated Financial Statements include the financial statements of Sonera Corporation and its subsidiaries. The predecessor entity of Sonera Corporation was incorporated under the name of Telecom Finland Ltd on January 1, 1994, when the operations of Posts and Telecommunications of Finland, the Finnish national postal and telecommunications authority, were separated into Telecom Finland Ltd and Finland Post Ltd. Both companies were wholly-owned subsidiaries of the state-owned management holding company PT Finland Ltd. On July 1, 1998, PT Finland Ltd demerged into two state-owned management holding companies, Sonera Group plc and Finland Post Group Ltd (the "Demerger"). On September 30, 1999, Sonera Group plc was merged with its principal operating subsidiary Sonera Ltd, and was renamed Sonera Corporation.

The Consolidated Financial Statements for the years ended December 31, 1997 and 1998 have been prepared by separating the telecommunications related businesses from the audited consolidated financial statements of PT Finland Ltd, and presenting the results of operations, financial position and cash flows of such businesses as if they had formed a separately reporting consolidated group with the same structure as that of Sonera subsequent to the Demerger, already during the year ended December 31, 1997 and during the first six months of 1998. The accompanying Consolidated Income Statements for the years ended December 31, 1997 and 1998 include allocations of certain corporate costs and expenses of PT Finland Ltd. Although such costs may not necessarily be indicative of the costs that would have been incurred by Sonera on a stand-alone basis, management believes that the resulting amounts are reasonable. See also Note 15 to the Consolidated Financial Statements.

The Consolidated Financial Statements have been prepared in accordance with Finnish generally accepted accounting principles ("Finnish GAAP"), as stipulated in the Finnish Accounting Act 1336/1997. Finnish GAAP and accounting principles adopted by Sonera differ in certain respects from accounting principles generally accepted in the United States ("U.S. GAAP"). See Note 21 to the Consolidated Financial Statements for a discussion of the principal differences between Finnish GAAP and U.S. GAAP that would affect Sonera's consolidated net income and shareholders' equity if U.S. GAAP had been applied instead of Finnish GAAP in the preparation of the Consolidated Financial Statements.

The Consolidated Financial Statements are presented in millions of euros, except for share and per share amounts. The Consolidated Financial Statements for all periods presented were prepared in Finnish markka ("FIM"), and have been restated into euros using the fixed exchange rate effective as of January 1, 1999 which was €1.00 = FIM 5.94573. The Consolidated Financial Statements for all periods presented depict the same trends as would have been presented if the Company had continued to present consolidated financial statements in FIM. However, the Consolidated Financial Statements of the Company for

1. Accounting policies (Continued)

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 FIM.

The Consolidated Financial Statements are prepared under the historical cost convention. Estimates and assumptions used by management in preparing these Consolidated Financial Statements were determined using the most recent and accurate information available. Actual results could differ from those estimates.

Principles of consolidation

The Consolidated Financial Statements include the accounts of Sonera Corporation and those companies in which it holds, directly or indirectly through subsidiaries, over 50 percent of the shares and voting rights.

The companies acquired or established during the financial period have been consolidated from the month of acquisition or formation. The companies disposed of during the financial period have been consolidated up to the month of disposal.

All intercompany transactions and balances are eliminated as part of the consolidation process. Minority interests in earnings and shareholders' equity are presented separately in the income statement and balance sheet.

Acquisitions of companies are accounted for by using the purchase method. The cost of acquired shares is allocated to the fair values of acquired assets and liabilities. The remaining difference is carried as goodwill on consolidation and amortized over its estimated useful life, generally not exceeding 10 years.

Earnings in companies in which Sonera has significant influence (associated companies) are included in the consolidated accounts in accordance with the equity method of accounting. Generally, Sonera is considered to have significant influence when it holds 20 to 50 percent of the shares and voting rights. Additionally, Aerial Operating Co., Inc. is treated as an associated company, since Sonera deems to have significant influence in the company due to having two members of the board of directors of the company, a right to participate in the monthly management operations review meetings of Aerial that discuss the results of operations and future plans, and a right to increase its interest in the company to 20 percent, at Sonera's option. Additionally, Sonera has significant influence over the technical operations of Aerial through having four Sonera employees in positions of responsibility at Aerial, of whom one is a member of Aerial's management group and responsible for Aerial's product development activities. Any goodwill arising from the acquisition of shares in associated companies is included in the carrying value of investments in associated companies and amortized over estimated useful life, generally not exceeding 10 years.

Shareholdings which are not treated as subsidiaries or associated companies are carried at cost or at a written-down amount, and only dividends received are included in the consolidated income statement.

Foreign currency translation

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of transaction. At the end of the accounting period, unsettled foreign currency balances are translated at the closing rate on the balance sheet date. Foreign exchange gains and losses on trade accounts receivable and payable are credited or charged to revenues and operating expenses, respectively. In relation to revenues

1. Accounting policies (Continued)

and operating expenses, these exchange gains and losses are insignificant. Other foreign exchange gains and losses are recorded as financial income and expenses.

All receivables and payables on December 31, 1998, which were denominated in currencies of the euro zone were translated into Finnish markka at the fixed exchange rates effective as of January 1, 1999, and the resulting exchange gains and losses were recognized as realized gains and losses for the year ended December 31, 1998.

The income statements of foreign subsidiaries are translated into Finnish markka at the average exchange rates for the accounting period, and the balance sheets are translated at the closing rate at the balance sheet date.

All translation differences arising from the consolidation of foreign subsidiaries and associated companies are credited or charged directly to retained earnings.

Derivative financial instruments

The business operations of Sonera give rise to certain exposure to risks related to interest rates and foreign currency. These risks are managed to minimize their impact on Sonera's profitability and financial position.

Sonera considers its derivative financial instruments to be hedging instruments when certain criteria are met:

- For an interest rate derivative instrument to qualify as a hedge, the instrument must

    (a) relate to an asset or a liability, or to a portfolio of assets and liabilities; and

    (b) change the character of the interest rate by converting variable rate to a fixed rate or by converting fixed rate to a variable rate.

- For a foreign currency derivative instrument to qualify as a hedge, the instrument must

    (a) be related to a foreign currency asset, liability or firm commitment, or a portfolio of assets, liabilities and firm commitments, the characteristics of which have been identified;

    (b) involve the same currency as the hedged item; and

    (c) reduce the risk of foreign currency exchange movements on Sonera's operations.

Derivative financial instruments are not used for speculative purposes.

Interest rate swaps

Interest rate swap agreements that are designated as hedges of a debt obligation are accounted for on an accrual basis. That is, the interest payable and interest receivable under the swap terms are accrued and recorded as an adjustment to the interest expense of the designated liability.

Amounts due from and payable to the counterparties of interest rate swaps are recorded on an accrual basis at each reporting date based on amounts computed by reference to the respective interest rate swap contract. Realized gains and losses that occur from the early termination or expiration of contracts are recorded in income over the remaining period of the original swap agreement.

1. Accounting policies (Continued)

Forward exchange contracts and currency swaps

Gains and losses on forward exchange contracts and currency swaps that are designated and effective as hedges of firm commitments are deferred and recognized in income or as adjustments of carrying amounts when the hedged transaction occurs. The interest component determined at the inception of contracts is accrued as interest income or expense over the contract term.

Interest rate and foreign currency options

Gains and losses on interest rate and foreign currency options that are designated and effective as hedges of firm commitments are deferred and recognized in income or as adjustments of carrying amounts when the hedged transaction occurs. Option premiums are recorded as an asset or liability and amortized over the life of the option.

Fixed assets and other long-term investments

The balance sheet values of fixed assets are stated at historical cost, less accumulated depreciation and amortization. Construction costs include directly allocable costs and an appropriate allocation of material and production overheads. Production overhead does not include general and administrative expenses. Interest is not capitalized on fixed assets.

The cost of assets received from Posts and Telecommunications of Finland upon the incorporation of Telecom Finland Ltd on January 1, 1994 was equal to the carrying value of transferred assets on the December 31, 1993 balance sheet of the former government authority. The carrying values of assets transferred did not exceed fair values of those assets on January 1, 1994.

Depreciation and amortization is calculated on a straight-line basis over the expected useful lives of the assets, except for land, which is not depreciated. Estimated useful lives for various assets are:

Intangible rights	3–10 years
Goodwill	5–10 years
Other intangible assets	3–10 years
Buildings	15–40 years
Machinery and equipment	3–13 years
Telecommunications networks	4–20 years
Other tangible assets	3–10 years

Sonera reviews its fixed assets and long-term investments for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in which case the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows, on an undiscounted basis, is less than the carrying amount of the asset, a write-down is recognized in an amount by which the asset's carrying value exceeds the sum of the expected future cash flows.

Long-term investments and receivables include financial assets which are intended to be held for over one year. Marketable equity securities are stated at the lower of cost or market. Marketable debt securities are stated at amortized cost when intended to be held to maturity, or at the lower of cost or market when available for sale.

1. Accounting policies (Continued)

Leased assets

Sonera leases certain equipment to its customers under capital lease terms. These lease transactions are accounted for as a sale of asset and an incurrence of an interest-bearing receivable. Sonera considers a lease agreement to qualify as a capital lease when one or more of the following criteria are met:

(a) the lease term is equal to 75 percent or more of the estimated economic life of the leased equipment;

(b) the present value at the beginning of the lease term of the minimum lease payments is 90 percent or more of the fair value of the leased equipment;

(c) the lease contains a bargain purchase option; or

(d) the lease transfers ownership of the equipment to the lessee by the end of the lease term.

Sonera does not currently hold any significant assets under capital lease terms. Assets held under operating leases are not recorded on the balance sheet, and the lease payments are charged to income as incurred.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined either using the first-in, first-out method or the average cost method.

Cash and short-term investments

Cash and cash equivalents include cash on hand, cash in banks and in time deposits with a maturity of less than three months, as well as other highly liquid funds equivalent to cash money, with a maturity of less than three months.

Short-term investments include equity securities as well as time deposits and other debt securities for which the intended holding period generally is less than one year. Marketable debt and equity securities are stated at the lower of cost or market.

Revenues

Revenues include revenue from services and goods sold, adjusted for discounts granted, sales-related taxes and the effects of foreign exchange rate differences.

Revenues from connection fees (including the price of SIM cards) that are received from the sale of new subscriptions are recognized at the time of sale to the extent of direct costs incurred. Direct costs incurred in connection with mobile connection revenues consist primarily of the first payment of distributor commission, costs for credit check, cost of the SIM card, and the cost of the printed new customer information package. For the fixed line connection revenues, the direct costs consist primarily of installation work and the cost of a printed telephone directory given to each new subscriber. To date direct costs associated with connection fees (including the price of SIM cards) have exceeded such revenues. Therefore no connection revenues have been deferred.

Revenues from monthly subscription charges are recognized for the month that they relate to. Traffic revenues and interconnection revenues are recognized based on actual traffic.

1. Accounting policies (Continued)

Other revenues are recognized when services are rendered, or when goods are delivered to the customer, and the earnings process is complete. Sonera has no significant long-term contract deliveries.

Research and development

All costs relating to research and development activities are expensed as incurred. Research and development expenditure was approximately €45 million, €52 million and €64 million for the years ended December 31, 1997, 1998 and 1999, respectively.

Maintenance, repairs and renewals

Maintenance and repair costs are expensed as incurred. Costs from any major improvement or renovation that extend the useful life of an asset are capitalized as part of the carrying value of the asset. Costs from leasehold improvements of rental premises are capitalized as intangible assets and amortized over 10 years or, if shorter, over the lease term.

Pension plans and coverage of pension liabilities

The statutory pension benefits as well as certain additional pension benefits for most of the personnel in Finland are funded through the PT Pension Fund. Sonera is responsible for ensuring that its pension liabilities are sufficiently funded at all times. Liability for the additional pension benefits is fully funded. Liability for the statutory pension benefits is also entirely funded, except for the amount to be paid in future years under the Temporary Reduction in Insurance Premiums Act. Under the Finnish regulations, the funding requirements are based on book value, not fair value, of the assets held by the pension fund.

Sonera makes monthly contributions to the PT Pension Fund at the end of each month and records those contributions as expenses. Other than amounts accrued for the next contribution payable, Sonera does not record liabilities for pensions as the Company has transferred all such funds to the PT Pension Fund.

The statutory pension liabilities of certain minor Finnish subsidiaries are funded through pension insurance. Subsidiaries outside Finland have various pension schemes in accordance with the local requirements and practices. The schemes are generally funded through payments to insurance companies.

Personnel expenses

Personnel expenses include all personnel expenses accrued for each year related to the production of services, sales and marketing, research and development, as well as general administration.

Personnel costs attributable to the construction of telecommunications networks have been capitalized as part of the carrying value of network assets.

Commissions paid to distributors

Sonera pays the distributors of Sonera's GSM subscriptions a sign-up commission per subscription. The commission received by the distributor is divided into five payments, the timing of which are dependent, among other things, on the accumulated traffic produced by the new subscriber and on the timely payment of monthly subscription charges of the new subscriber.

1. Accounting policies (Continued)

The first payment of commission is a fixed amount and is earned by the distributor at the time of sale of a new subscription, and is charged to expense accordingly.

The second, third and fourth payments of commission are also fixed amounts. However, they are earned by the distributor at specific points in time if the subscription remains active. The expense for these payments is accrued ratably over such periods of time.

The fifth payment of commission is a fixed amount that is earned by the distributor if a specific accumulation of traffic by the subscriber is achieved. The fifth payment is accrued based on the actual traffic. If the accumulation of traffic does not exceed the milestone the distributor receives no payment at all.

Once conditions for the payment have been met, amounts will be paid to the distributor and are not subject to refund.

Other operating income and expenses

Other operating income includes income from business activities outside ordinary service production, such as rental income and gains from the sale of fixed assets and other long-term investments, as well as fees charged on collection of overdue receivables.

Other operating expenses include expenses not directly related to the production of services, such as expenses for marketing efforts, expenses for research and development, and other expenses related to general administration. Additionally, losses from the disposition of fixed assets and other long-term investments are reported within other operating expenses.

All advertising costs are expensed as incurred. Advertising expenses were approximately €15 million, €22 million and €37 million for the years ended December 31, 1997, 1998 and 1999, respectively.

Provisions for contingent losses

Provisions are made for identified contingent losses of which the future realization is probable and of which the amount can be reasonably estimated. Provisions are reported as non-interest bearing liabilities in the balance sheet. Sonera did not have any material provisions for contingent losses during the years ended December 31, 1997, 1998 and 1999.

Untaxed reserves

In Finland and certain other countries, companies are allowed to reduce or increase taxable income by charges or credits representing adjustments to untaxed reserve accounts, provided that such amounts are reflected in the company's financial statements and accumulated as untaxed reserves in the balance sheet. The major part of Sonera's untaxed reserves relates to the accumulated tax depreciation of telecommunications networks exceeding the accumulated depreciation in financial statements.

On consolidation, all allocations to untaxed reserves in the accounts of individual Group companies are presented as retained earnings, net income and a related deferred tax component on an aggregate basis. Under the Finnish Companies Act, untaxed reserves presented as retained earnings are not included when calculating the maximum amount of distributable funds.

1. Accounting policies (Continued)

Income taxes

Income taxes consist of current and deferred taxes. Current taxes in the income statement include estimated taxes payable or refundable on tax returns for the financial year, as well as adjustments to tax accruals related to previous years.

Deferred tax liabilities or assets are recognized for the future tax consequences of events that have been recognized in financial statements or tax returns, based on the tax laws and tax rates that have been enacted by the balance sheet date. Deferred tax liabilities are recognized at their full amounts, and deferred tax assets at estimated realizable amounts. The deferred taxes in the income statement represent the net change during the year in deferred tax liabilities and assets.

Dividends

In Finland, dividends are generally only payable annually and only after shareholder approval of the company's annual financial statements and of the amount proposed by the board of directors.

Dividends proposed by the Board of Directors have not been recorded as a liability in the Consolidated Financial Statements. Only after the annual general meeting has approved the annual financial statements and the amount of dividends, the amount is deducted from retained earnings.

Consolidated statement of cash flows

The statement of cash flows presents the annual cash flows classified as cash flows from operating, investing and financing activities, arriving at the change in cash and cash equivalents for the period.

The consolidated statement of cash flows has been prepared in accordance with the indirect method by adjusting net income to reconcile it with cash flow from operating activities.

2. Other operating income

Other operating income consists of the following:

	Year ended December 31,		
	1997	1998	1999
		(in € millions)	
Rental income	4	3	3
Gains from sales of business operations and shares			
Avancer Oy (30% associated company)	1	—	—
Belgian, Dutch and German voice businesses	—	4	—
P Plus Communications Limited (28.5% associated company)	—	1	—
Mobicentrex business (100% subsidiary Abacus Solutions Oy)	—	—	15
Axxon Telecom B.V. (40% associated company)	—	—	3
Star Telecom International Holding Limited (4.5%)	—	—	4
Other sales of businesses and shares	—	—	2
Gains from sales of fixed assets	3	2	1
Fees charged on collection of overdue receivables	9	9	11
Other items	1	5	6
Total	18	24	45

In December 1999, Sonera sold its wholly-owned subsidiary Abacus Solutions Oy (Mobicentrex business), which is specialized in telephone exchange services for mobile communications, to the Swedish company Trio AB. In exchange for shares in Abacus Solutions Oy, Sonera received 21 percent of shares in Trio AB, and recorded a capital gain of €15 million on the transaction. Trio AB's share is quoted on the Stockholm Stock Exchange.

3. Operating expenses and number of personnel

Information regarding operating expenses is as follows:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Cost of sold equipment and materials	100	116	142
Services bought			
Payments to other operators for use of networks	170	227	295
Payments for other external services[a]	143	140	136
	313	367	431
Personnel expenses[b]			
Wages and salaries	204	248	279
Pension expenses	26	30	29
Other personnel expenses	27	31	32
	257	309	340
Rental expenses	39	40	47
Other operating expenses			
Losses from disposition of fixed assets and other long-term investments	4	6	1
Other operating expenses[c]	168	222	265
	172	228	266
Total operating expenses	881	1,060	1,226

(a) Other external services relate to the repair and maintenance of telecommunications network, and to other subcontracting services bought in the process of generating services provided to the customers.

(b) Personnel costs attributable to the construction of telecommunications networks have been capitalized as part of the carrying value of networks. Capitalized personnel costs totaled €23 million, €17 million and €19 million for the years ended December 31, 1997, 1998 and 1999, respectively. Fees and salaries paid to members of the Supervisory Board, members of the Board of Directors, President and CEO of Sonera Corporation, and Managing Directors and board members of the subsidiaries totaled €1.7 million, €2.7 million and €3.1 million for the years ended December 31, 1997, 1998 and 1999, respectively.

(c) Other operating expenses include expenses not directly related to the production of services, such as expenses for marketing efforts, expenses for research and development, and other expenses related to the general administration.

Number of personnel is as follows:

	As of or for the year ended December 31,		
	1997	1998	1999
Average number of personnel during the period	7,967	8,609	9,270
Number of personnel at the end of the period	8,290	9,068	9,512

4. Depreciation, amortization and write-downs

Depreciation, amortization and write-down expenses consist of the following components:

	Year ended December 31,		
	1997	1998	1999
		(in € millions)	
Depreciation and amortization			
Intangible rights	4	6	8
Goodwill	2	3	7
Other long-term expenses	1	3	3
Buildings	7	9	9
Machinery and equipment	18	29	34
Telecommunications networks	170	206	211
Other tangible assets	2	5	9
	204	261	281
Write-downs			
Buildings	—	3	—
Telecommunications networks	—	34	—
	—	37	—
Total	204	298	281

As a consequence of a significant reduction in the number of subscribers to Sonera's analog NMT services during the latter part of 1998, a write-down of €34 million on certain assets related to Sonera's NMT networks was recorded for the year ended December 31, 1998.

5. Financial income and expenses

The components of financial income and expenses, net, are as follows:

	Year ended December 31,		
	1997	1998	1999
		(in € millions)	
Dividend income	2	5	21
Interest income			
On long-term loans receivable	3	3	4
Other interest income	3	9	10
Other financial income	1	2	6
Interest expense	(4)	(19)	(40)
Other financial expenses	(1)	(1)	(1)
Exchange gains (losses)	1	(1)	—
Total	5	(2)	—

Dividend income includes dividends received from shareholdings which are not accounted for as subsidiaries or associated companies. Dividend income mainly consists of dividends received from LibanCell S.A.L. for €2 million, €3 million and €3 million during the years ended December 31, 1997, 1998

5. Financial income and expenses (Continued)

and 1999, respectively, and €2 million and €18 million received from investments in venture capital funds during the years ended December 31, 1998 and 1999.

6. Income taxes

The domestic and foreign components of profit before income taxes and minority interest are as follows:

	Year ended December 31,		
	1997	1998	1999
		(in € millions)	
Finland	304	313	435
Other countries	5	33	62
Total	309	346	497

The components of income taxes are as follows:

	Year ended December 31,		
	1997	1998	1999
		(in € millions)	
Current tax expense	76	76	108
Deferred tax expense	13	18	18
Total	89	94	126

The differences between income tax expense computed at Finnish statutory tax rate (28 percent) and income tax expense recorded in income statement are as follows:

	Year ended December 31,		
	1997	1998	1999
		(in € millions)	
Hypothetical income tax expense at Finnish tax rate	86	97	139
Non-deductible expenses and tax exempt income	1	—	(7)
Use of cost provisions and tax loss carryforwards	—	(5)	(1)
Operating losses outside Finland with no deferred tax benefit recognized	4	7	5
Difference between Finnish tax rate and tax rate for associated companies	(2)	(5)	(12)
Prospective change of Finnish tax rate to 29 percent on January 1, 2000	—	—	3
Other items	—	—	(1)
Income tax expense in the income statement	89	94	126

6. Income taxes (Continued)

The components of net deferred tax asset (liability) in the balance sheet consist of the following tax consequences from temporary differences:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Deferred tax assets			
Tax loss carryforwards	7	15	37
Less valuation allowance	(7)	(15)	(29)
Investments in associated companies	17	17	17
Accrued expenses	4	1	3
	21	18	28
Deferred tax liabilities			
Property, plant and equipment	(73)	(78)	(80)
Investments in associated companies	(4)	(15)	(41)
Other items	(2)	(1)	(1)
	(79)	(94)	(122)
Net deferred tax liability	(58)	(76)	(94)

Sonera had tax loss carryforwards, mainly attributable to foreign subsidiaries, of €19 million, €47 million and €110 million on December 31, 1997, 1998 and 1999, respectively. Most of the tax loss carryforwards have no expiration.

Sonera has recognized a deferred tax asset for its tax loss carryforwards and established a valuation allowance against this amount. That determination was based upon an analysis of "more likely than not" criterion applied to each tax jurisdiction. The Company determined the amount of the valuation allowance based upon the weight of all available evidence, both positive and negative, including consideration of reversing taxable temporary differences in each tax jurisdiction as well as available tax planning strategies. The valuation allowance was established for tax loss carryforwards that exceeded the amount of reversing taxable temporary differences in certain tax jurisdictions outside Finland due to the following:

- history of operating losses generated by companies in those separate tax jurisdictions, primarily due to the start-up nature of the operations;
- lack of evidence that profits will be generated by those operations in the foreseeable future; and
- expenditures, which will result in further losses, to be made by those companies to develop media and new service businesses.

Based on this information the Company determined that it is not "more likely than not" that certain deferred tax assets will be realized related to these tax loss carryforwards.

Deferred tax liability has been provided for the undistributed earnings in foreign associated companies because Sonera may not be able to control the timing of dividend payments out of those earnings. The amount of deferred tax liability is equal to the withholding tax burden of possible dividend payments, the rate of which varies from country to country.

6. Income taxes (Continued)

Deferred tax liability has not been provided on undistributed earnings of Finnish associated companies since dividends between Finnish companies are effectively tax exempt.

Deferred tax liability has not been provided on undistributed earnings of foreign subsidiaries because such amounts are deemed to be permanently invested abroad. As of December 31, 1997, 1998 and 1999, Sonera had retained profits of €2 million, €15 million and €17 million, respectively, in its foreign subsidiaries. The deferred tax liability for the retained profits would have been less than € 1 million for all periods presented.

7. Earnings per share

Earnings per share amounts are calculated as follows:

	Year ended December 31,		
	1997	1998	1999
Net income (in € millions)	220	251	370
Average number of shares issued and outstanding (in thousands)	720,000	720,247	722,000
Earnings per share (€)	0.31	0.35	0.51

Immediately after the Demerger, the Company had a total of 180,000,000 shares issued and outstanding. After two consecutive share splits carried out in July and September 1998, the Company had a total of 720,000,000 shares issued and outstanding. Earnings per share amounts have been calculated as if the number of shares had been 720,000,000 also for all the periods before the Demerger and the share splits.

In November 1998, the Company issued 2,000,000 new shares in an employee offering. The weighted average number of shares for the years ended December 31, 1997, 1998 and 1999 was 720,000,000, 720,246,575 and 722,000,000, respectively.

In May 1999, the Company issued an employee bond loan with warrants. The fully diluted weighted average number of shares for the year ended December 31, 1999 was 723,233,765. The dilutive effect on earnings per share for the year ended December 31, 1999 would have been less than €0.01.

According to Finnish GAAP, earnings per share exclude extraordinary items. During the years ended December 31, 1997, 1998 and 1999, no extraordinary items were reported.

8. Fixed assets and other long-term investments

Intangible assets consist of the following:

	As of December 31,		
	1997	1998	1999
	(in € millions)		
Intangible rights	17	29	40
Goodwill	9	7	12
Other intangible assets	16	17	17
Total	42	53	69

8. Fixed assets and other long-term investments (Continued)

Intangible rights primarily consist of licenses, lease rights and patents. Other intangible assets primarily relate to the costs of leasehold improvements on rental premises.

Changes in fixed assets and other long-term investments during the year ended December 31, 1999 include the following:

	Historical cost on January 1, 1999	Capital expenditure and other additions	Disposals and other decreases	Accumulated depreciation on December 31, 1999	Carrying value on December 31, 1999
			(in € millions)		
Intangible rights	45	21	(6)	(20)	40
Goodwill	15	13	(3)	(13)	12
Other intangible assets	23	7	(2)	(11)	17
Total intangible assets	83	41	(11)	(44)	69
Land	15	2	—	—	17
Buildings	164	8	(15)	(43)	114
Machinery and equipment	144	63	(14)	(98)	95
Telecommunications networks	1,746	235	(9)	(1,114)	858
Other tangible assets	42	21	(1)	(17)	45
Advances paid and construction in progress	46	21	(37)	—	30
Total property, plant and equipment	2,157	350	(76)	(1,272)	1,159
Investments in associated companies	1,148	492	(3)	—	1,637
Other shares and holdings	54	147	(47)	—	154
Long-term loans receivable	29	7	(1)	—	35
Total long-term investments and receivables	1,231	646	(51)	—	1,826
Total fixed assets and other long-term investments	3,471	1,037	(138)	(1,316)	3,054

9. Investments in associated companies

Sonera's significant associated companies as of December 31, 1999, consist of the following:

Company name	Percent of ownership	Month of acquisition	As of December 31, 1999 Cost of shares	Remaining goodwill	Carrying value
	(%)			(in € millions)	
Turkcell Iletisim Hizmetleri A.S.	41.0	June 1993	122	36	381
Aerial Communications, Inc.[a]	19.7	September 1998	397	229	323
Pannon GSM Rt.	23.0	October 1993	71	55	73
Latvijas Mobilais Telefons SIA	24.5	October 1991	—	—	19
UAB Omnitel	27.5	September 1998	78	61	80
North-West GSM ZAO	23.5	June 1993	4	—	10
AS Eesti Telekom[b]	24.5	December 1992	19	(1)	49
Lattelekom SIA	44.1	January 1994	211	135	290
AB Lietuvos Telekomas	30.0	July 1998	238	139	231
TietoEnator Corporation[c]	20.3	October 1996	135	59	130
724 Solutions Inc.[d]	22.0	August 1999	23	9	16

(a) Sonera made an additional investment in the company in November 1999, together with the majority owner. Sonera's investment was U.S.$230 million (€218 million).

(b) In connection with the privatization of AS Eesti Telekom, Sonera subscribed shares in the company for €9 million. In March 1999, Sonera exchanged its 24.5 percent interest in AS Eesti Mobiiltelefon and AS Eesti Telefon into a 24.5 percent interest in the parent company AS Eesti Telekom.

(c) In July 1999, Sonera's 26.8 percent interest in Tieto Corporation changed into a 20.3 percent interest in TietoEnator Corporation, upon the merger of Tieto Corporation with Enator AB. Previously, Sonera also had a 4.99 percent interest in Enator AB.

(d) Sonera acquired its 22 percent interest in 724 Solutions Inc. in August 1999.

All companies in the above table are accounted for by using the equity method of accounting. Sonera amortizes goodwill in its investments in associated companies straight-line over estimated useful life, generally not exceeding ten years.

Differences between carrying and fair values of the publicly quoted associated companies are presented in Note 18 to the Consolidated Financial Statements.

9. Investments in associated companies (Continued)

Total investments in associated companies and the changes therein include the following:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Investments in associated companies at cost:			
Historical cost of shares on January 1	163	175	1,088
Additions	16	918	319
Disposals	(4)	(5)	(7)
Historical cost of shares on December 31	175	1,088	1,400
Equity adjustment to investments in associated companies:			
Accumulated equity adjustment on January 1	4	31	60
Translation difference	6	(11)	70
Dividends received during the year	(5)	(9)	(14)
Disposals	(1)	(3)	11
Losses adjusted to loans receivable	8	—	—
Tieto Corporation repurchase and retirement of shares	—	(5)	—
Other changes	—	(2)	—
Equity income in associated companies	19	59	110
Accumulated equity adjustment on December 31	31	60	237
Carrying value of investments in associated companies on December 31	206	1,148	1,637

The following table presents certain summarized financial information for Sonera's associated companies:

	As of or for the year ended December 31,		
	1997	1998	1999
	(in € millions)		
Revenues	985	1,845	4,077
Operating profit	181	391	754
Profit before extraordinary items and taxes	142	223	501
Net income	106	204	456
Non-current assets	1,195	2,915	5,148
Current assets	187	1,001	1,686
Total assets	1,382	3,916	6,834
Shareholders' equity	635	1,344	3,018
Minority interest	—	—	14
Non-current liabilities	537	1,846	2,357
Current liabilities	210	726	1,445

9. Investments in associated companies (Continued)

Sonera's share of net income and shareholders' equity are presented in the Consolidated Income Statement and Consolidated Balance Sheet as follows:

	As of or for the year ended December 31,		
	1997	1998	1999
	(in € millions)		
Sonera's share of net income	27	94	188
Amortization of goodwill and other eliminations	(8)	(35)	(78)
Equity income in associated companies	19	59	110
Sonera's share of shareholders' equity	132	474	913
Unamortized goodwill and other eliminations	74	674	724
Carrying value of investments in associated companies	206	1,148	1,637

10. Inventories

Inventories consist of the following:

	As of December 31,		
	1997	1998	1999
	(in € millions)		
Equipment and materials	14	21	35
Other inventories	—	1	1
Advances paid for inventories	1	—	—
Total	15	22	36

11. Shareholders' equity

Changes in shareholders' equity for the years ended December 31, 1997, 1998 and 1999 are as follows:

	Share capital	Share premium fund	Additional paid-in capital	Accumulated currency translation adjustment	Retained earnings	Total
			(in € millions)			
January 1, 1997	303	—	511	(5)	314	1,123
Dividends paid	—	—	—	—	(38)	(38)
Currency translation adjustment	—	—	—	7	—	7
Net income for the year	—	—	—	—	220	220
December 31, 1997	303	—	511	2	496	1,312
Equity issue	1	13	—	—	—	14
Dividends paid	—	—	—	—	(132)	(132)
Currency translation adjustment	—	—	—	(14)	—	(14)
Tieto Corporation repurchase and retirement of shares	—	—	—	—	(5)	(5)
Other changes	—	—	—	—	(2)	(2)
Net income for the year	—	—	—	—	251	251
December 31, 1998	304	13	511	(12)	608	1,424
Bonus issue	6	—	(6)	—	—	—
Dividends paid	—	—	—	—	(61)	(61)
Currency translation adjustment	—	—	—	67	—	67
Other changes	—	—	—	—	1	1
Net income for the year	—	—	—	—	370	370
December 31, 1999	310	13	505	55	918	1,801

Basis of presentation

The Company's share capital, additional paid-in capital and retained earnings for January 1 and December 31, 1997 have been presented as to comply with the outcome from the Demerger, which took place on July 1, 1998. See also Note 1 to the Consolidated Financial Statements.

Share capital and share premium fund

Immediately after the Demerger on July 1, 1998, the Company had a total of 180,000,000 shares issued and outstanding, nominal value of FIM 10 each. Two consecutive share splits were carried out in July and September 1998, after which the Company had a total of 720,000,000 shares issued and outstanding, nominal value of FIM 2.50 each (approximately €0.42 each). Share capital totalled FIM 1,800 million (€303 million) after the Demerger.

In the employee offering carried out in November 1998, the Company issued 2,000,000 new shares for a price of FIM 40.50 (€6.81) each. The price of shares issued to the employees was equal to 90 percent of the price at which the Finnish State sold part of its shares to other investors. New shares were registered on November 17, 1998. FIM 5 million (€0.8 million) of the proceeds from the offering were recorded as share capital and FIM 76 million (€12.8 million) were recorded to the share premium fund. On December 31,

11. Shareholders' equity (Continued)

1998, the number of shares issued and outstanding was 722,000,000, and the amount of share capital was FIM 1,805 million (€304 million).

In January 1999, share capital was redenominated in euro and the nominal value of shares was abolished. In May 1999, the accountable par value of the share was increased to exactly 43 cents through a bonus issue by transferring the corresponding amount from additional paid-in capital to share capital. On December 31, 1999, the number of shares was 722,000,000 and share capital was €310,460,000.

Under the Company's Articles of Association, the Company's authorized share capital may not be less than €309.6 million or more than €1,238.4 million. The issued share capital may be increased or decreased within these limits through a resolution by a general meeting of shareholders, without amendment to the Articles of Association.

Additional paid-in capital

Additional paid-in capital is classified as unrestricted shareholders' equity and can be used for dividend distribution or for other purposes resolved by a general meeting of shareholders.

Dividend payments

Dividend payments for the years ended December 31, 1997 and 1998 represent Sonera's share of the cash dividends paid by PT Finland Ltd. The total cash dividends paid by PT Finland Ltd to the Finnish State were €54 million and €185 million during the years ended December 31, 1997 and 1998, respectively.

As of January 1, 2000, Sonera will declare and pay dividends in euros. Past dividends have been declared and paid in Finnish markka.

Distributable funds

On a consolidated level, retained earnings include untaxed reserves which the Finnish Companies Act classifies as undistributable earnings. On a consolidated basis, the shareholders' equity available for distribution on December 31 was as follows:

	As of December 31,		
	1997	1998	1999
		(in € millions)	
Retained earnings	496	608	918
Less untaxed reserves in retained earnings	(172)	(186)	(185)
Other undistributable retained earnings	—	—	(1)
Distributable retained earnings	324	422	732
Accumulated currency translation adjustment	2	(12)	55
Additional paid-in capital	511	511	505
Total distributable funds	837	921	1,292

The Finnish Companies Act restricts dividend distribution to the lower of distributable funds of the Parent Company and distributable funds of the Consolidated Balance Sheet. The distributable funds of the Parent Company Sonera Corporation were €651 million, €674 million and €1,139 million on December 31, 1997, 1998 and 1999, respectively.

11. Shareholders' equity (Continued)

Untaxed reserves in the consolidated retained earnings relate to accelerated tax depreciations in Sonera's Finnish Group companies and consist of the following:

	As of December 31,		
	1997	1998	1999
	(in € millions)		
Accelerated tax depreciation			
Intangible rights	2	4	5
Other long-term expenses	1	1	2
Buildings	9	14	15
Machinery and equipment	9	9	5
Telecommunications networks	215	226	226
Other tangible assets	2	5	8
Total accelerated tax depreciation	238	259	261
Deferred tax liability on untaxed reserves	(66)	(73)	(76)
Untaxed reserves included in retained earnings	172	186	185

12. Long-term and current debt

Long-term debt consists of the following on December 31:

	As of December 31,		
	1997	1998	1999
	(in € millions)		
Loans from financial institutions	154	771	822
Pension loans	17	17	—
Euro Medium Term Note	—	—	300
Employee bond loan with warrants	—	—	2
Total	171	788	1,124

Maturities of long-term debt on December 31, 1999, are as follows:

	Loans from financial institutions	Euro Medium Term Note	Employee bond loan with warrants	Total
	(in € millions)			
Due in 2000	—	—	—	—
2001	102	—	2	104
2002	2	—	—	2
2003	219	—	—	219
2004	183	—	—	183
Due thereafter	316	300	—	616
Total	822	300	2	1,124

Long-term borrowing is primarily arranged by Sonera Corporation, and, with limited exceptions, individual subsidiaries may not enter into their own financing arrangements.

12. Long-term and current debt (Continued)

Loans from financial institutions

Long-term loans from financial institutions consist of the following:

	As of December 31,		
	1997	1998	1999
	(in € millions)		
Due in 2001; €100 million syndicated term loan; variable interest rate based on LIBOR (3.26 percent on December 31, 1999)	—	100	100
Due in 2003; €50 million term loan; variable interest rate based on Euribor (3.27 percent on December 31, 1999)	—	50	50
Due in semiannual installments in 2002-2004; DEM 300 million (€153 million) syndicated revolving credit facility; variable interest rate based on LIBOR	153	153	—
Due in semiannual installments in 2003-2005; DEM 1,000 million (€511 million) syndicated revolving credit facility; variable interest rate based on LIBOR (3.49 percent on December 31, 1999)	—	419	380
Due in 2008; €44 million term loan; variable interest rate based on LIBOR (3.70 percent on December 31, 1999)	—	44	44
Due in 2008; €42 million term loan; variable interest rate based on Euribor (3.70 percent on December 31, 1999)	—	—	42
Due in semiannual installments in 2003-2009; €200 million term loan; variable interest rate based on EIB reference rate (3.31 percent on December 31, 1999)	—	—	200
Due in varying amounts through 2003; subsidiary's U.S.$5 million bank loan; variable interest rate based on LIBOR (6.49 percent on December 31, 1999)	—	4	5
Other long-term loans from financial institutions drawn down by subsidiaries	1	1	1
	154	771	822

Interest rates presented in the above table do not include any effects from the hedging measures. The DEM 300 million and DEM 1,000 million revolving credit facilities carry a commitment fee of 0.0625 percent of the undrawn amount.

Other long-term loans

In October 1997, Sonera borrowed €17 million from the PT Pension Fund, due in one installment in 2002. The fixed interest rate of the loan was 5.5 percent. Sonera repaid the loan prematurely in May 1999.

In April 1999, Sonera issued a €300 million Note that was offered to international investors under the €1.0 billion Euro Medium Term Note Program established in March 1999. The Note has a maturity of 10 years and a coupon interest of 4.625%. The issue price of the Note was 99.272%.

In May 1999, Sonera issued a €2 million employee bond loan with warrants. The bond part is equal to FIM 500 (€84.09) for each 500 warrants. The bond carries no interest and will be repaid on June 1, 2001.

Current debt

As of December 31, 1997, there were no material short-term borrowings.

Current debt amount of €135 million on December 31, 1998 primarily related to the use of U.S.$400 million short-term revolving credit facility, which was extended in December 1998 and was due in

12. Long-term and current debt (Continued)

June 1999. On December 31, 1998, €118 million had been drawn down under the short-term facility. Current debt on December 31, 1998 also included €17 million of short-term borrowings under the domestic commercial paper programs. The average interest rate of Sonera's short-term borrowings was 3.4 percent on December 31, 1998. There were no interest rate hedging instruments related to current debt as of December 31, 1998.

Current debt amount of €172 million on December 31, 1999 primarily consists of €71 million borrowings under the domestic commercial paper programs and €100 million under the Euro Commercial Paper Program. Other current debt was €1 million. The average interest rate of Sonera's short-term borrowings was 4.3 percent on December 31, 1999 (3.4 percent after hedging).

To secure its liquidity, Sonera also signed in December 1999 a €600 million 364-day standby facility that includes a six-month rollover option. As of December 31, 1999, the facility was fully undrawn.

13. Other long-term liabilities

Other long-term liabilities consist of the following:

	As of December 31,		
	1997	1998	1999
	(in € millions)		
Advances received	—	9	11
Basic subscriptions issued	17	—	—
Provision for year 2000 costs	11	4	—
Other long-term liabilities	—	2	9
Total	28	15	20

Advances received primarily relate to a cross-border finance lease-leaseback agreement entered into in December 1998. At the inception of the lease agreements, Sonera received a net cash consideration of U.S.$11 million (€9 million) which will be recognized in income over the term of the lease agreements. See also Note 16 to the Consolidated Financial Statements.

Sonera has previously issued fixed network subscriptions ("basic subscriptions") which entitled holders to lower monthly fees. In contrast with the practices of local telephone companies in Finland, the basic subscriptions issued by Sonera did not entitle the subscriber to any ownership interest in the Company. The basic subscription basically functioned as a customer deposit. Cash was paid in by the subscriber for which they received a lower monthly fee. Funds were held by Sonera and returned to the subscriber at the end of the subscription period. In June 1998, Sonera determined that the basic subscriptions would be redeemed by March 31, 1999. As of December 31, 1998, €16 million had been paid for the redemption of basic subscriptions (97 percent of all basic subscriptions), and the remaining redemption liability was presented as a current liability.

Since 1996, Sonera has been taking steps to ensure efficient running of telecommunications in the year 2000 and beyond. Based on the first estimate in 1996, a cost provision of €8 million was recorded to cover all major incremental expenses incurred from the year 2000 compliance program. Additional provisions of €5 million and €2 million were recorded in 1997 and 1998, respectively, to reflect revised cost estimates. Actual expenses charged against the provision were €2 million, €9 million and €4 million during the the years ended December 31, 1997, 1998 and 1999, respectively.

14. Supplemental cash flow information

The following is a summary of non-cash financing and investing activities:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Acquisitions of subsidiaries:			
Non-cash assets acquired	5	3	12
Less liabilities assumed	(4)	(1)	(3)
Cash paid, net of cash acquired	1	2	9
Disposals of subsidiaries:			
Non-cash assets disposed of	2	—	1
Less liabilities disposed of	(3)	—	(2)
Net non-cash liabilities sold	(1)	—	(1)
Gain on sale	1	—	3
Cash received from sale, net of cash disposed	—	—	2

Cash paid for interest and income taxes is as follows:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Interest paid	2	19	29
Income taxes paid	62	53	140

15. Related party transactions

Associated companies

Sonera has entered into technical assistance agreements with most of its associated companies, under which Sonera supplies those companies with technical assistance relating to planning and constructing their networks, as well as to operating and maintaining the networks.

15. Related party transactions (Continued)

Summarized information for the transactions between Sonera and its associated companies is as follows:

	As of or for the year ended December 31,		
	1997	1998	1999
	(in € millions)		
Long-term loans receivable	16	1	11
Current loans receivable	—	—	9
Trade accounts receivable	8	10	13
Prepaid expenses and accrued income	3	1	1
Other long-term liabilities	—	—	4
Advances received	—	—	1
Trade accounts payable	3	12	17
Accrued expenses and prepaid income	1	—	1
Other current liabilities	—	—	2
Fees charged from associated companies	23	24	28
Payments made for the services provided by associated companies	26	58	72

Services bought from the associated companies mainly consist of Sonera's purchases of TietoEnator Corporation's information technology services, and purchases of installation and maintenance services from Transmast Ltd.

PT Finland Ltd and Finland Post Ltd

Up to June 30, 1998, Sonera had a common parent company with Finland Post Ltd. The transactions with Finland Post Ltd only included normal sales of Sonera's services to Finland Post, and purchases of postal and related services from Finland Post Ltd. All of these transactions were made on an arm's length basis and on commercial terms used in the ordinary course of Sonera's business.

All of the corporate costs and expenses of PT Finland Ltd were allocated to either Sonera or Finland Post Ltd based upon each of these entities' usage of such corporate services. Accordingly, the accompanying consolidated income statements include allocations of Sonera's share of these corporate costs and expenses up to June 30, 1998. Although such costs may not necessarily be indicative of the costs that would have been incurred by Sonera on a stand-alone basis, management believes that the resulting amounts are reasonable and that the amounts would not have been materially different, had Sonera been an independent entity prior to July 1, 1998. The allocations were primarily related to administrative and treasury functions and amounted to €11 million and €6 million for the year ended December 31, 1997 and for the six months ended June 30, 1998, respectively.

The Finnish State

Except for the equity transactions between Sonera and the Ministry of Transport and Communications as a shareholder, transactions with the Finnish State and other companies owned by the Finnish State only include services provided and purchased by Sonera in the ordinary course of its business. These transactions are made on an arm's length basis and on commercial terms similar to those of Sonera's other customers with the same size and location.

15. Related party transactions (Continued)

Management

Sonera did not have any loans receivable from the management during the periods presented.

16. Commitments and contingent liabilities

Information regarding commitments and contingent liabilities is as follows:

	As of December 31,		
	1997	1998	1999
		(in € millions)	
Mortgages to secure own borrowings	17	17	—
Assets pledged			
To secure own commitments	11	5	5
To secure borrowings of associated companies[(a)]	—	131	184
Guarantees on behalf of associated companies			
For financing	127	118	103
For other commitments	24	2	—
Cross-border lease commitment[(b)]	—	182	208
Commitment to acquire shares[(c)]	—	17	20
Repurchase commitments	1	1	—
Other commitments	1	—	—

(a) Carrying values of the pledged shares in associated companies. The maximum liability according to the loan amounts secured totaled €244 million and €341 million as of December 31, 1998 and 1999, respectively.

(b) In December 1998, Sonera entered into a cross-border finance lease-leaseback agreement under which Sonera leased some of its mobile telecommunications network equipment (“Head Lease”) to a group of U.S. equity trusts which simultaneously leased the equipment back to Sonera (“Back Lease”). The ownership of the equipment, total book value of which was €151 million and €128 million on December 31, 1998 and 1999, respectively, is retained with Sonera. Both the Head Lease receivables and the Back Lease obligations were settled at the inception of the lease agreements, and Sonera received a net cash consideration of U.S.$11 million (€9 million) which is presented in the balance sheet as an advance payment received and recognized in income as other financial income over the lease term. No other cash payments are currently expected to be made by Sonera under the lease agreements. Sonera’s commitment towards the lessors under the Back Lease is restricted to the case of bankruptcy of an intermediate financial institution taking care of the future lease payments to the lessors, or to the default of U.S. Treasury and other similar bonds in which a part of the lease payments have been invested.

(c) In August 1998, Sonera issued a put option to Tele Danmark A/S, under which Sonera has the obligation to acquire an additional 1.9 percent interest in Pannon GSM Rt., between December 1999 and June 2000, for a purchase price of U.S.$ 20 million.

16. Commitments and contingent liabilities (Continued)

Sonera leases office and certain other space, land and equipment under various noncancellable operating leases. Certain contracts include renewal options for various periods of time. Minimum annual rental payments for operating leases in effect on December 31, 1999 are as follows:

	As of December 31, 1999
	(in € millions)
Due in 2000	55
2001	35
2002	26
2003	14
2004	9
Thereafter	34
Total	173

17. Legal and regulatory proceedings

Sonera is involved in a number of legal and regulatory proceedings mainly relating to the interpretation of the Telecommunications Market Act, competition law and consumer protection. Except for the proceedings described below, Sonera is not involved in any legal, arbitration or regulatory proceedings the outcome of which could be expected to have a material effect on Sonera's financial position.

On September 23, 1998, Telia Finland Oy ("Telia Finland") filed a complaint with the Finnish Competition Authority ("FCA") against Sonera and Oy Radiolinja Ab ("Radiolinja"). Telia Finland requested the FCA to investigate whether Sonera and Radiolinja—by pricing ***national roaming*** in a manner that, according to Telia Finland, was unreasonable and discriminative—were engaged in an effort to restrict competition in the GSM mobile network market. On January 12, 2000, the FCA issued a decision maintaining that the pricing of national roaming applied by Sonera does not require any measures by the FCA. The FCA is of the opinion that a telecommunications operator has several different ways of gaining access to a national telecommunications network, e.g. a service provider agreement. In its decision, the FCA further states that Sonera does not, either alone or together with Radiolinja, have a dominant market position in the access markets of national mobile networks. Telia Finland has filed an appeal with the Finnish Competition Council against the decision issued by the FCA.

On April 16, 1999, Telia Finland filed a complaint with the European Commission (DG IV) claiming that Sonera and Radiolinja had abused their dominant positions in the mobile market in Finland by interfering with ***Telia Finland's service provider agreement with Swisscom AG***. Telia Finland's complaint with the European Commission is still pending, and management is currently not in a position to assess when the proceedings will be brought to a conclusion or the final outcome of the proceedings.

On November 20, 1998, Telia Finland filed a complaint with the Telecommunications Administration Center ("TAC") about the ***termination charges applied in Sonera's mobile networks***. Telia Finland claims that Sonera should provide termination of calls to its mobile networks for incoming traffic from all telecommunications networks. According to the interconnection decision issued by the Ministry of Transport and Communications in the spring of 1999, termination of calls to a mobile network does not have to be priced separately for incoming traffic from a local telecommunications network. In addition, Telia Finland claimed that the termination fees charged by Sonera are not reasonably related to actual costs and that the

17. Legal and regulatory proceedings (Continued)

fees are thus contrary to Section 16 of the interconnection decision issued by the Ministry of Transport and Communications. During 1999, Sonera submitted a number of statements to the TAC on the issue. The complaint is still pending, and management is currently not in a position to assess when the proceedings will be brought to a conclusion or what the final outcome of the proceedings will be.

On December 10, 1998, Saunalahden Serveri Oy filed a complaint with the FCA against Sonera, Helsinki Telephone Corporation and Tampere Telephone Plc. In its complaint, Saunalahden Serveri Oy maintains that Sonera is in violation of Finnish competition law and is restricting free competition in the ***Internet services*** market. On October 8, 1999, the FCA issued a decision in the case, maintaining that the pricing and marketing activities related to the Internet services provided by the parties concerned are not in violation of competition law. The FCA also stated that the competition in the Internet services market is sound and effective, and that new service providers have tended to enter the local markets.

Sonera has a 20.3 percent holding in ***TietoEnator Corporation*** ("TietoEnator"), one of the leading IT services providers in the Nordic countries. A condition was laid down by the FCA for the merger of Tieto Corporation and Enator AB. The FCA requires that Sonera sell half of its holding in TietoEnator by June 11, 2001. In addition, Sonera undertook to give up one of its two seats on TietoEnator's Board of Directors at the Annual General Meeting of 2000.

On December 21, 1999, the FCA gave its conditional approval for the deal by which Sonera purchased a 37 percent holding in ***WOW-verkkobrandit Oy***, a subsidiary of Talentum Oyj. The FCA was informed of the acquisition on September 14, 1999, and the matter was transferred to stage two proceedings on October 13, 1999. In order to remove any problems related to competition, the parties presented certain commitments ensuring that Sonera will treat the joint venture and its competitors equally in the acquisition and distribution of network content and that Sonera will not leverage its know-how solely in the joint venture. Furthermore, the parties undertook to remove certain monopoly arrangements from their company acquisition agreements.

On January 20, 2000, the FCA decided to initiate continued proceedings related to the deal by which Sonera will acquire initially a 20 percent holding and by March 31, 2003 altogether a 34 percent holding in ***Digita Oy***, a subsidiary of the Finnish Broadcasting Company. The aim of the continued proceedings is to examine, among other things, how the operations of the parties in the market affect the competition situation. The FCA has three months to decide whether it will approve the acquisition as such, set certain conditions for the deal, or recommend to the Finnish Competition Council that the deal be blocked.

18. Financial instruments and financial risk management

The following table presents the carrying values and fair values for financial instruments, using share prices and interest and exchange rates current at the balance sheet date. While the contract amounts presented for derivative instruments illustrate the scope of Sonera's hedging activities, they do not necessarily represent amounts exchanged by the parties and, when considered separately, are not a measure of Sonera's risk exposure.

	As of December 31, 1997				As of December 31, 1998				As of December 31, 1999			
	Contract amount	**Carrying value**	**Fair value**	**Average maturity**	**Contract amount**	**Carrying value**	**Fair value**	**Average maturity**	**Contract amount**	**Carrying value**	**Fair value**	**Average maturity**
	(in € millions)			(months)	(in € millions)			(months)	(in € millions)			(months)
Investments and loans:												
Shares and holdings												
Aerial Communications, Inc.		—	—			153	70			323	791	
TietoEnator Corporation		100	248			96	558			130	893	
Powertel, Inc.		—	—			—	—			119	250	
AS Eesti Telekom		—	—			—	—			46	231	
Trio AB		—	—			—	—			16	25	
Other shares and holdings		153	153			953	954			1,157	1,161	
Loans receivable		78	79			30	32			54	61	
Cash and short-term investments		145	145			93	93			115	115	
Long-term debt		170	171			788	793			1,124	1,127	
Current debt		2	2			135	135			172	172	
Derivative financial instruments:												
Interest rate swaps												
Euribor	2	—	—	13	244	—	(3)	32	604	7	(15)	69
Purchased interest rate options												
Cap options, Euribor	—	—	—	—	—	—	—	—	120	1	3	38
Forward selling of foreign exchange												
U.S.$	9	1	1	9	39	—	(2)	2	43	(2)	(2)	2
SEK	—	—	—	—	1	—	—	—	19	—	—	5
HKD	13	—	—	7	14	—	—	—	—	—	—	—
Other currencies	—	—	—	1	1	—	—	—	—	—	—	—
Forward buying of foreign exchange												
U.S.$	—	—	—	—	—	—	—	—	61	3	2	2
DEM	154	(2)	(2)	1	576	—	—	—	—	—	—	—
ECU	—	—	—	—	194	(1)	—	—	—	—	—	—
JPY	3	—	—	—	—	—	—	—	—	—	—	—
Currency swaps—sell												
SEK	2	—	—	13	2	—	—	1	—	—	—	—
Purchased currency options												
U.S. dollar	3	—	—	1	—	—	—	—	—	—	—	—
Written currency options												
U.S. dollar	3	—	—	1	—	—	—	—	—	—	—	—

18. Financial instruments and financial risk management (Continued)

Fair values of the publicly quoted shares are based on December 31 closing prices. For other equity investments, fair value approximates the carrying value.

The fair values of loans receivable, debt and derivative instruments are estimated using the expected future cash payments, discounted at market interest rates current at the balance sheet date. The carrying value of cash and short-term investments approximates fair value.

For the carrying values and fair values of derivative instruments, a positive value represents receivable and a negative value represents liability.

Derivative financial instruments

Interest rate swaps and options (cap) relate to the hedging of interest rate risk in respect of Sonera's long-term borrowings.

Interest rate swaps as of December 31, 1998 consisted of 11 contracts with an average maturity of 32 months (ranging from 19 to 57 months), where Sonera paid a fixed interest rate of 3.91 percent and received variable interest rate based on Libor (3.62 percent on December 31, 1998). At the time that the swap contracts were entered into there were no cash requirements. The difference between the interest rate to be received and paid is settled in cash on a semiannual basis.

Interest rate swaps as of December 31, 1999 consisted of 15 contracts with an average maturity of 69 months (ranging from seven to 113 months). Swaps hedging the long-term loan portfolio totaled €304 million, where Sonera pays a fixed interest rate of 4.07 percent and receives variable interest rate based on Euribor (3.22 percent on December 31, 1999). Additionally, Sonera has swapped its €300 million fixed rate Note (coupon interest 4.625 percent) into variable interest rate with contracts where Sonera receives a fixed interest rate of 4.625 percent and pays variable interest rate based on Euribor (3.69 percent on December 31, 1999). At the time that the swap contracts were entered into there were no cash requirements. The difference between the interest rate to be received and paid is settled in cash on a semiannual basis.

Interest rate options totaling €120 million as of December 31, 1999 consisted of five contracts with an average maturity of 38 months. The average cap of the options was 4.63 percent and their reference rates were based on the three or six month Euribor rate. The cash flows incurred at inception are amortized over the term of each option.

Forward selling of foreign exchange relates to the hedging of Sonera's trade accounts receivable and loans receivable in foreign currencies, and the maturities of these derivative financial instruments ranged from one to nine months as of December 31, 1997, from zero to two months as of December 31, 1998, and from two to five months as of December 31, 1999. At the time that the forward contracts were entered into there were no cash requirements. Cash settlements of the forward contracts will occur at maturity.

Forward buying of foreign exchange primarily relates to the hedging of Sonera's foreign currency loans, and, to a lesser extent, to the hedging of accounts payable in foreign currencies. The maturities of these derivative instruments ranged from one to 13 months as of December 31, 1997, were less than one month as of December 31, 1998, and were two months as of December 31, 1999. Forward buying of ECU and German mark related to the hedging of long-term loans drawn down in ECU and German mark

18. Financial instruments and financial risk management (Continued)

during 1998. At the time that the forward contracts were entered into there were no cash requirements. Cash settlements of the forward contracts will occur at maturity.

As of December 31, 1997, Sonera had a purchased U.S. dollar currency option and a written U.S. dollar currency option, both on the same contract amount of U.S.$3 million and the same maturity of one month. The currency options were used as a synthetic forward foreign contract in respect of Sonera's hedging of its foreign currency transaction exposure. At the date the Company entered into the contracts, premiums of less than €10,000 were paid.

Sonera does not hold positions in derivative financial instruments for speculative purposes.

Management of interest rate and foreign exchange risks

Sonera's business operations give rise to certain exposure to risks related to interest rates and foreign exchange. These risks are managed to minimize their impact on Sonera's profitability and financial position. The majority of cash flows from Sonera's operations are in euros.

Interest rate risks include the cash flow risk (changes in interest income and expenses when interest rates change) and the price risk (changes in the value of financial instruments when interest rates change). Sonera manages its interest rate risks by diversifying its portfolio of investments and loans in fixed and variable rate instruments, and by using interest rate swaps, interest rate options and forward rate agreements.

Changes in exchange rates between the euro and other currencies in which Sonera has receivables, payables or other contractual items generate exchange gains and losses to the Group's result (transaction risk). Under its financial management policy, Sonera hedges all significant transaction risks with forward foreign exchange contracts, currency swaps and currency options.

Changes in exchange rates between the euro and foreign currencies in which Sonera's foreign subsidiaries and associated companies report their results of operations and shareholders' equity for inclusion in the Consolidated Financial Statements generate translation differences to the consolidated shareholders' equity (translation risk). The hedging decision for each case is determined by taking into account the impact of hedging on the Group's result and cash flows, as well as the circumstances in local currency and capital markets, including the level of interest rates and the liquidity of the market. During the years ended December 31, 1997, 1998 and 1999, Sonera did not hedge its translation risks.

Management of credit risk

Financial instruments involve a risk that the counterparties may be unable to meet their contractual commitments. The investments in financial instruments, including short-term investments of excess cash, long-term investments in debt securities and loans receivable, as well as the use of derivative instruments, are centrally managed in Sonera's Treasury function, and are limited to such counterparties and amounts as are approved by the Board of Directors. In the opinion of management, the counterparties of the Company's financial instruments are credit worthy and no significant losses are expected from existing contracts. In the normal course of business, no collateral is required by the Company.

The credit risk with respect to Sonera's trade receivables is diversified both across a broad clientele of private individuals and among a large number of companies operating in various fields. Exposure to credit loss and subscriber fraud is monitored actively on a daily basis, including the processing of current credit

18. Financial instruments and financial risk management (Continued)

information on subscribers from third-party sources. Bad debt expense in relation to consolidated revenues was 0.6 percent, 0.4 percent and 0.3 percent during the years ended December 31, 1997, 1998 and 1999, respectively.

19. Segmented information

Sonera has five business segments: (1) Mobile Communications, (2) Media Communications and New Services, (3) Fixed Network Voice and Data Services, (4) Equipment Sales and Other Operations, and (5) International and Other Significant Investments. Mobile Communications consist primarily of digital GSM and analog NMT services in Finland. Media Communications and New Services includes Internet, directory, and other media businesses and new services based on mobile communications. Fixed Network Voice and Data Services includes standard fixed network domestic and international voice services, data services and leased lines. Equipment Sales and Other Operations is comprised of equipment sales, construction and maintenance and certain other operations. International and Other Significant Investments includes significant minority shareholdings in providers of mobile telecommunications services in Turkey, the United States, Hungary, the Baltic States, Russia and Lebanon; in providers of fixed line services in the Baltic States; and in TietoEnator Corporation, an information technology supplier in Finland.

The presentation of Sonera's business segments is based on management accounts. Management accounts are monthly internal reports used by the chief operating decision maker to evaluate segment performance and to make decisions how to allocate resources to segments. In this process, various adjustments are made in order to properly allocate the cost of internal services and certain other administrative overhead expenses. Where a reliable measure exists, the allocation is based on actual usage of capacity or services. For services that depend on the number of employees, the allocation basis is the number of personnel. For other internal services and administrative expenses, rational and consistent allocation methods are used that are deemed to represent a fair approximation of the actual use of services. Due to significant interdependencies and overlaps among the operating units, the profitability information shown for each operation may not be indicative of the amounts which would have been reported if the operating units were operationally or legally independent of one another.

The accounting policies underlying the reported segment data are the same as those described in Note 1 to the Consolidated Financial Statements.

19. Segmented information (Continued)

Financial information followed by Sonera's management is presented separately for Sonera's business segments for the years ended December 31, 1997, 1998 and 1999 as follows:

	As of or for the year ended December 31, 1997						
	Mobile Communi-cations	Media Communi-cations and New Services	Fixed Network Voice and Data Services	Equipment Sales and Other Operations	International and Other Significant Investments	Eliminations	Consolidated
				(in € millions)			
Sales to external customers	606	90	509	147	—	—	1,352
Intra-Group sales	26	19	141	155	—	(341)	—
Total revenues	632	109	650	302	—	(341)	1,352
Operating profit	201	14	67	3	—	—	285
Equity income in associated companies	—	—	—	—	19	—	19
Unallocated amounts:							
Financial income and expenses, net							5
Consolidated profit before income taxes and minority interest							309
Segment assets [a]	441	26	463	202	253	—	1,385
Capital expenditures and investments in shares	176	4	146	47	22	—	395
Depreciation, amortization and write-downs	79	5	106	14	—	—	204

	As of or for the year ended December 31, 1998						
	Mobile Communi-cations	Media Communi-cations and New Services	Fixed Network Voice and Data Services	Equipment Sales and Other Operations	International and Other Significant Investments	Eliminations	Consolidated
				(in € millions)			
Sales to external customers	799	115	560	149	—	—	1,623
Intra-Group sales	29	12	142	195	—	(378)	—
Total revenues	828	127	702	344	—	(378)	1,623
Operating profit	222	14	63	(10)	—	—	289
Equity income in associated companies	—	—	—	—	59	—	59
Unallocated amounts:							
Financial income and expenses, net							(2)
Consolidated profit before income taxes and minority interest							346
Segment assets [a]	482	27	457	210	1,202	—	2,378
Capital expenditures and investments in shares	166	6	126	53	898	—	1,249
Depreciation, amortization and write-downs	139	7	124	28	—	—	298

19. Segmented information (Continued)

	As of or for the year ended December 31, 1999						
	Mobile Communi-cations	Media Communi-cations and New Services	Fixed Network Voice and Data Services	Equipment Sales and Other Operations	International and Other Significant Investments	Eliminations	Consolidated
	(in € millions)						
Sales to external customers	966	140	570	173	—	—	1,849
Intra-Group sales	22	35	167	298	—	(522)	—
Total revenues	988	175	737	471	—	(522)	1,849
Operating profit	345	(60)	98	4	—	—	387
Equity income in associated companies	—	—	—	—	110	—	110
Unallocated amounts:							
Financial income and expenses, net							—
Consolidated profit before income taxes and minority interest							497
Segment assets [(a)]	499	28	483	218	1,791	—	3,019
Capital expenditures and investments in shares	148	15	116	59	410	—	748
Depreciation, amortization and write-downs	123	13	102	43	—	—	281

(a) Segment assets include property, plant and equipment plus intangible assets for all segments, except for International and Other Significant Investments, for which the segment assets include investments in shares in associated companies and other minority shareholdings.

The following table presents a reconciliation of the business segment assets to Sonera's consolidated total assets:

	As of December 31,		
	1997	1998	1999
	(in € millions)		
Total assets for reportable segments	1,385	2,378	3,019
Long-term loans receivable	40	29	35
Inventories	15	22	36
Receivables	281	292	404
Cash and short-term investments	145	93	115
Consolidated total assets	1,866	2,814	3,609

19. Segmented information (Continued)

The majority of Sonera's revenue is generated in Finland. The components of revenues by geographic area are as follows:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Sales to customers in Finland	1,301	1,549	1,766
Sales to customers outside Finland	51	74	83
Total	1,352	1,623	1,849

Information about Sonera's long-lived assets (property, plant and equipment) by geographic area is as follows:

	As of December 31,		
	1997	1998	1999
	(in € millions)		
Finland	1,081	1,102	1,138
Outside Finland	9	21	21
Total	1,090	1,123	1,159

20. Subsidiaries, associated companies and other shareholdings

Group companies on December 31, 1999 are as follows:

	Domicile	Sonera's shareholding	Revenues for 1999	Number of personnel as of December 31, 1999
		(%)	(in € millions)	
Parent Company:				
Sonera Corporation[a]	Helsinki, Finland		1,667.6	5,463
Subsidiaries:				
Advanced Communication Research ACR Oy	Helsinki, Finland	57.5	—	—
Dash Oy[b]	Helsinki, Finland	100.0	—	—
Data-Info Oy	Helsinki, Finland	100.0	4.4	6
EMCEC Oy	Helsinki, Finland	100.0	1.8	32
Esdata A/S	Tallinn, Estonia	70.0	1.0	10
Geddeholm CallCenter AB	Stockholm, Sweden	91.0	2.4	89
Gesam Oy	Helsinki, Finland	100.0	—	—
Helsingin Teollisuuskatu 13 Oy	Helsinki, Finland	100.0	3.1	—
Oy Infonet Finland Ltd	Helsinki, Finland	90.0	11.4	19
Intellitel Communications Oy	Helsinki, Finland	78.9	0.3	30
International Business Venturing IBV Oy	Helsinki, Finland	57.5	—	—
Lippupalvelu Oy[c]	Helsinki, Finland	55.6	2.0	40
Mobinetti Oy	Helsinki, Finland	100.0	—	—
MultiWeb B.V.[d]	Alkmaar, Netherlands	100.0	2.3	89
Payway Oy	Helsinki, Finland	67.0	—	2
Kiinteistö Oy Pietarsaaren Isokatu 8	Pietarsaari, Finland	60.2	—	—
Phone Park Ab[d]	Stockholm, Sweden	67.0	—	—
Primatel Ltd[b]	Kuopio, Finland	100.0	96.0	1,918
Päämies-kauppiaat Oy[d]	Helsinki, Finland	59.4	2.3	3
Reveko Telekom AS	Tallinn, Estonia	55.0	1.3	21
Kiinteistö Oy Saajomaja	Helsinki, Finland	100.0	—	—
Simfocom Oy[b]	Helsinki, Finland	100.0	—	—
SmartRing GmbH	Erfurt, Germany	100.0	0.4	38
SmartTrust GmbH	Sankt Augustin, Germany	100.0	—	18
Smartum Oy[b]	Helsinki, Finland	100.0	—	—
Sonera Belgium n.v./s.a.	Brussels, Belgium	100.0	1.2	7
Sonera Carrier Networks Ltd[b]	Helsinki, Finland	100.0	—	—
Sonera Corporation U.S.	Wilmington, DE, USA	100.0	2.0	20
Sonera Credit Ltd[e]	Helsinki, Finland	100.0	50.1	12
Sonera Deutschland GmbH	Düsseldorf, Germany	100.0	2.8	25
Sonera Entrum Ltd[b]	Helsinki, Finland	100.0	—	—
Sonera France SAS[b]	Paris, France	100.0	—	—
Sonera Holding B.V.	Amsterdam, Netherlands	100.0	—	3
Sonera Hungary Kft.	Budapest, Hungary	100.0	—	—
Sonera Innotele Oy	Helsinki, Finland	100.0	50.0	43
Sonera International n.v./s.a.	Brussels, Belgium	100.0	6.8	31
Sonera Nederland B.V.	Capelle a/d Ijssel, Netherlands	100.0	1.8	52
ZAO Sonera Rus	St. Petersburg, Russia	100.0	9.2	54
Sonera SmartTrust Ltd.[b]	Windsor, United Kingdom	100.0	—	16
Sonera SmartTrust Ltd. (Hong Kong)[f]	Hong Kong	100.0	—	3
Sonera SmartTrust Ltd[b]	Helsinki, Finland	100.0	—	—
Sonera Solutions Ltd	Helsinki, Finland	100.0	303.9	845
Sonera Sverige AB	Stockholm, Sweden	100.0	34.1	154
Sonera Systems Ltd	Helsinki, Finland	100.0	131.6	381

20. Subsidiaries, associated companies and other shareholdings (Continued)

	Domicile	Sonera's shareholding	Revenues for 1999	Number of personnel as of December 31, 1999
		(%)	(in € millions)	
Sonera Systems SIA	Riga, Latvia	100.0	0.9	4
Sonera Telecommunication Services Ltd Sirketi	Istanbul, Turkey	100.0	1.7	6
Sonera UK Limited[(b)]	Middlesex, United Kingdom	100.0	0.3	14
Sonera Zed Ltd[(b)]	Helsinki, Finland	100.0	—	—
Sonic Duo ZAO[(b)]	Moscow, Russia	100.0	—	—
Suomen Erillisverkot Oy[(b)]	Helsinki, Finland	100.0	3.3	25
Systems Consultant Partners Oy	Helsinki, Finland	57.5	—	—
Tedasys Inc.[(d)]	Lahti, Finland	100.0	0.5	17
Oy Telecon Ltd	Helsinki, Finland	100.0	0.3	—
Telegate AB	Stockholm, Sweden	100.0	—	—
Telering Ltd[(b)]	Helsinki, Finland	100.0	—	—
Telesol Oy	Helsinki, Finland	100.0	—	—
Teletori Oy	Helsinki, Finland	100.0	—	—
Telibra Oy	Helsinki, Finland	100.0	—	—
Tilts Communications A/S	Copenhagen, Denmark	90.0	3.2	1
Tilts Communications SIA	Riga, Latvia	90.0	—	—
Unibase Ltd[(b)]	Helsinki, Finland	100.0	5.4	21
Intra-Group sales			(556.8)	
Total			1,848.6	9,512

Shareholding also corresponds to Sonera's share of voting rights in each subsidiary. Revenues are presented in accordance with Sonera's accounting principles. Revenues for subsidiaries acquired during the year represent revenue from the month of acquisition.

Notes to the list of group companies:
(a) Revenues also include Sonera Ltd's revenues during January 1–September 30, 1999, prior to the merger with Sonera Group plc.
(b) The company was established in 1999.
(c) Percent of ownership was changed in 1999.
(d) The company was acquired in 1999.
(e) The company's name was changed in 1999; former name was PT Credit Ltd.
(f) The company's name was changed in 1999; former name was Sonera Hong Kong Ltd.

Group companies sold or dissolved during the year ended December 31, 1999:
Companies sold:
Interinfo Finland Oy on March 30, 1999
Interinfo UAB on March 30, 1999
Interinfo Eesti AS on March 30, 1999
Interinfo Latvija SIA on March 30, 1999
Abacus Solutions Oy on December 15, 1999
Companies dissolved:
Mobitele Oy in December 1999

20. Subsidiaries, associated companies and other shareholdings (Continued)

Sonera's associated companies on December 31, 1999 are as follows:

	Domicile	Sonera's direct shareholding	Equity consolidation
		(%)	
Mobile network operators:			
Turkcell Iletisim Hizmetleri A.S.	Istanbul, Turkey	41.0	41.0
AS Eesti Mobiiltelefon[a]	Tallin, Estonia	—	24.5
Latvijas Mobilais Telefons SIA[b]	Riga, Latvia	24.5	24.5
UAB Omnitel[c]	Vilna, Lithuania	—	27.5
Pannon GSM Rt.	Budapest, Hungary	23.0	23.0
North-West GSM ZAO	St. Petersburg, Russia	23.5	23.5
Aerial Communications, Inc.[d]	Chicago, IL, USA	19.7	19.7
Fixed network operators:			
AS Eesti Telefon[a]	Tallinn, Estonia	—	24.5
Lattelekom SIA[e]	Riga, Latvia	44.1	44.1
AB Lietuvos Telekomas[f]	Vilna, Lithuania	—	30.0
Other associated companies:			
Amber Mobile Teleholding AB	Farsta, Sweden	50.0	50.0
Amber Teleholding A/S	Copenhagen, Denmark	50.0	50.0
Baltic Tele AB	Stockholm, Sweden	50.0	50.0
Certall Finland Oy[g]	Helsinki, Finland	36.8	36.8
AS Eesti Telekom[a]	Tallinn, Estonia	24.5	24.5
Farmit Website Ltd[g]	Helsinki, Finland	33.3	33.3
Hansapost Ltd	Helsinki, Finland	20.0	20.0
HanseNet Telefongesellschaft mbH & Co. KG	Hamburg, Germany	50.0	50.0
Helsingin GSM-Palvelu Oy[g]	Helsinki, Finland	35.0	35.0
IsoWorks Oy[h]	Helsinki, Finland	50.0	50.0
Johtotieto Oy	Helsinki, Finland	33.3	33.3
Kasteam Oy[g]	Helsinki, Finland	35.0	35.0
Movere Oy	Helsinki, Finland	20.0	20.0
Next Era Productions AB	Kista, Sweden	50.0	50.0
Russian Directories Holding Oy	Helsinki, Finland	35.0	35.0
UAB Sontel	Vilna, Lithuania	50.0	50.0
Suomen Keltaiset Sivut Oy	Helsinki, Finland	30.2	30.2
Suomen Numeropalvelu Oy	Helsinki, Finland	40.0	40.0
Tele P AB[g]	Järfälla, Sweden	44.9	44.9
TietoEnator Corporation[i]	Espoo, Finland	20.3	20.3
Transmast Ltd	Helsinki, Finland	40.0	40.0
Trio AB[g]	Stockholm, Sweden	21.0	21.0
Turkcell Holding A.S[g]	Istanbul, Turkey	47.1	47.1
WOW-verkkobrandit Oy[g]	Helsinki, Finland	37.0	37.0
724 Solutions Inc.[g]	Toronto, Canada	22.0	22.0

Shareholding also corresponds to Sonera's share of voting rights in each associated company. Associated companies are included in the Consolidated Financial Statements in accordance with the equity method of accounting. "Equity consolidation" indicates the share of net income and retained earnings that is included in Sonera's Consolidated Financial Statements. Summarized financial information for the associated companies is presented in Note 9 to the Consolidated Financial Statements.

20. Subsidiaries, associated companies and other shareholdings (Continued)

Notes to the list of associated companies:

(a) In March 1999, Sonera exchanged its 24.5 percent interest in AS Eesti Mobiiltelefon and AS Eesti Telefon into a 24.5 percent interest in AS Eesti Telekom, which holds 100 percent of shares in AS Eesti Mobiiltelefon and AS Eesti Telefon after the exchange.

(b) Lattelekom SIA has a 23 percent interest in Latvijas Mobilais Telefons SIA, which is excluded from the percentages indicated. When the equity income included in the consolidated result of Lattelekom SIA is taken into account, a total of 34.6 percent of Latvijas Mobilais Telefons SIA's net income is included in Sonera's result.

(c) UAB Omnitel is a 55 percent subsidiary of the holding company Amber Mobile Teleholding AB in which Sonera has a 50 percent interest.

(d) The company is treated as an associated company even if Sonera's shareholding in the company is less than 20 percent. See Note 1 to the Consolidated Financial Statements.

(e) Lattelekom SIA is a 49 percent associated company of the holding company Tilts Communications A/S in which Sonera has a 90 percent interest. In the Consolidated Financial Statements, Lattelekom SIA has been presented as a 49 percent associated company, and the minority share of Lattelekom SIA's result and shareholders' equity has been presented as minority interest in the Consolidated Income Statement and the Consolidated Balance Sheet.

(f) AB Lietuvos Telekomas is a 60 percent subsidiary of the holding company Amber Mobile Teleholding A/S in which Sonera has a 50 percent interest.

(g) The shares were acquired in 1999.

(h) The company was established in 1999.

(i) Sonera's 26.8 percent interest in Tieto Corporation and its 4.99 percent interest in Enator AB were exchanged into a 20.3 percent interest in TietoEnator Corporation when the two companies merged in July 1999.

Associated companies sold during the year ended December 31, 1999:

Axxon Telecom B.V. on September 27, 1999

Sonera's other shareholdings on December 31, 1999, are as follows:

	Domicile	Sonera's shareholding	Carrying value
		(%)	(in € millions)
Powertel, Inc.	West Point, GA, USA	9.1	119
LibanCell S.A.L.	Beirut, Lebanon	14.0	4
Investments in venture capital funds			
Advanced European Technologies N.V.	Heiloo, Netherlands		—
Dejima, Inc.	Cayman Islands		1
Digital Media & Communications II L.P.	Boston, MA, USA		4
Icom Internet Competence Network N.V.	Amsterdam, Netherlands		2
Magnum Communications L.P.	Cayman Islands		1
Media Technology Equity Partners, L.P.	Los Altos, CA, USA		4
TelAdvent Limited Partnership	Boston, MA, USA		9
Interests in satellite operations			3
Housing and real estate			3
Other shares and holdings			4
Total			154

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States

The accompanying Consolidated Financial Statements have been prepared in accordance with Finnish GAAP, which differs in certain significant respects from U.S. GAAP. The following is a summary of the adjustments to net income and shareholders' equity that would have been required if U.S. GAAP had been applied instead of Finnish GAAP in the preparation of the Consolidated Financial Statements.

	Year ended December 31,		
	1997	1998	1999
	(in € millions, except per share amounts)		
Net income under Finnish GAAP	220	251	370
Adjustments to reconcile to U.S. GAAP:			
(a) Difference in depreciation method	(29)	(27)	25
(b) Pensions	9	9	(2)
(c) Impairment of long-lived assets	—	33	(11)
(d) Provisions for year 2000	3	(7)	(4)
(e) Investments in marketable securities	—	—	—
(f) Capitalization of interest	1	—	—
(g) Associated companies	(5)	(22)	(24)
(h) Allowance for doubtful accounts	(1)	—	—
(i) Employee bond loan with warrants	—	—	(16)
(j) Income taxes	5	—	—
Net income under U.S. GAAP	203	237	338
(k) Basic and diluted earnings per share and ADS	0.28	0.33	0.47

	As of December 31,		
	1997	1998	1999
	(in € millions)		
Shareholders' equity under Finnish GAAP	1,312	1,424	1,801
Adjustments to reconcile to U.S. GAAP:			
(a) Difference in depreciation method	(2)	(29)	(4)
(b) Pensions	33	42	40
(c) Impairment of long-lived assets	—	33	22
(d) Provisions for year 2000	11	4	—
(e) Investments in marketable securities	—	10	135
(f) Capitalization of interest	8	8	8
(g) Associated companies	(6)	(28)	(52)
(h) Allowance for doubtful accounts	(2)	(2)	(2)
(i) Employee bond loan with warrants	—	—	—
(j) Income taxes	(13)	(16)	(52)
Shareholders' equity under U.S. GAAP	1,341	1,446	1,896

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

Those differences that have a material effect on consolidated net income and shareholders' equity are as follows:

(a) Difference in 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. Management believes that the straight-line method provides a better matching of depreciation expense with the revenues derived from the utilization of such assets. Under the declining-balance method, the Company was depreciating 25 percent to 40 percent of the asset balances per year. With the change to the straight-line method the useful lives range from four to 20 years. The effect of these changes has been applied on a prospective basis beginning on January 1, 1997.

Under U.S. GAAP, the Company has followed the straight-line method for all periods presented.

The difference in depreciation method affects Sonera's annual depreciation amounts under U.S. GAAP during years through 2003. Adjustments to net income include an increase in depreciation expense of €29 million and €27 million for the years ended December 31, 1997 and 1998, respectively, and a decrease in depreciation expense of €25 million for the year ended December 31, 1999. Future adjustments to Sonera's net income will include a decrease in depreciation expense of €25 million for the year ended December 31, 2000, and increases in depreciation expense of €13 million, €6 million and €2 million for the years ended December 31, 2001, 2002 and 2003, respectively.

(b) Pensions

Most of Sonera's pension schemes are in accordance with Finnish conditions and practices as Sonera's primary operations are in Finland.

The statutory pension benefits for most of the personnel in Finland, as well as certain voluntary additional pension benefits to a closed group of employees, are funded through PT Pension Fund. These programs are primarily defined benefit pension schemes with retirement, disability and certain other income benefits based on years of service and a final average salary with the Company. Sonera is responsible for ensuring that its statutory and additional pension liabilities are sufficiently funded at all times, subject to the Finnish requirements. The schemes are funded through monthly contributions to the PT Pension Fund as determined by periodic actuarial calculations, with the contributions charged to expense as made.The additional pension benefit scheme has been closed to new employees as of January 1, 1994. Additionally, the statutory pension benefits accrued with respect to Sonera's employees before the separation of Sonera's current operations from the Finnish State on January 1, 1994 are covered by the Finnish State pension plans, and do not create any liability to Sonera. Contributions paid to the PT Pension Fund by Sonera totaled €35 million, €42 million and €41 million during the years ended December 31, 1997, 1998 and 1999, respectively.

The PT Pension Fund was originally established to fund the pension obligations of PT Finland and continues to be used to fund the pension obligations of both Sonera and Finland Post Group Ltd ("Finland Post"). Even though Sonera and Finland Post do not have a common parent company after the Demerger, there are no legal requirements for dividing the PT Pension Fund in two, as long as the Finnish State holds at least 50 percent of all shares in both Sonera and Finland Post. However, Sonera is currently planning to

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

separate its share of the assets and liabilities of the PT Pension Fund to set up its own pension fund in the future. Since the possible separation of assets would result in both Sonera and Finland Post receiving a proportionate share of plan assets in relation to their respective shares of total liabilities of the PT Pension Fund, management estimates that the separation would not significantly change Sonera's pension obligations and the funding status of those obligations.

Certain minor Finnish subsidiaries are not participating employers in the PT Pension Fund and the statutory pension benefits of these subsidiaries are funded through pension insurance. These insurance payments were less than €0.2 million for each of the years ended December 31, 1997, 1998 and 1999.

Sonera's subsidiaries outside Finland have various pension schemes in accordance with the local requirements and practices.The schemes are generally funded through payments to insurance companies. Sonera's policy for funding its defined benefit plans is to satisfy local statutory funding requirements. Pension expenses recorded by Sonera's foreign subsidiaries totaled €0.5 million, €1.1 million and €1.7 million for the years ended December 31, 1997, 1998 and 1999, respectively.

Under U.S. GAAP, the determination of pension expense for defined benefit pension plans is made pursuant to Statement of Financial Accounting Standard ("SFAS") No. 87, "Employers' Accounting for Pensions." SFAS 87 is more prescriptive than Finnish GAAP in that it requires the use of a specific actuarial method (the projected unit credit method). Also under SFAS 87, under certain circumstances, a minimum liability is recorded with a corresponding intangible asset and/or reduction of shareholders' equity for plans that are underfunded.

Pension benefits for Sonera employees and former employees are provided from three sources. Those sources are the Finnish Employees' Pension Act ("TEL"), which consists of non-disability pension obligations ("TEL Pension") and future disability pensions ("TEL Disability"), and a voluntary plan. The TEL is a national pension system in which all Finnish private sector employers participate.

An essential feature of TEL is that only the TEL Disability pension is funded in advance. The TEL Pension is financed as a pay-as-you-go pension. The pay-as-you-go costs of an employer do not depend on the pensions paid to the former employees of Sonera. Instead, the yearly premium depends on the wages of the current workforce and is a certain percentage of these wages. In TEL an employer does not have a direct responsibility for the TEL Pension. Sonera insures its TEL Pension obligation with a pension fund. Premiums are determined on a statutory basis. The TEL Pension is comparable to the U.S. concept of a multiemployer plan and is treated as such by Sonera. The TEL Pension premium payments made by Sonera during the years ended December 31, 1997, 1998 and 1999 were €27 million, €32 million and €39 million, respectively.

Sonera participates in the PT Pension Fund, a pension foundation separate from Sonera, for its TEL Disability and voluntary plan obligations. The PT Pension Fund was originally established to fund the pension obligations of PT Finland and, after the demerger of Sonera and Finland Post, it continues to fund the obligations of both companies. Sonera is currently looking into plans to withdraw from the PT Pension Fund. The principles of the withdrawal are regulated by Finnish Pension legislation. The calculation of Sonera's SFAS 87 obligations, the TEL Disability and voluntary plan, have been made in accordance with such legislation.

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

The funding of the PT Pension Fund is subject to Finnish regulations that require the contributions to be calculated using specific actuarial methods and assumptions. These methods and assumptions are different from those specified under SFAS 87. In particular, under the Finnish regulations, contributions are determined in a way that the fund maintains 100 percent solvency. For this purpose, plan assets are measured by book value, not fair value, and the discount rate that is used to determine the funding level is relatively low. Accordingly, when the funded status is calculated under SFAS 87, an apparently overfunded situation is often the result.

The accounting for pension plans in accordance with Finnish GAAP is different from the accounting and disclosure requirements of SFAS 87 and SFAS No. 132, “Employers’ Disclosure About Pensions and Other Postretirement Benefits.” In respect of Sonera’s benefit obligations funded through the PT Pension Fund, the SFAS 132 disclosure is as follows:

	As of or for the year ended December 31,		
	1997	1998	1999
		(in € millions)	
Change in projected benefit obligation (“PBO”)			
PBO at the start of the year	41	53	75
Service cost	5	7	9
Interest cost	3	4	5
Actuarial loss	5	13	6
Amendments loss	—	—	8
Benefits paid	(1)	(2)	(2)
PBO at the end of the year	53	75	101
Change in plan assets			
Fair value of the assets at the start of the year	85	98	116
Actual return on plan assets	6	10	51
Employer contribution	8	10	2
Benefits paid	(1)	(2)	(2)
Fair value of assets at the end of the year	98	116	167
Funded status	45	41	66
Unrecognized transition asset	(18)	(15)	(12)
Unrecognized net actuarial loss (gain)	6	16	(22)
Unrecognized prior service cost	—	—	8
Net amount recognized	33	42	40

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

For the purposes of the U.S. GAAP balance sheet, the net amount recognized is recorded as prepaid benefit cost. There is no accrued benefit liability or intangible asset recorded in respect of Sonera's benefit obligations.

	As of or for the year ended December 31,		
	1997	1998	1999
		(%)	
Weighted average assumptions			
Discount rate at the end of the year	6.25	5.50	5.80
Expected return on plan assets for the year	7.00	6.25	6.00
Rate of expected compensation increase at the end of the year	4.00	4.00	4.00

Components of net periodic benefit costs are as follows:

	Year ended December 31,		
	1997	1998	1999
		(in € millions)	
Service cost	5	7	9
Interest cost	3	4	5
Expected return on plan assets	(6)	(7)	(8)
Amortization of transition asset for the period	(3)	(3)	(3)
Recognized net actuarial loss	—	—	1
Total net periodic benefit (income) cost	(1)	1	4

For U.S. GAAP purposes, Sonera would be required to adopt the provisions of SFAS 87 on January 1, 1989 and the cumulative adjustment of the effect of the transition to SFAS 87 would be amortized on a prospective basis over the average remaining service period of active employees. It was not considered practical for Sonera to compute its pension liabilities as of January 1, 1989. Accordingly, the transition to SFAS 87 was computed as at December 31, 1996, resulting in a transition asset of € 44 million. An adjustment was made to record €23 million of the transition asset as an increase of U.S. GAAP shareholders' equity at that date based on the ratio of the years elapsed from the effective date of SFAS 87 and December 31, 1996 to the remaining service period of employees expected to receive benefits. The amortization of the remaining transition asset will continue through the year 2003.

For U.S. GAAP purposes, Sonera has recognized a decrease of €9 million and €9 million in its benefit costs for the years ended December 31, 1997 and 1998, respectively, and an increase of €2 million in its benefit costs for the year ended December 31, 1999. These adjustments were determined by comparing the contributions recorded under Finnish GAAP with the amounts that would have been recorded if the provisions of SFAS 87 were applied in the Consolidated Financial Statements.

The PT Pension Fund's assets consist of investments in cash, short-term and long-term debt securities, loans receivable, equity securities, real estate and housing. As of December 31, 1997 and 1998, loans receivable included a €17 million loan granted to Sonera. The loan was backed by a mortgage and was due in one installment in 2002. Sonera repaid the loan prematurely in May 1999. See also Notes 12 and 16 to

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

the Consolidated Financial Statements. The PT Pension Fund did not have any other loans receivable from Sonera, or from Sonera's associated companies, during the periods presented.

The assets of the PT Pension Fund also include investments in Sonera shares with a fair value of €19 million and €88 million as of December 31, 1998 and 1999, respectively (of which €5 million and €26 million, respectively, would be included in Sonera's plan assets according to SFAS 87), and investments in shares in TietoEnator Corporation, Sonera's 20.3 percent associated company, with a fair value of €9 million, €10 million and €33 million as of December 31, 1997, 1998 and 1999, respectively (of which €3 million, €3 million and €9 million, respectively, would be included in the SFAS 87 plan assets).

(c) Impairment of long-lived assets

Under Finnish GAAP, an impairment to long-lived assets is recognized when it is probable that the carrying value of the asset is not recoverable from the future cash flows derived from the use of such asset. Under Finnish GAAP, it is permissible to allocate certain assets which are commonly used by several operations in determining whether an impairment exists. If during a subsequent period the write-down proves to be partly or entirely unjustified, the unjustified portion of the write-down must be reversed and recognized to income for that period.

As a consequence of a significant reduction in the number of subscribers to Sonera's analog NMT services during the latter part of 1998, a write-down of €34 million on certain assets related to Sonera's NMT networks was recorded under Finnish GAAP for the year ended December 31, 1998.

Under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," an impairment on an asset would be required if the undiscounted cash flows derived from that asset were less than the carrying value of such asset. The amount of the write-down (impairment loss) would be the difference between fair value of the asset and its carrying value in the financial statements. In addition, under U.S. GAAP, a reversal of an impairment loss is not permitted. SFAS 121 does not allow allocations of assets nor cash flows and should be examined at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

Therefore, U.S. GAAP treatment is to reverse this write-down and accelerate the useful life of the specifically identified assets. For the year ended December 31, 1998, reversal of the write-down would result in a reduction of write-down of €34 million, increase in depreciation expense of €1 million and a decrease in accumulated depreciation of €33 million. For the year ended December 31, 1999, the reversal of the write-down would result in an increase in depreciation expense of €11 million and a decrease in accumulated depreciation of €22 million.

The carrying value of the specifically identified NMT network assets was €26 million and €3 million as of December 31, 1998 and 1999, respectively. The remaining useful lives of the specifically identified assets as of December 31, 1998 ranged from two to seven years before the SFAS 121 analysis, and from two to three years after the analysis. The impact of the change in useful lives was immaterial.

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

(d) Provision for year 2000

As allowed by Finnish GAAP, Sonera has recorded a provision to cover all major incremental expenses incurred from its year 2000 compliance program, which includes all necessary inspection, adjustment, replacement and testing work to be carried out on Sonera's data systems and other telecommunications network equipment.

Based on the first estimate, a provision of €8 million was recorded during the year ended December 31, 1996. Additional provisions of €5 million and €2 million were recorded during the years ended December 31, 1997 and 1998, respectively, resulting in a total cost provision of €15 million. Actual expenses charged against the provision were €2 million, €9 million and €4 million during the years ended December 31, 1997, 1998 and 1999, respectively, and the remaining balance of the provision was zero as of December 31, 1999.

Under U.S. GAAP, cost related to a year 2000 compliance program should be charged to expense when incurred.

(e) Investments in marketable securities

Sonera accounts for its investments in marketable securities at the lower of cost or market value, except for debt securities to be held to maturity which are stated at amortized cost.

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that all investments in equity securities with readily determinable fair values and all debt securities be classified into three categories and accounted for as follows:

- Debt securities in which the company has the intent and ability to hold to maturity are classified as "held-to-maturity" securities and are reported at amortized cost;
- Debt and equity securities which are bought and held principally for the purpose of short-term selling are classified as "trading" securities and reported at fair value, with unrealized gains and losses included in earnings; and
- Debt and equity securities not classified as either "held-to-maturity" securities or "trading" securities are classified as "available-for-sale" securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of applicable taxes, in a separate component of shareholders' equity.

For U.S. GAAP purposes, Sonera classifies its marketable debt securities as "available-for-sale" securities and all other debt securities as "held-to-maturity" securities.

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

Information regarding Sonera's short-term investments is as follows:

	Time deposits	Marketable debt securities	Other securities	Total short-term investments
		(in € millions)		
As of December 31, 1997				
Cost	91	3	7	101
Unrealized gains	—	—	—	—
Fair value	91	3	7	101
As of December 31, 1998				
Cost	17	4	15	36
Unrealized gains	—	—	—	—
Fair value	17	4	15	36
As of December 31, 1999				
Cost	72	4	1	77
Unrealized gains	—	—	—	—
Fair value	72	4	1	77

There were no unrealized losses on marketable debt securities as of December 31, 1997, 1998 and 1999. During the periods presented, there were no material sales of short-term investments.

Original maturities of Sonera's short-term investments as of December 31, 1999 are as follows:

	As of December 31, 1999
	(in € millions)
Less than one year	76
Over one year	1
Total short-term investments	77

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

Information regarding Sonera's marketable equity securities, which are reported as long-term investments, is as follows:

	As of December 31, 1998				
	Cost	Unrealized gains	Unrealized losses	Write-downs	Fair value
			(in € millions)		
Star Telecom International Holding Limited	15	—	—	(12)	3
Enator AB	31	9	—	—	40
Other marketable equity securities	—	1	—	—	1
Total marketable equity securities	46	10	—	(12)	44

	As of December 31, 1999				
	Cost	Unrealized gains	Unrealized losses	Write-downs	Fair value
			(in € millions)		
Powertel, Inc.	119	131	—	—	250
Other marketable equity securities	—	4	—	—	4
Total marketable equity securities	119	135	—	—	254

Sonera received 4.5 percent of all shares in Star Telecom International Holding Limited ("Star Telecom") in connection with the sale of its 28.5 percent interest in P Plus Communications Limited to Star Telecom in February 1998. Subsequently during 1998, Sonera recorded a write-down on Star Telecom's shares based on a significant drop in the market quotation of Star Telecom's share on the Hong Kong Stock Exchange. Sonera sold its shares in Star Telecom in June 1999, and recorded a gain of €4 million from the sale.

Throughout 1998, Sonera acquired a total of 4.99 percent of all shares in Enator AB, a Swedish information technology provider. Until July 1999, Enator AB's share was listed on the Stockholm Stock Exchange. In July 1999, Enator AB was merged with Tieto Corporation to form TietoEnator Corporation, in which Sonera has a 20.3 percent interest after the merger. See also Note 17 to the Consolidated Financial Statements.

Sonera acquired a 9.1 percent interest in Powertel, Inc. in September 1999. Powertel, Inc. is a provider of GSM-based PCS services in selected markets in the south-eastern part of the United States. Powertel's share is quoted on the Nasdaq National Market.

Prior to January 1, 1998, the cost and fair value of Sonera's investments in marketable equity securities were less than €1 million.

The above information does not include marketable equity securities that Sonera holds in respect of its associated companies. Such associated companies are included in the Consolidated Financial Statements in accordance with the equity method of accounting. See also Note 18 to the Consolidated Financial Statements for the disclosure of fair value of all equity investments.

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

(f) Capitalization of interest

Under Finnish GAAP, interest costs may be capitalized on construction of fixed assets that are constructed for an entity's own use, provided that the capitalized interest cost relates to debt financing directly attributable to the construction of such assets. The Company presently does not capitalize interest on self-constructed assets.

Under U.S. GAAP, capitalization of interest on assets constructed for an entity's own use is required based upon the weighted average capital expenditures on self-constructed assets.

Adjustments for the net income on a U.S. GAAP basis include capitalized interest costs for €4 million, €2 million and €2 million for the years ended December 31, 1997, 1998 and 1999. Accumulated capitalization of interest costs prior to January 1, 1997 would have been €12 million.

Net income on a U.S. GAAP basis also includes adjustment in the depreciation expense for the capitalized interest, totaling €3 million, €2 million and €2 million for the years ended December 31, 1997, 1998 and 1999, respectively. Accumulated depreciation expense prior to January 1, 1997 would have been €5 million.

(g) Associated companies

Under Finnish GAAP, financial statements of associated companies are restated, when possible, to comply with the accounting principles used in the Consolidated Financial Statements. For the purposes of Sonera's Consolidated Financial Statements, associated companies report their financial statements to Sonera using accounting principles that are materially consistent with either U.S. GAAP or IAS.

Under U.S. GAAP, net income and shareholders' equity of associated companies are restated to comply with U.S. GAAP for the purpose of inclusion in the Consolidated Financial Statements. U.S. GAAP differences principally relate to capitalized interest, income taxes and restructuring charges.

Change in equity accounting for Turkcell

As of the beginning of 2000, Sonera changed the practice of equity accounting for its 41 percent share in Turkcell Iletisim Hizmetleri A.S. ("Turkcell") in such a manner that Sonera's consolidated financial statements for each quarter includes the last available and final quarterly financial statements of Turkcell. Previously, under Finnish GAAP, Sonera's consolidated financial statements for each quarter has included a preliminary estimated share of Turkcell's net income for the corresponding period.

The accounting change was made in anticipation of the planned Turkcell initial public offering and stock exchange listing, after which Sonera will no longer have any other information available for the preparing of its financial statements than the information published by Turkcell simultaneously to all of Turkcell shareholders.

Under Finnish GAAP, Sonera has not restated the Consolidated Financial Statements for the accounting change, and will record the cumulative effect of the accounting change on the consolidated retained earnings through the consolidated income statement for its first quarter interim financial statements of 2000. For U.S. GAAP, the Company adopted this change in 1999 and has restated the 1997 and 1998 net income and shareholders' equity under U.S. GAAP to reflect this change. The impact on

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

1997 net income and shareholders' equity was a reduction of €4 million. The impact on 1998 net income and shareholders' equity was a reduction of €20 million and €24 million, respectively.

(h) Allowance for doubtful accounts

Under Finnish GAAP, the Company uses the direct write-off method for bad debts. Amounts are generally written off directly to accounts receivable after 90 days after the due date.

Under U.S. GAAP, an allowance for doubtful accounts is established for estimated bad debts included in accounts receivable. Sonera continuously evaluates the collectibility of accounts receivable, and has established a valuation allowance for U.S. GAAP based on the Company's past experience.

Changes in allowance for doubtful accounts are as follows:

	Year ended December 31,		
	1997	1998	1999
	(in € millions)		
Balance of allowance at beginning of year	1	2	2
Additions	9	3	3
Deductions	(8)	(3)	(3)
Balance of allowance at end of year	2	2	2

(i) Employee bond loan with warrants

In April 1999, Sonera's Annual General Meeting passed a resolution about an option scheme concerning Sonera's personnel. The bond loan with warrants was subscribed by a total of 5,326 persons, or about 60 percent of Sonera's personnel. The subscriptions were approved by the Board of Directors on May 27, 1999. Of the total bond loan amount of €2.5 million, approximately €1.6 million was directed at the personnel, and the remainder was directed at Sonera's wholly-owned subsidiary Telibra Oy, which may later offer its loan with warrant certificates to persons employed by Sonera or to persons to be recruited. The bond part of the loan with warrants carries no interest and will be repaid on June 1, 2001.

Warrant certificates A associated with the loan entitle to subscription of Sonera's shares from June 1, 2001 to June 30, 2005, and warrant certificates B from June 1, 2003 to June 30, 2005. Altogether the warrants entitle to subscription of a maximum of 15,000,000 new shares. With warrant certificates A, the share subscription price is €15.32, and with warrant certificates B, the subscription price is €28.08. For both warrant certificates A and B, the subscription price will be reduced by the amount of per share dividends paid before the subscription of shares.

The subscription rights can be exercised with warrant certificates A provided that:

(i) Sonera's cumulative earnings per share (under Finnish GAAP) during January 1, 1999 through December 31, 2000 is at least €0.84;

(ii) Sonera's operating profit in relation to revenues (under Finnish GAAP) is at least 15 percent, on the average, during January 1, 1999 through December 31, 2000; and

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

(iii) the employee does not leave Sonera before June 1, 2001 (for other than retirement).

The subscription rights can be exercised with warrant certificates B provided that:

(i) Sonera's cumulative earnings per share (under Finnish GAAP) during January 1, 1999 through December 31, 2002 is at least €2.02;

(ii) Sonera's operating profit in relation to revenues (under Finnish GAAP) is at least 15 percent, on the average, during January 1, 1999 through December 31, 2002; and

(iii) the employee does not leave Sonera before June 1, 2003 (for other than retirement).

For the Company's top management, exercise of the warrants is also contingent upon Sonera's share price development that exceeds the reference index for a peer group of companies.

Management is currently not able to determine whether the performance measures will be met.

Under Finnish GAAP, Sonera will not record any compensation expense in respect of the warrants to its income statement. For U.S. GAAP, Sonera has elected to account for the warrants using the fair value method of accounting prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation." Imputed interest cost has not been accounted for the bond part of the loan with warrants under Finnish GAAP and under U.S. GAAP since the amount would be immaterial.

The Company granted 4.75 million warrant certificates A and 4.75 million warrant certificates B on May 27, 1999. On the date of valuation, the fair value of one warrant certificate A and B was €9.64 and €12.96, respectively. The total fair value of all warrant certificates A and B on the date of valuation was €46 million and €62 million, respectively. For the year ended December 31, 1999, total compensation expense of €16 million was charged to income under U.S. GAAP for warrant certificates A and B.

The assumptions used in calculating the fair value of warrant certificates A and B are as follows:

	A	B
Exercise price (€)	15.32	28.08
Expected life of warrant (years)	5	4.75
Fair market value of underlying share (€)	18.85	28.55
Expected volatility of underlying share (percent)	45	45
Expected dividends on share (percent)	0.5	0.5
Risk-free interest rate for expected term (percent)	4.00	4.84

(j) Income taxes

This item represents the deferred tax effects of the adjustments to reconcile to U.S. GAAP.

(k) Earnings per share

Earnings per share for Finnish GAAP purposes is described in Note 7 to the Consolidated Financial Statements. Under both Finnish GAAP and U.S. GAAP, earnings per share is based upon net income divided by the weighted average number of shares outstanding. The weighted average number of shares

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

used in the basic earnings per share calculation were 720,000,000, 720,246,575 and 722,000,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

The Company issued stock warrants in May 1999. The fully diluted weighted average number of shares for the year ended December 31, 1999 was 723,233,765. The dilutive effect on earnings per share would have been less than €0.01 for the year ended December 31, 1999.

(l) Comprehensive income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income," which established standards for the reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income generally encompasses all changes in shareholders' equity, except those arising from transactions with owners. The Company's comprehensive income differs from net income only by amount of the foreign currency translation differences charged to shareholders' equity for the period.

Comprehensive income and accumulated other comprehensive income for the years ended December 31, 1997, 1998 and 1999 are as follows:

	Comprehensive income	Accumulated other comprehensive income
	(in € millions)	
Balance at January 1, 1997		(5)
Net income in accordance with Finnish GAAP	220	
Foreign currency translation adjustment	7	7
Comprehensive income for the year	227	
Balance at December 31, 1997		2
Net income in accordance with Finnish GAAP	251	
Foreign currency translation adjustment	(14)	(14)
Comprehensive income for the year	237	
Balance at December 31, 1998		(12)
Net income in accordance with Finnish GAAP	370	
Foreign currency translation adjustment	67	67
Comprehensive income for the year	437	
Balance at December 31, 1999		55

(m) Segmented information

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS 131 established standards for reporting

21. Differences between Finnish GAAP and generally accepted accounting principles in the United States (Continued)

information about operating segments in annual financial statements and interim financial reports to shareholders. The Company adopted the provisions of SFAS 131 effective December 31, 1998.

Sonera has five reportable business segments: Mobile Communications; Media Communications and New Services; Fixed Network Voice and Data Services; Equipment Sales and Other Operations; and International and Other Significant Investments.

See Note 19 to the Consolidated Financial Statements for the information for each reportable business segment.

(n) Accounting standards recently issued

During January 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), which is effective for all fiscal years beginning after December 15, 1998. Under SOP 98-1, computer software costs that are incurred in the preliminary project stage are expensed as incurred. Once specific capitalization criteria have been met, external direct cost of materials and service consumed in developing or obtaining internal-use computer software, certain personnel costs, and interest costs incurred when developing computer software for internal use are capitalized. Such capitalized costs are amortized over the estimated useful life of the software. Training costs and data conversion costs are generally expensed as incurred. The Company has implemented SOP 98-1 effective as of January 1, 1999. The implementation did not have an impact on the Consolidated Financial Statements of Sonera.

The AICPA issued Statement of Position 98-5, "Reporting on the Cost of Start-Up Activities" ("SOP 98-5") in April 1998 which is effective for fiscal periods beginning after December 15, 1998. SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. The implementation did not have an impact on the Consolidated Financial Statements of Sonera.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement, as amended, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Management has not determined the effect of the adopting of SFAS 133.

22. Subsequent events (unaudited)

Initial public offering of 724 Solutions Inc.

In February 2000, 724 Solutions Inc. completed an initial public offering whereby 724 Solutions issued 6.9 million shares for U.S.$26 per share. The net proceeds received by 724 Solutions from this transaction were approximately U.S.$167 million. After the offering, Sonera holds 6.4 million shares which represents an approximately 18 percent interest in 724 Solutions. Sonera acquired its original 22 percent interest in 724 Solutions in August 1999, and accounted for its investment under equity method for the year ended

22. Subsequent events (unaudited) (Continued)

December 31, 1999. After the offering, Sonera will account for its 18 percent investment under cost method since Sonera is no longer deemed to have significant influence over the operations of 724 Solutions. In its first quarter interim financial statements of 2000, under Finnish GAAP, Sonera has not recognized any gain from the decrease in its interest in 724 Solutions.

Investment in VoiceStream Wireless Corporation and Aerial/VoiceStream merger

On February 28, 2000, Sonera paid its U.S.$500 million investment in VoiceStream Wireless Corporation ("VoiceStream") as part of the merger agreement between VoiceStream and Aerial Communications, Inc. ("Aerial") which was announced in September 1999. The payment was contingent upon VoiceStream's merger with Omnipoint Corporation which was approved by the Federal Communications Commission ("FCC") on February 15, 2000. With the investment, Sonera acquired 8,771,930 VoiceStream shares which correspond to an approximately 3.6 percent interest in VoiceStream after its merger with Aerial.

On March 30, 2000, the FCC gave final approval to the merger of Aerial to VoiceStream, and the merger was completed on May 4, 2000. After the merger, Sonera's shareholding in VoiceStream will amount to approximately 7.9 percent, on a fully diluted basis. Sonera discontinued accounting for Aerial under the equity method on the merger date, and Sonera's investment in VoiceStream will be accounted for under the cost method.

Sonera's second quarter interim financial statements of 2000 will include an estimated pre-tax gain of €835 million recorded on the merger transaction. Sonera has received an advance ruling from the Finnish Central Tax Board, according to which the merger would be considered a transaction for which Sonera is liable to pay an estimated tax of €216 million in Finland. Sonera has appealed against the advance ruling to the Finnish Supreme Administrative Court. Sonera is of the opinion that the merger should be treated as a normal merger under the Finnish tax legislation without any effects on taxation.

Investment in Powertel, Inc.

On May 31, 2000, Sonera agreed to invest an additional U.S.$125 million in U.S. mobile communications operator Powertel, Inc. which will increase its equity interest in Powertel from 9.1 percent to 11.8 percent, on a fully diluted basis, upon completion of the transaction. In addition, Sonera will invest U.S.$75 million in Eliska Wireless Ventures I, Inc. giving Sonera a 30.1 percent interest in the U.S. investment company. In May 2000, Eliska Wireless Ventures entered into an agreement to purchase the assets and PCS operations of DiGiPH PCS, Inc., an operator of a PCS network in the Southern United States in Alabama, Florida and Mississippi.

Euro Medium Term Note

On March 7, 2000, Sonera issued a €1 billion bond under its Euro Medium Term Note programme. The Note has a maturity of five years and a fixed coupon interest of 5.625 percent.

Third generation licence in Spain

On March 13, 2000, the Spanish State granted a national third generation mobile network licence to Xfera Móviles S.A., ("Xfera") in which Sonera has a 15 percent ownership interest. During the years 2000 to 2004, Sonera intends to invest a total of €350 million in Xfera.

22. Subsequent events (unaudited) (Continued)

The signing and formalization of the license took place on April 18, 2000. Xfera is in the process of preparing its notification to the European Commission Merger Task Force as required under European Union law regarding the formation and shareholder composition of the company. Management is currently not in a position to assess the duration of the notification proceedings or the final outcome of the proceedings.

Resolutions by the Annual General Meeting

In accordance with the proposal made by the Board of Directors (the "Board"), the Annual General Meeting of Sonera Corporation held on March 22, 2000 resolved that a dividend of €0.12 per share will be paid for the 1999 fiscal year. The dividend was paid on April 3, 2000.

In accordance with the proposal made by the Board, the Annual General Meeting resolved to authorize the Board to decide on the increase of the share capital by a directed issue. Under the authorization, the Board has the right, within one year of the resolution of the Annual General Meeting, i.e. by March 22, 2001, to decide on the increase of the share capital by one or more new issues in such a manner that the new issue entitles to subscription of a maximum of 25,000,000 new shares with an accountable par of €0.43 each. Under the authorization, the share capital can be increased by a maximum of €10,750,000. The authorization includes the right to disapply the shareholders' pre-emptive right to subscribe for new shares, as referred to in Chapter 4, Section 2 of the Finnish Companies Act, and the right to decide on the subscription prices, those entitled to subscribe and the terms of subscription. Under the authorization, the Board is also entitled to decide that shares can be subscribed for against property in kind or otherwise on specified conditions.

The Annual General meeting authorized the Board to decide on the repurchase and subsequent use of the Company's own shares in accordance with the proposal made by the Board. The authorization is valid for one year after the resolution of the Annual General Meeting, i.e. until March 22, 2001. Under the authorization, a maximum of 14,440,000 own shares can be repurchased to be used as consideration when the Company acquires property related to its business or as consideration in acquisitions in a manner and scope decided on by the Board. Shares can be repurchased otherwise than in proportion to the holdings of the shareholders through public trade organized by the Helsinki Exchanges. The shares are repurchased at the market value they have in public trade at the time of the acquisition. The amount paid for repurchase of shares reduces the Company's distributable funds.

On April 26, the Board launched a share repurchase program. By June 15, 2000, the Company had repurchased 550,000 shares, with a total purchase price of €28 million.

The Annual General Meeting approved the proposal made by the Board on a bond loan with warrants to be offered for subscription to the personnel of the Sonera Group and to Telibra Oy, a wholly-owned subsidiary of Sonera Corporation, disapplying the shareholders' pre-emptive subscription right. It is proposed that the shareholders' pre-emptive subscription right be disapplied, since the bond loan with warrants is intended to form part of the incentive scheme for the personnel.

The maximum amount of the bond loan with warrants is €1,000,000. The loan shall be repaid in one installment on June 1, 2002. No interest is paid on the loan. A minimum of 400 warrants will be attached to each loan share. The warrants attached to the loan entitle to subscription of a maximum of 20,000,000 shares with an accountable par of €0.43 each. The share capital can be increased by a maximum of €8,600,000.

22. Subsequent events (unaudited) (Continued)

The share subscription period begins in stages on November 2, 2002, May 2, 2003, and May 2, 2004. The share subscription period ends on May 31, 2008 for the warrants granted in connection with the issue. The Board shall decide on the subscription period for warrants granted at a later date. The subscription period shall, however, end no later than May 31, 2010. The warrants shall not entitle to share subscription if the price of the Company's share on the Helsinki Exchanges, at the beginning of the subscription period for the warrant, does not exceed the value of the reference index set by the Board, and if other terms set by the Board of Directors are not met.

The share subscription price for warrants granted in connection with the issue shall be the average price of the share during the period from February 1, 2000 to April 28, 2000. The share subscription price for warrants granted at a later date shall until December 31, 2000 be the same as that of the warrants granted in connection with the issue, and thereafter the average share price during the November and December preceding the grant, if the grant takes place between January 1 and June 30, and the average share price during the May and June preceding the grant, if the grant takes place between July 1 and December 31.

The subscription period for the bond loan with warrants began on May 15, 2000 and will end on June 30, 2000.

Acquisition of Across Holding AB

On April 18, 2000, Sonera acquired all shares in Across Holding AB of Sweden. Across Wireless AB, the principal operating subsidiary of Across Holding AB, offers wireless Internet-based service platforms which make it possible, for example, to manage applications and terminals over a mobile network. For the year ended December 31, 1999, the revenues of Across Wireless AB amounted to €9 million, and the company's operating loss totaled €7 million. On the date of acquisition, Across Holding AB's consolidated shareholders' equity, in accordance with Swedish GAAP, was €8 million.

Sonera paid for the acquisition by issuing 16,732,055 new shares to the sellers. The weighted average trading price for Sonera's share on the Helsinki Exchanges on April 18, 2000 was €52.84.

Under Finnish GAAP, Sonera has recorded the transaction in accordance with the interpretation 1591/1999 by the Finnish Accounting Board. That interpretation allows the acquiror to record the equity issue and the cost of acquired shares at an amount equal to the shareholders' equity of the acquiree at the time of acquisition. Therefore, under Finnish GAAP, Sonera will record goodwill from the acquisition only to the extent of directly allocable fees and other costs related to the acquisition. The Company has not yet determined the accounting for the transaction under U.S. GAAP.

Legal and regulatory proceedings

On April 19, 2000, the Finnet Association filed a complaint with the FCA against Sonera claiming that Sonera is abusing its dominant position in the market for mobile services as well as negatively impacting competition in the neighboring markets by giving loyalty benefits to customers of small and medium-sized business enterprises including benefits for international calls made using Sonera's mobile networks. Sonera submitted its response to the FCA on June 9, 2000. Management is currently not in a position to predict with any certainty the timing or likely outcome of the proceedings.

22. Subsequent events (unaudited) (Continued)

On May 2, 2000, Televerkko Oy filed a complaint with the FCA against Sonera claiming that Sonera is abusing its dominant market position in the market for mobile services in connection with the pricing of its SMS services to content providers. The FCA is investigating the pricing of Sonera's SMS services as well as the cost to Sonera to provide SMS services. The FCA has notified Sonera that the pricing of Sonera's SMS services should be cost based, non-discriminatory and transparent. Sonera submitted the requested information to the FCA on May 31, 2000. Management is currently not in a position to predict with any certainty the timing or likely outcome of the proceedings.

On April 25, 2000, the Finnet Association filed a complaint with the FCA against Sonera and K-Alliance ("K-Plus Oy") regarding Sonera's participation in the K-Plus Oy's loyal customer program. The Finnet Association requested the FCA to investigate whether Sonera is abusing its dominant position in the market for mobile services by linking use of its network with the ability to earn points in K-Plus Oy's loyal customer program. Sonera submitted its response to the FCA on May 26, 2000. Management is currently not in a position to predict with any certainty the timing or likely outcome of the proceedings.

On May 17, 2000, Sonera received a request for information from the FCA in connection with alleged bundling of ADSL and internet services. The FCA began the investigation based on several complaints it has received from private individuals. Sonera responded to the FCA on May 30, 2000.

Sonera has also applied for exemptions from the application of Finnish competition law to some of its activities. On April 3, 2000, Isoworks Oy, a joint venture between Sonera Systems Oy and ICL Data Oy received a five year exemption from the application of Finnish competition law. In addition, on May 19, 2000, Certall Finland Oy, an encryption services provider whose shareholders include Sonera's wholly-owned subsidiary Sonera SmartTrust Oy, as well as Merita, Leonia, Osuuspankkikeskus, TietoEnator and the Post of Finland was granted a conditional exemption from the application of Finnish competition law through June 1, 2003. The conditions connected with the exemption require Certall to maintain a non-discriminatory pricing policy and to follow generally accepted standards when offering its services.

On April 17, 2000, the FCA issued a decision on the transaction pursuant to which Sonera will initially acquire a 20 percent holding and by March 31, 2003 an aggregate 34 percent holding in Digita, a subsidiary of the Finnish Broadcasting Company. The FCA found the remedies proposed by the parties insufficient and proposed that the Competition Council block the transaction. Sonera filed a response in conjunction with the Finnish Broadcasting Company on May 2, 2000. The Competition Council began deliberations on May 3, 2000 and has a time limit of three months to decide whether it will approve the transaction, approve the transaction with conditions or block the transaction.

Unaudited Condensed Consolidated Interim Financial Statements of Sonera Corporation and subsidiaries as of and for the three months ended March 31, 1999 and 2000

SONERA CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Interim Income Statements

	Three months ended March 31, 1999	Three months ended March 31, 2000
	€	€
	(in millions, except shares, per share amounts and percentages)	
Revenues	426	487
Other operating income	7	9
Operating expenses:		
Cost of services and goods	(130)	(154)
Personnel expenses	(83)	(96)
Other operating expenses	(63)	(84)
Total operating expenses	(276)	(334)
Depreciation and amortization	(67)	(72)
Operating profit	90	90
Equity income in associated companies	18	20
Financial income and expenses	(1)	3
Profit before extraordinary items and taxes	107	113
Income taxes	(29)	(31)
Minority interest in income	—	1
Profit before extraordinary items	78	83
Cumulative effect of accounting change, net of income taxes(1)	—	(41)
Net income	78	42
Average number of shares (1,000 shares)(2)	722,000	722,000
Earnings per share, before extraordinary items (euros)	0.11	0.12
Cumulative effect of accounting change, net of income taxes (euros)	—	(0.06)
Earnings per share (euros)	0.11	0.06
EBITDA(3)	157	162
Significant non-recurring income and expenses	2	4
Comparable EBITDA	155	158
Comparable EBITDA-to-revenues (%)	36	32

(1) The cumulative effect of accounting change represents the effect in retained earnings from the new accounting principle adopted for the inclusion of Turkcell's consolidated financial statements under the equity method of accounting. The cumulative effect consists of the reversal of Turkcell's equity income for the last quarter of 1999 that is included in Sonera's retained earnings (EUR 33 million); an adjustment to reflect the final results of Turkcell's 1999 audited financial statements (EUR 12 million); and the related deferred tax effect (EUR 4 million).

(2) The average number of shares, diluted with the employee bond loan with warrants, was 726,013 thousand in January-March 2000. The dilutive effect on earnings per share would have been less than EUR 0.01.

(3) EBITDA is defined as operating profit before depreciation and amortization.

Amounts have been restated from Finnish markka into euros using the fixed exchange rate as of January 1, 1999 which was € 1.00 = FIM 5.94573.

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Interim Financial Statements.

SONERA CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Interim Balance Sheets

	As of		
	March 31, 1999	December 31, 1999	March 31, 2000
	€	€ (in millions)	€
Fixed assets and other long-term investments			
Intangible assets	52	69	71
Property, plant and equipment	1,106	1,159	1,154
Long-term investments and receivables	1,273	1,826	2,346
Total	2,431	3,054	3,571
Current assets			
Inventories	34	36	39
Receivables	322	404	443
Cash and short-term investments	90	115	305
Total	446	555	787
TOTAL ASSETS	2,877	3,609	4,358
Shareholders' equity	1,525	1,801	1,773
Minority interest	12	14	15
Non-current liabilities			
Long-term debt	778	1,124	1,804
Other long-term liabilities	93	115	102
Total	871	1,239	1,906
Current liabilities			
Current debt	118	172	189
Other current liabilities	351	383	475
Total	469	555	664
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,877	3,609	4,358

Amounts have been restated from Finnish markka into euros using the fixed exchange rate as of January 1, 1999 which was € 1.00 = FIM 5.94573.

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Interim Financial Statements.

SONERA CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31, 1999 €	2000 €
	(in millions)	
Operating activities		
Operating profit	90	90
Depreciation and amortization	67	72
Income taxes paid	(15)	(25)
Change in working capital and other items	(51)	(63)
Cash provided by operating activities	91	74
Investing activities		
Capital expenditures	(49)	(64)
Investments in shares	(13)	(519)
Change in loans receivable and other items	(26)	(93)
Cash used in investing activities	(88)	(676)
Financing activities		
Change in long-term debt	(10)	679
Change in current debt	(17)	17
Cash (used in) provided by financing activities	(27)	696
Effect of exchange rate changes on cash and cash equivalents	—	1
Net (decrease) increase in cash and cash equivalents	(24)	95
Cash and cash equivalents at beginning of year	57	38
Cash and cash equivalents at end of period	33	133

Amounts have been restated from Finnish markka into euros using the fixed exchange rate as of January 1, 1999 which was € 1.00 = FIM 5.94573.

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Interim Financial Statements.

1. Basis of presentation

The Unaudited Condensed Consolidated Interim Financial Statements for the three months ended March, 1999 and 2000 have been prepared in accordance with Finnish GAAP on a basis consistent with Sonera's Consolidated Financial Statements for the year ended December 31, 1999. For the purposes of these Unaudited Condensed Consolidated Interim Financial Statements, certain information and disclosures normally included in annual financial statements prepared in accordance with Finnish GAAP have been condensed or omitted. In the opinion of the management, all adjustments considered necessary, existing of normal and recurring accruals, to present fairly the consolidated financial position and results of operations for such interim periods have been made.

The information in the Unaudited Condensed Consolidated Financial Statements presented herein is based on Sonera's first quarter 2000 unaudited interim report which Sonera released on April 26, 2000.

These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with Sonera's Consolidated Financial Statements for the year ended December 31, 1999 included elsewhere in this document.

Finnish GAAP and accounting principles adopted by Sonera differ in certain respects for U.S. GAAP. See Note 21 to the Consolidated Financial Statements for the year ended December 31, 1999 included elsewhere in this document.

See also Note 22 to the Consolidated Financial Statements for the year ended December 31, 1999 included elsewhere in this document for certain subsequent events after March 31, 2000.

2. Commitments and contingent liabilities

Information regarding commitments and contingent liabilities is as follows:

	As of	
	December 31, 1999	March 31, 2000
	(in € millions)	
Mortgages		
To secure other own commitments	1	1
Assets pledged		
To secure own commitments	5	5
To secure borrowings of associated companies(a)	184	91
Guarantees on behalf of associated companies		
For financing	103	99
Cross-border lease commitment	208	223
Minimum operating lease payments	173	197
Other commitments	20	22

(a) Carrying values of the pledged shares in associated companies. The maximum liability according to the loan amounts secured totals €20 million (December 31, 1999: €341 million).

2. Commitments and contingent liabilities (Continued)

Information regarding derivative financial instruments is as follows:

	As of March 31, 2000			As of December 31, 1999
	Contract value	Carrying value	Fair value	Fair value
		(in € millions)		
Forward foreign exchange contracts	274	2	1	—
Purchased interest rate options	150	1	2	—
Interest rate swaps	1,904	8	(9)	(15)

Derivative instruments are used in hedging foreign exchange and interest rate risks.

3. Segment information

Financial information followed by Sonera's management is presented separately for Sonera's business segments for the three months ended March 31, 1999 and 2000 as follows:

	Three months ended March 31, 1999					
	Mobile Communi-cations	Media Communi-cations and New Services	Fixed Network Voice and Data Services	Equipment Sales and Other Operations	Eliminations	Consolidated
			(in € millions)			
Sales to external customers	214	34	143	35	—	426
Intra-Group sales	9	9	32	61	(111)	—
Total revenues	223	45	175	96	(111)	426
EBITDA(a)	103	1	43	10	—	157
Operating profit	73	(1)	17	1	—	90

	Three months ended March 31, 2000					
	Mobile Communi-cations	Media Communi-cations and New Services	Fixed Network Voice and Data Services	Equipment Sales and Other Operations	Eliminations	Consolidated
			(in € millions)			
Sales to external customers	264	43	148	32	—	487
Intra-Group sales	1	8	68	28	(105)	—
Total revenues	265	51	216	60	(105)	487
EBITDA(a)	130	(31)	59	4	—	162
Operating profit	100	(36)	24	2	—	90

(a) EBITDA is defined as operating profit before depreciation and amortization.

Consolidated Financial Statements of
Turkcell İletişim Hizmetleri Anonim Şirketi
and its Subsidiaries
For the years ended December 31, 1997, 1998 and 1999 and
for the three months ended March 31, 1999 and 2000

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Turkcell İletişim Hizmetleri Anonim Şirketi

We have audited the accompanying consolidated balance sheets of Turkcell İletişim Hizmetleri Anonim Şirketi and its subsidiaries (the Company) as of December 31, 1998 and 1999, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income/(loss), and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Turkcell İletişim Hizmetleri Anonim Şirketi and its subsidiaries as of December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States.

KPMG Cevdet Suner Denetim
ve Yeminli Mali Müşavirlik A.Ş.

March 24, 2000
Istanbul, Turkey

TURKCELL İLETİŞİM HİZMETLERİ ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

At December 31, 1998 and 1999 and March 31, 2000 (unaudited)
(In thousands, except share data)

	December 31,		March 31,
	1998	1999	2000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (Note 5)	93,919	248,729	181,064
Trade receivables and accrued income, net (Note 6)	128,794	251,456	333,841
Due from related parties (Notes 3 and 7)	3,753	4,966	11,827
Inventories (Note 3)	4,033	8,303	11,999
Prepaid expenses (Note 9)	3,789	9,584	20,232
Deferred tax assets (Notes 3 and 18)	3,659	11,995	2,472
Other current assets (Note 8)	17,106	31,861	40,704
Total current assets	255,053	566,894	602,139
ADVANCES TO RELATED PARTIES (Note 3)	762	3,100	705
PREPAID EXPENSES (Note 9)	2,597	5,670	8,731
INVESTMENTS (Notes 3 and 10)	70,272	70,055	63,976
FIXED ASSETS, net (Notes 3 and 11)	415,231	1,070,970	1,275,974
CONSTRUCTION IN PROGRESS (Note 12)	227,392	375,878	369,655
INTANGIBLES, net (Notes 3 and 13)	569,481	707,364	770,828
DEFERRED TAX ASSETS (Notes 3 and 18)	—	—	2,029
OTHER LONG TERM ASSETS (Note 3)	24,256	51,370	51,611
	1,565,044	2,851,301	3,145,648
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short term borrowings (Note 14)	94,781	374,240	450,780
Trade payables (Note 15)	143,985	153,494	277,229
Due to related parties (Notes 3 and 16)	4,582	10,581	5,880
Taxes payable (Notes 3 and 18)	93	16	—
Other current liabilities and accrued expenses (Note 17)	81,638	194,595	176,798
Total current liabilities	325,079	732,926	910,687
LONG TERM BORROWINGS (Note 19)	741,445	1,247,629	1,294,678
LONG TERM LEASE OBLIGATIONS (Notes 3 and 20)	41,904	41,244	39,787
RETIREMENT PAY LIABILITY (Note 3)	755	1,660	2,339
DEFERRED TAX LIABILITIES (Notes 3 and 18)	2,516	3,575	—
MINORITY INTEREST (Note 3)	2,704	4,298	4,512
SHAREHOLDER'S EQUITY			
Common stock			
Par value one thousand TL; authorized, issued and outstanding 80,250,000,000 shares in 1998 and 87,250,000,000 shares in 1999 and 2000 (Note 21)	188,759	210,953	210,953
Advances for common stock	19,310	299	299
Legal reserves	1,543	2,026	2,026
Accumulated other comprehensive income (loss) (Note 3)	61	(2,873)	(4,330)
Retained earnings	240,968	609,564	684,697
Total shareholders' equity	450,641	819,969	893,645
COMMITMENTS AND CONTINGENCIES (Note 26)			
	1,565,044	2,851,301	3,145,648

The accompanying notes are an integral part of these consolidated balance sheets.

TURKCELL İLETİŞİM HİZMETLERİ ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 1997, 1998, 1999 and for the Three Month Periods Ended March 31, 1999 and 2000 (unaudited)
(In thousands, except share data)

	Year Ended December 31,			Three Months Ended Marh 31,	
	1997	1998	1999	1999	2000
Revenues (Notes 3 and 22)	162,087	721,614	1,580,822	288,580	478,655
Direct cost of revenues (Note 3)	(59,152)	(295,122)	(679,404)	(119,421)	(229,607)
Gross profit	102,935	426,492	901,418	169,159	249,048
General and administrative expenses (Note 23)	(9,927)	(47,588)	(103,706)	(21,414)	(39,574)
Selling and marketing expenses (Note 24)	(20,217)	(83,025)	(223,740)	(40,407)	(66,452)
Operating income	72,791	295,879	573,972	107,338	143,022
Income from related parties, net (Note 25)	3,050	4,514	1,334	375	—
Interest income	1,707	18,727	31,787	8,751	11,800
Interest expense (Note 3)	(25,515)	(72,879)	(143,068)	(25,378)	(57,591)
Other income (expense), net	(11,775)	2,206	3,137	6	1,082
Equity in net income (loss) of unconsolidated investees (Notes 3 and 10)	1,809	7,427	(8,205)	(1,845)	103
Minority interest (Note 3)	86	(1,614)	176	(74)	(235)
Translation loss (Note 3)	(21,028)	(23,016)	(98,336)	(21,831)	(19,476)
Income (loss) before taxes	21,125	231,244	360,797	67,342	78,705
Income tax (expense) benefit (Notes 3 and 18)	17,645	(19,254)	8,282	5,362	(3,572)
Net income	38,770	211,990	369,079	72,704	75,133
Basic and diluted earnings (loss) per common share (Notes 3 and 21)	0.00020	0.00099	0.00159	0.00032	0.00032
Weighted average number of common shares outstanding (Notes 3 and 21)	195,985,593,269	213,971,252,700	231,755,868,131	226,386,099,934	233,386,099,934

The accompanying notes are an integral part of these consolidated financial statements.

TURKCELL İLETİŞİM HİZMETLERİ ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 1997, 1998 and 1999 and for the Three Month Period Ended March 31, 2000 (unaudited) (In thousands, except share data)

	Common Stock		Advances for common stock	Legal reserves	Comprehensive income (loss)	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Shares	Amount						
Balances at January 1, 1997	46,250,000,000	$ 36,198	—	5	—	(8,254)	332	28,281
Issuance of common stock	8,000,000,000	51,762						51,762
Transfer to legal reserves				11		(11)		
Comprehensive income:								
Net income					38,770	38,770		38,770
Other comprehensive income:								
Translation adjustment					1,269		1,269	1,269
Comprehensive Income					40,039			
Balances at December 31, 1997	54,250,000,000	$ 87,960	—	16		30,505	1,601	120,082
Issuance of common stock	26,000,000,000	100,799						100,799
Advances for increase in common Stock			19,310					19,310
Transfer to legal reserves				1,527		(1,527)		
Comprehensive income:								
Net income					211,990	211,990		211,990
Other comprehensive income:								
Translation adjustment					(1,540)		(1,540)	(1,540)
Comprehensive income					210,450			
Balances at December 31, 1998	80,250,000,000	$188,759	19,310	1,543		240,968	61	450,641
Advances for increase in common Stock			3,183					3,183
Issuance of common stock	7,000,000,000	22,194	(22,194)					
Transfer to legal reserves				483		(483)		
Comprehensive income:								
Net income					369,079	369,079		369,079
Other comprehensive income:								
Translation adjustment					(2,934)		(2,934)	(2,934)
Comprehensive income					366,145			
Balances at December 31, 1999	87,250,000,000	$210,953	299	2,026		609,564	(2,873)	819,969
Comprehensive income:								
Net income (unaudited)					75,133	75,133		75,133
Other comprehensive income (unaudited):								
Translation adjustment (unaudited)					(1,457)		(1,457)	(1,457)
Comprehensive income (unaudited)					73,676			
Balances at March 31, 2000 (unaudited)	87,250,000,000	$210,953	299	2,026		684,697	(4,330)	893,645

The accompanying notes are an integral part of these consolidated financial statements.

TURKCELL İLETİŞİM HİZMETLERİ ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1997, 1998 and 1999
and for the Three Month Periods Ended
March 31, 1999 and 2000 (unaudited)
(In thousands)

	Year Ended December 31,			Three Months Ended March 31,	
	1997	**1998**	**1999**	**1999**	**2000**
Operating Activities:					
Net Income	38,770	211,990	369,079	72,704	75,133
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	34,390	70,951	141,023	26,236	57,991
Provision for loss contingency	11,000	—	—	—	—
Accrued income	(3,591)	(37,126)	(50,225)	(38,743)	(36,567)
Accrued expense, net	(374)	55,406	83,626	(4,529)	(48,145)
Provision for retirement pay liability	167	423	905	338	679
Provision for inventories	70	(70)	—	—	—
Provision for doubtful receivables	—	26,187	39,816	8,977	14,865
Provision for income taxes	21	72	(77)	10	(16)
Equity in net (income) loss of unconsolidated investees	(1,809)	(7,427)	8,205	1,845	(103)
Deferred taxes	(11,146)	10,003	(7,277)	(5,228)	3,919
Changes in assets and liabilities:					
Trade receivables	(8,949)	(97,427)	(112,253)	(8,986)	(60,683)
Due from related parties	(6,434)	4,679	(1,213)	3,528	(6,861)
Inventories	1,806	(2,209)	(4,270)	1,101	(3,696)
Prepaid expenses	(2,631)	(2,205)	(8,868)	(3,192)	(13,709)
Other current assets	(3,802)	(2,674)	(2,814)	(240)	(7,613)
Advances to related parties	(35,894)	35,794	(2,338)	166	2,395
Other long term assets	502	(1,249)	1,077	(2,239)	(2,293)
Due to related parties	3,246	(1,561)	5,999	(461)	(4,701)
Trade payables	3,392	24,871	(100,146)	(123,141)	(99,952)
Loss contingency	—	(11,000)	—	—	—
Other current liabilities	2,748	10,932	27,724	14,425	29,495
Net cash provided by (used for) operating activities	21,482	288,360	387,973	(57,429)	(99,862)
Investing Activities:					
Additions to fixed assets	(40,756)	(152,171)	(756,321)	(20,293)	(18,277)
Additions to construction in progress	(76,436)	(115,875)	(38,831)	(12,644)	—
Additions to intangibles	(19,441)	(547,730)	(178,324)	(21,349)	(78,272)
Investments in investees, net	(5,453)	(39,422)	(10,922)	793	4,725
Net cash used for investing activities	(142,086)	(855,198)	(984,398)	(53,493)	(91,824)
Financing Activities:					
Proceeds from issuance of and advances for common stock	51,762	120,109	3,183	3,035	—
Increase in minority interest	98	2,599	1,594	1,237	214
Proceeds from issuance of short and long term debt	136,659	823,360	955,311	104,214	251,540
Payment on short and long term debt	(46,168)	(312,669)	(169,668)	(17,381)	(127,951)
Net decrease/(increase) in debt issuance expenses	—	(28,418)	(40,132)	(517)	822
Payment on lease obligations	(2,548)	(3,347)	(6,022)	(2,175)	(2,522)
Increase in lease obligations	391	38,671	6,969	—	1,918
Net cash provided by financing activities	140,194	640,305	751,235	88,413	124,021
Net increase/(decrease) in cash	19,590	73,467	154,810	(22,509)	(67,665)
Cash at the beginning of year	862	20,452	93,919	93,919	248,729
Cash at the end of year	20,452	93,919	248,729	71,410	181,064
Supplemental cash flow information:					
Interest paid	19,126	38,561	101,832	35,384	48,015
Taxes paid	—	21	93	21	16
Non-cash investing activities					
Accrued capital expenditures	—	111,517	109,655	95,701	223,687
Non-cash financing activities					
Issuance of common shares subscribed and paid-up in 1998	—	—	19,011	—	—

The accompanying notes are an integral part of these consolidated financial statements.

(1) Activities:

Turkcell İletişim Hizmetleri Anonim Şirketi (Turkcell—Parent company) was incorporated on October 5, 1993. It is engaged in establishing and operating a Global System for Mobile Communications (GSM) network in Turkey. Turkcell and Türk Telekomünikasyon A.Ş. (Türk Telekom), a state owned organization of Turkey, were parties to a revenue sharing agreement signed in 1993 which sets forth the terms related to the construction and operating phases of GSM network (the Revenue Sharing Agreement). In accordance with this agreement, Türk Telekom contracted with subscribers, performed billing and collection and assumed collection risks, while Turkcell made related GSM network investments. The Revenue Sharing Agreement covered a period of 15 years commencing in 1993. Türk Telekom and Turkcell shared revenues billed for subscription fees, monthly fixed fees and out-going calls, at a ratio of 67.1% and 32.9%, respectively. In addition, Turkcell received 10% of revenues billed for incoming calls. On April 27, 1998, Turkcell signed a license agreement (the License Agreement or License) with the Ministry of Transport and Communications of Turkey (the Turkish Ministry). In accordance with the License Agreement, Turkcell was granted a 25 year GSM license for a license fee of $500,000. The License Agreement permits Turkcell to operate as a stand-alone GSM operator and free it from some of the operating constraints, which were stated in the Revenue Sharing Agreement. Under the License, Turkcell collects all of the revenue generated from the operations of its GSM network and pays the Undersecretariat of Treasury (the Turkish Treasury) an ongoing license fee equal to 15% of its gross revenue. Turkcell also continues to build and operate its GSM network and is authorized to, among other things, set its own tariffs within certain limits, charge peak and off-peak rates, offer a variety of service and pricing packages, issue invoices directly to subscribers, collect payments and deal directly with subscribers.

As of March 31, 2000, Azertel Telekomünikasyon Yatırım ve Dış Ticaret Anonim Şirketi (Azertel), Gürtel Telekomünikasyon Yatırım ve Dış Ticaret Anonim Şirketi (Gürtel), Kıbrıs Mobile Telekomünikasyon Limited Şirketi (Kıbrıs Telekom), Digital Platform İletişim Hizmetleri A.Ş. (Digital Platform), Moldcell S.A. (Moldcell) and Global Bilgi Pazarlama Danişma ve Çağri Servisi Hizmetleri A.Ş. (Global) (the subsidiaries) are consolidated subsidiaries, owned 87.50%, 99.92%, 99.99%, 99.99%, 66% and 99.99% respectively, by Turkcell or the subsidiaries (December 31, 1999: 87.50%, 99.92%, 99.99%, 99.99%, 66% and 99.20%, respectively).

Azertel was incorporated on May 9, 1996. Azertel and the Ministry of Communication of Azerbaijan (the Azerbaijan Ministry) are parties to an agreement which sets forth the terms related to the construction and operating phases of a GSM network in Azerbaijan. In accordance with this agreement, Azercell Telecom MMM (Azercell), a company engaged in establishing and operating a GSM network in Azerbaijan, was founded in Azerbaijan. Its shares are owned by Azertel (64%) and the Ministry (36%). Related investments are being made by Azertel and the required operating license and permissions are being provided by the Ministry as capital contributions. The operating license is valid for 20 years commencing in 1997 and can be extended for periods of 10 years upon written applications of Azercell.

Gürtel was incorporated on November 11, 1996 and owns 78% of the shares of Geocell Limited (Geocell), a company founded in Georgia and engaged in establishing and operating a GSM network in Georgia. Other shareholders of Geocell are state owned organizations of Georgia (Georgian shareholders), namely Cellcom Limited (20%), and Mobilcom 97 Limited (2%). The articles of association of Geocell state the conditions related to the construction and operating phases of the GSM network. In

(1) Activities: (Continued)

accordance with the articles of association, related investments are being made by Gürtel and the operating license is being provided by Georgian shareholders as capital contributions. The term of existence of Geocell is 10 years, corresponding to the duration of the license period, which commenced in 1997. The term of existence and the duration of the license period will be automatically renewed for an additional 10 years unless a "major decision" (as described in the articles of association) is taken by the shareholders. Afterwards, the operating license period can be extended for periods of 10 years upon "major decisions" taken by the shareholders.

Kıbrıs Telekom was incorporated on March 25, 1999 for the purpose of constructing and operating a GSM network in Northern Cyprus. Kıbrıs Telekom and the Ministry of Prosperity and Transportation of the Turkish Republic of Northern Cyprus were parties to a revenue sharing agreement, which covers a period of 10.5 years commencing on March 25, 1999. According to the Revenue Sharing Agreement, revenues billed for subscription fees, monthly fixed fees, incoming and outgoing calls are shared at a ratio of 50% between the parties. At March 31, 2000, the share capital of Kıbrıs Telekom was fully paid in cash by the amount of $10,014.

Moldcell was incorporated on October 19, 1999, for the purpose of constructing and operating a GSM network in Moldavia. As of March 31, 2000, the other shareholders of Moldcell are Accent Electronic S.A. (Accent-23%) and Graham & Levintsa (11%), both Moldavian entities. On November 5, 1999, Moldcell obtained a license to install and operate a GSM network in the Republic of Moldavia, for a period of 15 years. On December 1, 1999, Turkcell and Accent signed an agreement to increase the share capital of Moldcell to the equivalent of $10,000 in Moldavian Lei, and simultaneously, Turkcell's participation will increase from 66% to 77% by acquisition of 11% shares from Graham & Levintsa. In accordance with this agreement, Accent will contribute the administrative building valued at $600, security services valued at $500 and consulting support valued at $200 as initial part of the share increase, and Turkcell will establish the GSM network. Moldcell commenced its GSM operations in April 2000. At March 31, 2000, the share capital of Moldcell was fully paid in cash by the amount of $1.

Global was incorporated on October 1, 1999 for the purpose of establishing data bases and call centers, and publishing and distributing telephone directories. At March 31, 2000, the paid-in capital of Global is $5,498.

Digital Platform was incorporated on March 10, 1999 for the purpose of broadcasting, and purchasing, selling and leasing of communication equipment and satellite lines. Digital Platform will deliver DTH (Direct to Home) television programme distribution services, and it began operations in April 2000. At March 31, 2000, the share capital of Digital Platform was fully paid in cash by the amount of $9,707.

Gürtel also owns 45% of the shares of Digital Hizmetler Pazarlama A.S. (Digital Pazarlama), a company incorporated on July 19, 1999 for the purpose of providing and marketing the television program distribution services of Digital Platform. At March 31, 2000, the paid-in capital of Digital Pazarlama is $4,125.

(1) Activities: (Continued)

TOO—GSM Kazakhstan AOA (GSM Kazakhstan) was incorporated on June 1, 1998 as a wholly owned subsidiary of AO Kazakhtelecom, the Kazakhstan monopoly fixed-line telecommunications company owned and controlled by Kazkommerstbank (a state-owned bank). GSM Kazakhstan is engaged in establishing and operating a GSM network in Almaty and parts of the northwest region of Kazakhstan. In an auction arranged by the Kazakh Government in June 1998, GSM Kazakhstan obtained a general license for 15 years at a cost of $67,500 to provide mobile telephone services in accordance with GSM standards. On September 29, 1998, Turkcell signed an agreement with AO Kazakhtelecom and acquired 51% ownership interest in GSM Kazakhstan in consideration for $25,000.

Fintur Holdings B.V. (Fintur), formerly known as Geden Lines B.V., was established in 1968 for the purpose of shipping brokerage services and remained dormant until 1999. In November 1999, the articles of association of Fintur have been amended in order to reflect a change in the company's operations (described in Note 10) and an increase in the share capital from Dutch Guilders 250 thousand to Euro 500 thousand. On February 11, 2000 Fintur became a wholly owned subsidiary of Turkcell. At March 31, 2000 the share capital of Fintur was paid by 24% in cash by the amount of $123.

(2) Financial Position and Basis of Preparation of Financial Statements:

Turkcell and the subsidiaries (the Company) maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with local commercial practice and tax regulations applicable in the countries where they are resident. The accompanying consolidated financial statements are based on these statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with accounting principles generally accepted in the United States. The financial statements as of December 31, 1998 and 1999 and March 31, 2000 and for each of the years in the three-year period ended December 31, 1999 and three month periods ended March 31, 1999 and 2000 present the consolidated financial position and consolidated results of operations of Turkcell and the subsidiaries, following the establishment of such subsidiaries as explained in Note 1. The unaudited consolidated financial statements of the Company as of March 31, 2000 and for the three month periods ended March 31, 1999 and 2000, in the opinion of the management of the Company, include all the adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of such unaudited interim periods.

In its statutory financial statements prepared in accordance with local commercial and tax regulations, Turkcell had accumulated losses as of December 31, 1999 and March 31, 2000. Interest expense and exchange losses associated with financing the business have contributed to accumulated losses as well as tax saving accounting treatments applied by Turkcell in its statutory financial statements. In accordance with Turkish commercial legislation, Turkcell is required to maintain certain minimum levels of shareholders' equity in its statutory financial statements. In connection with the recapitalization as described in Note 21, Turkcell has met those minimum requirements.

(3) Summary of Significant Accounting Policies:

Significant accounting policies followed in the preparation of the consolidated financial statements referred to above are set out below:

(a) Revenue and expense recognition

Revenues are recognized at the time the services are rendered. Fees from scratch cards are recognized as revenues based upon subscriber usage. Direct costs of revenues mainly include transmission fees, base station rents, depreciation and amortization charges and technical, repair and maintenance expenses directly related to services rendered. Subsequent to the acquisition of the License subscription fees, simcard and prepaid simcard sales are recognized upon initial entry of a new subscriber into the GSM system only to the extent of direct costs. Excess subscription fees, simcard and prepaid simcard sales, if any, are deferred and amortized over the estimated effective customer life. Direct costs of subscription fees, simcard and prepaid simcard sales include activation fees paid to dealers and to Türk Telekom, certain customer acquisition costs, costs of simcard sales and simcard subsidies. Selling and marketing, and general and administrative costs are charged to expense as incurred.

(b) Principles of consolidation

As of March 31, 2000, the consolidated financial statements include the accounts of Turkcell and six (December 31, 1998 and 1999: two and six, respectively) majority owned subsidiaries. Majority owned subsidiaries for which the minority shareholders possess participating vote rights and/or the control is temporary, are not consolidated. Investments in GSM Kazakhstan, Azercell, Geocell, Fintur and in 20% through 50% owned associated companies are included under the equity method of accounting where Turkcell and/or the subsidiaries exercise significant influence over operating and financial affairs (Note 10).

The major principles of consolidation are as follows:

— All significant intercompany balances and transactions have been eliminated in consolidation.

— Minority interest in net assets and net income of the consolidated subsidiaries are separately classified in the consolidated balance sheets and consolidated statements of operations.

(c) Principles of translation of the financial statements into US Dollar

Turkcell and the subsidiaries record transactions in their local currencies, which represent their functional currency. Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the date of the transactions. Assets and liabilities denominated in foreign currencies are converted into Turkish Lira at the exchange rates ruling at balance sheet date, with the resulting exchange differences recognized in the determination of net income.

Financial statements of Turkcell, Azertel, Gürtel, Kıbrıs Telekom, Digital Platform and Global Bilgi have been translated into US Dollars the reporting currency, in accordance with the relevant provisions of Statement of Financial Accounting Standard (SFAS) No. 52 "Foreign Currency Translation" as applied to

(3) Summary of Significant Accounting Policies: (Continued)

entities in highly inflationary economies. Accordingly, revenues, costs, capital and nonmonetary assets and liabilities are translated at historical exchange rates while monetary assets and liabilities are translated at the exchange rates prevailing at balance sheet dates. All foreign exchange adjustments resulting from translation of the financial statements into US Dollars are included in the determination of net income, as "Translation loss".

GSM Kazakhstan, Azercell, Geocell, Digital Pazarlama and Fintur are unconsolidated subsidiaries accounted for under the equity method of accounting. Financial statements of these companies except Azercell, Geocell and Fintur have been translated into US Dollars, the reporting currency of the Company, in accordance with the relevant provisions of SFAS No. 52 as applied in highly inflationary economies. All foreign exchange adjustments resulting from translation of the financial statements of Azercell, Geocell and Fintur into US Dollars are included in a separate section of shareholders' equity titled "Accumulated other comprehensive income".

(d) Fixed assets and intangibles

Fixed assets and intangibles are stated at cost. Leases of plant and equipment under which the Company assumes substantially all the risks and the rewards incidental to ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are recognized in the balance sheet by recording an asset and liability equal to the present value of minimum lease payments at the inception of the lease. Capitalized finance leases are depreciated over the estimated useful life of the asset or the lease term where appropriate. Lease liabilities are reduced by repayments of principal, while the interest charge component of the lease payment is charged to income.

Depreciation and amortization is provided using straight-line method at rates established based on the estimated economic lives of the related assets. The annual rates used approximate the estimated economic lives of the related assets and are as follows:

Buildings	4.0%
Machinery and equipment	12.5%
Furniture, fixture and equipment	25.0%
Motor vehicles	25.0%
Leasehold improvements	20.0%
Intangibles	4%–12.5%

Major renewals and betterments are capitalized and depreciated/amortized over the remaining useful lives of the related assets. Maintenance, repairs and minor renewals are expensed as incurred.

When assets are otherwise disposed of, the costs and the related accumulated depreciation/amortization are removed from the accounts and resulting gain or loss is reflected in net income.

(3) Summary of Significant Accounting Policies: (Continued)

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method. At March 31, 2000, inventories consisted of simcards and scratch cards (finished goods) amounting to $11,999 (December 31, 1998: $4,033; December 31, 1999: $8,303).

(f) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company's deferred tax assets and liabilities have been remeasured into US Dollars in accordance with the provisions of SFAS No. 109 and the transaction gains and losses that result from such remeasurement have been included within the translation loss in the consolidated financial statements.

(g) Use of estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States. Actual amounts could differ from those estimates. Significant estimates and assumptions include the depreciable lives of fixed assets and intangibles, amounts reflected as allowances for doubtful receivables, inventories and deferred tax assets.

(h) Transactions with related parties

For reporting purposes, investee companies and their shareholders and shareholders of Turkcell and the subsidiaries and the companies that the shareholders have a relationship with are considered to be related parties.

(i) Impairment of long-lived assets

The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, on January 1, 1996. The Company assesses impairment of its long-lived assets and intangibles wherever facts or circumstances indicate the carrying amounts may not be recoverable. The Company compares the carrying value of such assets to the estimated future undiscounted cash flows attributable to such assets. If the sum of the expected cash flows (undiscounted and without charges) is less than the carrying amount of the asset, the Company recognizes

(3) Summary of Significant Accounting Policies: (Continued)

an impairment loss on the assets. There was no such impairment in any of the periods presented in the consolidated financial statements.

(j) Transfer and servicing of financial assets and extinguishments of liabilities

The Company adopted SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 125, as amended by SFAS No. 127, which provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. The adoption of SFAS No. 125 did not have a material impact on the Company's consolidated financial position, results of operations, or liquidity.

(k) Earnings per share

The Company adopted SFAS No. 128, Earnings Per Share. In accordance with this statement, basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding. Diluted earnings per share do not differ from basic earnings per share for all periods presented, as the Company has no common stock equivalents. Weighted average number of common shares outstanding and earnings per share information have been retroactively restated to reflect the Company's recapitalization as described in Note 21.

(l) Comprehensive income

The Company adopted SFAS No. 130, Reporting Comprehensive Income, which requires the presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income generally encompasses all changes in shareholders' equity (except those arising from transactions with owners) and includes net income (loss), net unrealized capital gains or losses on available for sale securities and foreign currency translation adjustments. The Company's comprehensive income differs from net income applicable to common shareholders only by the amount of the foreign currency translation adjustment charged to shareholders' equity for the period. Comprehensive income for the three month periods ended March 31, 1999 and 2000 were $71,730 and 73,676, respectively.

(m) Segment reporting

The Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. This statement requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers. The adoption of SFAS No. 131 did not impact the Company's reportable segments as the Company operates principally in one operating segment, the telecommunication industry.

(3) Summary of Significant Accounting Policies: (Continued)

(n) Derivative instruments and hedging activities

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS No. 133 is effective for all fiscal quarters or fiscal years beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure these instruments at fair value. The Company has not yet adopted SFAS No. 133. Management has not determined the impact the adoption SFAS No. 133 will have on the Company's consolidated financial statements.

(o) Accounting for computer software

In January 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 98-1, "Accounting for the costs of Computer Software Developed or obtained for Internal Use" (SOP 98-1). The Company adopted SOP 98-1 effective January 1, 1999. The adoption of SOP 98-1 did not have a material impact on the Company's consolidated financial statements.

(p) Reporting on the costs of start-up activities

The AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" ("SOP 98-5") in April 1998. SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. The Company adopted SOP 98-5 effective January 1, 1999. The adoption of SOP 98-5 did not have a material impact on the Company's consolidated financial statements.

(q) Retirement pay liability

Under the terms of the existing labor law in Turkey, the Company is required to make lump-sum payments to employees who have completed one year of service and whose employment are terminated without due cause, or who retire, complete 25 years' service (20 years for women), are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum approximately U.S. Dollar 0.83 per year of employment at the rate of pay applicable at the date of retirement or termination.

(r) Deferred financing cost

Certain financing costs associated with the borrowings of funds are deferred. Deferred financing costs are recorded in other current assets ($22,296) and other long-term assets ($48,633) in the accompanying consolidated balance sheet at March 31, 2000 (December 31, 1999: $21,066 and $50,685; December 31, 1998: $9,125 and $22,494). These assets are amortized over the terms of the related borrowings as an adjustment to interest expense in the accompanying statements of operations.

(3) Summary of Significant Accounting Policies: (Continued)

(s) Reclassifications

Certain prior year amounts have been reclassified to conform with 1999 presentation.

(4) Fair Value of Financial Instruments:

The Company's financial instruments consist of cash and cash equivalents, trade receivables and accrued income, short and long term borrowings and trade payables.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(a) Cash and cash equivalents, trade receivables and accrued income and trade payables

The carrying amounts approximate fair value because of the short maturity of those instruments.

(b) Short and long term borrowings

(i) Bank facilities: The carrying amount approximates fair value because the interest rate varies based on the London interbank offer rates.

(ii) Loans under the Issuer Credit Agreements: The fair value is estimated based on the quoted market prices.

(iii) Other long term borrowings: For other long term borrowings, a reasonable estimate of fair value could not be made because they are unique in nature and no information is readily available.

(iv) Other short term bank loans and overdrafts: The carrying amount approximates fair value because of the short maturity of those instruments.

(Amounts in thousands unless otherwise stated except share amounts)

(4) Fair Value of Financial Instruments: (Continued)

The estimated fair values of the Company's financial instruments are as follows:

	December 31,				March 31,	
	1998		1999		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
					(Unaudited)	
Cash and cash equivalents	$93,919	93,919	248,729	248,729	181,064	181,064
Trade receivables and accrued income	128,794	128,794	251,456	251,456	333,841	333,841
Short term borrowings						
Practicable to estimate fair value	45,113	45,113	324,572	324,572	401,112	401,112
Not practicable	49,668	—	49,668	—	49,668	—
Trade payables	143,985	143,985	153,494	153,494	277,229	277,229
Long term borrowings						
Practicable to estimate fair value	617,000	575,000	1,172,852	1,213,622	1,237,282	1,272,302
Not practicable	124,445	—	74,777	—	57,396	—

(5) Cash and Cash Equivalents:

Cash and cash equivalents of $93,919, $248,729 and $181,064 at December 31, 1998 and 1999 and March 31, 2000, respectively, consist of cash on hand, demand deposits at banks and time deposits at banks with an initial term of less than one month. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with initial maturities of one month or less to be cash equivalents.

At March 31, 2000, cash and cash equivalents amounting to $125,011 (December 31, 1999: $55,384; December 31, 1998: $47,982) were deposited in the banks which are owned and controlled by Çukurova Holding A.Ş., a shareholder of the Company.

(Amounts in thousands unless otherwise stated except share amounts)

(6) Trade Receivables and Accrued Income, net:

At December 31, 1998 and 1999 and March 31, 2000, the breakdown of trade receivables is as follows:

	December 31,		March 31,
	1998	1999	2000
			(Unaudited)
Receivables from subscribers	$ 83,742	167,796	221,941
Receivable from Türk Telekom	26,114	52,889	54,241
Accounts and checks receivable	1,331	2,755	7,941
	111,187	223,440	284,123
Accrued service income	40,717	90,942	127,509
Allowance for doubtful receivables	(23,110)	(62,926)	(77,791)
	$128,794	251,456	333,841

The Company has a receivable from Türk Telekom at December 31, 1998 and 1999 and March 31, 2000, which represents amounts that are due from Türk Telekom under the Interconnection Agreement (Note 26). The Interconnection Agreement provides that Türk Telekom will pay Turkcell for Türk Telekom's fixed line subscribers' calls to Turkcell's GSM subscribers.

The accrued service income represents revenues accrued for subscriber calls (air-time) which have not been billed. Due to the volume of subscribers, there are different billing cycles; accordingly, an accrual is made at each period end to accrue revenues for services rendered but not yet billed.

Accounts and checks receivable represent amounts due from dealers and roaming receivables.

Movements in the allowance for doubtful receivables were as follows:

	December 31,		March 31,
	1998	1999	2000
			(Unaudited)
Beginning balance	$ —	23,110	62,926
Provision for doubtful receivables	26,187	61,209	22,558
Write-offs	—	—	—
Effect of change in exchange rate	(3,077)	(21,393)	(7,693)
Ending balance	$23,110	62,926	77,791

As a result of earthquakes in the Marmara Region on August 17 and November 12, 1999, all communication companies in Turkey decided to defer the collection of their receivables from subscribers living in the Marmara Region (Sakarya, Kocaeli, Bolu and suburbs) until February 29, 2000. On the uncollected receivables no interest has been accrued; such receivables amounted to $6,456 as of March 31, 2000 (December 31, 1999: $5,830). The Company provided an allowance for the full amount of such

(Amounts in thousands unless otherwise stated except share amounts)

(6) Trade Receivables and Accrued Income, net: (Continued)

receivables and also other doubtful receivables identified based upon past experience in its consolidated financial statements.

(7) Due from Related Parties:

As of December 31, 1998 and 1999 and March 31, 2000, the balance comprised:

	December 31, 1998	December 31, 1999	March 31, 2000 (Unaudited)
A-Tel Pazarlama ve Servis Hizmetleri A.Ş. (A-Tel)	$ —	1,280	2,957
Azercell	—	938	180
Topaz Telekomünikasyon, Yayıncılık, Reklamcılık Sanayi ve Ticaret A.Ş. (Topaz)	—	615	3,916
Digital Pazarlama	—	693	—
Geocell	3,222	517	536
Mobicom Bilgi İletişim Hizmetleri A.Ş. (Mobicom)	239	303	405
Aslı Gazetecilik ve Matbaacılık A.Ş. (Aslı Gazetecilik)	—	—	2,494
Çukurova İthalat ve İhracat T.A.Ş.	—	—	262
Superonline Uluslararası Elektronik Bilgilendirme ve Haberleşme Hizmetleri A.Ş. (Superonline)	—	—	350
Other	292	620	727
	$3,753	4,966	11,827

Due from A-Tel represented receivable resulting from sale of prepaid simcards.

Due from Azercell and Geocell mainly resulted from sales of materials relating to GSM investments (Note 25).

Due from Topaz represented funds loaned to Topaz for financing of its infrastructure investments.

Due from Digital Pazarlama resulted from the consultancy services paid by Digital Platform on behalf of this company.

Due from Mobicom resulted from rents paid by Turkcell on behalf of this company.

Due from Superonline resulted from call center services provided by Global.

Due from Asli Gazetecilik resulted from advances given for advertisements.

(Amounts in thousands unless otherwise stated except share amounts)

(8) Other Current Assets:

At December 31, 1998 and 1999 and March 31, 2000, the balance comprised:

	December 31,		March 31,
	1998	1999	2000
			(Unaudited)
Deferred financing costs (Note 3)	$ 9,125	21,066	22,296
Advances to suppliers	1,111	3,553	5,221
Value added tax receivable	1,910	2,513	6,004
Blocked deposits (Note 21)	2,971	1,720	1,579
Other	1,989	3,009	5,604
	$17,106	31,861	40,704

(9) Prepaid Expenses:

At December 31, 1998 and 1999 and March 31, 2000, balances comprised prepaid rent, insurance and maintenance expenses.

(10) Investments:

At December 31, 1998 and 1999 and March 31, 2000, investments in associated companies were as follows:

	December 31,		March 31,
	1998	1999	2000
			(Unaudited)
Azercell	$42,955	40,157	41,952
GSM Kazakhstan	22,809	12,874	10,547
Geocell	4,508	16,707	11,047
Digital Pazarlama	—	317	364
Fintur	—	—	66
	$70,272	70,055	63,976

At March 31, 2000, Turkcell's ownership interests in GSM Kazakhstan and Fintur were 51% and 100%, respectively, Azertel's ownership interest in Azercell was 64% and Gürtel's ownership interests in Digital Pazarlama and Geocell were 45% and 78%, respectively. Investments in GSM Kazakhstan, Fintur, Azercell, Digital Pazarlama and Geocell are accounted for under the equity method of accounting.

GSM Kazakhstan and Azercell are not consolidated because their articles of association include certain provisions restricting the Company's control over operating and financial affairs and giving to minority shareholder certain substantive participating rights. Fintur is not consolidated since the control is

(10) Investments: (Continued)

temporary due to the planned Fintur transaction described below and that there have not been any substantive operations to date.

Until December 31, 1998, the investment in Geocell was accounted under the equity method of accounting. During 1999, the investment in Geocell was accounted for at cost because there was a pending litigation with Geocell. As a result of this pending litigation, no financial information of Geocell was available through December 1999. In December 1999, the litigation with Geocell was resolved and the Company began to recognize its equity in earnings of Geocell. Following the resolution of the litigation, in December 1999 Gürtel increased its ownership interest in Geocell to 78%. Gürtel purchased this additional interest by paying $2,645 to Georgian shareholders and participating by $3,803 in the share capital increase of Geocell. In connection with the planned Fintur transaction (described below), Turkcell plans to contribute its 99.99% interest in Gürtel and effectively its 78% interest in Geocell to Fintur in May 2000. Once contributed, the Company's interest in Geocell will be effectively reduced to approximately 20% through the Company's ownership interest in Fintur. The Company will account for its investment in Fintur under the equity method of accounting. Given this, and on the basis that the Company's control of its current 78% interest in Geocell is temporary, the Company has accounted for its investment in Geocell under the equity method of accounting.

On October 23, 1998, the shareholders of Azercell agreed to issue additional shares of common stock. In 1998, Azertel made its contribution in the form of GSM network equipment. However, the Ministry of Communication of Azerbaijan (the Azerbaijan Ministry) failed to make its capital contribution. In late 1998, the Company and representatives of the Azerbaijan Ministry entered into discussions concerning this failure.

The Company proposed that certain equipment which was sold to Azercell by Azertel for cash instead be contributed as an in–kind capital contribution to Azercell and that Azertel's percentage of ownership in Azercell be increased to 64% as a result of such contribution and the failure by the Azerbaijan Ministry to make its required capital contribution, thereby reducing the interest of the Azerbaijan Ministry. On April 22, 1999, the Azerbaijan Ministry agreed to Azertel's proposal.

At the Board of Directors Meeting of Turkcell held on April 28, 1999, it was agreed to form a holding company in Netherlands. The new holding company, would mainly engage in participating in the capital and management of companies providing communication, internet, multi-media and data transfer services. On February 11, 2000, the Company paid EURO 120 thousand and capitalized a 100% owned subsidiary in Fintur Holdings B.V. (Fintur), which was a company established in 1968 for the purpose of shipping brokerage services and was formerly known as Geden Lines B.V. Subsequently, a decision was made with Çukurova Group and Sonera Group companies to jointly own Fintur where it was agreed to increase share capital of Fintur to $360,000 and make the following restructuring:

The Company will contribute its entire 87% interest in Azertel, the company that holds a 64.3% interest in Azercell Telekom B.M., the Azeri GSM network operator, and also contribute its 99.92% ownership interest in Gürtel, the company that owns a 78% interest in Geocell, the Georgian GSM network operator. The Company will also contribute its 51% interest in GSM Kazakhstan, the Kazakstani

(10) Investments: (Continued)

GSM network operator, its 66% interest in Moldcell, the Moldavian GSM network operator, and its entire 100% interest in Digital Platform, its digital television distribution subsidiary. The Company will however decrease its 100% ownership in Fintur to 25% of the equity of Fintur in exchange for its investment in the other businesses and assets which will be contributed into Fintur by Çukurova Group and Sonera Group companies. The Company has therefore accounted for its interest in Fintur under the equity method of accounting as of March 31, 2000.

The remaining equity of Fintur will be owned by Sonera Corporation Inc., Çukurova Holding A.Ş., Çukurova Investments N.V. and Yapı ve Kredi Bankası A.Ş.. Sonera Corporation Inc. will contribute $127.1 million in cash to Fintur in exchange for approximately 35% of the equity in Fintur. Çukurova Holding A.Ş. will contribute $48 million of its interests in three corporations (100% of Topaz, 80% of Mobicom and 80% of Verinet Uydu Haberleşme Sanayi ve Ticaret A.Ş.) to Fintur in exchange for 12.7% of the equity in Fintur and $2.4 million in cash. Çukurova Investments N.V. will contribute $70 million of its interest in one corporation (50% of Superonline) to Fintur in exchange for 7.6% of the equity in Fintur and $42.7 million in cash. Yapı ve Kredi Bankası A.Ş. will contribute $72 million worth of its interest in two corporations (50% of Superonline and 10% of Mobicom) to Fintur in exchange for 19.4% of the equity in Fintur and $2 million in cash.

On January 12, 2000, the Board of Directors of Turkcell resolved to transfer its investment in GSM Kazakhstan to Fintur for cash consideration of $ 25,000 payable to Turkcell by Fintur.

Further, in relation to Fintur restructuring, on March 22, 2000, the Board of Directors of Turkcell resolved to transfer its shares in Azertel and Gürtel, the consolidated subsidiaries, to Lehman Brothers International (Europe) (Lehman) for consideration of $40,000 and $25,000, respectively. Based on an agreement dated March 8, 2000, signed between Lehman and Sonera Corporation Inc., Çukurova Holding A.Ş., Çukurova Investments N.V., Yapı ve Kredi Bankası A.Ş. and Turkcell (together the Companies), Lehman is engaged to render financial advisory services to the Companies concerning the recapitalization of Fintur. Lehman will assist the Companies in the identification and structuring of alternatives for the acquisition of interests in companies to be contributed to Fintur, purchase and sell, at the same price, as an intermediary purchaser the interests in such companies to the extent that intermediation facilitates the objectives of the sellers of the interests and Fintur, and co-ordinate with Companies' other advisors in the production of documentation relating to the proposed acquisition of the interests. As compensation for the services rendered by Lehman, the Companies shall pay Lehman 0.5% of the total acquisition price of $ 185,000.

Aggregate summarized financial information of Azercell and Geocell for the year ended December 31, 1997, and of Azercell, Geocell and GSM Kazakhstan as of and for the year ended December 31, 1998 and of Azercell and GSM Kazakhstan for the three month period ended March 31, 1999, and of Azercell, Geocell, GSM Kazakhstan and Digital Pazarlama as of and for the year ended December 31,

(Amounts in thousands unless otherwise stated except share amounts)

(10) Investments: (Continued)

1999, and of Azercell, Geocell, GSM Kazakhstan, Digital Pazarlama and Fintur as of and for the three month period ended March 31, 2000 are as follows:

	December 31,		March 31,
	1998	1999	2000
			(Unaudited)
Current assets	$28,150	26,936	38,773
Noncurrent assets	166,459	199,524	197,110
Total assets	194,609	226,460	235,883
Current liabilities	25,119	47,846	62,445
Noncurrent liabilities	53,583	70,840	75,834
Shareholders' equity	115,907	107,774	97,604
	194,609	226,460	235,883

	Years ended December 31,			3 Months Ended March 31,	
	1997	1998	1999	1999	2000
				(Unaudited)	
Revenues	$19,973	52,892	63,628	10,339	20,875
Direct cost of revenues	(8,062)	(17,482)	(34,749)	(3,249)	(11,230)
Income (loss) before taxes	3,528	15,850	(13,415)	(3,681)	2,132
Net income (loss)	2,388	13,461	(15,426)	(4,996)	(800)

(Amounts in thousands unless otherwise stated except share amounts)

(11) Fixed Assets, net:

As of December 31, 1998 and 1999 and March 31, 2000, the analysis of fixed assets is as follows:

	Useful Lives	December 31, 1998	December 31, 1999	March 31, 2000 (Unaudited)
Operational fixed assets:				
Base terminal stations	8 years	$246,783	528,182	602,438
Mobile switching center/Base station controller	8 years	159,554	436,832	526,766
Mini links	8 years	49,697	110,760	125,029
Supplementary system	8 years	1,689	23,200	23,614
Broadcasting equipment	4 years	—	176	21,343
Call center equipment	5 years	—	52	8,793
GSM services equipment	8 years	—	—	11,983
		457,723	1,099,202	1,319,966
Accumulated depreciation		(90,012)	(175,035)	(209,605)
Operational fixed assets, net		367,711	924,167	1,110,361
Non-operational fixed assets:				
Land		1,206	2,681	3,256
Buildings	25 years	14,305	82,310	94,735
Furniture, fixtures and equipment	4–10 years	30,494	68,062	81,792
Motor vehicles	4–10 years	3,255	7,655	7,878
Leasehold improvements	5 years	10,666	14,060	14,530
		59,926	174,768	202,191
Accumulated depreciation		(12,406)	(27,965)	(36,578)
Non-operational fixed assets, net		47,520	146,803	165,613
		$415,231	1,070,970	1,275,974

Total amount of interest capitalized on fixed assets during the years ended December 31, 1997, 1998 and 1999 and during the three-month periods ended March 31, 1999 and 2000, amounted to $3,798, $5,014, $5,377, $1,040 and $1,714 respectively. Such capitalized interest is depreciated over the useful lives of the related fixed assets.

At December 31, 1998 and 1999 and March 31, 2000, total fixed assets acquired under finance leases amounted to $17,346, $43,672 and $57,470 respectively. Depreciation of these assets amounted to $621, $1,321, $4,020, $342 and $726 for the years ended December 31, 1997, 1998 and 1999 and for the three month periods ended March 31, 1999 and 2000, respectively, and is included with depreciation expense.

(Amounts in thousands unless otherwise stated except share amounts)

(12) Construction in Progress:

At December 31, 1998 and 1999 and March 31, 2000, construction in progress consisted of expenditures in GSM and non-operational items and is as follows:

	December 31,		March 31,
	1998	1999	2000
			(Unaudited)
Turkcell-Phase 5B	$ 5,418	—	—
Turkcell-Phase 6	161,482	—	—
Turkcell-Phase 7 Plus	—	164,326	56,266
Turkcell-Phase 7	6,153	115,611	96,469
Turkcell-Phase 7 IN	—	—	1,406
Turkcell-Phase 8	—	—	110,034
Turkcell-IN Project	10,086	15,536	22,181
Billing Gateway Project	—	—	1,967
GSM 900 Project	—	—	1,822
NCC Project	—	—	895
Broadcasting equipment	—	14,197	6,240
Turkcell-SDH and NS Project	—	12,455	6,724
Turkcell-Wise Project	—	2,884	4,780
Call center equipment	—	2,724	129
Turkcell OSS Project	—	844	1,384
Kýbrýs Telekom-GSM network	—	839	—
Turkcell-MVPN Project	—	109	912
Radio Network Design Contract	—	106	209
Moldcell GSM Network	—	—	7,735
Non-operational items	44,253	46,247	50,502
	$227,392	375,878	369,655

Expenditures for non-operational items mainly represent the cost of three buildings for Turkcell's departments and regional offices in Istanbul, Ankara and Izmir acquired under finance leases. Also included in non-operational construction in progress are costs related to reconstruction and renovation of these buildings. Upon completion of construction and when assets are placed in service they are transferred from construction in progress to fixed assets and depreciation commences.

(Amounts in thousands unless otherwise stated except share amounts)

(13) Intangibles, net:

As of December 31, 1998 and 1999 and March 31, 2000, intangibles consisted of the following:

	Useful lives	December 31, 1998	December 31, 1999	March 31, 2000 (Unaudited)
Turkcell-License (Notes 1 and 26)	25 years	$500,000	500,000	500,000
Moldcell-License	15 years	—	4,800	8,800
Computer software	8 years	99,997	266,342	339,684
Transmission lines	10 years	2,460	9,639	10,569
		602,457	780,781	859,053
Accumulated amortization		(32,976)	(73,417)	(88,225)
		$569,481	707,364	770,828

The increase in computer software is principally due to expansion of the GSM network. Amortization of computer software amounted to $5,416, $8,660, $20,124, $3,329 and $8,255 for the years ended December 31, 1997, 1998 and 1999 and for three month periods ended March 31, 1999 and 2000, respectively.

(14) Short Term Borrowings:

At December 31, 1998 and 1999 and March 31, 2000, short-term borrowings comprised the following:

	December 31, 1998	December 31, 1999	March 31, 2000 (Unaudited)
Current portion of long term borrowings (Note 19)	$94,668	374,119	436,683
Other bank loans and overdrafts	113	121	14,097
	$94,781	374,240	450,780

(15) Trade Payables:

As of December 31, 1998, and 1999 and March 31, 2000, the balance represented an amount due to Ericsson Telekomünikasyon A.S. of $117,312, $109,655 and $223,687, respectively, resulting from fixed asset purchases, site preparation and other services, and amounts due to other suppliers totalling $26,673, $43,839 and $53,542, respectively, arising in the ordinary course of business.

Turkcell is party to a series of supply agreements with Ericsson Telekomünikasyon A.S. (Ericsson Turkey) (collectively the Supply Agreements) under which Ericsson Turkey has agreed to supply Turkcell with an installed and operating GSM network, spare parts, training and documentation. The Supply Agreements also give Turkcell a non-exclusive restricted software License for GSM software. Under the

(Amounts in thousands unless otherwise stated except share amounts)

(15) Trade Payables: (Continued)

Supply Agreements, Ericsson Radio Systems AB (Ericsson Sweden) guarantees all of Ericsson Turkey's obligations to Turkcell.

Turkcell also entered into a GSM service agreement with Ericsson Sweden under which Ericsson Sweden supplies Turkcell with the following system services: trouble report handling service, hardware service, consultation service and emergency service. This agreement expired on December 31, 1998 but contains successive one-year automatic renewals unless terminated by either party in writing no later than six months prior to the expiration of the then current term, but not beyond December 31, 2005. As of December 31, 1999, the agreement was automatically extended through December 31, 2000.

(16) Due to Related Parties:

As of December 31, 1998, and 1999 and March 31, 2000, due to related parties comprised:

	December 31,		March 31,
	1998	1999	2000
			(Unaudited)
Aslı Gazetecilik	$ —	4,407	—
KVK Mobil Telefon Sistemleri Ticaret A.Ş. (Note 25)	—	2,554	1,507
Bilka Bilgi Kaynak ve İletişim A.Ş. (Note 21)	2,971	1,720	1,579
Akşam Pazarlama ve Dış Ticaret A.Ş.	613	534	277
Azercell	542	—	—
Sonera Corporation Inc. (Note 25)	206	—	—
Sonera Telekomünikasyon Hizmetleri Ltd. Şti.	—	439	—
Hobim Bilgi İşlem Hizmetleri A.Ş. (Note 25)	—	315	365
Halk Yaşam A.Ş.	—	75	544
Türkiye Genel Sigorta A.Ş. (Note 25)	1	—	398
Halk Sigorta A.Ş.(Note 25)	—	—	363
Digital Pazarlama	—	—	824
Other	249	537	23
	$4,582	10,581	5,880

Due to Aksam Pazarlama Dis Ticaret A.S. resulted from advertisements published in this newspaper.

Due to Sonera Telekomünikasyon Hizmetleri Ltd. Sti. resulted from technical advisory services.

Due to Asli Gazetecilik resulted from purchase of a non-operational building from this company.

Due to Halk Yasam resulted from health insurance policies of the employees.

Due to Digital Pazarlama resulted from marketing services rendered.

(Amounts in thousands unless otherwise stated except share amounts)

(17) Other Current Liabilities and Accrued Expenses:

At December 31, 1998 and 1999 and March 31, 2000, the balance comprised:

	December 31,		March 31,
	1998	1999	2000
			(Unaudited)
Treasury Share accrual (Note 26)	$ —	51,900	—
Taxes and withholdings	12,953	35,403	61,744
License fee accrual—The Turkish Treasury	18,037	31,108	29,062
Accrued interest on borrowings	26,712	24,302	19,529
Selling and marketing expense accruals	6,528	10,255	13,247
Lease obligations—short term portion (Note 20)	6,023	7,630	8,483
Interconnection accrual—Türk Telekom	4,753	5,769	7,465
Deferred income (Note 3)	—	5,274	5,724
Roaming expense accrual	2,491	2,728	3,711
Accrued interest on lease obligations	1,033	1,190	1,471
Other expense accruals	3,108	19,036	26,362
	$81,638	194,595	176,798

As explained in Note 26, Treasury Share accrual at December 31, 1999 represents unpaid license fee equal to 15% of value added tax on gross revenues and accrued interest on this balance. The amount was paid on March 24, 2000.

In accordance with the License Agreement (Notes 1 and 26), Turkcell pays the Turkish Treasury an ongoing license fee equal to 15% of its gross revenue. The balance of $18,037, $31,108 and $29,062 represents the fee accrual for the month of December 1998 and 1999 and March 2000, respectively.

Interconnection accrual represents amounts payable under the Interconnection Agreement (Note 26). The Interconnection Agreement requires that Turkcell pay Türk Telekom for Turkcell's GSM subscribers' calls to Türk Telekom's fixed line subscribers.

(18) Taxes on Income:

The income tax benefit (charge) is attributable to income/loss from continuing operations and consists of:

	Year Ended December 31,			3 Months Ended March 31,	
	1997	1998	1999	1999	2000
				(Unaudited)	
Current tax charge	$ (21)	(110)	(69)	(38)	(9)
Deferred tax benefit (charge)	17,666	(19,144)	8,351	5,400	(3,563)
Income tax benefit (charge)	$17,645	(19,254)	8,282	5,362	(3,572)

(Amounts in thousands unless otherwise stated except share amounts)

(18) Taxes on Income: (Continued)

The amounts computed by applying the statutory income tax rate of 33 percent (1997 and 1998: 44 percent) of Turkey where the Company has its principle operations differed from pre-tax income from continuing operations as a result of the following:

	Year Ended December 31			3 Months Ended March 31,	
	1997	1998	1999	1999	2000
				(Unaudited)	
Computed "expected" tax expense	$(9,295)	(101,747)	(119,063)	(22,223)	(25,973)
Non taxable translation gain	37,563	77,750	122,512	34,338	29,747
Investment tax credit	40,062	58,420	169,528	21,295	83,641
Change in valuation allowance	(49,865)	(44,909)	(159,260)	(26,067)	(87,264)
Other	(820)	(8,768)	(5,435)	(1,981)	(3,723)
Income tax benefit (expense)	$17,645	(19,254)	8,282	5,362	(3,572)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 1998 and 1999 and March 31, 2000 are presented below:

	December 31		March 31,
	1998	1999	2000
			(Unaudited)
Deferred tax assets:			
Accrued expenses	$ 6,301	47,657	7,979
Accounts and other receivables (principally due to allowance for doubtful accounts) and other	8,008	1,089	16,350
Net operating loss carryforwards	12,034	9,273	9,163
Tax credit carryforwards	86,458	215,854	281,804
Gross deferred tax assets	112,801	273,873	315,296
Less: Valuation allowances	(83,958)	(206,483)	(276,731)
Net deferred tax assets	$ 28,843	67,390	38,565
Deferred tax liabilities:			
Fixed assets and intangibles, principally due to financial leases, differences in depreciation and amortization, and capitalization of interest and foreign exchange loss for tax purposes	$(27,564)	(56,984)	(33,560)
Other	(136)	(1,986)	(504)
Total deferred tax liabilities	(27,700)	(58,970)	(34,064)
Net deferred tax assets	$ 1,143	8,420	4,501

(Amounts in thousands unless otherwise stated except share amounts)

(18) Taxes on Income: (Continued)

At December 31, 1999, net operating loss carry forwards are as follows:

Year	Amount	Expiration Date
1997	$18,387	2002
1999	$ 9,395	2004

At March 31, 2000, net operating loss carry forwards are as follows (unaudited):

Year	Amount	Expiration Date
1997	$ 95	2002
1999	$ 8,624	2004
2000	$20,025	2005

Non taxable translation gain results from translation of Turkish Lira denominated non-monetary assets and liabilities to the US Dollar, the functional and reporting currency, in accordance with the relevant provisions of SFAS No. 52 as applied to entities in highly inflationary economies (as discussed in note 3). Under SFAS No. 109, such translation gains and losses between the tax and book basis of related assets and liabilities do not give rise to temporary differences. The increase in such amounts in 1998 and 1999 is primarily attributable to translation gain resulting from the translation of Turkish Lira denominated fixed assets and intangibles into the US Dollar.

In 1993 and 1997, the Undersecretariat of Treasury approved investment incentive certificates for a program of capital expenditures by Turkcell in its GSM operations. Such incentives entitle Turkcell to a 100% exemption from customs duty on imported machinery and equipment and an investment tax benefit of 100% on qualifying expenditures. The investment tax benefit takes the form of deductions for corporation tax purposes, but such deductions are subject to withholding tax at the rate of 16.5%. Investment incentive certificates provide for tax benefits on cumulative purchases of up to approximately $1.7 billion in qualifying expenditures, as defined. As of March 31, 2000, the Company had incurred cumulative qualifying expenditures of approximately $1.7 billion (December 31, 1999: $1.3 billion) resulting in tax credit carryforwards under the certificates of approximately $281.8 million (December 31, 1999: $215,9 million), net of foreign exchange translation losses. Such tax credits can be carried forward indefinitely. The certificates are denominated in Turkish Lira. However, approximately $1.6 billion of qualifying expenditures through March 31, 2000 (December 31, 1999: $1.2 billion) under such certificates are indexed against future inflation for a period of three years. In 1999, the Company grossed up 1997 and 1998 deferred tax assets for tax credit carryforwards, and has recognized a valuation allowance for such amounts. Furthermore, as a result of the tax credit carryforward gross-up, deferred tax assets and liabilities previously recorded at the effective statutory rate have also been grossed up to the enacted tax rate. Income tax (expense) benefit and translation loss in the consolidated statements of operations have been adjusted for the impact of net translation gain (loss) and deferred tax (expense) benefit resulting from the remeasurement of the adjusted deferred tax assets and liabilities each reporting period.

(Amounts in thousands unless otherwise stated except share amounts)

(18) Taxes on Income: (Continued)

The Company establishes valuation allowances in accordance with the provisions of SFAS No. 109. The Company continually reviews the adequacy of the valuation allowance based on changing conditions in the market place in which the Company operates and its projections of future taxable income, among other factors. Management believes that currently, based on a number of factors, including a history of statutory tax losses (as discussed in note 2), its limited operating history, the continuing increase in competition, political and economic uncertainty within Turkey and in certain neighbouring countries, and other factors, the available objective evidence creates sufficient uncertainty regarding the realizability of its net operating loss carryforwards and tax credit carryforwards which are not expected to be utilised in the year 2000. Accordingly, a valuation allowance of approximately $276.7 million is recorded as of March 31, 2000 (December 31, 1999: $206.5 million) for such amounts. The valuation allowance at December 31, 1998 and 1999 and March 31, 2000, has been allocated between current and non-current deferred tax assets on a pro-rata basis in accordance with the provisions of SFAS No. 109. Management believes that it is more likely than not that the net deferred tax asset of approximately $39 million as of March 31, 2000 (December 31, 1999: $67 million) will be realised through reversal of taxable temporary differences and projected taxable income for the year 2000. Changes in valuation allowances mainly result from changes in management's projections on recoverability of certain deferred tax assets.

(19) Long Term Borrowings:

At December 31, 1998 and 1999 and March 31, 2000, long-term borrowings comprised:

	December 31,		March 31,
	1998	1999	2000
			(Unaudited)
1998 Bank Facility	$362,000	455,000	465,000
Loan under the 1998 Issuer Credit Agreement	300,000	300,000	300,000
1999 Bank Facility	—	332,500	432,500
Loan under the 1999 Issuer Credit Agreement	—	400,000	400,000
London Forfaiting Company	81,500	53,700	44,800
Nordbanken—Stockholm (Nordbanken)	53,080	43,639	40,245
BB Aval GmbH (BB Aval)	30,525	20,350	15,263
AB Svensk Exportcredit (AB Svensk)	9,008	6,756	6,756
KFW-BNP	—	5,003	13,497
YKB-Bahrain	—	4,800	9,300
Toprakbank A.Ş	—	—	4,000
	836,113	1,621,748	1,731,361
Less: Current portion of long term borrowings	(94,668)	(374,119)	(436,683)
	$741,445	1,247,629	1,294,678

(19) Long Term Borrowings: (Continued)

The Company has short and long term credit lines with local and foreign banks. At March 31, 2000, unused credit lines approximated $176,296 (December 31, 1999: $311,542, December 31, 1998: $213,000). In the years ended December 31, 1998 and 1999, and in the three month period ended March 31, 2000 the average amounts outstanding were $647,820, $1,016,033 and $1,665,975, respectively.

1998 Bank Facility

In April 1998, the Company obtained a $575,000 bank facility of which $465,000 ($455,000 at December 31, 1999 and $362,000 at December 31, 1998) was outstanding at March 31, 2000. The bank facility was obtained to pay the license fee to the Turkish Ministry, to provide working capital to the Company, to finance capital expenditures and to refinance amounts previously borrowed by the Company.

Repayments and interest rates: $75,000 of the bank facility will be due in a single instalment on September 30, 2001, and the remaining outstanding balance will be payable in six quarterly instalments commencing on June 24, 2000. The interest rate varies between the one, two, three or six month London interbank offer rate for US Dollar deposits (Libor) plus 2.125% and Libor plus 3.250% per annum in respect of the tranches.

Security: The bank facility is secured by a first pledge of 25% of the outstanding shares of the Company under a pledge agreement conferring rights to sell such shares and to voting and dividends if an event of default has occurred and is continuing. The pledge will be released in stages according to certain performance criteria.

The bank facility provides for a pledge of the Company's bank accounts, receivables and all relevant insurance policies. There will also be a restriction over the Company's existing assets to the extent permitted by applicable laws. The bank facility also provides for a negative pledge on all assets of the Company.

Covenants: The bank facility includes customary affirmative and negative covenants, including restrictions on the ability of the Company to incur additional indebtedness; to pay certain dividends; to make certain other material restricted payments, investments and loans; to create liens; to give guarantees; to enter into material transactions with affiliates; to merge, consolidate or transfer substantially all of their respective assets; to engage in material asset sales outside the ordinary course of business; to impose restrictions on the ability of the Company's subsidiaries to pay dividends or make certain payments to the Company; and to make capital expenditures.

Affirmative covenants include reporting requirements, corporate existence, scope of business activities, payment of taxes, maintenance of properties and insurance, inspection rights, compliance with laws and hedging of liabilities.

Also, the bank facility includes certain financial covenants for Turkcell with respect to maintaining certain leverage, interest and debt service coverage ratios as well as maintaining a minimum net worth of at

(19) Long Term Borrowings: (Continued)

least $100,000 at the closing of the bank facility and increasing for specified periods thereafter to $875,000 from and after December 31, 2000.

In addition, the shareholders of the Company have entered into an agreement with the lenders pursuant to which they have agreed that, among other things, the shareholders will maintain specified levels of ownership of the Company; Sonera Corporation Inc. and Çukurova Group have agreed to specific limitations on dispositions by them of equity capital of the Company; Sonera Corporation Inc. and Çukurova Group have agreed not to sell or agree to sell or grant options on any equity securities in the Company for specified periods after completion of syndication and drawdown of the bank facility and completion of related financings; the shareholders and certain other parties that have guaranteed indebtedness of the Company shall enter into intercreditor agreements with the Facility Agent and the Lenders to, among other things, subordinate their claims as guarantor, agree to certain arrangements regarding the payment of that guaranteed debt, and, as to a shareholder that has pledged shares of the Company to Yapı ve Kredi Bankası A.Ş., permitting such pledgee to enforce such pledges without any requirement to take action against the Company; and the shareholders shall make certain equity investments in the Company required by an additional investment incentive certificate obtained by the Company.

Loan under the 1998 Issuer Credit Agreement

Turkcell entered into a loan agreement in 1998 (the 1998 Issuer Credit Agreement) with Cellco Finance N.V. (Cellco—the Issuer), a limited liability company incorporated on January 27, 1998, under the laws of the Netherlands, Antilles, in connection with the issuance by Cellco of $300,000 15% Senior Subordinated Notes due 2005 (the Notes).

Under the 1998 Issuer Credit Agreement, the Issuer has loaned to Turkcell $300,000. Pursuant to such loan, the net proceeds of the Notes were transferred to Turkcell and Turkcell was deemed to have borrowed the difference between $300,000 and the amount actually advanced to the Issuer as a financing fee.

Under the 1998 Issuer Credit Agreement, Turkcell issued a note to evidence the loan from the Issuer (the Loan Note) under which amounts are payable by Turkcell to the Issuer in order that the Issuer, upon receipt of such amounts, is able to satisfy its obligations on the Notes.

Turkcell and Cellco have agreed, for the benefit of all holders of the Notes, that, after the issuance of the Notes, they will file a registration statement to register exchange offer under the Securities Act of 1933 for 15% Senior Subordinated Notes of Cellco (the Old Notes) secured by an assignment of Cellco's right, title and interest in and to the Issuer Credit Agreement with terms substantially identical to the terms of the 15% Senior Subordinated Exchange Notes (the New Notes) of Cellco. A registration statement for the exchange offer was declared effective on October 14, 1999.

The proceeds from the Old Notes were lent by Cellco to Turkcell pursuant to the Issuer Credit Agreement. Turkcell used the proceeds of the Old Notes, together with a loan in the amount of $305,000 borrowed under the 1998 Bank Facility, to (i) refinance $575,000 of indebtedness incurred under a credit facility used to finance the payment of the license fee paid to the Treasury under the License Agreement

(Amounts in thousands unless otherwise stated except share amounts)

(19) Long Term Borrowings: (Continued)

and for certain capital expenditures, (ii) pay a $12,000 financing fee to Cellco in an amount equal to Cellco's expenses incurred in connection with the issuance of the Old Notes and (iii) pay other expenses incurred in connection with the issuance of the Old Notes and the Bank Facility.

Turkcell did not receive any cash proceeds from the issuance of the New Notes. Cellco will receive in exchange for the Old Notes in like principal amount, the terms of which are identical in all material respects to those of the New Notes, except for certain transfer restrictions, interest rate step-ups and registration rights. The Old Notes surrendered in exchange for the New Notes were retired and cancelled and can not be reissued.

Principal, maturity and interest: The Notes are limited in aggregate amount to $400,000, $300,000 of which was issued in the offering, and $100,000 of which may be offered from time to time in the future subject to the certain limitations and restrictions. In the event of such a future offering, the notes offered thereby would have the same terms as the Notes. The Notes mature at par on August 1, 2005, which is also the maturity date of the loan under the 1998 Issuer Credit Agreement. The Notes and also the loan under the 1998 Issuer Credit Agreement are payable as to principal (and premium, if any), interest, additional amounts, if any, and additional interest, if any. Interest on the Old Notes and also the loan under the 1998 Issuer Credit Agreement accrues at the rate of 15% per annum from their date of original issuance and is payable semi-annually on each February 1 and August 1 commencing on February 1, 1999, to the persons who are registered holders at the close of business on the January 15 and July 15 immediately preceding the applicable interest payment date. Each New Note shall bear interest from the last day on which interest was paid in respect of the Old Note for which such New Note was exchanged.

The 1998 Issuer Credit Agreement specifies that Turkcell will pay any amounts to Cellco in order that Cellco, upon receipt of such amounts, is able to satisfy its obligations on the Notes.

Redemption: The Notes are redeemable, at the option of Cellco, in whole at any time or in part from time to time, on and after August 1, 2002, upon not less than 30 nor more than 60 days' notice at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the twelve month period commencing on August 1, 2002 of the year set forth below, plus, in each case, accrued and unpaid interest thereon, if any, and additional amounts, if any, and additional interest, if any, to the date of redemption.

Year	Percentage
2002	107.50%
2003	103.75%
2004 and thereafter	100.00%

The Notes may also be redeemed, in whole but not in part, at the Issuer's option, upon not less than 30 nor more than 60 days' notice at a redemption price equal to 100% of the principal amount, plus accrued interest to the redemption date, if any, if, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of the Netherlands Antilles or the Republic of Turkey or any political subdivision or taxing authority thereof or therein or any amendment to or change in any official

(19) Long Term Borrowings: (Continued)

interpretation or application of such laws or rules or regulations or any execution of or amendment to any treaty affecting taxation to which the Netherlands Antilles or the Republic of Turkey is a party, which amendment or change or execution is effective on or after the date of the Indenture, either the Issuer with respect to the Notes or Turkcell with respect to the 1998 Issuer Credit Agreement has become or will become obligated to pay additional amounts, on the next date on which any amount would be payable with respect to the Notes or under the 1998 Issuer Credit Agreement, and such obligation can not be avoided by the use of reasonable measures available to the Issuer or Turkcell, as the case may be; provided, however, that (1) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which the Issuer or Turkcell, as the case may be, would be obligated to pay such additional amounts were a payment in respect of the Notes or the 1998 Issuer Credit Agreement then due, and (2) at the time such notice of redemption is given, such obligation to pay additional amounts remains in effect.

Security: The Notes are general obligations of Cellco secured by an assignment of Cellco's right, title and interest in and to the 1998 Issuer Credit Agreement and are subordinated in right of payment to all future senior indebtedness. Borrowings under the 1998 Issuer Credit Agreement are general unsecured obligations of Turkcell and are subordinated in right of payment to all existing and future senior indebtedness. There is no collateral for the obligations of Turkcell under the 1998 Issuer Credit Agreement.

Covenants: The Indenture governing the Notes and the 1998 Issuer Credit Agreement each contain certain covenants that limit the ability of the Issuer and the Company and its unconsolidated subsidiaries to, among other things, incur additional indebtedness, pay dividends or make certain other restricted payments, consummate certain asset sales, enter into certain transactions with related parties, incur liens, impose restrictions on the ability of a subsidiary to pay dividends and make certain payments to the Company or the Issuer, merge, or consolidate with any other person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the assets of the Issuer or the Company.

1999 Bank Facility

Turkcell entered into a further $550,000 senior amortizing term loan facility agreement dated November 24, 1999 between, among others, Deutsche Bank AG London, J.P. Morgan Securities Ltd. and Credit Suisse First Boston, as co-arrangers, other lenders, and Deutsche Bank AG London, as facilities agent, EKN agent and security agent. At March 31, 2000, $432,500 (December 31, 1999: $332,500) of the 1999 bank facility was outstanding. The following is a summary description of the principal terms of the 1999 bank facility, most of which are identical or substantially the same as in the 1998 bank facility.

The 1999 bank facility provides for, subject to certain terms and conditions, credit facilities to Turkcell in three tranches:

> an amortizing term loan facility, known as the tranche A facility, in the amount of $175,000, 100% guaranteed for political risks and commercial risks by Exportkreditnamnden, the Swedish Export Credits Guarantee Board or EKN,

(19) Long Term Borrowings: (Continued)

an amortizing term loan facility, known as the tranche B facility, in the maximum amount of up to $175,000, and

an amortizing term loan facility, known as the tranche C facility, in the amount of up to $200,000, both of Tranches (B) and (C) are also guaranteed by EKN but for political risks only.

Repayments and interest rates: The aggregate of advances under the tranche A facility and the tranche B facility made before March 31, 2000 may not exceed $332,500, while the aggregate of advances under the tranche C facility made before March 31, 2000 may not exceed $190,000. The proceeds of any Advance must be used for payment of up to 85% of the aggregate purchase price for goods and services sourced from Sweden pursuant to an equipment supply contract with Ericsson.

The tranche A facility bears interest at a rate of LIBOR plus 1.00% per annum, and the tranche B facility and the tranche C facility bear interest at a rate of LIBOR plus 2.25% per annum. The default rate is 2% above the rate otherwise applicable.

Turkcell is required to pay to the Lenders under the 1999 bank facility a commitment fee, payable quarterly in arrears, equal to 0.375% per annum on the daily aggregate undrawn, uncancelled amount available under the tranche A facility and 0.75% per annum on the daily aggregate undrawn, uncancelled amount available under the tranche B facility and tranche C facility.

Turkcell will from time to time pay certain arrangement and agency fees in connection with the 1999 bank facility, as separately agreed.

All tranches of the 1999 bank facility shall be available for drawing until March 31, 2000 or, if consented to by EKN, until September 29, 2000. All term loans are repayable in nine equal quarterly installments commencing September 30, 2000, with the final installment due on September 30, 2004.

Turkcell will be required to make certain mandatory prepayments.

Security: Indebtedness of Turkcell under the 1999 bank facility is secured by first ranking pledge of 23.48% (subject to adjustment in the case of certain shares issued in any initial public offering) of the shares of Turkcell. The 1999 bank facility provides for a pledge of the Company's bank accounts and insurance policies. The 1999 bank facility also provides a charge over substantially all of the existing assets of Turkcell (including without limitation any trademarks, brand names, databases and other intellectual property rights of Turkcell), and a security interest in certain contractual rights.

Lenders under the 1999 bank facility share in the security package on an equal basis and rank equally with the lenders under the 1998 bank facility, as well as with certain swap counterparties to Turkcell and lenders of additional indebtedness to the extent described in relation to the 1998 bank facility.

Covenants: The 1999 bank facility also provides for a negative pledge on all assets of Turkcell, and Geocell and Azercell for so long as such companies are not directly or indirectly owned by Fintur Holdings B.V. as described below and of any material subsidiaries of Turkcell Fintur Holdings B.V. is deemed not to be a subsidiary for purposes of the 1999 bank facility, regardless of Turkcell's ultimate ownership

(19) Long Term Borrowings: (Continued)

percentage in the Fintur Holdings B.V. In addition to negotiated minor exceptions, Turkcell is, however, allowed to encumber its assets to secure certain additional indebtedness or swap agreements provided that the lender or swap counterparties under such agreements enter into the security sharing arrangements described above and such security meets certain requirements.

In addition, the existing shareholders of Turkcell have severally agreed, among other things, to maintain certain specified levels of ownership in Turkcell, to limitations on the transfer of equity capital in Turkcell by specified shareholders and to subordinate any claims (by way of reimbursement, subrogation or otherwise) against Turkcell as direct or indirect guarantors of certain existing indebtedness of Turkcell.

All security granted by Turkcell and its shareholders is required to be released under certain circumstances after September 30, 2001 following repayment in full of the 1998 bank facility, after which the negative pledge generally would apply to Turkcell and its subsidiaries, subject only to negotiated *de minimis* exceptions.

Under the 1999 bank facility, Turkcell is required to meet the same financial tests as under the 1998 bank facility.

The 1999 bank facility also contains certain covenants which, among other things, limit the incurrence of additional debt, the giving of guarantees, the making of loans, the payment of dividends, the repurchase or redemption of shares, the creation of liens, subordination of the debt under the 1999 bank facility, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, changes in business, capital expenditures and the imposition of restrictions on the ability of Turkcell's subsidiaries to pay dividends or make payments to Turkcell.

As under the 1998 bank facility Turkcell is permitted to transfer some or all of its overseas investments to Fintur Holdings B.V. in return for the issue of shares in that company along with a subsequent investment in Fintur Holdings B.V. of $25 million.

In addition, Turkcell will be permitted to make annual investments, acquisitions, loans or guarantees; in years 1999 and 2000, of $100 million each with a sub-limit for non-Turkish investment of up to $25 million, and in subsequent years, of up to the greater of $100 million per annum with a sub-limit for non-Turkish investments of $50 million or 50% of excess cash flow (less dividends paid) with a sub-limit for non-Turkish investments of 10% of excess cash flow. Investments or acquisitions above these limits will be permitted only from additional equity or subordinated debt.

Turkcell also affirmatively covenants to perform certain undertakings, including but not limited to reimbursing the Lenders for fees associated with EKN, and not agreeing to any alteration of any agreement that would have the effect of shortening the payment date or increasing the amount due under certain indebtedness of Turkcell.

The lenders under the 1999 bank facility may waive compliance with any of the representations, warranties, covenants, events of default and other provisions of the 1999 bank facility and may agree with Turkcell to amend such representations, warranties, covenants, events of default and other provisions without notice.

(19) Long Term Borrowings: (Continued)

Loan under the 1999 Issuer Credit Agreement

On December 22, 1999, the Company entered into an Issuer Credit Agreement (the 1999 Issuer Credit Agreement) with Cellco in connection with the issuance by Cellco of US$400,000 12¾% Senior Notes due 2005 ("the Senior Notes").

Under the 1999 Issuer Credit Agreement, Cellco has loaned to Turkcell US$400,000. Pursuant to such loan, the net proceeds of the Senior Notes were transferred to Turkcell and Turkcell was deemed to have borrowed the differences of US$12,000 (representing the Senior Notes financing costs) between US$400,000, and the amount actually advanced to Cellco as a financing fee.

Under the 1999 Issuer Credit Agreement, Turkcell issued a note to evidence the loan from Cellco (the Loan Note) under which amounts are payable by Turkcell to Cellco in order that Cellco, upon receipt of such amounts, is able to satisfy its obligations on the Senior Notes.

Turkcell and Cellco have agreed, for the benefit of all holders of the Senior Notes, that, after the issuance of the Senior Notes, they will file a registration statement to register exchange offer under the Securities Act of 1933 for 12¾% Senior Notes of Cellco (the Old Senior Notes) secured by an assignment of Cellco's right, title and interest in and to the Issuer Credit Agreement with terms substantially identical to the terms of the 12¾% Senior Exchange Notes (the New Senior Notes) of Cellco. If the registration statement for the exchange offer is not declared effective and the exchange offer completed by certain dates, as defined, Cellco will be required to pay cash interest penalty to the holders of the Senior Notes until which time its obligations under the exchange rights are satisfied. Such interest penalty would be payable to Cellco by Turkcell.

Principal, maturity and interest: The Senior Notes are limited in aggregate amount to US$500,000, US$400,000, of which was issued in the offering, and US$100,000 of which may be offered from time to time in the future subject to certain limitations and restrictions. In the event of such a future offering, the notes offered thereby would have the same terms as the Senior Notes. The Senior Notes mature at par on August 1, 2005, which is also the maturity date of the loan under the 1999 Issuer Credit Agreement dated December 22, 1999. The Senior Notes and also the loan under the 1999 Issuer Credit Agreement dated December 22, 1999 are payable as to principal (and premium, if any), interest, additional amounts, if any, and additional interest, if any. Interest on the Senior Notes and also the loan under the 1999 Issuer Credit Agreement, accrues at the rate of 12¾% per annum from their date of original issuance and is payable semi-annually on each February 1 and August 1 commencing on February 1, 2000, to the persons who are registered holders at the close of business on the January 15 and July 15 immediately preceding the applicable interest payment date.

Redemption: The Senior Notes may be redeemed, at any time, or from time to time, on or prior to December 1, 2002, if Turkcell opts to use the net cash proceeds of one or more equity offerings to make prepayments under the 1999 Issuer Credit Agreement. Cellco is required to use any such prepayments to redeem up to 35% of (1) the aggregate principal amount of Senior Notes originally issued in the offering plus (2) any additional Senior Notes issued after the issue date at a redemption price equal to 112¾% of

(19) Long Term Borrowings: (Continued)

the principal amount thereof plus accrued interest thereon, if any, to the date of redemption; provided that at least 65% of (1) the aggregate principal amount of Senior Notes originally issued in the offering plus (2) any additional Senior Notes issued after the issue date remains outstanding immediately after any such redemption. The Senior Notes may also be redeemed, in whole but not in part, at the Cellco's option, upon not less than 30 nor more than 60 days' notice at a redemption price equal to 100% of the principal amount, plus accrued interest to the redemption date, if any, if, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of Netherlands Antilles or the Republic of Turkey or any political subdivision or taxing authority thereof or therein or any amendment to or change in any official interpretation or application of such laws or rules or regulations or any execution of or amendment to any treaty affecting taxation to which the Netherlands Antilles or the Republic of Turkey is a party, which amendment or change or execution is effective on or after the date of the Indenture, either Cellco with respect to the Senior Notes or Turkcell with respect to the 1999 Issuer Credit Agreement has become or will become obligated to pay additional amounts, on the next date on which any amount would be payable with respect to the Senior Notes or under the 1999 Issuer Credit Agreement, and such obligation can not be avoided by the use of reasonable measures available to Cellco or Turkcell, as the case may be; provided, however, that (1) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which Cellco or Turkcell, as the case may be, would be obligated to pay such additional amounts were a payment in respect of the Senior Notes or the 1999 Issuer Credit Agreement then due, and (2) at the time such notice of redemption is given, such obligation to pay additional amounts remains in effect.

Security: The Senior Notes are general obligations of Cellco secured by an assignment of the Cellco's right, title and interest in and to the 1999 Issuer Credit Agreement. The payment of all obligations under the 1999 Issuer Credit Agreement is senior in right of payment to the prior payment of all obligations on subordinated indebtedness of Turkcell.

Covenants: The Indenture governing the Senior Notes and the 1999 Issuer Credit Agreement each contain certain covenants that limit the ability of Cellco and Turkcell and its consolidated and unconsolidated subsidiaries to, among other things, incur additional indebtedness, pay dividends or make certain other restricted payments, consummate certain asset sales, enter into certain transactions with related parties, incur liens, impose restrictions on the ability of a subsidiary to pay dividends and make certain payments to Turkcell and its consolidated subsidiaries or Cellco, merge or consolidate with any other person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the assets of Turkcell and its consolidated subsidiaries or Cellco.

Other Bank Financing Facilities

On August 17, 1999, Digital Platform signed a contract for EURO 23.7 million with Philips Electronics B.V. for an "end-to-end" turn-key DTH System consisting of a Digital Broadcast Center. Regarding this contract, on November 17, 1999, Digital Platform has signed three separate loan agreements amounting to EURO 13.8 million, EURO 6.5 million and EURO 3.6 million. The lenders under the agreements are Banque Nationale de Paris S.A. and Kreditanstalt für Wiederaufbau.

(19) Long Term Borrowings: (Continued)

Terms and interest rates relating to these loans are as follows:

- The EURO 13.8 million loan will be repaid in 14 consecutive semi-annual instalments, first payments starting on October 18, 2000, and bears interest at a rate of 5.31%.
- The drawing deadline for the EURO 6.5 million loan is July 30, 2000. The loan will be repaid in 14 equal and consecutive semi-annual payments and bears interest at Euribor+1.30%.
- The EURO 3.6 million loan will be repaid in 7 consecutive and equal semi-annual instalments, first one falling due and payable 12 months after November 17, 1999, and bears interest at Euribor+5%.

On December 4, 1999 Moldcell obtained a loan from Yapi Kredi Bahrain branch amounting to $4,800 which will be paid in 3 equal annual instalments beginning on December 2, 2000. The loan bears 12% interest per annum.

On January 19, 2000 Kibris Telekom has signed a loan agreement amounting to $4,500 million for investment financing purposes. The lender under the agreement is Yapi Kredi Bankasi Bahrain branch. The loan will be repaid in three consecutive annual instalments, first payment starting on January 24, 2001 and bears interest of 7% per annum.

On March 7, 2000 a credit line of $5,000 was opened to Moldcell, out of which $4,000 was drawn as of March 31, 2000, for custom duty payments of hardware purchases and for working capital financing purposes. The lender under the agreement is Toprakbank. The loan bears 7% interest per annum.

On March 2, 2000, Digital Platform signed a contract with Philips Electronics B.V. for the delivery of 250,000 digital decoders for a total price of $41,700. Regarding this contract, on March 3, 2000, Digital Platform has signed a loan agreement with BNP and KFW amounting to EURO equivalent of $44,454. The loan bears interest at Euribor+5%.

Borrowings from London Forfaiting Company have been obtained for Turkcell's expenditures in GSM Phase 3 and Phase 4B and Phase 4C and, at March 31, 2000 bear interest at between 6.4625% and 10.1625% (December 31, 1999: 6.1113% and 10.3075%, December 31, 1998: 5.4250% and 10.3075%) per annum. As of March 31, 2000, borrowings related to Phase 3 will be repaid in two equal semi-annual instalments, starting from September 29, 2000; borrowings related to Phase 4B will be repaid in four equal semi-annual instalments, starting from April 19, 2000; and borrowings related to Phase 4C will be repaid in four equal semi-annual instalments, starting from August 21, 2000.

Borrowings from Nordbanken have been obtained for Turkcell's expenditures in GSM Phase lB and Phase 2 and, at March 31, 2000, bear interest at between 6.6425% and 7.12% (December 31, 1999: 6.1438% and 6.5363%, December 31, 1998: 5.7294% and 6.2500%) per annum. As of March 31, 2000, borrowings related to Phase IB will be repaid in seven equal semi-annual instalments equally, starting from July 31, 2000; initial borrowings related to Phase 2 will be repaid in nine equal semi-annual instalments, starting from May 30, 2000; and additional borrowings related to Phase 2 will be repaid in nine equal semi-annual instalments, starting from September 30, 2000.

(Amounts in thousands unless otherwise stated except share amounts)

(19) Long Term Borrowings: (Continued)

Borrowings from BB Aval have been obtained for Turkcell's expenditures in GSM Phase 4A and, at March 31, 2000, bear interest at between 6.7948% and 9.3213% (December 31, 1999: 6.7948% and 8.8813% December 31, 1998: 6.7948% and 8.7500%) per annum. As of March 31, 2000, initial borrowings will be repaid in three equal semi-annual instalments, starting from July 17, 2000 and additional borrowings will be repaid in three equal semi-annual instalments, starting from August 16, 2000.

Borrowings from AB Svensk have been obtained for Turkcell's expenditures in GSM Phase 0/1A and, at March 31, 2000 bear interest at 6.5488% (December 31, 1999: 6.5488%, December 31, 1998: 5.6491%) per annum. As of March 31, 2000, borrowings will be repaid in six equal semi-annual instalments, starting from June l, 2000.

The future maturities of long-term borrowings as of December 31, 1999 and March 31, 2000 are as follows:

Years	December 31, 1999	March 31, 2000
		(Unaudited)
2000	$ 374,119	292,200
2001	364,473	445,496
2002	140,046	146,920
2003	37,235	135,402
2004	5,875	11,343
2005	700,000	700,000
	$1,621,748	1,731,361

Generally, borrowings are collateralized by bank letters of guarantee and sureties of the Company's shareholders.

(20) Long Term Lease Obligations:

Future minimum finance lease payments as of December 31, 1999 and March 31, 2000 were:

Years	December 31, 1999	March 31, 2000
		(Unaudited)
2000	$ 14,961	10,948
2001	16,728	17,430
2002	11,614	12,156
2003	11,614	12,126
2004	10,982	11,111
Thereafter	9,171	9,171
Total minimum lease payments	75,070	72,942
Less: Amount representing interest	(26,196)	(24,672)
Less: Current instalments of obligations under finance leases (Note 17)	(7,630)	(8,483)
	$ 41,244	39,787

(21) Common Stock and Earnings Per Share:

At December 31, 1999 common stock represented 43,000,000 (December 31, 1998: 36,000,000) authorized, issued and fully paid shares with a par value of one million Turkish Lira each. During 1998, the Company issued additional 26,000,000 shares at a par value of TL 26,000 billion ($100,799), which were allocated to existing shareholders at par value. Following a stock split discussed in the following paragraphs, the number of shares have been restated retroactively.

During the year ended December 31, 1998 and 1999, $19,310 and $3,183 were collected, respectively, as advances for share capital increases from the shareholders. As of December 31, 1999, shares increased to 43,000,000 by the issuance of 7,000,000 common shares, and the reclassification of $22,194 of advances to common stock.

On March 14, 2000, the Company confidentially submitted a registration statement with the US Securities Exchange Commission to register, under the Securities Act of 1933, ordinary shares to be offered for sale to the public by certain existing shareholders ("the Selling Shareholders") of the Company. Such shares are currently held by the Selling Shareholders in the form of ordinary shares. In addition, ordinary shares will be offered for sale by the Selling Shareholders outside the United States, including ordinary shares in a public offering in Turkey. The Company will not issue any new shares directly to the public in connection with this offering. Furthermore, the Company will not receive any proceeds from sale of shares by the Selling Shareholders to the public.

On March 8, 2000, the Board of Directors of Turkcell proposed a 1000-for-1 stock split of the Company's existing 43 million issued and outstanding shares of common stock. Upon consummation of the stock split, the Company's issued and outstanding common stock would increase to 43 billion shares with a nominal value of TL 1 thousand. The stock split has been approved by the shareholders at the annual general meeting, held on May 3, 2000, and accordingly all share amounts and per share figures reflected in the Company's historical financial statements have been retroactively restated.

On March 8, 2000, the Board of Directors of Turkcell resolved to increase the authorized and paid in share capital (as adjusted for the proposed 1000-for-1 stock split) from 43 billion to 240 billion shares, with an adjusted nominal value per share of TL 1 thousand, through the issuance of new shares. The shares would be issued to existing shareholders through a "bonus share" distribution of newly issued shares in proportion to their shareholding in the Company prior to the planned public offering for no consideration, and through a rights issue. Shares issued under the rights issue would be issued for cash based on the adjusted nominal value per share. The increase in authorized and paid in share capital was approved by the shareholders at the annual general meeting on May 3, 2000. The Company will issue approximately 44.3 billion newly issued shares through the "bonus share" distribution to existing shareholders. Accordingly, all share amounts and per share figures reflected in the Company's historical financial statements have been retroactively restated.

(Amounts in thousands unless otherwise stated except share amounts)

(21) Common Stock and Earnings Per Share: (Continued)

The total effect of restatements in number of shares are as follows:

	December 31, 1997	December 31, 1998	December 31, 1999	March 31, 2000 (Unaudited)
Historical number of shares	10,000,000	36,000,000	43,000,000	43,000,000
After 1000-for-1 stock split	10,000,000,000	36,000,000,000	43,000,000,000	43,000,000,000
After "bonus share" distribution	54,250,000,000	80,250,000,000	87,250,000,000	87,250,000,000

Additionally, on May 29, 2000, the Company issued 152.75 billion new shares through the rights issue in exchange for TL 152.75 trillion (which approximates $247 million using the current exchange rate) in cash.

The following table sets forth the computation of basic and diluted earnings per share:

	December 31, 1997	December 31, 1998	December 31, 1999	March 31, 1999 (Unaudited)	March 31, 2000 (Unaudited)
Numerator:					
Net income	$ 38,770	211,990	369,079	72,704	75,133
Denominator:					
Weighted average shares restated as described above	49,849,493,335	67,835,152,766	85,619,768,197	80,250,000,000	87,250,000,000
Rights issue shares	146,136,099,934	146,136,099,934	146,136,099,934	146,136,099,934	146,136,099,934
Basic and diluted weighted average shares	195,985,593,269	213,971,252,700	231,755,868,131	226,386,099,934	233,386,099,934
Basic and diluted net income per share	$ 0.00020	0.00099	0.00159	0.00032	0.00032

The weighted average shares have been adjusted to retroactively reflect the bonus share element of the rights issue described above based upon management's best estimate of the fair value of the shares on the date of issuance.

Bilka Bilgi Kaynak ve Iletisim A.S. (Bilka) claimed that it was deprived of the right to participate in the Company's capital increase in 1998 and that, as a result, its shareholding in Turkcell was diluted in contravention of its rights. Bilka asserted that it made timely payment of the subscription price of the shares to be issued as part of such capital increase, and instituted an action against Turkcell in a Turkish court to enjoin issuance of Bilka's allotment of shares to other shareholders. Bilka obtained the injunction it sought, but Turkcell became aware of the injunction only after the shares had been issued to other shareholders. The Board of Directors then resolved that Bilka be deprived of its rights to participate in the share capital increase and that the shares that were to be offered to Bilka should be offered to the other shareholders of Turkcell. On July 27, 1998, the Board of Directors approved the following share allocation

(Amounts in thousands unless otherwise stated except share amounts)

(21) Common Stock and Earnings Per Share: (Continued)

(as adjusted to give retroactive effect to the 1000-for-1 stock split and the bonus share issue effected in May 2000):

Çukurova Holding A.Ş.	1,438,894,535
Yapı ve Kredi Bankası A.Ş.	996,443,698
Pamukbank T.A.Ş.	564,274,157
Türkiye Genel Sigorta A.Ş.	103,880,256
Pamuk Factoring A.Ş.	84,640,616
Çukurova İthalat ve İhracat A.Ş.	21,161,169
	3,209,294,430

Bilka alleged that this issuance was in violation of the preliminary injunction. Bilka made a complaint to the public prosecutor seeking to have a criminal case brought against the members of the Board of Turkcell who signed the resolution regarding the allotment of shares. The complaint alleged that documents relating to the share issuance were forged. The prosecutor rejected those claims.

Bilka has also brought an action against the shareholders that received an allotment of shares as defendants in the civil case, and it instituted an action against Turkcell to recover shares. The shareholders that acquired the disputed Bilka shares requested that both actions be joined.

The Turkish commercial court hearing these cases ruled that Bilka's payment was made in a timely manner and that the Turkcell board action that allocated the shares not delivered to Bilka was null and void. The court did not, however, order that any shares of Turkcell be delivered to Bilka. Turkcell appealed the court's ruling. The Supreme Court decided in favor of Bilka. On February 28, 2000, Turkcell applied to the Supreme Court to appeal the ruling. At the same time, Bilka was continuing to prosecute the action against the shareholders and Turkcell to obtain the disputed shares. Turkcell and the affected shareholders were defending these actions.

As of March 31, 2000, the corresponding payments made by Bilka for the 1998 capital increase in the amount of $1,579 (December 31, 1998 and 1999: $2,971 and $1,720 respectively), which have been held as blocked deposits in banks, were shown in due to shareholders and other current assets.

On May 23, 2000 the Board of Directors of Turkcell resolved to settle the dispute between the Company, Bilka and some of the Company's shareholders and to sign a settlement agreement with Bilka. On May 23, 2000 the settlement agreement was registered by the court; Bilka withdrew its claims and the lawsuits were terminated. As a result of this settlement, the shareholders that acquired the disputed Bilka shares agreed to transfer an aggregate of 2,178,411,331 shares (as adjusted to give retroactive effect to the 1000-for-1 stock split and the bonus share issue effected in May 2000) to Bilka.

In the agreement, Bilka agreed to pay $1,825 for 2,178,411,331 shares, $1,579 of this amount will be funded by from amount blocked previously.

(Amounts in thousands unless otherwise stated except share amounts)

(22) Revenues:

For the years ended December 31, 1997, 1998 and 1999 and the three-month periods ended March 31, 1999 and 2000, revenues consisted of the following:

	Years Ended December 31,			3 Months Ended March 31,	
	1997	1998	1999	1999	2000
				(Unaudited)	
Communication fees	$117,902	581,227	1,372,465	242,544	417,256
Monthly fixed fees	19,314	105,725	186,838	39,670	56,970
Simcard sales	5,323	7,901	18,137	4,837	3,935
Subscription fees	19,548	26,761	3,382	1,529	67
Call center revenues (Note 25)	—	—	—	—	427
	$162,087	721,614	1,580,822	288,580	478,655

(23) General and Administrative Expenses:

General and administrative expenses consisted of repair and maintenance, insurance, consulting, payroll, travel, project, rent, training and bad debt provision expenses.

(24) Selling and Marketing Expenses:

Selling and marketing expenses mainly consisted of advertising and promotional expenses.

(25) Related Party Transactions:

For the years ended December 31, 1997, 1998 and 1999 and the three-month periods ended March 31, 1999 and 2000, significant transactions with the related parties were as follows:

	Years Ended December 31,			3 Months Ended March 31,	
	1997	1998	1999	1999	2000
				(Unaudited)	
Purchases from Ericsson Telekomünikasyon A.Ş.					
GSM Equipment	$137,838	291,372	756,980	66,420	197,737
Site preparation services	12,805	37,827	90,257	14,166	53,233
Custom expenses	481	884	1,545	226	491
Computer hardware	—	—	49	—	—
Computer software	—	—	28	—	—
Purchases from Ericsson Radio Communication Ltd.					
GSM equipment	2,728	6,417	—	—	—
Purchases from Ericsson Telekomünikasyon A.Ş.					
Construction	—	—	4,794	—	—

(Amounts in thousands unless otherwise stated except share amounts)

(25) Related Party Transactions: (Continued)

	Years Ended December 31,			3 Months Ended March 31,	
	1997	1998	1999	1999	2000
				(Unaudited)	
Purchases from Bilka Bilgi Kaynak Ýletişim A.Ş. Computer hardware	—	—	27	—	—
Purchases from Hobim Bilgi İşlem Hizmetleri A.Ş. Computer hardware	—	31	83	—	—
Charges from Ericsson Telekomünikasyon A.Ş. Repair, maintenance and technical support	3,336	7,646	15,631	3,230	9,053
Charges from KVK Mobil Telefon Sistemleri Ticaret A.Ş. Dealer activation fees and simcard subsidies	401	9,571	72,806	4,659	13,908
Charges from Hobim Bilgi İşlem Hizmetleri A.Ş. Invoicing service	—	—	3,842	1,087	1,271
Charges from Sonera Corporation Inc.	900	853	1,478	256	—
Sales to Geocell GSM equipment, construction materials, simcard and Others	1,565	448	—	—	—
Sales to Azercell GSM equipment, simcard and others	2,841	18,672	100	—	—
Charges to Geocell Technical advisory services	—	—	376	—	—
Charges to Azercell Technical advisory services	1,305	1,413	1,299	375	—
Sales to Superonline Call center revenues	—	—	—	—	427

The Company makes certain sales to Azercell consisting principally of GSM equipment and simcards. For the year ended December 31, 1999, total cost of such sales was $65 (1998: $16,019; 1997: $2,661).

In 1999 and during most of 1998, Ericsson Telekomünikasyon A.Ş. and Ericsson Radio Communications Ltd. were no longer related parties; the above information is given for comparison purposes.

Turkcell has agreements with several of its shareholders, unconsolidated subsidiaries and affiliates of the shareholders. The Company's management believes that all such agreements are on terms that are at least as advantageous to the Company as would be available in transactions with third parties.

(25) Related Party Transactions: (Continued)

The significant agreements are as follows:

Technical assistance agreement with Sonera Corporation Inc.

Turkcell has entered into a technical assistance agreement with Sonera Corporation Inc., a former shareholder of the Company and an affiliate of Sonera Holding BV, a current shareholder of the Company. Sonera Corporation Inc. has supplied Turkcell with technical assistance in questions relating to the system: (i) the network project and (ii) the operation and maintenance assistance project. Under the network project, Sonera Corporation Inc. supplies Turkcell with technical assistance relating to planning and construction services, site management and organization and supervision of the construction and installation work of the equipment supplier. Under the operation and maintenance assistance project, Sonera Corporation Inc. provides technical assistance on the planning, building up, facilitating, training and tutoring of business and technical departments.

Financial lease agreements with Yapı Kredi Finansal Kiralama A.Ş.

Turkcell has entered into a finance lease with Yapı Kredi Finansal Kiralama A.Ş. (Yapı Kredi Leasing), an affiliate of Yapı ve Kredi Bankası A.Ş., a shareholder of the Company, for the new headquarters building it began to occupy in early 1998. The purchase price of the building, and Turkcell's outstanding lease obligation at March 31, 2000 were $14,129 and $5,810 (December 31, 1999: $14,129 and $6,114), respectively. Turkcell may purchase the building at the end of the lease period for a nominal purchase price.

In addition, Turkcell has entered into a lease with Yapı Kredi Leasing for a building in Ankara for regional offices. The purchase price of the building was $16,400, and Turkcell's outstanding lease obligation at March 31, 2000 was $14,184 (December 31, 1999: $15,160). Turkcell may purchase the building at the end of the lease period for a nominal purchase price.

Financial lease agreements with Pamuklease Pamuk Finansal Kiralama A.Ş.

Turkcell has entered into four leases with Pamuklease Pamuk Finansal Kiralama A.Ş.(formerly Interlease Inter Finansal Kiralama A.Ş.), a Çukurova Group Company, for Turkcell's departments and regional offices in Istanbul, Ankara and Izmir. The purchase price of the buildings, and Turkcell's outstanding lease obligation at March 31, 2000 were $28,713 and $25,711 respectively (December 31, 1999: $24,752 and $22,471). Turkcell may purchase the buildings at the end of the lease period for a nominal purchase price.

Insurance policies with Çukurova Group Companies

The Company maintains all risk insurance policies with Türkiye Genel Sigorta A.Ş., a shareholder of the Company, and Halk Sigorta A.Ş. Both insurance companies are subsidiaries of Çukurova Holding A.Ş., a shareholder of the Company. Most of these insurance policies cover GSM switch equipment, GSM base stations and office equipment. Additional policies with these insurance companies cover stored simcards and tapes, glass at the Company headquarters and inventory located at Company headquarters.

(25) Related Party Transactions: (Continued)

Agreements with KVK Mobil Telefon Sistemleri Ticaret A.Ş.

One of the principal importers of handsets and vendors of simcards to Turkcell's subscribers is KVK Mobil Telefon Sistemleri Ticaret A.Ş. (KVK), a Turkish company controlled by three individuals who are affiliated with the Company's shareholders. The Company has entered into several agreements with KVK in the form of advertisement support protocols each lasting for periods of one to two months pursuant to which KVK must place Turkcell advertisements in newspapers.

Agreements with Hobim Bilgi İşlem Hizmetleri A.Ş.

In relation to the License Agreement explained in Note 26, Turkcell has entered into an invoice printing agreement with Hobim Bilgi İşlem Hizmetleri A.Ş. (Hobim), an affiliate of Çukurova Holding A.Ş., a shareholder of the Company, pursuant to which Hobim will provide Turkcell with monthly invoice printing services for Turkcell's subscribers. The service includes the printing of all invoices, the provision of envelopes and the mailing of the invoices to the subscribers. In addition, Hobim must enclose, in the billing invoice mailing envelopes, any supplemental information, advertisements, promotions or brochures requested by Turkcell. The initial term of the agreement is one year from the date of execution by the parties and the agreement will be extended if either party fails to give three-months prior notice to the other party of termination.

Technical assistance and management support agreement with Azercell

Turkcell has entered into a technical assistance and management support agreement with Azercell. In accordance with the agreement, Turkcell supplies Azercell (i) technical assistance in planning, implementation, operation and management of the GSM system and upgrading the system software, and (ii) management support in billing and information technology, marketing, finance, collection and reporting.

(26) Commitments and Contingencies:

Guarantees

As of March 31, 2000, the Company is contingently liable in respect of bank letters of guarantee obtained from Interbank A.Ş. and Yapı ve Kredi Bankasi A.Ş. and given to Emlak Bankasi A.Ş. amounting to $20,089, (December 31, 1999: $20,089), Türk Telekom amounting to nil (December 31, 1999: $275); Ministry of Transport and Communications of Turkey amounting to $5,000 (December 31, 1999: $5,000) and customs authorities, private companies and other public organizations amounting to $44,005 (December 31, 1999: $48,471).

In accordance with the agreement between Azertel and the Azerbaijan, Azertel guaranteed certain amounts of profit to be distributed to the Azerbaijan Ministry by Azercell during the first 10 years, starting from 1997.

(Amounts in thousands unless otherwise stated except share amounts)

(26) Commitments and Contingencies: (Continued)

The guaranteed profits for each year are as follows:

Years	Amount
1	$11,000
2	5,000
3	5,000
4	6,000
5	6,000
6	8,000
7	8,000
8	10,000
9	10,000
10	12,000
	$81,000

For the year ended December 31, 1997, the guaranteed levels of profit were not achieved. The Company recorded a provision for its guaranteed payment amounting to $11,000 in the accompanying financial statements.

On September 23, 1998, the agreement between Azertel and the Azerbaijan Ministry was amended and the provision in the agreement relating to the profits guarantee by Azertel was cancelled. Accordingly, Azertel has been released from its obligations and its commitments in this respect. The amendment also provided that the $11,000, which was already paid by the Company to the Ministry for the 1997 profit guarantee, will be repaid to Turkcell in the form of deductions from 1998 and future dividend distributions payable to the Azerbaijan Ministry. The Azerbaijan Ministry will forego its right to receive any dividends until the $11,000 is repaid. Turkcell will record the repayment of its profit guarantee as "other income" when realized.

License Agreement

On April 27, 1998, Turkcell signed a license agreement (the License Agreement or License) with the Turkish Ministry. In accordance with the License Agreement, Turkcell was granted a 25 year GSM license for a license fee of $500,000. The License agreement permits Turkcell to operate as a stand-alone GSM operator and free it from some of the operating constraints which were stated in the Revenue Sharing Agreement. Under the License, Turkcell collects all of the revenue generated from the operations of its GSM network and pays the Turkish Treasury an ongoing license fee equal to 15% of Turkcell's gross revenue. Turkcell also continues to build and operate its GSM network and is authorized to, among other things, set its own tariffs within certain limits, charge peak and off-peak rates, offer a variety of service and pricing packages, issue invoices directly to subscribers, collect payments and deal directly with subscribers.

The License contains a number of requirements, including requirements regarding the build-out, operation, quality and coverage of Turkcell's GSM network, prohibitions on anti-competitive behaviour

(26) Commitments and Contingencies: (Continued)

and compliance with national and international GSM standards. Turkcell may incur significant penalties for delays in meeting these coverage requirements. Failure to meet any requirement in the License, or the occurrence of extraordinary unforeseen circumstances, can also result in revocation of the License, including the surrender of the GSM network without compensation, or limitation of Turkcell's rights thereunder, or could otherwise adversely affect Turkcell's regulatory status. Certain conditions of the License Agreement are as follows:

Coverage: The License Agreement requires that Turkcell meets certain coverage and technical criteria. Accordingly, Turkcell must attain geographical coverage of 50% and 90% of the population of Turkey with certain exceptions within three years and five years, respectively, of the License's effective date.

Service offerings: The License Agreement requires that Turkcell provides certain services which, in addition to general GSM services, include free emergency calls and technical assistance for subscribers, free call forwarding to police and other public emergency services, receiver-optional short messages, video text access, fax capability, calling and connected number identification and restrictions, call forwarding, call waiting, call hold, multi-party and third-party conference calls, billing information and barring of a range of outgoing and incoming calls.

Service quality: In general, Turkcell must meet all the technical standards of the GSM MoU as determined and updated by the European Telecommunications Standards Institute and Secretariat of the GSM MoU. Service quality requirements include that call blockage cannot exceed 5% and unsuccessful calls cannot exceed 2%. The Turkish Ministry has the right to monitor Turkcell's service standards, compile information and take action to guarantee subscriber rights.

Tariffs: The License Agreement regulates Turkcell's ability to determine its tariffs for GSM services. Accordingly, after consultation with Turkcell and consideration of tariffs applied abroad for similar services, the Turkish Ministry sets the initial tariffs in Turkish Lira and US Dollar. Thereafter, the License provides that the Turkish Ministry will adjust the maximum tariffs at least every six months or, if necessary, more frequently. Turkcell is free to set its own tariffs up to the maximum tariffs.

Rights of the Turkish Ministry, Suspension and Termination: The License is not transferable without the approval of the Turkish Ministry. In addition, the License Agreement gives the Turkish Ministry certain monitoring rights and access to Turkcell's technical and financial information and allows for inspection rights, and gives certain rights to suspend operations under certain circumstances. Also, Turkcell is obliged to submit financial statements, contracts and investment plans to the Turkish Ministry.

The Turkish Ministry may suspend Turkcell's operations for a limited or an unlimited period if necessary for the purpose of public security and national defence. During the period of suspension, the Turkish Ministry may operate Turkcell's GSM network. Turkcell is entitled to any revenues collected during such period and the Licensee's term will be extended by the period of any suspension.

(26) Commitments and Contingencies: (Continued)

The Turkish Ministry may terminate the License upon a bankruptcy ruling against Turkcell by a competent court or a bankruptcy compromise decision that is not reversed or dismissed within 90 days after notice from the Turkish Ministry; or upon Turkcell's failure to perform its obligations under the License Agreement where such failure is not cured within 90 days after notice from the Turkish Ministry; or if Turkcell operates outside the allocated frequency ranges and fails to terminate such operations within 90 days after notice from the Turkish Ministry; or if Turkcell fails to pay amounts payable under the License within 90 days. In the event of termination by the Turkish Ministry, Turkcell must deliver the entire GSM network to the Turkish Ministry. Finally, if the Turkish Ministry terminates the License for Turkcell's failure to perform its obligations under the License, Turkcell must surrender the performance guarantee.

In the event of a termination of the License, Turkcell's rights to use allocated frequencies and to operate the GSM network cease. Upon the scheduled expiration of the License Agreement without renewal, Turkcell must transfer to the Turkish Ministry (or any organization designated by the Turkish Ministry), without consideration, the network management center, the gateway exchanges and central subscription system, including related technical equipment, immovables and installations essential for the operation of the network.

Any revocation or limitation of, or failure to renew, the License, or failure to renew the License upon commercially reasonable terms would have a material adverse effect on the consolidated financial position, results of operations, or liquidity of the Company.

Interconnection Agreement with Türk Telekom

On April 24, 1998, Turkcell and Türk Telekom entered into an interconnection agreement (the Interconnection Agreement) providing for the interconnection of Turkcell's GSM network with Türk Telekom's fixed line network. The Interconnection Agreement will terminate automatically upon the expiry of the License period or on termination of the License Agreement by the Turkish Ministry or for any other reason.

There can be no assurance that Turkcell or Türk Telekom can or will be able to perform their respective obligations under the Interconnection Agreement. In the event that Türk Telekom were to fail to perform its obligations under the Interconnection Agreement, depending on the nature of the failure, the result could be interference with Turkcell's ability to provide high quality service to its subscribers. Rates under the Interconnection Agreement are fixed for two years and thereafter subject to renegotiation. The failure of Türk Telekom to perform its obligations under the Interconnection Agreement; or the failure by Türk Telekom to make payments to the Company under the Interconnection Agreement because of insolvency or otherwise; or any significant rate changes could have a material adverse effect on the consolidated financial position, results of operations, or liquidity of the Company.

(26) Commitments and Contingencies: (Continued)

Interconnection Agreement with Telsim

Turkcell and Telsim Mobil Telekomünikasyon Hizmetleri A.Ş. (Telsim) entered into an interconnection agreement dated October 4, 1999. Under the Telsim interconnection agreement, each party agreed, among other things, to permit the interconnection of its network with the other's network to enable calls to be transmitted to, and received from, the GSM system operated by each party in accordance with technical specifications set out in the interconnection agreement.

The Telsim interconnection agreement establishes understandings between the parties relating to a number of key operational areas, including call traffic management, and also contemplates that Turkcell and Telsim will agree to the contents of various manuals that will set forth in detail additional specifications concerning matters which are not specifically covered in the Telsim interconnection agreement. These matters include quality and performance standards, interconnection interfaces and other technical, operational, and procedural aspects of interconnection.

Under the Telsim interconnection agreement, Turkcell and Telsim agree to permit each other to utilize Türk Telekom's premises as well as any transmission equipment located in public areas such as coach terminals, airports, sea ports, shopping and other trade centers and other indoor infrastructure that is allocated to either Turkcell or Telsim.

Payments: The Telsim interconnection agreement provides for the payment of fees by Turkcell to Telsim for the interconnection services provided by Telsim. A number of the provisions of the Telsim interconnection agreement address matters concerning billing and payment of bills for services rendered under the Telsim interconnection agreement. Each party is required to record certain call information and to provide that information to the other party. Each party is responsible for invoicing the other party on a monthly basis.

Call Tariffs: Turkcell pays Telsim a net amount of 1.4 cents per minute for local traffic and a net amount of 2.5 cents per minute for metropolitan and long-distance traffic switched from Turkcell to Telsim.

The Telsim interconnection agreement will remain in force for the period of the License period unless one of the parties serves a three-month termination notice to the other party.

Year 2000 Issue

Turkcell completed an analysis of its exposure to Year 2000 problems in late 1999. All network equipment and computer systems were tested, and Turkcell believes that all of its equipment and computer systems were Year 2000 compliant as of December 31, 1999. To date, it has experienced no problems associated with the Year 2000 Issue. However, not all Year 2000 problems may have become evident on January 1, 2000. Turkcell has made contingency plans to address the possibility that it is not fully Year 2000 compliant. However, the contingency plans will not address the failure of Türk Telekom or other third parties with which it deals to be Year 2000 compliant.

(26) Commitments and Contingencies: (Continued)

Turkcell understands, based upon discussion with Türk Telekom, that all of Türk Telekom's operations are Year 2000 compliant. It has been advised by Türk Telekom that the four major suppliers of equipment used in Türk Telekom's network have represented that their equipment will continue to operate properly after the beginning of the Year 2000.

If operation of Türk Telekom's fixed-line system were to be impaired or shut down, Türk Telekom might be unable to perform some or all of its obligations under the Türk Telekom Interconnection Agreement, which could result in its inability to conduct the substantial portion of its GSM operations that relies on interconnection with Türk Telekom's fixed-line system. The services provided by Türk Telekom are unique in Turkey, and no alternative fixed-line network is available for interconnection purposes. Year 2000 noncompliance by Türk Telekom could also disrupt the determination of amounts that are due to be paid between Turkcell and Türk Telekom under the Türk Telekom Interconnection Agreement, possibly leading to delays or inaccuracies in the determination and payments of such amounts or disputes as to such amounts. Any of these occurrences could have a material adverse effect on Turkcell's customer relations, brand image and revenues.

Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business described below.

Treasury Share Litigation

Article 5 of the License Agreement defines the gross revenues as the total of subscription fees, monthly fixed fees and communication fees including all taxes, duties, fees and funds thereon, and Article 8 defines the monthly payment to the Undersecretariat of Treasury of the Republic of Turkey (the Treasury) to be computed as 15% of the monthly gross revenues (Treasury Share). Turkcell management and its legal counsel interpreted the taxes, duties, fees and funds, being those except value added tax, education fund and frequency usage and permission fee, which are all billed to and collected from subscribers via monthly invoices and then paid to related government authorities. Since Turkcell acted as an intermediary of related government authorities to collect these duties, funds, fees and taxes and since there is no comparable example in other license agreements signed in Turkey, Turkcell management and its legal counsel did not interpret the description of gross revenue as including such funds, fees and taxes and accordingly did not pay 15% of such collections from subscribers to the Treasury starting from the date of the License Agreement.

On November 8, 1999, the Ministry of Transportation of the Republic of Turkey informed Turkcell and Telsim, the other GSM network operator in Turkey, that the Supreme Court (the Danistay) has decided by the majority of the votes of its members that the interpretation of the Ministry of Transportation was correct, and that from November 1999 onwards the license fee is calculated according to the Treasury's method.

(26) Commitments and Contingencies: (Continued)

On November 18, 1999, the Treasury informed Turkcell, by referral to the decision of the Danistay and the letter of the Ministry of Transportation of the Republic of Turkey, that the license fees should retroactively be recalculated from the date of the License Agreement, April 27, 1998, and paid to the Treasury applying the legal interest rate on the unpaid balance over the period these should have been paid.

The cumulative amount of value added tax, education fund, and frequency usage and permission fees from April 27, 1998 until December 31, 1999 is $264,126 (TL 142,654 billion) and 15% of this amount, being $7,482 for the year ended December 31, 1998 and $32,137 for the year ended December 31, 1999, represents the unpaid Treasury Share. Legal interest rate as applied on the unpaid balance is resulting in $12,536 interest for the year ended December 31, 1998 and $15,424 for the year ended December 31, 1999. On November 30, 1999 Turkcell initiated an administrative suit at the Danistay against the Ministry of Transport and the Treasury. Turkcell obtained an injunction to prevent the Treasury from collecting the license fee with respect to these amounts. The Ministry of Transportation and the Treasury have appealed the granting of the injunction. In February 2000, the Danistay lifted the injunction in respect of the license fee payable on collections of VAT but upheld the injunction in respect of the education fund and frequency usage and transmission fees. Consequently, on March 24, 2000, Turkcell paid $57,163, out of which $51,900 relates to year 1999 and before, as Treasury Share on value added tax and its interest. Accordingly, as of December 31, 1999, the Company accrued for $30,844 Treasury Share on value-added tax and $21,056 interest on this account and charged to statement of income for the year then ended. Turkcell management and its legal counsel continued to pursue their claim to recover the $57,163 payment and filed a challenge against Danistay's decision to lift the injunction concerning VAT. In May 2000, the Danistay rejected this challenge.

The Treasury Share on education fund, and frequency usage and permission fees as of December 31, 1999 and March 31, 2000 are $9,769, and $23,833, respectively. Had the Danistay ruled in favour of the Treasury then the cumulative legal interest as applied from April 27, 1998, would result in $7,847 as of December 31, 1999, and $10,216 as of March 31, 2000. The Ministry and the Treasury have filed an appeal against the Danistay's failure to lift the injunction with respect to the education fund and the transmission and usage fees, which was rejected. Turkcell has not recorded an accrual for these amounts, since the management and its legal counsel are in the opinion that based on the Danistay's final decision on these fees, the Ministry of Transport and the Treasury will not pursue their claims for these amounts any further.

Interstar Litigation

In December 1998, Turkcell instituted a civil case in a Turkish court against Star Televizyon Hizmetleri A.Ş. (Interstar), a Turkish television broadcaster that is affiliated with Telsim. In this litigation, Turkcell asserts slander and unfair competition claims growing out of two broadcasts which were critical of the sale of Swedish products in Turkey (including specifically, cellular telephones) and investments in Turkey by Swedish companies. These broadcasts sought to link the Swedish government and Swedish companies to support for Kurdish separatism within Turkey. Because Ericsson Radio Communication Ltd., a former shareholder of the Company and its principal supplier of GSM equipment, is Swedish; the Company

(26) Commitments and Contingencies: (Continued)

believes these broadcasts were intended to damage the Company's reputation within Turkey. The petition seeks injunctive relief and money damages.

Further, Turkcell has made application to the Supreme Board of Radio and Television, the Turkish regulatory authority with jurisdiction over the broadcast media, alleging that the Interstar broadcasts violated Turkish law regulating radio and television broadcasts.

In the opinion of management and its legal counsel, the ultimate disposition of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

Operating Leases

The Company has entered into various operating lease agreements. At March 31, 2000, there were no commitments and contingent liabilities in material amounts arising from those agreements, except the following agreement signed by Digital Platform.

On March 11, 1999, Digital Platform entered into an agreement with Telespazio S.P.A. to lease 6 transponders on the Eutelsat W3 satellite from Telespazio S.P.A. At the signing of the contract, Digital Platform paid Telespazio a fee of EURO 2.6 million as a deposit. Digital Platform must also provide a bank guarantee in the amount of EURO 13.8 million for each of the first three years. For the first year of the agreement, Digital Platform has agreed to pay Telespazio an annual fee of EURO 13.5 million. The agreement may be terminated by Digital Platform on its third anniversary on one year written notice, with Digital Platform remaining liable to additional charges. Digital Platform may also terminate the agreement in the event of Telespazio's willful misconduct or gross negligence with 30 days of written notice.

For the years ended December 31, 1997, 1998 and 1999 and for the three month periods ended March 31, 1999 and 2000, total rental expenses for operating leases were $2,626, $7,097, $24,800, $1,967 and $3,975 respectively.

Purchase Commitment

Digital Platform signed a contract with Innovative Communications Technologies, Inc. on September 3, 1999 related to purchase of equipment, license software and work required for the implementation of Digital TV uplink systems. The total contract amount is $1,297.

(27) Concentrations:

In 1997 through 2000, the Company's operations were substantially all inside Turkey. However, as explained in Note 1, the Company has investments in Kibris Telekom (Northern Cyprus), GSM Kazakhstan (Kazakhstan), Azercell (Azerbaijan), Geocell (Georgia) and Fintur (The Netherlands). At March 31, 2000 net assets at Kibris Telekom, GSM Kazakhstan, Azercell, Geocell and Fintur were $5,662, $20,681, $65,402, $10,645 and $58 (December 31, 1999: $6,458, $25,244, $62,604, $19,223 and nil; December 31, 1998: nil, $35,704, $68,829, $11,914 and nil; December 31, 1997: nil, nil, $47,801, $18,257 and nil).

(27) Concentrations: (Continued)

In 1998 (until April 27, 1998) and 1997, almost all of the Company's revenues were generated from GSM services provided in accordance with the Revenue Sharing Agreement with Türk Telekom. In accordance with the Revenue Sharing Agreement, Turkcell and Türk Telekom shared revenues billed for subscription fees, monthly fixed fees and ongoing calls at a ratio of 32.9% and 67.1%, respectively. In addition, Turkcell received 10% of revenues billed for incoming calls. Since, Türk Telekom invoiced the subscription fees to and collected them from subscribers directly, the Company invoiced its share in the revenues to Türk Telekom, and consequently, Türk Telekom was the Company's sole customer. Total revenues earned from Türk Telekom in accordance with the Revenue Sharing Agreement were $156,764 in 1997 and $69,677 in 1998. Revenues earned from and charges incurred by Türk Telekom in accordance with the Interconnection Agreement were $92,645 and $19,714 for the three month period ended March 31, 2000 (For the year ended December 31, 1999: $376,499 and $77,361 for the period from April 27, 1998 to December 31, 1998: $163,392 and $40,364; for the three month period ended March 31, 1999: $74,886 and $15,888). The net receivable from Türk Telekom was $26,114, $52,889 and $54,241 at December 31, 1998 and 1999 and March 31, 2000, respectively.

The Company makes a substantial portion of its purchases of goods and services related to GSM investments from Ericsson Telekomünikasyon A.Ş. (a subsidiary of Ericsson Radio Communication Ltd, one of the former shareholders of the Company). Total purchases and charges from Ericsson Telekomünikasyon A.Ş. were $154,460 in 1997, $337,729 in 1998, $869,284 in 1999, $99,799 and $260,514 in three month periods ended March 31, 1999 and 2000, respectively, and outstanding balance to this company was $117,312, $109,655 and $223,687 at December 31, 1998 and 1999 and March 31, 2000, respectively.

In principle, the Company's revenues are generated in Turkish Lira. Certain sales and purchases and, resulting receivables and payables, are in currencies different than the operating currency. Further, the Company has loans payable denominated in currencies different than its operating currency. Transaction gains and losses on these receivables and payables are included in the determination of earnings, but eliminated during translation of the financial statements, if such currency is the US Dollar.

(28) Subsequent Events (unaudited):

VAT on Upfront License Fee:

On May 4, 2000, Turkcell received a notice from the Tax Office of the Ministry of Finance asserting deficiencies in value added tax (VAT) declarations for the month of April 1998. The Tax Office claimed that Turkcell should have paid VAT on the $500 million upfront license fee that was paid in April 1998. Accordingly, the Tax Office ruled that as of February 29, 2000, Turkcell should pay TL 18.6 trillion (equivalent of $31,669 as of March 31, 2000) VAT on the upfront license fee, and the failure in payment of the VAT on time would result in TL 48.1 trillion (equivalent of $81,706 as of March 31, 2000) late payment interest, and TL 37.3 trillion (equivalent of $63,338 as of March 31, 2000) penalty. The Tax Office's position is premised on its belief that the License is not transferred or sold to the Company but leased for a period of 25 years and accordingly, under Turkish tax law, which provides that all leases of intangibles are subject to VAT on the reverse charge basis, where the lessor is not a registered tax-payer. Turkcell

(28) Subsequent Events (unaudited): (Continued)

management and its legal counsel intend to file a petition in the Tax Court to challenge all deficiencies as ruled by the Tax Office of the Ministry of Finance. The Company and its legal counsel believe that the Company will prevail.

The Tax Office also instituted a sequestration process to secure its claim in the total amount of TL 104 trillion ($176,713). Accordingly, Turkcell has replied to the Tax Office on May 17, 2000 and declared the fixed assets in the total amount of TL 104 trillion to be pledged as security of this potential liability.

If the Ministry of Finance prevails in this case, then Turkcell will have a payable to the Tax Office for the amount of VAT but also have a VAT recoverable in the succeeding month at the same amount. This application will not result in cash outflow from Turkcell however the late payment interest on the unpaid VAT and the penalty will be due immediately. Such late payment interest and penalty would accumulate to $83,606 and $63,338, as of March 31, 2000, respectively.

VAT on Ongoing License Fees:

In addition, the Company did not pay any VAT on the ongoing license fees paid to the Treasury (15% of the monthly gross revenues (Treasury Share)) since this was also not stated in the License Agreement, at the time the License was acquired. There can be no assurance that the Tax Office will not claim that Turkcell should have paid VAT on the Treasury Share. Cumulative Treasury Share paid from April 28, 1998 (including the additionally paid Treasury Share on VAT, as described in Note 26) is $280,754 as of March 31, 2000. The VAT rate was 15% for all years until December 1999 and increased to 17% thereafter. In the event that the Tax Office were to require payments for VAT, late payment interest and penalty would also be computed on such balance.

The Company and its legal counsel believe that if such claims are asserted, the Company will prevail. Therefore, the management has not recorded an accrual for payment of the late payment interests and penalties on VAT on upfront licence fee and on Treasury Share.

Dispute on Monthly Fixed Fees:

As of May 12, 2000, Turkcell was involved in 142 legal proceedings with individual subscribers demanding that Turkcell stops charging monthly fixed fees and reimburses such fees already paid by them. As of May 12, 2000, 23 of such cases by subscribers were either rejected by the local courts or transferred to the Consumer Court for final decision, 118 appeals were pending and for 1 appeal, on April 28, 2000, a local court in Ankara decided in favour of the customer in one of these cases. Turkcell plans to appeal this decision alleging that the local court did not have jurisdiction to decide this case, as the Consumer Court has sole jurisdiction over such cases. The monthly fixed payment is expressly contemplated under the License Agreement. In addition, the Company's subscription agreements with its customers as approved by the Ministry of Transportation allow the Company to charge fixed monthly fees and the customers agree to pay the fees in the subscription agreements they sign with the Company. Further, the License Agreement requires the Company to include the monthly fixed payment element in computing the amount of fee

(28) Subsequent Events (unaudited): (Continued)

payable to the Treasury under the License. Accordingly, the Company believes that it is correctly charging and collecting this monthly fixed payment fee.

Dispute on Türk Telekom Interconnection Fee:

Türk Telekom notified Turkcell on February 14, 2000 that it was modifying the method by which it calculates the interconnection fee that it pays to Turkcell. Türk Telekom believes that it should be permitted to deduct from its revenues, used to determine the interconnection fee, the 15% "fund" payment that it pays to the Treasury and a 2.5% payment that it pays to the Turkish Radio and Television Institution. Based on this position, Türk Telekom withheld $11.4 million from the amount it paid to Turkcell for interconnection for the first two months of 2000. Turkcell believes that Türk Telekom's position is contrary to the terms of the Türk Telekom interconnection agreement. Turkcell objected to the proposed change and obtained an injunction on April 25, 2000 preventing Türk Telekom from calculating the interconnection fee in this manner from March 1, 2000 onwards. Turkcell also commenced a lawsuit against Türk Telekom to prevent them from calculating the interconnection fee in this manner in the future and to recover the $11.4 million they have retained with respect to the first two months of 2000. The outcome of this uncertainty is not yet known.

Capital Transactions:

At the Board of Directors Meeting held on May 10, 2000, it was resolved that the Company invests in five recently established companies as follows: Corbuss Kurumsal Telekom Servis Hizmetleri A.Ş (Corbuss), Turktell Bilişim Servisleri A.Ş (Turktell), Bilgi ve Eğitim Teknolojileri A.Ş (Bilgi), Hayat Boyu Eğitim A.Ş (Hayat) and Digikids İnteraktif Çocuk Programları Yapımcılığı ve Yayıncılığı A.Ş (Digikids).

Corbuss and Turktell will engage on services related to information technologies such as Wireless Application Protocol (WAP) and Value Added GSM Services (VAS). The Company's ownership in Corbuss and Turktell will be 99.5% and 100%, respectively.

Activities of Bilgi, Hayat and Digikids will consist of educational digital television broadcasting for children. The ownership percentages of the Company in these companies will be 60%, 70% and 50% respectively.

It was also decided to increase the share capital of Kibris Telekom from TL 5,000 billion ($10,014) to TL 12,000 billion ($21,912).

Formation of Fintur and Indenture Covenants:

In connection with the formation of Fintur, under the terms of the indentures governing the loan under the 1999 issuer credit agreement and the loan under the 1998 issuer credit agreement, the Company will be required to repay senior debt in the amount of approximately $90 million or Cellco will be required to make an offer to repurchase up to approximately $90 million of outstanding notes issued by Cellco. In the case of a repurchase offer by Cellco, the Company will be required to repay an amount of the notes that are repurchased by Cellco. The Company must take these actions within 180 days of the transfer of Turkcell assets to Fintur.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 26, 2000

SONERA CORPORATION

By: /s/ KIM IGNATIUS

Name: Kim Ignatius
Title: Chief Financial Officer

By: /s/ MAIRE LAITINEN

Name: Maire Laitinen
Title: Vice President, Legal Affairs

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