

Annual Report 1998



INDIVIDUALITY AND FLEXIBILITY

ARE IMPORTANT VALUES AT SONERA.

INTERACTION IS AN ESSENTIAL SKILL

ON THE WAY TO ACHIEVING OUR COMMON GOAL.

RESPECT FOR THE INDIVIDUAL



Sonera

International forerunner in mobile, data and media communications

Sonera in 1998	2
Sonera: Focused on Development	4
President's Review	6
Financial Statements	8
Report of the Board of Directors	8
Proposal of the Board of Directors for profit distribution	16
Consolidated Income Statement	17
Consolidated Balance Sheet	18
Consolidated Statement of Cash Flows	20
Notes to the Consolidated Financial Statements	21
Key Financial Indicators and per Share Data	35
Definitions of Key Financial Indicators and per Share Data	37
Parent Company Financial Statements	38
Shares and Shareholders	40
Auditors' Report and Statement of the Supervisory Board	43
Business Reviews	44
Mobile Communications	44
Fixed Network and Other Operations	50
International and Other Significant Investments	56
Human Resource Development	60
Administration and Business Organization	62
Glossary	66
Contact Information	67
Information for Investors	68

Sonera in 1998

Profitable growth continued

Consolidated revenues grew by 20% and profit before extraordinary items and taxes by 12% on the previous year.

Mobile communications continued its strong growth

The number of Sonera mobile subscribers rose from almost 1.6 million to over 1.9 million. The average monthly use per subscriber grew from 103 called minutes to 116 minutes. Data services became more diversified and increased the use of mobile phones: the amount of text messages increased sixfold during the year. Sonera launched a GSM Duo subscription which makes use of a dual band network (GSM 900/1800). At the end of the year, there were 29 Duo “near zones”.

Data and media communications

The fastest growth came in corporate LAN and intranet services as well as the use of the Internet. Towards the end of the year, Sonera announced a new generation IP communications network that integrates voice and Internet applications seamlessly together.

New international investments

Within international operations, a number of major equity investments were made in overseas telecommunications companies. Of the associated companies, the strongest growth was posted by Turkey’s leading GSM company, Turkcell, in which Sonera’s interest was increased to 41%.

Name change

Telecom Finland Ltd changed its name to Sonera Ltd on April 15. The new name served to unify the name practice in Finland and abroad and to strengthen the Company’s brand. The new name will also help the Company stand out from competitors in the international telecommunications and information technology markets.

Group structure

Sonera’s present group structure evolved when the PT Finland Group demerged into separate telecommunications and postal groups on July 1. In addition to the business operations of Sonera Ltd, the telecommunications group took over the customer finance company PT Credit Ltd and a 27% interest in Tieto Corporation. The parent company of the Group is Sonera Group plc.

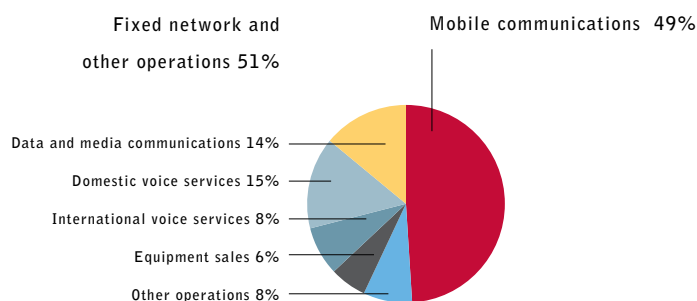
Listing on the stock exchange

The Finnish State sold 22.2% of the shares outstanding in Sonera Group plc in a share offering that was carried out from October 19 to November 9. About 80,000 investors subscribed Sonera shares in the public offering and in the employee offering which the Company carried out at the same time. Quoting of the share on HEX Helsinki Exchanges Pre-List began on November 10, and the share moved to the Main List on November 17.

Financial targets

- ANNUAL REVENUE GROWTH IN EXCESS OF 10% DURING THE NEXT 3 TO 5 YEARS
- A MINIMUM OF ONE THIRD OF PROFITS FROM INTERNATIONAL OPERATIONS WITHIN FIVE YEARS
- RETURN ON INVESTMENT OVER 15%
- EQUITY-TO-ASSETS RATIO OVER 40%, NET DEBT-TO-CAPITAL EMPLOYED LESS THAN 50%
- DIVIDEND PAYOUT RATIO ABOUT A QUARTER OF NET INCOME

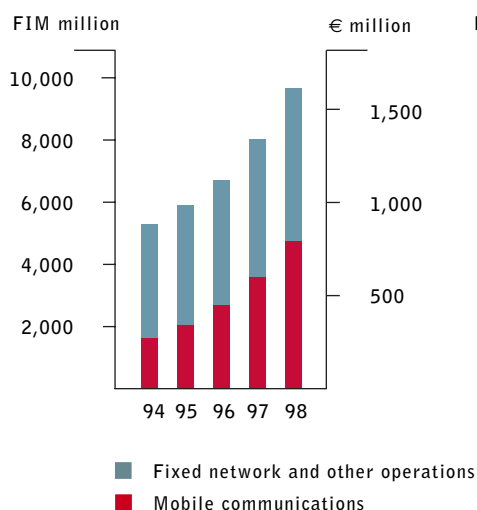
REVENUE BREAKDOWN IN 1998



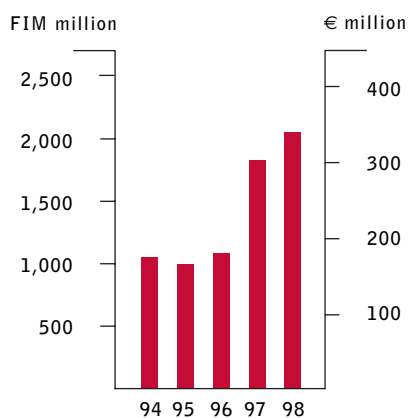
Group key figures

		1998	1997
Revenues	FIM million	9,648	8,041
	€ million	1,623	1,352
Operating profit	FIM million	1,721	1,693
	€ million	289	285
Operating profit in relation to revenues	%	17.8	21.1
Profit before extraordinary items and taxes	FIM million	2,061	1,836
	€ million	346	309
Return on capital employed	%	19.1	23.7
Return on shareholders' equity	%	18.4	18.0
Equity-to-assets ratio	%	51.5	70.9
Capital expenditures on fixed assets	FIM million	2,087	2,217
	€ million	351	373
Personnel, average		8,609	7,967
Earnings per share	FIM	2.07	1.81
	€	0.35	0.31
Shareholders' equity per share	FIM	11.72	10.83
	€	1.97	1.82
Average number of shares	1,000 shares	720,247	720,000

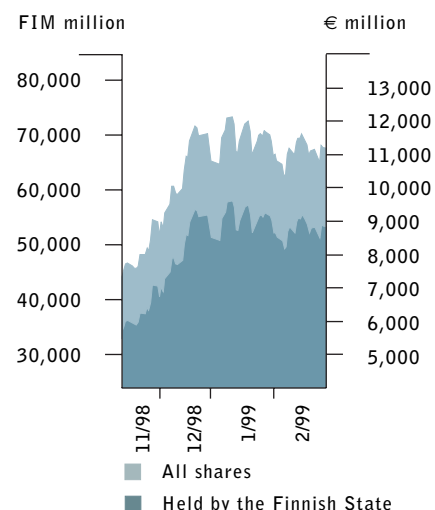
REVENUES



PROFIT BEFORE EXTRA-ORDINARY ITEMS AND TAXES



MARKET CAPITALIZATION



Sonera: Focused on Development

Sonera Today

Leader in the Finnish mobile market

Sonera is the leading mobile communications provider in Finland. In 1998, Sonera had a 70% market share of all mobile communications services and a 67% market share of GSM services, based on revenues. The churn rate in 1998 of Sonera's GSM customers was about 14%, which is one of the lowest GSM churn rates in Europe.

Innovative provider of data and media communications services

Sonera is a forerunner in Europe as a provider of advanced data and media communications services. Sonera provides basic data and local area network (LAN) interconnection and management services to large business customers and is the market leader for such services in Finland with a market share of more than 50%. Sonera is also the leading provider of Internet services in Finland with a market share of more than 35%.

Strong position in domestic fixed network services

Sonera's fully digital fixed line network is one of the world's most modern. During 1998, Sonera's market share for long-distance calls was about 39% and for international calls it was about 55%. Sonera provides local voice services in eastern and northern Finland as well as to corporate customers in Helsinki and the other largest cities.

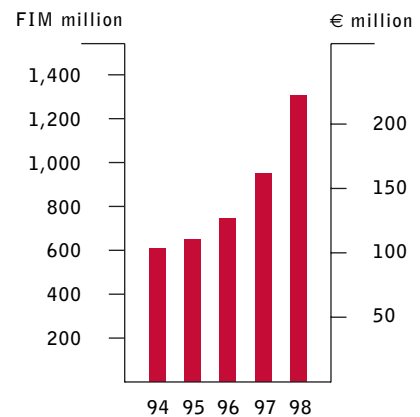
Growth from targeted international investments

Sonera has made a number of significant equity investments in telecommunications providers outside of Finland. The principal investments have been in providers of mobile communications services in rapidly growing markets such as Turkey, Hungary, the Baltic States and the USA. In addition, Sonera has made substantial investments in fixed network telecommunications companies in the Baltic States.

Operational concept

AS THE TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY REVOLUTION CONTINUES TO UNFOLD, SONERA, TOGETHER WITH SELECTED PARTNERS, WILL DEPLOY ITS RESOURCES WITH THE AIM OF DEVELOPING BUSINESS OPERATIONS THAT INCREASE THE COMPANY'S VALUE.

REVENUES FROM DATA AND MEDIA COMMUNICATIONS



Strategic Objectives

Sonera's objective is to develop further its position as the premier provider of mobile, data and media telecommunications services in Finland and to leverage the expertise it has obtained in international operations in selected international markets.

To achieve this objective, Sonera intends to:

Develop further its role within the advanced Finnish telecommunications market.

Sonera is concentrating on customer focus, research and development as well as the business opportunities resulting from the convergence of telecommunications and information technology. In recent years, Sonera has spent 3 – 4% of its annual revenues on research and development connected with new technologies, products and services.

Strengthen its position in mobile communications in Finland.

Sonera is seeking to expand its customer base and to increase the use of its services, notably, by customer segmentation as well as by bringing new wireless services out on the market. Examples of mobile communications data services are bank services, information services, e-mail in GSM text message form and purchases made using a mobile phone.

Sonera is concentrating on maintaining a strong network of resellers and providing high quality customer service. Finland's most extensive distribution network of 1,600 sales outlets was strengthened further in January 1999 when Sonera acquired a majority holding in the joint marketing company of the Päämies chain. Sonera's call centers offer 24 hour service 7 days a week and they handled more than five million calls in 1998. During the current year, Sonera will establish a new call center in Kuusamo.

Continue the development of innovative data and media communications businesses.

Sonera is concentrating on expanding fast-growing data solutions, such as LAN services. In addition, Sonera is developing new Internet services, notably aiming at more efficient network use and electronic commerce. Sonera will capitalize on its investment in Tieto Corporation by cooperating with Tieto in systems integration and in the development of Internet applications and software.

Maintain its strong position in domestic fixed network services.

Sonera is continuing the development and marketing of customer-oriented service packages, concentrating particularly on more cost-effective connections that offer higher capacity. In addition to its conventional voice services, Sonera provides ISDN services in its area of operations and will be able to offer ADSL broadband services throughout most of Finland during 2000.

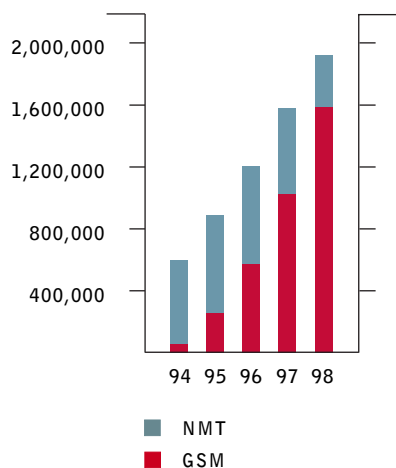
Leverage its strengths into an expanded portfolio of international investments.

Sonera is committed to growth in its core businesses, i.e. mobile, data and media communications. Sonera is actively looking for cooperation models that support growth based on the Company's expertise in these areas. For the mobile communications companies in which Sonera invests, it offers its expertise in building and operating networks as well as in marketing and customer service. Within fixed network operations, Sonera will focus primarily on the Nordic countries and the Baltic States.

Improve productivity and efficiency across all business areas.

Sonera intends to make its operations more efficient through means such as introducing new information systems. Sonera will continue to reorient its personnel structure by recruiting highly educated technical and business professionals for its high growth business areas. The Company is preparing the incorporation of its telecommunications network installation and maintenance functions during 1999.

NUMBER OF SONERA MOBILE PHONE SUBSCRIPTIONS
IN FINLAND



President's Review

1998 WAS A LANDMARK YEAR FOR SONERA. A NEW NAME, THE DEMERGER OF THE PT FINLAND GROUP INTO SEPARATE POSTAL AND TELECOMMUNICATIONS GROUPS AND, IN PARTICULAR, THE LISTING ON THE HELSINKI STOCK EXCHANGE IN NOVEMBER LAUNCHED A NEW PHASE IN THE COMPANY'S LIFE CYCLE.

The events were nevertheless a natural continuation of the development course which has guided the Company in its operations and enabled it to serve its customers well throughout the 1990s.

Sonera's ownership base expanded to 80,000 shareholders in the sale of shares that was carried out in the autumn. Our new owners are Finnish institutional and retail investors as well as Nordic and international institutions and mutual funds. Demand for the shares turned out to be unprecedentedly brisk despite the uncertainty that prevailed on the capital markets. Sonera's employee offering, too, was very well received because every second employee subscribed the Company's shares. All in all, a wide and diverse ownership base offers a challenging starting point for further developing Sonera's value.

Focus areas grow rapidly

Sonera kept up its strong growth in 1998, and the profitability of its business operations also remained good. Within mobile communications in Finland, we landed more than half a million new GSM customers over the year. Toward the end of the year, nearly two million Finns were Sonera's mobile communications customers. The record growth was spurred by the strong expansion of the consumer market, numerous new services that increased the use of mobile phones and good cooperation with independent mobile phone resellers.

In relative terms, our data and media communications business reported growth that outstripped even mobile communications. Important sources of growth were LAN and intranet services that are sold to companies as well as the strong increase in use of the Internet. In 1998, mobile, data and media communications made up 63 per cent of Sonera's revenues.

1998 was also a landmark year for the expansion of our international operations. During the year Sonera made major investments in foreign mobile communications companies, notably in Turkey and the United States. In the Baltic countries, we forged ahead by acquiring holdings in both mobile communications and fixed network companies. Our associated company strategy already bore fruit, particularly in Turkey, where Turkcell's operations enjoyed strong and profitable growth.



Changes throughout the field worldwide

Finns are quick to adopt new telecommunications solutions, as witnessed by the world records in the use of mobile phones and the Internet. In December 1998, the number of mobile phone subscriptions in Finland exceeded the number of wired lines, and at the end of the year 58 percent of Finns had use of a mobile phone. Already every fifth Finn uses the Internet weekly.

The favorable trend in business operations and the listing on the stock exchange will open up new opportunities for Sonera in the fast growing and globalizing telecommunications market. The opening of Finland's telecommunications market to competition stage by stage since 1987 has been a contributing factor in developing the domestic market.

Elsewhere in Europe a similar trend has now begun. Throughout most of the European Union, 1998 was the first year of competition within telecommunications, and it already gave clear signs of the competition that will be encountered in the future. The consolidation trend in the field is starting up in Western Europe. Traditional fixed network operators are seeking cost advantages through alliances and mergers, whereas in the fast growing mobile, data and media communications areas, companies are seeking to create the market positions of the future.

Sonera has focused its business clearly on mobile, data and media communications. In these growth areas, the Group has internationally recognized technical special expertise, and experience in marketing and in managing customers which has been won in the face of keen competition on the domestic market. We are determined to develop further these strengths and to foster the growth of our core businesses in the international market. Sonera is actively seeking cooperation models that will enable us to leverage our expertise, achieve international growth and build shareholder value.

Mobile and content services converge

Sonera has made greater outlays on technology expertise than have telecommunications operators on the average. In 1998, as in previous years, we spent more than three percent of the Group's revenues on research and development. Our R&D activities are based on the needs of a rapidly evolving market – the development of new services is a central part of our business operations. In addition to technological prowess, we

also want to be pioneers in developing and marketing services.

The technical development of our focus areas and the design of new services will continue without interruption. Toward the end of 1998, Finland's Ministry of Transport and Communications invited applications for licenses to operate a UMTS network, becoming the first ministry in the world to take this step. This third generation broadband mobile communications network will make possible services such as the transmission of video and versatile use of Internet pages by a mobile handset. In the years ahead, the use of mobile phones will thus gain decisively in diversity compared with their present role of transmitting voice and text-based services. Concurrently, mobile communications and Internet content services will draw closer together. Sonera is participating in international development work on the new mobile communications system and intends to remain in the vanguard of development also as a provider of new content services by pursuing cooperation with content providers.

In addition to a UMTS license, at the beginning of the current year Sonera has applied for a nationwide digital television license. Our objective is to start offering interactive content services, such as electronic transactions and commerce, via digital TV. Digital TV, too, is an indication of the convergence of various technological solutions and modes of communication, whereby the same content services can be used by means of several terminal devices. We believe that television, too, will become a household Internet terminal.

Sonera has also prepared internally for the ongoing sweeping changes in the field. We see our future businesses developing around solutions related to personal communications, corporate communications as well as the media and content business. These are the three keystones around which we will build and orient our business as the market unfolds in new directions.

I wish to thank all our Sonera customers, personnel, partners in cooperation and shareholders for your contributions that have made this a successful year. We are well poised to push ahead.



Aulis Salin

Report of the Board of Directors

The expansion of the economy created favorable conditions for the strong growth of the telecommunications industry in Finland. Particularly fast growth came in mobile, data and media communications.

According to an estimate by the Ministry of Transport and Communications, the total number of mobile telephone subscriptions in Finland grew by about 800,000 in 1998 (659,000 in 1997). At the end of the year, the number of mobile telephone subscriptions was estimated at 3.0 million, and the penetration rate was approximately 58 subscriptions per 100 inhabitants. In December, the total number of mobile subscriptions exceeded the number of fixed network telephone lines.

The number of companies offering mobile communications services on the Finnish market grew during the year. The new provision of services was concentrated in specific areas and mainly in the largest cities. Competition to obtain new customers heated up, and within mobile communications Sonera lost market share, which according to the subscriber statistics of the Ministry of Transport and Communications stood at 68% (74) of all the mobile telephone subscriptions and 63% (65) of GSM subscriptions at the end of the year.

According to the company's estimate, the size of the fixed network local call market remained unchanged, but the long distance call market diminished somewhat. Sonera retained its market share of about 28% of local access lines. Sonera's market share of long distance call minutes during the year was about 39% (41).

The international call market is estimated to have remained unchanged in Finnish markka terms, despite the fall in the price level of calls, because the volume of call minutes grew enough to offset this and was up about 9%, according to the company's estimate. Sonera's market share of international call minutes during the year was about 55% (60).

The total market for data communications again showed fast growth, especially for interconnection and management services for corporate LANs. Within basic data transfer services, the growth was more moderate. Sonera estimates that it has a share of about half of the Finnish data communications market.

Use of the Internet advanced strongly, and new services as well as service providers appeared on the market. Competition on the market tightened up, but Sonera estimates that it held on to its leading position – with a market share of more than one-third – as a provider of Internet services for companies and households.

Revenues

Sonera's revenues were up 20% in 1998 to FIM 9,648 million (8,041). In Finnish markka terms, revenues from mobile communications showed the biggest growth.

CONSOLIDATED REVENUES

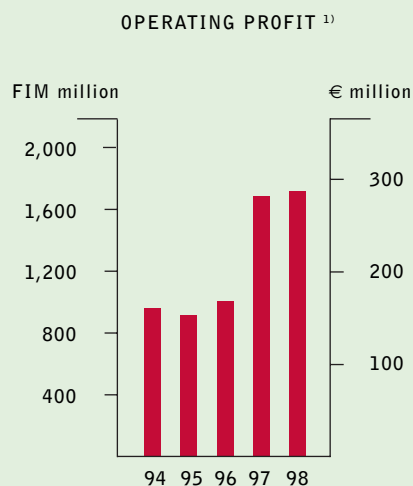
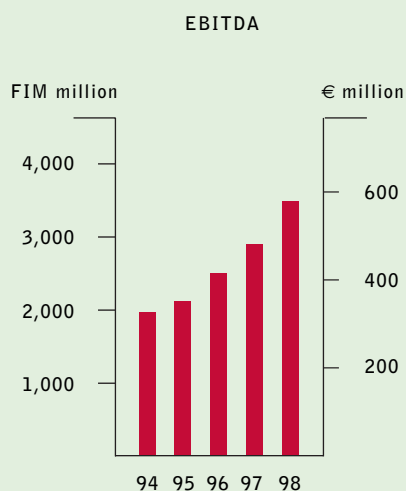
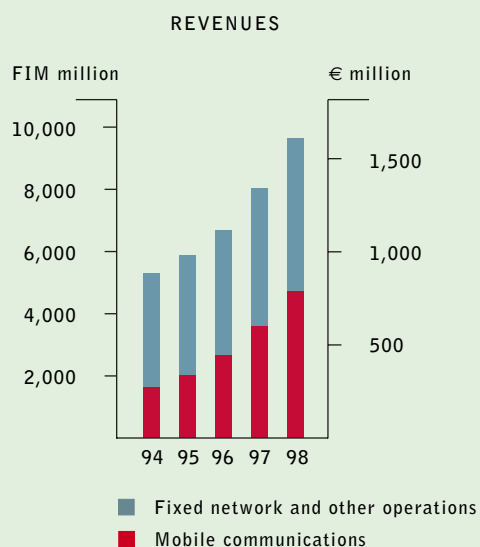
FIM million	1998	1997	Change %
Mobile communications	4,750	3,603	32
Fixed network and other operations			
Domestic voice services	1,497	1,456	3
International voice services	763	798	(4)
Data and media communications	1,310	952	38
Equipment sales	549	476	15
Other operations	779	756	3
Total	4,898	4,438	10
The Group	9,648	8,041	20

Revenues from mobile communications were up 32% on the previous year and were FIM 4,750 million (3,603). The proportion of mobile communications of the Group's total revenues rose to 49% (45). Growth was spurred by the increase in the number of GSM customers as well as the growth in the use of services. The decrease in the number of NMT customers, which became more pronounced in the latter half of the year, did not have a significant effect on revenues, because the number of GSM customers increased at the same time more rapidly than in the first half of the year. The number of GSM customers at the close of the year was 1,596,897 (1,032,121), as against 334,987 NMT customers (553,981).

Revenues from fixed network and other operations increased by 10% on the previous year and amounted to FIM 4,898 million (4,438). The business area comprises fixed network domestic and international call services, data and media communications as well as equipment sales and other operations.

Total revenues from fixed network telephone services were FIM 2,260 million (2,254). Revenues from domestic telephone services grew somewhat on the previous year and were FIM 1,497 million (1,456). The fall in the price level of international calls and the loss of market share reduced revenues from international call services to FIM 763 million (798).

Revenues from data and media communications increased by 38% on the previous year and were FIM 1,310 million (952). Revenues from the data communications business, which is concentrated on corporate LAN and intranet services, grew by 42% and were FIM 939 million (662). Revenues from media communications were up 28%, primarily thanks to the growth in Internet services, and totaled FIM 371 million (290).



1) The depreciation method for telecommunications networks was changed in 1997.

Equipment sales grew by 15% and were FIM 549 million (476). Revenues from other operations were up 3% to FIM 779 million (756). The main growth areas were the operator and directory business as well as leased lines.

The revenues of international subsidiaries that are included in fixed network and other operations were FIM 261 million (152). Growth came mainly from the data communications business. Sales of services from Finland to abroad amounted to FIM 179 million (154).

Earnings

Consolidated operating profit for 1998 was FIM 1,721 million (1,693), or 18% of revenues (21). Relative profitability at the EBITDA level (profit before depreciation and amortization) remained at 36% of revenues, but operating profit was reduced by the higher amount of depreciation as well as FIM 219 million of non-recurring write-downs on fixed assets. Profit before extraordinary items and taxes grew by 12% and was FIM 2,061 million (1,836).

EBITDA

FIM million	1998	1997	Change %
Mobile communications	2,146	1,662	29
Fixed network and other operations	1,346	1,244	8
The Group	3,492	2,906	20

EBITDA is calculated as operating profit before depreciation and amortization.

OPERATING PROFIT

FIM million	1998	1997	Change %
Mobile communications	1,320	1,197	10
Fixed network and other operations	401	496	(19)
The Group	1,721	1,693	2

Operating profit from mobile communications improved by 10% on the previous year and was FIM 1,320 million (1,197). EBITDA remained at the previous year's level of 44%, and in Finnish markka terms, EBITDA rose by 29%. However, the growth in operating profit was weakened by a FIM 202 million write-down on fixed assets related to the NMT networks as a consequence of the reduction in the number of customers, a trend which became more pronounced in the latter months of the year. The carrying amount of NMT networks as of December 31, 1998, was FIM 133 million. All in all, the positive earnings trend was assisted by the strong growth in traffic revenues.

Operating profit from fixed network and other operations was FIM 401 million (496), down 19% on the previous year. EBITDA remained at the level of 1997, or about 23%, but depreciation outstripped the EBITDA figure. The profitability of the business area was also weakened by outlays on developing international operations as well as on new data and media services.

Equity income in associated companies increased on the previous year and was FIM 351 million (114). The biggest contribution to earnings was made by Turkcell, which accounted for a FIM 486 million (74) share of Sonera's result. Equity income in associated companies also includes a FIM 131 million share of the loss reported by the US company Aerial, in which Sonera acquired a 19.4% stake in September and which is treated in the consolidated financial statements as an associated company.

EQUITY INCOME IN ASSOCIATED COMPANIES

FIM million	1998	1997
Turkcell Iletisim Hizmetleri A.S.	486	74
Aerial Operating Co., Inc.	(131)	–
Other mobile operators	70	(3)
Fixed network operators	117	35
Service providers	(57)	–
Tieto Corporation	57	52
Other associated companies	16	3
Amortization of goodwill and eliminations	(207)	(47)
Total	351	114

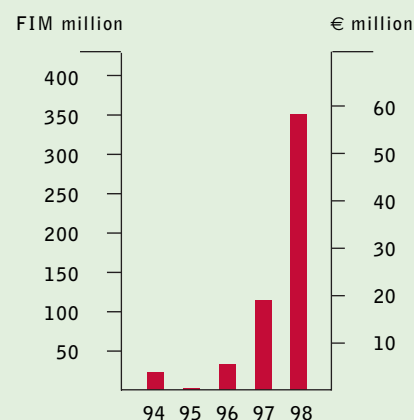
The business operations of the associated companies grew significantly during the year, both as a consequence of the growth in the number of mobile communications customers and the acquisition of new associated companies. The total revenues generated by associated companies during 1998 were FIM 11.0 billion (5.9). The most significant impact on earnings came from the growth in Turkcell's revenues, when in April the company obtained a GSM license which enabled it to go over to invoicing customers directly instead of through the Turkish State telecom company. The total number of customers of the associated companies at the end of 1998 was 3.6 million (1.8) in mobile communications and 2.4 million (1.3) in fixed network services.

The tax expense for the fiscal year was FIM 561 million (530) and the Group's effective tax rate was 27% (29). Earnings per share grew by 14% and amounted to FIM 2.07 (1.81). Return on capital employed was calculated as 19.1% (23.7) and return on shareholders' equity was 18.4% (18.0).

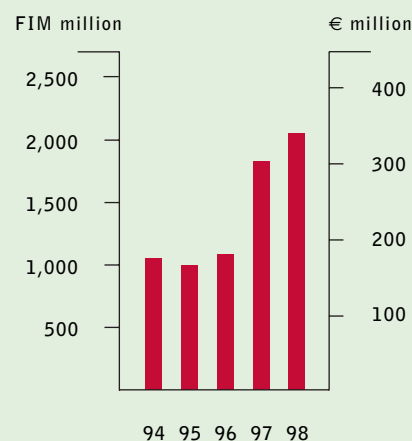
Financial position

Cash flow from operations rose to FIM 3,019 million (2,708), exceeding the amount of capital expenditures on fixed assets. Net debt grew significantly, mostly to finance equity investments in foreign associated companies as well as to cover a dividend of FIM 786 million that was paid to the Finnish State prior to the company's privatization. The amount of net debt at the end of the year was FIM 4,936 million (164). The equity-to-assets ratio fell to 51% (71) and the gearing ratio at the end of the year was 58% (2). Net financial expenses were FIM 11 million (1997: net financial income of FIM 29 million).

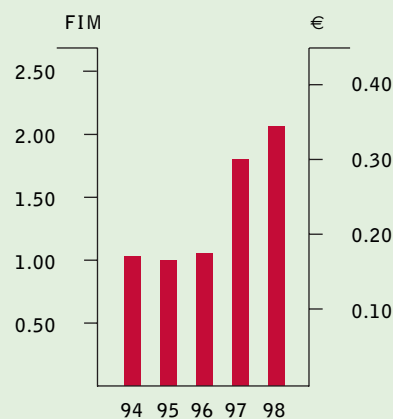
EQUITY INCOME IN ASSOCIATED COMPANIES



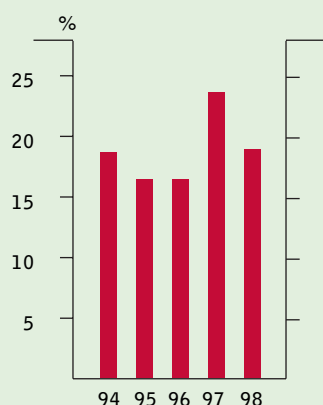
PROFIT BEFORE EXTRAORDINARY ITEMS AND TAXES



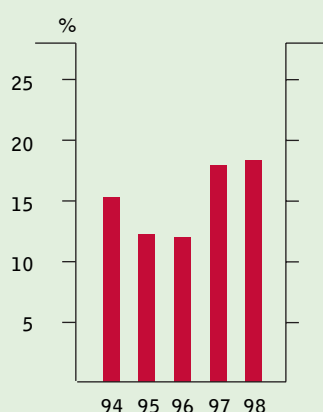
EARNINGS PER SHARE



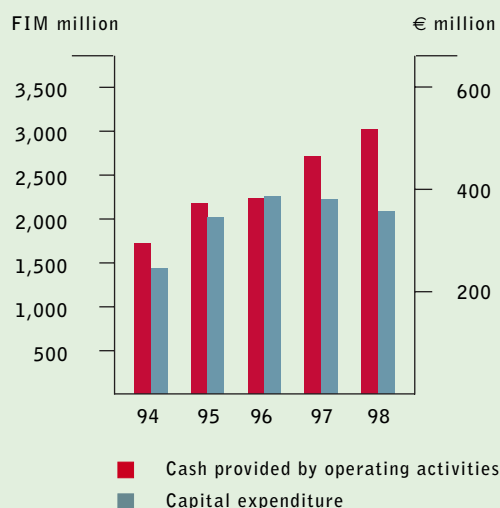
RETURN ON CAPITAL EMPLOYED



RETURN ON SHAREHOLDERS' EQUITY



CASH PROVIDED BY OPERATING ACTIVITIES AND CAPITAL EXPENDITURE



FINANCIAL POSITION AND CHANGES

FIM million	1998	1997	Change
Shareholders' equity	8,465	7,799	666
Net debt			
Long-term debt	4,687	1,013	3,674
Current debt	802	14	788
- Cash and marketable securities	(553)	(863)	310
Total	4,936	164	4,772

Equity-to-assets ratio, %	51.5	70.9	
Gearing ratio, %	57.8	2.1	

Financial income and expenses

Dividend income	31	12	19
Net interest and other financial expenses	(35)	10	(45)
Exchange (losses) gains	(7)	7	(14)
Total	(11)	29	(40)

Cash flows

Operating activities	3,019	2,708	311
Investing activities	(7,085)	(2,580)	(4,505)
Financing activities	3,756	556	3,200
Net change in liquid funds	(310)	684	(994)

The Group's liquid assets at the close of the year were FIM 553 million. In addition, the Group had available committed credit facilities of nearly FIM 1.9 billion.

The management of the Group's financing and financial risks is discussed in greater detail in Note 18 to the financial statements.

Capital expenditures on fixed assets

The Group's capital expenditures on fixed assets in 1998 amounted to FIM 2,087 million (2,217), or 22% of revenues (28).

FIM million	1998	1997	Change %
Mobile communications	984	1,047	(6)
Fixed network and other operations	1,103	1,170	(6)
The Group	2,087	2,217	(6)

Within mobile communications, the building of additional capacity for the GSM 900 network in order to support the strong growth in subscriptions continued, as did expansion of the GSM 1800 network. In addition, capital expenditures were made on information systems for customer service and network management.

Capital spending on the fixed network went primarily to build additional capacity and to modernize the telephone network. Outlays on developing operations were directed at systems related to customer service and operations control.

Equity investments and divestitures

During 1998 a number of major investments were made in telecommunications companies abroad. Equity investments totaled FIM 5,337 million (130).

In April, Sonera increased its holding in the Turkish mobile telephone operator Turkcell Iletisim Hizmetleri A.S. from 34% to 41%. In August, the stake in the Hungarian mobile telephone operator Pannon GSM Rt. was likewise raised from 18.1% to 23%, paying FIM 259 million for the shares.

In September, Sonera acquired a 19.4% holding in the United States GSM operator Aerial Operating Co., Inc. at a price of FIM 1,064 million. The company is the operating subsidiary of the listed company Aerial Communications, Inc. Also in September, Sonera together with Telia AB of Sweden acquired 55% (Sonera's share: 27.5%) of UAB Omnitel, which is Lithuania's leading GSM operator.

Ownership of fixed network operators in the Baltic countries was increased in June when Sonera, together with Telia AB, purchased from the Lithuanian State a 60% holding (Sonera's share: 30%) in AB Lietuvos Telekomas. Sonera's portion of the purchase price was FIM 1,416 million. In addition, Sonera increased its stake in the Latvian fixed network operator Lattelekom SIA from 13.2% to 44.1%. The value of the deal, which was concluded in September, was FIM 1,270 million.

In the first part of the year Sonera, together with the Hamburg power utility, established HanseNet Telefongesellschaft mbH & Co. KG in which each party owns 50%. The joint venture will concentrate on offering fixed network voice and data services in Hamburg and its environs.

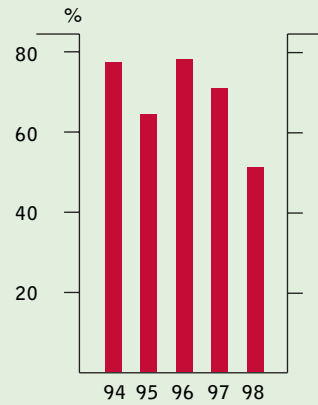
In May, the associated company Axxon Telecom N.V., in which Sonera has a 40% interest, was established in the Netherlands. In the summer, Sonera sold to the company its fixed network call businesses in Belgium, the Netherlands and Germany. Axxon acts as a reseller of fixed line voice services, principally for SMEs in certain European countries.

In February, Sonera sold its 28.5% interest in the Hong Kong mobile telecommunications company P Plus Communications Ltd to the local company Star Telecom International Holding Ltd, whereby Sonera became a shareholder of Star Telecom, with a holding of about 4.5%. In March, Sonera sold its 40% interest in Estonian Paging Ltd, a provider of paging services.

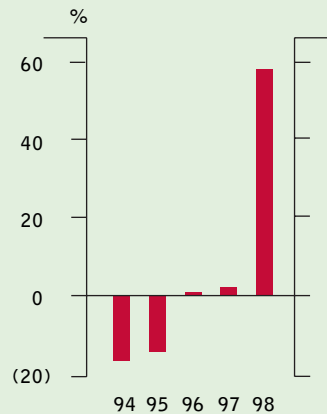
Group structure

The Sonera Group's parent company, Sonera Group plc, resulted from the demerger of PT Finland Ltd on July 1, 1998. In the demerger, Sonera Ltd with its subsidiaries and associated companies, the customer financing company PT Credit

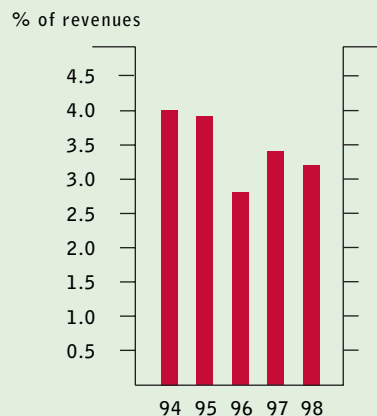
EQUITY-TO-ASSETS RATIO



GEARING RATIO



R&D EXPENDITURE



Ltd and a 27.3% holding in Tieto Corporation were transferred to Sonera Group plc. The Group's largest company, Telecom Finland Ltd, changed its name to Sonera Ltd on April 15, 1998.

At the beginning of the year under review, Sonera Ltd transferred its telecommunications services business that is targeted at large corporate customers to its subsidiary Sonera Solutions Ltd (previously Yritysverkot Oy).

Note 20 to the financial statements contains a listing of the Group's subsidiaries and associated companies as well as the changes that have taken place in them during the year.

Privatization

During the report year, the Finnish State carried out an expansion of the company's ownership base by selling part of the shares it owned in Sonera Group plc. The sale of shares was carried out in October-November in a tender offering which was targeted at Finnish and international institutional investors as well as retail investors in Finland. The preliminary price range of the share was FIM 36-45, and the State set the final price at FIM 45 per share. In the institutional offering, the State sold 119,000,000 shares and in the retail offering it sold 39,000,000 shares, whereby the State's proceeds from the offering totaled about FIM 7.1 billion. Investors who purchased bonus shares in the retail offering will furthermore receive from the State in November 1999, without a separate charge, one additional share for each ten shares which they have purchased and owned uninterruptedly for one year. The proportion which Finnish institutional investors and Finnish retail investors received of the shares sold was 54.9%, that of other Nordic institutional investors being 5.6% and that of other international institutional investors 39.5%.

In connection with the State's sale of shares, Sonera carried out a share issue directed at the employees, in which it offered for subscription 2,000,000 new shares. The final subscription price was FIM 40.50 per share and the total proceeds of the issue were FIM 81 million, of which FIM 5 million was entered as an increase to the share capital and FIM 76 million was entered in the share premium fund. The increase in share capital was registered on November 17, 1998.

According to the book-entry register, at the end of the year Sonera had nearly 75,000 shareholders. Following the sale of shares and the employee offering, the State's holding in Sonera fell to 77.8%. Subject to an authorization obtained from Parliament, the Government can lower the State's holding to a floor of 50.1%.

In connection with the expansion of the ownership base, Sonera's share was listed on the Helsinki Stock Exchange (HEX Helsinki Exchanges). Trading in the shares com-

menced on the Prelist of HEX Helsinki Exchanges on November 10, 1998, and on the Main List on November 17, 1998, when the shares were transferred to investors' book-entry accounts.

More detailed information on Sonera's shareholders and on the trading volume of the shares and share price performance is given on pages 40 - 42.

Research and development

Expenditures on Sonera's research and development activities (R&D), including development work on information systems, totaled about FIM 312 million (270) in 1998.

Sonera's R&D activities are guided by the convergence of telecommunications with information technology and various media, which creates the potential for developing new types of communications solutions. During 1998 the focus of development activities was on the Group's growth areas: mobile, data and media communications.

The R&D activities are based on the needs of the rapidly developing market. Central projects for developing services were increasingly versatile value added services for integrated communications, electronic commerce as well as mobile communications. Other development targets were access solutions for broadband networks as well as new Internet-based network solutions. During the year there was also a strong development emphasis on software and database technologies that facilitate the development and management of new services.

The third generation within mobile communications, a broadband UMTS network, will make it possible to transmit video and to offer Internet services using a mobile phone. Sonera participated actively in international research, development and standardization work on the new mobile communications system and took part in research projects led by universities. At the same time, Sonera was involved in training new experts who were entering the field and who were recruited in particular for the Group's technology centers in Oulu, Lappeenranta and Tampere, Finland.

Sonera's environmental policy

An environmental policy was approved for the Group during the year under review. Its objective is to promote the consideration of environmental values in both the Group's and customers' operations. Confirmation of the environmental policy was a continuation of the undertakings set forth in the Environmental Charter that was signed in 1996 by European telecommunications operators. In handling environmental issues, the procedures according to the ISO 14001 environmental system standard are applied. The implementation of environmental policy is monitored and reports on it are submitted to the company's management.

Year 2000

Sonera's Year 2000 program has been in progress since 1996 and the company's management estimates that thanks to changes that have already been made, and will be made, to existing software and due to the changeover to new systems, the transition to the year 2000 will not cause significant problems for Sonera's information technology and telecommunications systems. Problems that may arise in the systems or operations of parties outside the Group or in telecommunications systems purchased from third parties might, however, have an effect on Sonera's operations and services.

Sonera's Year 2000 program covers the Group's internal technology and production processes, infrastructure, products and services, the major subcontractors and resellers as well as customers. The program includes measures for checking each individual piece of equipment and software program as well as the services provided by Sonera. In the company's estimation, the inspections, modifications and upgrading of equipment which are still required will be implemented and tested within Sonera's own information technology and telecommunications equipment, software and systems during 1999.

The costs connected with the Year 2000 program are estimated to total about FIM 90 million, of which about 74% represents the expenses of external experts, 22% consists of wage and salary expenses and 4% comprises equipment and other expenses. Of the estimated costs, the actual expenditure that had been made by December 31, 1998, was FIM 69 million. The remainder of the estimated total costs is included as a provision for expenses in the balance sheet.

Introduction of the euro

In Sonera's invoices and price lists, information in euro amounts has also been given for purposes of clarification as of January 1, 1999. A complete changeover to invoicing in euro amounts and actual euro pricing will be gradually completed by January 1, 2002.

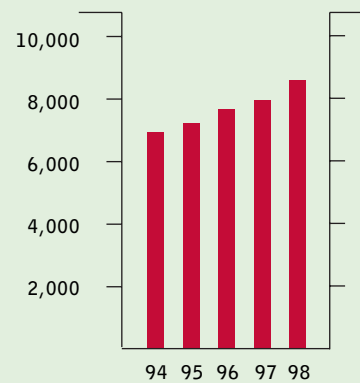
Sonera intends to publish its financial bulletins also in euro amounts beginning with the first interim report in 1999. The changeover to the euro in accounting will be made by January 1, 2001.

In January 1999, the share capital of Sonera Group plc was converted to a euro amount and at the same time the nominal value of the share was dropped in accordance with a resolution passed by the Extraordinary General Meeting on July 1, 1998.

Personnel

The Group's payroll at the end of the fiscal year was 9,068 employees (8,290), of whom 89% were permanent and 11%

AVERAGE NUMBER OF PERSONNEL



temporary employees. The Group's average payroll during the year was 8,609 employees (7,967). The increase on the previous year is attributable to the growth in the mobile, data and media businesses as well as to inputs made in developing new business opportunities abroad.

AVERAGE NUMBER OF PERSONNEL

	1998	1997	Change %
Mobile communications	993	963	3
Fixed network and other operations	7,616	7,004	9
The Group	8,609	7,967	8

Personnel issues are discussed in greater detail on pages 60 - 61.

Administration

The management of Sonera Group plc, which began operations on July 1, 1998, is the responsibility of the Board of Directors and the President and CEO, who are overseen by a Supervisory Board. The members of the administrative bodies were elected in connection with the decision concerning the demerger of PT Finland Ltd. During the financial year, Markku Talonen has been Chairman of the Board, and Pekka Vennamo has been the company's President and CEO.

The present compositions of the Supervisory Board, Board of Directors and Management Group of Sonera Group plc as well as the company's administrative and control system are presented on pages 62 - 65.

Events after the close of the financial year

On January 4, 1999, the Board of Directors of Sonera Group plc released President and CEO Pekka Vennamo from his duties and appointed Aulis Salin, President and CEO of Sonera Ltd, President and CEO of the parent company as well, effective as of the same day.

Sonera announced on January 12, 1999, that it had purchased a 60% holding in Päämies-Kauppiat Oy, a joint marketing company of the Päämies chain, which is made up of independent mobile phone resellers. The Päämies chain comprises 40 stores in different parts of Finland, and the 12 resellers that are part of the chain will stay on with the company as minority shareholders.

On January 13, 1999, the international rating institution Standard & Poor's granted Sonera Group plc an AA- credit-worthiness rating on its long-term borrowing and an A-1+ on short-term borrowing.

On January 15, 1999, Sonera announced that it had signed, with RSL COM Finland Oy, a mobile call service operator agreement which is the first of its kind in Finland. In this operating model, the service operator buys GSM network capacity from Sonera for its own products.

In January, Sonera submitted to the Ministry of Transport and Communications two applications for licenses for a so-called third generation mobile phone network (UMTS). One of the applications concerns nationwide general mobile phone services and the other concerns a regional license for building-specific wireless communications solutions. In February, Sonera submitted an application for a nationwide digital television license in order to be able to begin providing interactive content services on digital TV.

On January 22, 1999, Sonera Ltd announced that it was planning to incorporate its construction and maintenance functions beginning on July 1, 1999. At the same time, talks with the employee organizations were started with a view to ascertaining the effects of the incorporation on the personnel. The aggregate payroll of said functions at the end of the year was some 2,200 employees and revenues in 1998 amounted to about FIM 1 billion, of which about a fifth came from customers outside the Group.

As part of measures to increase the efficiency of the administrative structure, the Board of Directors of Sonera Group plc decided on February 22, 1999 to merge Sonera Ltd with its parent company, Sonera Group plc.

AS Eesti Telekom, the parent company of Sonera's associated companies in Estonia, AS Eesti Mobiiltelefon and AS Eesti Telefon, was privatized in February 1999, when the State of Estonia sold part of the shares it owns in Eesti Telekom to international and Estonian investors. Sonera subscribed for the company's shares for altogether FIM 55 million. According to the shareholder agreement concluded before the privatization, Eesti Telekom will exchange Sonera's holdings in Eesti Mobiiltelefon and Eesti Telefon for shares of Eesti Telekom by June 30, 1999. After the privatization and the exchange of shares, Sonera and Telia AB will both own 24.5%, the State of Estonia will own 27.3% and other investors 23.7% of the shares of Eesti Telekom. Quotation of the company share on the Tallinn Stock Exchange began on February 11, 1999. After the closing of trading on the first day, the company's market value was about FIM 3.2 billion.

Outlook for 1999

The demand for telecommunications services in Finland is estimated to continue to grow slightly more slowly than it has done up to now. As in previous years, growth will come mainly from mobile, data and media communications.

It is estimated that there will be increased competition in all the Group's main business areas. The growth in revenues is not believed to continue as strongly as it did in the previous year. Within mobile communications, the rate of growth in the number of subscriptions is estimated to slow down compared to previous years.

Ensuring the growth of data and media communications

will call for strong inputs into the development of products and services. It will be attempted to make further improvements in the cost-effectiveness of the fixed network, which bolsters the Group's growth areas. Measures to boost the efficiency of other operations will also be continued in order to improve profitability.

It is estimated that the Group's relative profitability, as measured by EBITDA per cent, will remain at the level of 1998. Sonera's share of the profits of associated companies is expected to continue to expand. Profit before extraordinary items and taxes is estimated to grow slightly more rapidly than revenues.

Capital expenditures on fixed assets are estimated to be at the level of 1998 in Finnish markka terms. Within mobile communications, capital expenditures will be directed at providing additional capacity for the GSM 900 network in order to support growth and to raise the speed of the network. Expenditures will also be made to expand the coverage area of the GSM 1800 network. Investments that make possible new services will account for a greater share of capital expenditures than they did last year. By means of investments in the fixed network, the company will ensure the development of both new services and the required additional capacity to satisfy the demand for these services. In addition, Sonera will continue to modernize its fixed network switching technology for example in order to achieve a country-wide ADSL broadband capability during the year 2000.

The rate of change in the structures of the industry accelerated last year, and the consolidation trend in the industry is expected to continue. With mergers and alliances, companies in fixed network businesses seek mainly cost and scale benefits, whereas in mobile, data and media communications companies seek mainly strong growth and new market positions. Sonera is committed to growth in its core businesses, i.e. mobile, data and media communications. Sonera is actively looking for cooperation models that support growth based on the company's expertise in these areas.

Proposal of the Board of Directors for profit distribution

In making its annual dividend proposal, the company's Board of Directors takes into account not only the Group's earnings trend but also its capital expenditure and development requirements. The objective of the Board of Directors is for the amount of dividends paid to correspond to about one-fourth of the Group's annual net income.

According to the financial statements as of December 31, 1998, the Group's distributable funds totaled FIM 5,474 million and the corresponding amount for the parent company was FIM 4,006 million. The Board of Directors is proposing to the Annual General Meeting that a dividend of FIM 0.50 per share, or a total of FIM 361 million, be paid and that the remainder of the distributable funds be carried forward as retained earnings.

Helsinki, Finland
February 22, 1999

Markku Talonen

Liisa Joronen	Kalevi Alestalo
Erkki Bäckman	Reijo Sulonen
Tapio Vaahtokivi	Kari Vilkmán

Aulis Salin
President and CEO

Consolidated Income Statement

Year ended December 31	Note	1998	1997	1998	1997
		FIM million		€ million	
Revenues	(2)	9,648	8,041	1,623	1,352
Other operating income	(3)	145	107	24	18
Operating expenses	(4)				
Cost of materials, supplies and goods		(691)	(594)	(116)	(100)
Services bought		(2,182)	(1,864)	(367)	(313)
Personnel expenses		(1,836)	(1,526)	(309)	(257)
Rental expenses		(238)	(230)	(40)	(39)
Other operating expenses		(1,354)	(1,028)	(228)	(172)
Total operating expenses		(6,301)	(5,242)	(1,060)	(881)
Depreciation and amortization	(5)	(1,552)	(1,213)	(261)	(204)
Write-downs on fixed assets	(5)	(219)	–	(37)	–
Operating profit		1,721	1,693	289	285
Equity income in associated companies	(10)	351	114	59	19
Financial income and expenses	(6)	(11)	29	(2)	5
Profit before extraordinary items and taxes		2,061	1,836	346	309
Income taxes	(7)	(561)	(530)	(94)	(89)
Minority interest in income		(6)	(0)	(1)	(0)
Net income		1,494	1,306	251	220
Earnings per share (FIM, €)	(8)	2.07	1.81	0.35	0.31
Average number of shares (1,000)		720,247	720,000		

Consolidated Balance Sheet

December 31	Note	1998	1997	1998	1997
		FIM million		€ million	
A S S E T S					
Fixed assets and other long-term investments	(9)				
Intangible assets		317	253	53	42
Property, plant and equipment					
Land		91	74	15	13
Buildings		740	722	125	121
Machinery and equipment		417	339	70	57
Telecommunications networks		4,965	5,038	835	847
Other tangible assets		188	87	32	15
Advances paid and construction in progress		273	221	46	37
		6,674	6,481	1,123	1,090
Long-term investments and receivables					
Investments in associated companies	(10)	6,828	1,224	1,148	206
Other shares and holdings		319	282	54	47
Long-term loans receivable		173	237	29	40
		7,320	1,743	1,231	293
Total fixed assets and other long-term investments		14,311	8,477	2,407	1,425
Current assets					
Inventories	(11)	133	89	22	15
Receivables					
Trade accounts receivable		1,611	1,289	271	217
Loans receivable		4	227	1	38
Prepaid expenses and accrued income		93	141	16	24
Other receivables		25	11	4	2
		1,733	1,668	292	281
Cash and marketable securities					
Marketable securities		213	604	36	101
Cash and cash equivalents		340	259	57	44
		553	863	93	145
Total current assets		2,419	2,620	407	441
TOTAL ASSETS		16,730	11,097	2,814	1,866

December 31	Note	1998	1997	1998	1997
		FIM million		€ million	
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	(12)				
Share capital		1,805	1,800	304	303
Share premium fund		76	–	13	–
Additional paid-in capital		3,041	3,041	511	511
Retained earnings from previous years		2,049	1,652	345	278
Net income for the year		1,494	1,306	251	220
		8,465	7,799	1,424	1,312
Minority interest		72	3	12	0
Total shareholders' equity and liabilities		8,537	7,802	1,436	1,312
Non-current liabilities					
Long-term debt	(13)	4,687	1,013	788	171
Deferred tax liability	(7)	452	344	76	58
Other long-term liabilities	(14)	87	169	15	28
		5,226	1,526	879	257
Current liabilities					
Current debt	(13)	802	14	135	2
Advances received		94	84	16	14
Trade accounts payable		1,109	825	187	139
Accrued expenses and prepaid income		941	828	158	139
Other current liabilities		21	18	3	3
		2,967	1,769	499	297
Total liabilities		8,193	3,295	1,378	554
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES					
		16,730	11,097	2,814	1,866

Consolidated Statement of Cash Flows

Year ended December 31	1998	1997	1998	1997
	FIM million		€ million	
Operating activities				
Operating profit	1,721	1,693	289	285
Depreciation and amortization	1,771	1,213	298	204
Net loss (gain) on disposal of fixed assets and business operations	25	(2)	4	(0)
Dividends received	86	41	14	7
Interest received	69	37	12	6
Interest paid	(114)	(9)	(19)	(1)
Income taxes paid	(313)	(369)	(53)	(62)
Other items	(30)	(21)	(5)	(3)
Change in working capital, net of acquisitions and disposals				
(Increase) decrease in inventories	(44)	15	(7)	2
Increase in non-interest bearing receivables	(257)	(259)	(43)	(44)
Increase in non-interest bearing liabilities	105	369	18	62
Cash provided by operating activities	3,019	2,708	508	456
Investing activities				
Capital expenditures	(2,087)	(2,217)	(351)	(373)
Acquisitions of subsidiaries, net of cash acquired	(11)	(5)	(2)	(1)
Investments in associated companies	(5,114)	(94)	(860)	(16)
Investments in other shares and stock	(212)	(31)	(36)	(5)
Proceeds from sale of fixed assets	69	50	12	8
Proceeds from sale of subsidiaries, net of cash disposed	–	2	–	0
Proceeds from sale of associated companies	21	40	3	7
Proceeds from sale of other shares and stock	2	7	0	1
Decrease (increase) in long-term loans receivable	23	(110)	4	(18)
Decrease (increase) in current loans receivable	224	(222)	38	(37)
Cash used in investing activities	(7,085)	(2,580)	(1,192)	(434)
Financing activities				
Withdrawals of long-term debt	3,673	1,008	617	169
Increase (decrease) in current debt	788	(227)	133	(38)
Equity issue	81	–	14	–
Dividends paid	(786)	(225)	(132)	(38)
Cash provided by financing activities	3,756	556	632	93
Net (decrease) increase in cash and marketable securities	(310)	684	(52)	115
Cash and marketable securities at beginning of year	863	179	145	30
Cash and marketable securities at end of year	553	863	93	145

Notes to the Consolidated Financial Statements

1. Accounting policies

Sonera Group plc (the “Parent Company”) and its subsidiaries (together, “Sonera” or the “Group”) provide a wide range of telecommunications services to residential and business customers, primarily in Finland. Sonera’s major lines of business include mobile telecommunications services, fixed line domestic and international voice services, data and media communications services, equipment sales and other operations. Sonera operates in a single business segment, the telecommunications industry, and currently generates over 95% of its consolidated revenues from sales to customers in Finland. Sonera has also significant minority shareholdings in mobile and fixed line telecommunications operators abroad.

The consolidated financial statements include the financial statements of Sonera Group plc and its subsidiaries. The Group’s principal operating subsidiary 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 consolidated financial statements for 1998 and the comparative figures for 1997 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 in 1997 and during the first six months of 1998.

The consolidated financial statements have been prepared in accordance with Finnish generally accepted accounting principles (“Finnish GAAP”), as stipulated in the revised Finnish Accounting Act 1336/1997. As allowed by Finnish GAAP, Sonera has adopted accounting principles which comply with the requirements of International Accounting Standards (“IAS”) in all material respects.

The consolidated financial statements are presented in millions of Finnish markka (“FIM”), except for share and per share amounts. The consolidated income statement and the consolidated statement of cash flows for 1998 as well as the consolidated balance sheet as of December 31, 1998 have also been translated into euro at the exchange rate fixed on January 1, 1999, which is FIM 5.94573 per euro.

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 Group plc and those companies in which it holds, directly or indirectly through subsidiaries, over 50% of the shares and voting rights.

The companies acquired or established during the financial period have been consolidated from the date of acquisition

or formation. The companies disposed of during the financial period have been consolidated up to the date 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, not exceeding 10 years. Allocations to acquired assets and liabilities are recognized in earnings together with the underlying asset or liability.

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 considers to have significant influence when it holds 20 - 50% 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, in spite of less than 20% ownership (19.4%). 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, 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 into the accounting currency at the closing rate on the balance sheet date. Foreign exchange gains and losses on trade accounts receivable and payable are adjusted to revenues and operating expenses, respectively. In relation to revenues 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 are denominated in currencies of the euro zone have been translated into Finnish markka at the fixed exchange rates effective as of January 1, 1999, and the resulting exchange gains and losses are recognized as realized gains and losses for 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 shareholdings 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 currency and interest rates. These risks are managed to minimize their impact on Sonera’s profitability and financial position.

Derivative financial instruments hedging against ex-

change and interest rate risks are valued at the exchange rate or market rate on the balance sheet date, and the changes in value are recognized in income. The interest component inherent in foreign currency derivative contracts is accrued as interest income or expense over the period to maturity of the contract, and exchange gains and losses are reported within financial income and expenses.

Derivative financial instruments are not used for speculative purposes.

Fixed assets and other long-term investments

The balance sheet values of fixed assets are stated at historical cost, less accumulated depreciation and amortization. The cost of self-constructed assets also includes overhead costs attributable to the construction work. 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 is based on non-cash values on January 1, 1994, equal to the carrying value of transferred assets on the December 31, 1993 balance sheet of the former government authority. The non-cash 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 to 10 years
Goodwill and goodwill on consolidation	5 to 10 years
Other long-term expenses	3 to 10 years
Buildings	15 to 40 years
Machinery and equipment	3 to 13 years
Telecommunications networks	4 to 20 years
Other tangible assets	3 to 10 years

Write-downs based on permanent impairment of assets are recorded when it becomes evident that the carrying amount of an asset is not recoverable.

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 cost when intended to be held to maturity, or at the lower of cost or market when available for sale.

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 does not currently hold any significant assets under capital lease terms. If such lease contracts are entered into in the future, the contracts are accounted for as a purchase of an asset and an incurrence of an interest-bearing liability. Assets held under operating leases are not recognized 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 marketable securities

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.

Marketable securities include equity securities as well as deposits and other debt securities for which the intended holding period 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.

Revenue is recognized when services are rendered, or when goods are delivered to the customer. Sonera has no significant long-term contract deliveries.

Research and development

All costs relating to research and development activities are expensed as incurred.

Maintenance, repairs and renewals

Maintenance and repair costs are expensed as incurred. Costs from any major improvement or renovation of an asset are capitalized as part of the carrying value of the asset. Costs from leasehold improvements of rental premises are capitalized under intangible assets as "other long-term expenses" 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.

The statutory pension liabilities of certain 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

The personnel expenses line item within operating expenses in the income statement includes 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 on the cost of networks, and are not presented as personnel expenses in the income statement.

Other operating income and expenses

Other operating income includes income from business activities outside ordinary service production, such as rental income and gains on 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.

Extraordinary income and expenses

Extraordinary items include unusual and significant income and expenses outside the scope of Sonera's normal business activities.

Provisions for contingent losses

Provisions are made for identified contingent losses of which the future realization is reasonably certain and of which the amount can be reasonably estimated. Provisions are reported as non-interest bearing liabilities in the balance sheet.

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 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.

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.

Consolidated statement of cash flows

The cash flow statement presents the annual cash flows classified as cash flows from operating, investing and financing activities, arriving at the change in cash and marketable securities for the period.

The consolidated statement of cash flows has been prepared in accordance with the indirect method by adjusting operating profit to reconcile it with cash flow from operating activities.

FIM million 1998 1997

2. Revenues

Consolidated revenues by business area:

Mobile communications		
Sales to external customers	4,750	3,603
Intra-Group sales	170	156
	<u>4,920</u>	<u>3,759</u>
Fixed network and other operations		
Sales to external customers	4,898	4,438
Intra-Group sales	946	856
	<u>5,844</u>	<u>5,294</u>
Intra-Group sales	(1,116)	(1,012)
Total revenues	<u>9,648</u>	<u>8,041</u>

The majority of Sonera's revenues are generated in Finland. The components of revenues by geographic area are as follows:

Sales to customers in Finland	9,208	7,735
Sales to customers outside Finland	440	306
Total	<u>9,648</u>	<u>8,041</u>

3. Other operating income

Rental income	20	27
Gains from sales of business operations	24	8
Gains from sales of fixed assets	9	15
Fees charged on collection of overdue receivables	55	51
Other items	37	6
Total	<u>145</u>	<u>107</u>

4. Operating expenses

Cost of equipment and materials		
Purchase of equipment and materials	735	557
(Increase) decrease in inventories	(44)	37
	<u>691</u>	<u>594</u>
External services		
Payments to other operators for use of networks	1,352	1,013
Payments for other external services ¹⁾	830	851
	<u>2,182</u>	<u>1,864</u>
Personnel expenses ²⁾		
Wages and salaries	1,472	1,214
Pension expenses	180	152
Other personnel expenses	184	160
	<u>1,836</u>	<u>1,526</u>
Rental expenses	238	230
Other operating expenses ³⁾	1,354	1,028
Total operating expenses	<u>6,301</u>	<u>5,242</u>

¹⁾ 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.

FIM million	1998	1997
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²⁾ Personnel costs have also been capitalized on construction of telecommunications networks. Capitalized personnel costs totaled FIM 104 million (1997: FIM 135 million). Fees and salaries paid to members of the Supervisory Board, members of the Board of Directors, the President and CEO and Senior Executive Vice President of the Parent Company, and the managing directors and board members of the Company's subsidiaries totaled FIM 16 million (1997: FIM 10 million).

³⁾ 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. Additionally, losses from disposition of fixed assets and other long-term investments are reported within other operating expenses.

5. Depreciation, amortization and write-downs

Depreciation and amortization

Intangible rights	37	24
Goodwill	9	6
Goodwill on consolidation	12	2
Other long-term expenses	18	8
Buildings	52	41
Machinery and equipment	171	108
Telecommunications networks	1,224	1,010
Other tangible assets	29	14
	<u>1,552</u>	<u>1,213</u>
Write-downs		
Buildings	17	–
Telecommunications networks	202	–
	<u>219</u>	<u>–</u>
Total	<u>1,771</u>	<u>1,213</u>

6. Financial income and expenses

Dividend income	31	12
Interest income		
On long-term loans receivable	19	18
Other interest income	50	16
Other financial income	14	5
Interest expense	(113)	(21)
Other financial expenses	(5)	(8)
Exchange (losses) gains	(7)	7
Total	<u>(11)</u>	<u>29</u>

7. Income taxes

The domestic and foreign components of profit before extraordinary items and taxes are as follows:

Finland	1,863	1,808
Other countries	198	28
Total	<u>2,061</u>	<u>1,836</u>

The components of income taxes are as follows:

Current tax expense	447	453
Other income taxes	6	0
Deferred tax expense	108	77
Total	<u>561</u>	<u>530</u>

On December 31, 1998, Sonera had tax loss carryforwards, mainly attributable to foreign subsidiaries, of FIM 277 million (1997: FIM 110 million). Most of the tax loss

FIM million	1998	1997
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carryforwards have no expiration. No deferred tax benefit has been recognized on the tax loss carryforwards.

The differences between income tax expense computed at Finnish statutory tax rate (28%) and income tax expense recorded in income statement are as follows:

Hypothetical income tax expense at Finnish tax rate	577	514
Non-deductible expenses and tax exempt income	1	3
Use of cost provisions and tax loss carryforwards	(31)	–
Operating losses outside Finland with no deferred tax benefit recognized	45	24
Equity income in associated companies	(31)	(12)
Amortization of goodwill on consolidation	3	0
Other items	(3)	1
Income tax expense in the income statement	<u>561</u>	<u>530</u>

The components of net deferred tax asset (liability) in the balance sheet consist of the following tax consequences from temporary differences:

Deferred tax assets		
Internal profit in shareholdings	101	100
Provisions for future expenses	7	24
Other items	1	–
	<u>109</u>	<u>124</u>
Deferred tax liabilities		
Accelerated tax depreciation	(431)	(397)
Capitalization of overhead expenses on fixed assets	(33)	(38)
Withholding tax on undistributed earnings of foreign associated companies	(91)	(24)
Other items	(6)	(9)
	<u>(561)</u>	<u>(468)</u>
Net deferred tax liability	<u>(452)</u>	<u>(344)</u>

No deferred tax liability has been recognized for undistributed earnings of domestic subsidiaries and domestic associated companies since, in most cases, such earnings can be transferred to the Parent Company without tax consequences. Deferred tax liability has not been provided on undistributed earnings of foreign subsidiaries because, for the time being, such earnings are intended to be reinvested in those operations.

8. Earnings per share

Earnings per share amounts are calculated as follows:

Net income in FIM millions	1,494	1,306
Average number of shares issued and outstanding in thousands	720,247	720,000
Earnings per share in FIM	<u>2.07</u>	<u>1.81</u>

FIM million 1998 1997

The number of shares on December 31, 1998 was 722,000,000. For the changes in the number of shares, see Note 12. According to Finnish GAAP, earnings per share exclude extraordinary items. During the years ended December 31, 1998 and 1997, no extraordinary items were reported.

9. Fixed assets and other long-term investments

Intangible assets consist of the following:

Intangible rights	171	101
Goodwill	29	41
Goodwill on consolidation	15	15
Other long-term expenses	102	96
Total	317	253

Other long-term expenses mainly relate to the costs of leasehold improvements on rental premises.

Changes in fixed assets and other long-term investments during 1998 include the following:

FIM million	Historical cost on Jan 1, 1998	Capital expenditure and other additions	Disposals and other decreases	Accumulated depreciation on Dec 31, 1998	Carrying value on Dec 31, 1998
Intangible rights	158	107	(1)	(93)	171
Goodwill	47	–	(6)	(12)	29
Goodwill on consolidation	46	2	–	(33)	15
Other long-term expenses	120	27	(8)	(37)	102
Total intangible assets	371	136	(15)	(175)	317
Land	74	17	(0)	–	91
Buildings	901	93	(23)	(231)	740
Machinery and equipment	577	334	(56)	(438)	417
Telecommunications networks	9,130	1,403	(148)	(5,420)	4,965
Other tangible assets	113	136	(0)	(61)	188
Advances paid and construction in progress	221	99	(47)	–	273
Total property, plant and equipment	11,016	2,082	(274)	(6,150)	6,674
Investments in associated companies	1,224	5,636	(32)	–	6,828
Other shares and holdings	282	222	(185)	–	319
Long-term loans receivable	237	63	(127)	–	173
Total long-term investments and receivables	1,743	5,921	(344)	–	7,320
Total fixed assets and other long-term investments	13,130	8,139	(633)	(6,325)	14,311

10. Investments in associated companies

Investments in associated companies and the changes therein:

Investments in associated companies at cost		
Historical cost of shares on Jan 1	1,038	968
Additions	5,464	94
Disposals	(32)	(24)
Historical cost of shares on Dec 31	6,470	1,038
Equity adjustment to investments in associated companies		
Accumulated equity adjustment on Jan 1	186	25
Translation difference	(65)	36
Dividends received during the year	(55)	(29)
Disposals	(15)	(5)
Purchase by an associated company of its own shares	(31)	–

FIM million	1998	1997
Losses adjusted to loans receivable	–	45
Other changes	(13)	0
Equity income in associated companies	351	114
Accumulated equity adjustment on Dec 31	358	186
Carrying value of investments in associated companies on Dec 31	6,828	1,224

The shares of Tieto Corporation are quoted on HEX Helsinki Exchanges. The market value of Sonera's 26.8% interest in Tieto Corporation exceeded the carrying value reported on the consolidated balance sheet by FIM 2,700 million on December 31, 1998 (1997: FIM 879 million).

Notes to the Consolidated Financial Statements

FIM million	1998	1997
Selected income statement data for associated companies:		
Revenues		
Turkcell Iletisim Hizmetleri A.S.	3,638	865
AS Eesti Mobiiltelefon	501	334
Latvijas Mobilais Telefons SIA	413	232
UAB Omnitel ¹⁾	176	–
Pannon GSM Rt. ²⁾	722	–
North-West GSM	523	347
Aerial Communications, Inc. ³⁾	333	–
P Plus Communications Limited ⁴⁾	12	23
AS Eesti Telefon	551	422
Lattelekom SIA	1,060	882
AB Lietuvos Telekomas ⁵⁾	671	–
Tieto Corporation ⁶⁾	2,012	2,433
Other associated companies in Finland	341	259
Other associated companies abroad	17	57
Total	<u>10,970</u>	<u>5,854</u>
Operating profit		
Turkcell Iletisim Hizmetleri A.S.	1,521	400
AS Eesti Mobiiltelefon	174	132
Latvijas Mobilais Telefons SIA	149	47
UAB Omnitel ¹⁾	46	–
Pannon GSM Rt. ²⁾	110	–
North-West GSM	175	104
Aerial Communications, Inc. ³⁾	(541)	–
P Plus Communications Limited ⁴⁾	(37)	(173)
AS Eesti Telefon	131	112
Lattelekom SIA	237	150
AB Lietuvos Telekomas ⁵⁾	146	–
Tieto Corporation ⁶⁾	293	275
Other associated companies in Finland	19	31
Other associated companies abroad	(102)	1
Total	<u>2,321</u>	<u>1,079</u>
Net income		
Turkcell Iletisim Hizmetleri A.S. ⁷⁾	1,189	219
AS Eesti Mobiiltelefon	119	107
Latvijas Mobilais Telefons SIA	76	39
UAB Omnitel ¹⁾	43	–
Pannon GSM Rt. ²⁾	(10)	–
North-West GSM	97	67
Aerial Communications, Inc. ³⁾	(681)	–
P Plus Communications Limited ⁴⁾	(39)	(199)
AS Eesti Telefon	97	82
Lattelekom SIA	189	110
AB Lietuvos Telekomas ⁵⁾	3	–
Tieto Corporation ⁶⁾	215	189
Other associated companies in Finland	11	25
Other associated companies abroad	(99)	(11)
Total	<u>1,210</u>	<u>628</u>
Sonera's share of net income	558	161
Amortization of goodwill and other eliminations	(207)	(47)
Equity income presented in the consolidated income statement	<u>351</u>	<u>114</u>

FIM million	1998	1997
Selected balance sheet data for associated companies:		
Total assets		
Turkcell Iletisim Hizmetleri A.S. ⁷⁾	7,823	2,571
AS Eesti Mobiiltelefon	391	318
Latvijas Mobilais Telefons SIA	455	299
UAB Omnitel ¹⁾	124	–
Pannon GSM Rt. ²⁾	1,794	–
North-West GSM	502	485
Aerial Communications, Inc. ³⁾	4,892	–
P Plus Communications Limited ⁴⁾	–	297
AS Eesti Telefon	965	912
Lattelekom SIA ⁸⁾	2,222	1,800
AB Lietuvos Telekomas ⁵⁾	2,119	–
Tieto Corporation ⁶⁾	1,332	1,444
Other associated companies in Finland	141	89
Other associated companies abroad	149	3
Total	<u>22,909</u>	<u>8,218</u>
Shareholders' equity		
Turkcell Iletisim Hizmetleri A.S. ⁷⁾	2,346	668
AS Eesti Mobiiltelefon	303	250
Latvijas Mobilais Telefons SIA	241	165
UAB Omnitel ¹⁾	44	–
Pannon GSM Rt. ²⁾	209	–
North-West GSM	191	120
Aerial Communications, Inc. ³⁾	128	–
P Plus Communications Limited ⁴⁾	–	(158)
AS Eesti Telefon	476	399
Lattelekom SIA ⁸⁾	1,476	1,378
AB Lietuvos Telekomas ⁵⁾	1,412	–
Tieto Corporation ⁶⁾	913	910
Other associated companies in Finland	41	38
Other associated companies abroad	77	3
Total	<u>7,857</u>	<u>3,773</u>
Sonera's share of shareholders' equity in associated companies		
	2,817	783
Unamortized goodwill and eliminations		
	<u>4,011</u>	<u>441</u>
Carrying value of investments in associated companies		
	<u>6,828</u>	<u>1,224</u>

The presented data is based on the financial reports received from associated companies when preparing the consolidated financial statements of Sonera. Data may differ from the final and approved financial statements of each associated company.

¹⁾ UAB Omnitel's income statement data for 1998 include the last four months of the year. Shareholding in the company was acquired on September 2, 1998.

²⁾ Pannon GSM Rt. became an associated company on August 14, 1998, when Sonera's interest in the company increased from 18.1% to 23.0%. Income statement data for 1998 include the last five months of the year.

³⁾ Sonera holds 19.4% of the shares in Aerial Operating Co., Inc., the principal operating subsidiary of Aerial Communications, Inc. The income statement data for 1998 include the last four months of the year. Shareholding in the company was acquired on September 8, 1998.

⁴⁾ Shareholding in the company was sold on February 24, 1998. Income statement data for 1998 include the first two months of the year.

FIM million	1998	1997
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- ⁵⁾ AB Lietuvos Telekomas' income statement data for 1998 include the last six months of the year. Shareholding in the company was acquired on July 6, 1998.
- ⁶⁾ Tieto Corporation's income statement data for 1998 include the first 9 months of the year, and the balance sheet data is presented as of September 30, 1998. The comparative data is presented for the whole year 1997.
- ⁷⁾ Includes Azercell Telecom MMM and Geocell Limited in accordance with the equity method of accounting.
- ⁸⁾ Includes a 23% interest in Latvijas Mobilais Telefons SIA in accordance with the equity method of accounting.

11. Inventories

Equipment and materials	123	86
Other inventories	7	0
Advances paid for inventories	3	3
Total	133	89

12. Shareholders' equity

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. Share capital totaled FIM 1,800 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 per share. New shares were registered on November 17, 1998. FIM 5 million of the proceeds from the offering were recorded as share capital and FIM 76 million were recorded to the share premium fund. On December 31, 1998, the number of shares issued and outstanding was 722,000,000, nominal value of FIM 2.50 each, 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. Under the Company's Articles of Association, the Company's authorized share capital may not be less than € 303 million or more than € 1,211 million.

In the demerger, the Company received FIM 3,041 million in additional paid-in capital which is classified as unrestricted shareholders' equity and can be distributed to the shareholders through a resolution by a general meeting of shareholders. The share capital, additional paid-in capital and retained earnings for December 31, 1997 have been presented as to comply with the outcome from the demerger.

FIM million	1998	1997
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Changes in retained earnings consist of the following:

Retained earnings on Jan 1	2,958	1,834
Dividends paid	(786)	(225)
Currency translation adjustments	(82)	43
Purchase by an associated company of its own shares	(31)	–
Other changes	(10)	0
Net income for the year	1,494	1,306
Retained earnings on Dec 31	3,543	2,958

Dividend payments in the consolidated financial statements represent Sonera's share of the cash dividends paid by PT Finland Ltd, based on the proportionate share that the group contributions paid by Sonera to PT Finland Ltd represented of the total amount of group contributions that PT Finland Ltd received from its subsidiaries. The total cash dividends paid by PT Finland Ltd to the Finnish State were FIM 1,100 million in April 1998 (1997: FIM 320 million).

On a consolidated level, retained earnings include untaxed reserves which Finnish Companies Act classifies as undistributable earnings. On a consolidated basis, the shareholders' equity available for distribution at December 31 was as follows:

Retained earnings on Dec 31	3,543	2,958
- Less untaxed reserves in retained earnings	(1,110)	(1,020)
Distributable retained earnings	2,433	1,938
Additional paid-in capital	3,041	3,041
Total distributable funds on Dec 31	5,474	4,979

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 Group plc were FIM 4,006 million on December 31, 1998 (1997: FIM 3,870 million).

Untaxed reserves in the consolidated retained earnings relate to accelerated tax depreciations in Sonera's Finnish subsidiaries and consist of the following:

Accelerated tax depreciation		
Intangible rights	23	11
Other long-term expenses	8	7
Buildings	82	55
Machinery and equipment	52	50
Telecommunications networks	1,344	1,279
Other tangible assets	32	14
Total accelerated tax depreciation	1,541	1,416
Deferred tax liability on untaxed reserves	(431)	(396)
Untaxed reserves included in retained earnings	1,110	1,020

FIM million 1998 1997

13. Long-term and current debt

Long-term debt on December 31:

Loans from financial institutions	4,584	911
Pension loans	100	100
Other long-term loans	3	2
Total	4,687	1,013

Maturities of long-term debt on December 31, 1998:

FIM million	Loans from financial institutions	Pension loans	Other long-term loans	Total
Due in 2001	601	0	0	601
2002	378	100	0	478
2003	1,666	0	0	1,666
Due thereafter	1,939	0	3	1,942
Total	4,584	100	3	4,687

Long-term loans from financial institutions mainly consist of two syndicated seven-year revolving credit facilities entered into in 1997 and 1998, under which a total of some FIM 4 billion can be borrowed. As of December 31, 1998, FIM 3,405 million had been drawn down under the facilities (1997: FIM 908 million). Long-term debt also include three ECU denominated term loans agreed upon and drawn down in December 1998, totaling FIM 1,153 million. Each term loan is due in one installment during 2001 - 2006.

In October 1997, Sonera borrowed FIM 100 million from the PT Pension Fund, due in one installment in 2002.

FIM 25 million (1997: FIM 3 million) of Sonera's long-term debt is denominated in other than euro currencies.

Sonera's current debt on December 31, 1998 mainly relates to the use of USD 400 million short-term revolving credit facility, which was extended in December 1998 and is due in June 1999. On December 31, 1998, FIM 700 million had been drawn down under the short-term facility. Current debt also includes FIM 100 million (1997: -) of short-term borrowings under the domestic commercial paper programs.

14. Other long-term liabilities

Advances received	55	-
Basic subscriptions issued	-	100
Provision for year 2000 costs	21	66
Other long-term liabilities	11	3
Total	87	169

Sonera has previously issued fixed network subscriptions ("basic subscriptions") which entitled holders to lower monthly fees. The basic subscriptions issued by Sonera did not entitle to any ownership interest in the Company. In June 1998, Sonera determined that the basic subscriptions will be redeemed by March 31, 1999. As of December 31, 1998, FIM 93 million had been paid for the redemption of basic subscriptions (97% of all basic subscriptions). The remaining redemption liability has been presented as a current liability.

Since 1996, Sonera has been taking steps to ensure efficient running of telecommunications in the year 2000 and beyond. According to the present plans, all necessary inspection, adjustment and replacement work will be carried out on Sonera's own telecommunications and data

FIM million 1998 1997

systems and on the network equipment, software and systems before the turn of the millennium.

Based on the first estimate in 1996, a provision of FIM 50 million was recorded to cover all major incremental expenses incurred from the year 2000 compliance program. Additional provisions of FIM 28 million and FIM 12 million were recorded in 1997 and 1998, respectively, to reflect revised cost estimates. As of December 31, 1998, expenses of FIM 69 million had been recorded against the total provision of FIM 90 million.

15. Balances with associated companies

Long-term loans receivable	3	94
Trade accounts receivable	61	46
Prepaid expenses and accrued income	4	20
Trade accounts payable	72	20
Accrued expenses and prepaid income	0	7

FIM million	1998	1997
16. Commitments and contingent liabilities		
Mortgages		
To secure own borrowings	100	100
To secure other own commitments	2	2
Assets pledged		
To secure own commitments	28	68
To secure borrowings of associated companies	1,451	–
Guarantees on behalf of associated companies		
For financing	699	754
For other commitments	12	142
Cross-border lease commitment ¹⁾	1,080	–
Commitment to acquire shares ²⁾	101	–
Repurchase commitments	4	4
Other commitments	1	4

¹⁾ 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 FIM 898 million on December 31, 1998, 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 USD 11 million (FIM 55 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.

²⁾ 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% interest in Pannon GSM Rt. for a purchase price of USD 20 million. The put option can be exercised by Tele Danmark A/S between December 1999 and June 2000.

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, 1998 were as follows:

Due in 1999	209
2000	160
2001	105
2002	75
2003	40
Thereafter	134
Total	<u>723</u>

17. Disputes and administrative proceedings

In the ordinary course of its business, Sonera is involved in a number of disputes and administrative proceedings, mainly relating to the interpretation of the Telecommunications Act, commercial law issues and consumer protection. Except for the administrative proceedings described below, Sonera is not involved in any proceedings which could be

expected to have a material adverse effect on Sonera’s financial position.

On September 3, 1998, Oy Telia Finland Ab (“Telia Finland”) filed a complaint with the Finnish Telecommunications Administration Center (the “TAC”) against Helsinki Telephone Corporation (“HTC”) in connection with the new interconnection agreement between Sonera, HTC and certain other telecommunications providers. In addition to the complaint claiming that HTC is required under the Telecommunications Act and related ministerial decisions to provide billing services under the new interconnection regime, Telia Finland also requested the Finnish Ministry of Transport and Communications (the “Ministry”) to establish an end-to-end pricing regime for both fixed and mobile networks by regulatory decree. On November 2, 1998, the Ministry announced, in a letter addressed to Finnish telecommunications operators, that it will amend one of its prior interconnection decisions to require operators with local access subscribers to offer billing services to other operators on mutually agreed reasonable terms or to give itemized subscription-specific information to enable other operators to bill the subscriber. On December 4, 1998, the Ministry announced that it will postpone the introduction of the new interconnection regime at least to the beginning of April 1999. The Ministry changed on February 19, 1999 its decisions relating to both certain call tariffs and the interconnection regime, and regulated the maximum level of the local call tariff received by the originating network operator as well as certain other aspects of the interconnection regime. These changes will come into force on May 1, 1999. Management estimates that the changes will not have a material effect on Sonera’s financial position.

On September 23, 1998, Telia Finland filed a complaint with the TAC and the Finnish Office of Free Competition (the “OFC”) against Sonera and Oy Radiolinja Ab (“Radiolinja”) requesting these regulatory bodies to investigate whether Sonera and Radiolinja are engaged in an effort to restrict competition in the GSM mobile network market by, in particular, failing to conclude national roaming agreements with Telia Finland. On September 23, 1998, Sonera issued a press release stating that it has been in negotiations with Telia Finland since May 1997, concerning the provision of national roaming services to Telia Finland, and that Telia Finland has refused to accept Sonera’s commercial terms, which include the payment of a one-time accession fee per subscriber to cover Sonera’s investment in its GSM 900 network. The Ministry announced in September 1998 that it currently has no plans to introduce mandatory national roaming for existing operators in their current frequencies. On October 16, 1998, Telia Finland also notified the TAC and the OFC of its intention to seek direct and indirect monetary damages from Sonera and Radiolinja based on the allegations in its September 1998 complaint. Sonera filed a response to Telia Finland’s complaint on October 30, 1998, in which it stated that it is under no obligation to offer Telia Finland national roaming services on the terms proposed by Telia Finland. Sonera remains prepared to offer Telia Finland national roaming services on a commercial basis. Management is not currently in a position to assess the duration or the final outcome of these proceedings.

18. Financing and financial risks***Principles for financing and financial risk management***

Sonera's financing and its financial risks are managed according to directives and under the control of the Board of Directors and the President and CEO. The financial management is centralized in Sonera's Treasury and Corporate Finance functions. Treasury operates as the Group's internal bank, and is responsible for managing the operative financial risks, which relate to defects in systems or procedures for the internal control.

The financial management policy approved by the Board of Directors defines principles for the financial management, and the limits for financial risks. The Group's financial position and financial risks are reported to the Board of Directors on a regular basis. The objectives of the financial risk management are to identify financial risks relating to the Group and its business units (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 and for the increase in shareholder value.

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 evaluates continuously the market risks of financial assets and liabilities and derivative instruments, and the potential impact of these risks on the Group's result by comparing the components of Sonera's financial instruments to market values and by estimating the sensitivity of value changes to market factors.

Management of foreign exchange risk

Sonera's centralized foreign exchange risk management seeks to minimize the effects of exchange rate fluctuations on the Group's results of operations and financial position. Sonera conducts its business mainly in Finnish markka.

Changes in exchange rates between the Finnish markka and foreign 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 options. On December 31, 1998, the open transaction exposure of the Finnish Group companies, net of hedging measures, was FIM 27 million.

Changes in exchange rates between the Finnish markka and foreign 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 to the consolidated shareholders' equity (translation risk). On December 31, 1998, Sonera's pro rata share of shareholders' equity in its foreign subsidiaries and associated companies was FIM 2,116 million. During 1998, Sonera did not hedge its translation risks. 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.

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 breakdown of consolidated shareholders' equity by currency on December 31, 1998:

Currency	FIM million	%
FIM	6,349	75
Other euro currencies	63	1
Total euro currencies	6,412	76
TRL	962	11
LTL	472	6
SEK	212	2
EEK	193	2
HUF	78	1
LVL	55	1
Other currencies	81	1
Total shareholders' equity	8,465	100

Management of loan portfolio and interest rate risk

On December 31, 1998, Sonera's net interest-bearing debt was FIM 4,936 million, consisting of FIM 5,489 million of interest-bearing loans and FIM 553 million of liquid funds. Sonera's borrowings of loans 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 the cash flow risk (changes in interest income and expenses when interest rates change) and the 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 rise in interest rates, taking also into account the prevailing interest rate levels, yield curves and volatilities. In accordance with the financial management policy, approximately 70% of Sonera's net interest-bearing debt on December 31, 1998 bore floating interest rates (with interest rate maturities less than 12 months) and approximately 30% bore fixed interest rates (with interest rate maturities ranging from 12 months to 5 years).

The average interest rate of Sonera's interest-bearing debt, including the impact of hedging measures, was 3.7% on December 31, 1998 (December 31, 1997: 3.9%). A parallel change of one percentage point in the interest rate curve (interest rate sensitivity) has an impact of approximately FIM 30 million on the 1999 net interest expense, assuming that the net interest-bearing debt remains at the level of December 31, 1998, and that new hedging measures are not taken.

Management of 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 in different years.

In accordance to the financial management policy, Sonera sought to maintain its liquidity position (liquid funds and committed credit facilities) at the level of at least FIM 1 billion. On December 31, 1998, Sonera's liquidity position totaled approximately FIM 2.4 billion. Additionally, Sonera has uncommitted domestic commercial paper programs for short-term financing needs.

Maturities of drawn-down loans and undrawn committed credit facilities on December 31, 1998:

FIM million	Drawn		Total
	down	Undrawn	
Due in 1999	802	1,338	2,140
2001	601	–	601
2002	478	–	478
2003	1,666	219	1,885
2004	1,181	219	1,400
2005	499	109	608
2006	262	–	262
Total	5,489	1,885	7,374

Fair values of financial instruments

The following table presents the carrying values and fair values for financial instruments, using exchange and interest 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.

FIM million	Dec 31, 1998			Dec 31, 1997		
	Contract amount	Carrying value	Fair value	Contract amount	Carrying value	Fair value
Investments and receivables						
Equity investments		7,148	9,405		1,505	2,384
Loans receivable		177	193		464	469
Cash and marketable securities		553	553		863	863
Debt						
Long-term debt		4,687	4,715		1,013	1,014
Current debt		802	804		14	14
Derivative financial instruments						
Forward selling of foreign exchange	329	(1)	(9)	129	3	3
Forward buying of foreign exchange	4,581	(5)	1	931	(10)	(10)
Currency swaps - sell currency	10	0	1	10	(0)	(0)
Purchased currency options	–	–	–	16	0	0
Written currency options	–	–	–	16	(0)	0
Interest rate swaps	1,450	(1)	(20)	10	0	0

The fair value of investments in Tieto Corporation and Enator AB are based on quoted market prices of the shares. The fair value of the investment in Aerial Operating Co., Inc. is based on the quoted market value of its parent company, Aerial Communications, Inc. For other equity investments, fair value is based on 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 marketable securities approximates fair value.

For the carrying values and fair values of derivative instruments, a positive value represents receivable and a negative value represents liability.

In January 1999, Sonera received long-term and short-term corporate credit ratings which enable the diversification of Sonera's borrowings geographically, among different investors, and in a wider range of instruments. Standard & Poor's assigned AA- long-term rating and A-1+ short-term rating to Sonera.

Management of credit risk

Financial instruments contain 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 the Treasury function, 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, including the processing of current credit information on subscribers from third-party sources. Bad debt expense in relation to consolidated revenues was 0.4% in 1998 (1997: 0.6%).

Development of exchange rates

Currency	At the end of the year ¹⁾					Average for the year	
	1994	1995	1996	1997	1998	1997	1998
United States dollar (USD)	4.7432	4.3586	4.6439	5.4207	5.0960	5.1944	5.3441
Swedish krona (SEK)	0.6358	0.6546	0.6748	0.6863	0.6267	0.6799	0.6736
German mark (DEM)	3.0615	3.0435	2.9880	3.0275	3.0400	2.9939	3.0379
Netherlands guilder (NLG)	2.7337	2.7185	2.6624	2.6861	2.6981	2.6603	2.6952
Turkish lira (TRL), thousand lira	0.1400	0.0720	0.0430	0.0265	0.0160	0.0342	0.0202
Estonian kroon (EEK)	0.3827	0.3804	0.3735	0.3784	0.3800	0.3742	0.3794
Latvian lat (LVL)	8.6390	8.1501	8.4097	9.1923	8.9678	8.9702	9.0878
Lithuanian litas (LTL)	1.1860	1.0896	1.1609	1.3553	1.2737	1.2977	1.3358
Hungarian forint (HUF)	0.0402	0.0320	0.0287	0.0266	0.0236	0.0278	0.0250
Danish krona (DKK)	0.7794	0.7862	0.7809	0.7948	0.7982	0.7859	0.7977
European currency unit (ECU) ²⁾	5.8150	5.5970	5.7700	5.9890	5.9457	5.8640	5.9933

¹⁾ Exchange rates in Finnish markka, quoted by the Bank of Finland. TRL, LVL, LTL and HUF from other sources.

²⁾ ECU was converted into euro on January 1, 1999, after which the fixed exchange rate between euro and Finnish markka is 5.94573.

	1998	1997		1998	1997
19. Number of personnel			Number of personnel at end of year,		
Average number of personnel during the year			by geographic area		
Mobile communications	993	963	Finland	8,524	7,892
Fixed network and other operations	7,616	7,004	Sweden	210	194
Total	8,609	7,967	Baltic countries	193	99
Number of personnel at end of year			Benelux countries	61	55
Mobile communications	1,140	977	Other countries	80	50
Fixed network and other operations	7,928	7,313	Total	9,068	8,290
Total	9,068	8,290			

20. Subsidiaries, associated companies and other shareholdings

Group companies on December 31, 1998:

	Domicile	Sonera's shareholding %	1998 Revenues FIM million	Number of personnel on Dec 31, 1998
<i>Parent company:</i>				
Sonera Group plc	Helsinki, Finland		41	8
<i>Subsidiaries:</i>				
Abacus Solutions Oy ¹⁾	Helsinki, Finland	100.0	–	–
Advanced Communication Research ACR Oy ²⁾	Helsinki, Finland	57.5	–	–
Data-Info Oy	Helsinki, Finland	100.0	36	8
EMCEC Oy	Helsinki, Finland	100.0	8	19
AS Esdata ³⁾	Tallinn, Estonia	70.0	4	10
Geddeholm CallCenter AB	Stockholm, Sweden	91.0	12	73
Gesam Oy	Helsinki, Finland	100.0	–	–
Helsingin Teollisuuskatu 13 Oy	Helsinki, Finland	100.0	14	–
Infonet Finland Oy	Helsinki, Finland	90.0	53	16
Intellitel Communications Oy ²⁾	Helsinki, Finland	78.9	0	23
Interinfo UAB	Vilnius, Lithuania	50.5	3	37
Interinfo Eesti AS	Tallinn, Estonia	50.5	7	48
Interinfo Finland Oy	Helsinki, Finland	50.5	–	3
Interinfo Latvija SIA	Riga, Latvia	50.5	8	68
International Business Venturing IBV Oy ²⁾	Helsinki, Finland	57.5	–	–
Lippupalvelu Oy	Helsinki, Finland	94.9	10	43
Mobinetti Oy ¹⁾	Helsinki, Finland	100.0	–	–
Mobitele Oy	Tampere, Finland	100.0	0	–

	Domicile	Sonera's shareholding %	1998 Revenues FIM million	Number of personnel on Dec 31, 1998
Payway Oy ²⁾	Helsinki, Finland	66.8	–	2
Kiinteistö Oy Pietarsaaren Isokatu 8	Pietarsaari, Finland	60.2	–	1
PT Credit Ltd	Helsinki, Finland	100.0	134	10
Reveko Telekom AS	Tallinn, Estonia	55.0	9	30
Kiinteistö Oy Saajomaja	Saariselkä, Finland	100.0	0	–
SmartRing GmbH	Erfurt, Germany	100.0	0	–
SmartTrust GmbH	Bonn, Germany	100.0	1	–
Sonera Ltd	Helsinki, Finland	100.0	8,857	7,235
Sonera Belgium n.v./s.a.	Brussels, Belgium	100.0	11	10
Sonera Corporation U.S.	Wilmington, DE, USA	100.0	–	–
Sonera Deutschland GmbH	Düsseldorf, Germany	100.0	32	25
Sonera Holding B.V.	Amsterdam, The Netherlands	100.0	–	–
Sonera Hong Kong Ltd.	Hong Kong	100.0	1	1
Sonera Hungary Kft.	Budapest, Hungary	100.0	–	–
Sonera Innotele Oy	Helsinki, Finland	100.0	252	41
Sonera International n.v./s.a.	Brussels, Belgium	100.0	48	37
Sonera Nederland B.V.	Amsterdam, The Netherlands	100.0	3	14
ZAO Sonera Rus	St Petersburg, Russia	100.0	49	49
Sonera Solutions Ltd	Helsinki, Finland	100.0	1,487	666
Sonera Sverige AB	Stockholm, Sweden	100.0	144	137
Sonera Systems Ltd	Helsinki, Finland	100.0	618	445
Sonera Systems SIA ¹⁾	Riga, Latvia	100.0	0	–
Sonera Telekomünikasyon Hizmetleri Ltd	Istanbul, Turkey	100.0	7	4
Systems Consultant Partners Oy ²⁾	Helsinki, Finland	57.5	–	–
Telecon Oy	Helsinki, Finland	100.0	5	4
Telegate AB	Stockholm, Sweden	100.0	–	–
Telesol Oy ¹⁾	Helsinki, Finland	100.0	–	–
Teletori Oy	Helsinki, Finland	100.0	–	–
Telibra Oy ¹⁾	Helsinki, Finland	100.0	–	–
Tilts Communications A/S ³⁾	Copenhagen, Denmark	90.0	–	1
Tilts Communications SIA ³⁾	Riga, Latvia	90.0	–	–
Intra-Group sales			(2,206)	
Total			9,648	9,068

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 date of acquisition.

Notes to the list of Group companies:

¹⁾ The company was established in 1998.

²⁾ The company was acquired in 1998.

³⁾ The company changed from an associated company into a subsidiary in 1998.

Sonera's associated companies on December 31, 1998:

	Domicile	Sonera's shareholding, %	Equity consolidation, %
<i>Mobile network operators:</i>			
Turkcell İletişim Hizmetleri A.S.	Istanbul, Turkey	41.0	41.0
Azercell Telecom MMM ¹⁾	Baku, Azerbaijan	–	17.6
Geocell Limited ²⁾	Tbilisi, Georgia	–	16.4
TOO GSM Kazakhstan ³⁾	Almaty, Kazakhstan	–	20.9
AS Eesti Mobiiltelefon	Tallinn, Estonia	24.5	24.5
Latvijas Mobilais Telefons SIA ⁴⁾	Riga, Latvia	24.5	24.5
UAB Omnitel ⁵⁾	Vilnius, Lithuania	–	27.5
Pannon GSM Rt. ⁶⁾	Budapest, Hungary	23.0	23.0
North-West GSM	St Petersburg, Russia	23.5	23.5
Aerial Operating Co., Inc. ⁷⁾	Chicago, IL, USA	19.4	19.4

	Domicile	Sonera's shareholding, %	Equity consolidation, %
<i>Fixed network operators:</i>			
AS Eesti Telefon ⁸⁾	Tallinn, Estonia	–	24.5
Lattelekom SIA ⁹⁾	Riga, Latvia	44.1	44.1
AB Lietuvos Telekomas ¹⁰⁾	Vilnius, Lithuania	–	30.0
<i>Other associated companies:</i>			
Amber Mobile Teleholding AB ¹¹⁾	Stockholm, Sweden	50.0	50.0
Amber Teleholding A/S ¹¹⁾	Copenhagen, Denmark	50.0	50.0
Axxon Telecom N.V. ¹¹⁾	Amsterdam, The Netherlands	40.0	40.0
Baltic Tele AB	Stockholm, Sweden	50.0	50.0
Hansapost Oy	Helsinki, Finland	20.0	20.0
HanseNet Telefongesellschaft mbH & Co. KG	Hamburg, Germany	50.0	50.0
Johtotieto Oy	Helsinki, Finland	33.3	33.3
Movere Oy	Helsinki, Finland	20.0	20.0
Next Era Productions AB ¹¹⁾	Stockholm, Sweden	50.0	50.0
Russian Directories Holding Oy	Helsinki, Finland	35.0	35.0
UAB Sontel ¹¹⁾	Vilnius, Lithuania	50.0	50.0
Suomen Keltaiset Sivut Oy	Helsinki, Finland	30.2	30.2
Suomen Numeropalvelu Oy	Helsinki, Finland	40.0	40.0
Tieto Corporation ¹²⁾	Helsinki, Finland	26.8	26.8
Transmast Oy	Helsinki, Finland	40.0	40.0

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. Selected financial data for the associated companies are presented in Note 10 to the consolidated financial statements.

Notes to the list of associated companies:

- ¹⁾ Azericell Telecom MMM is a 42.9% associated company of Turkcell Iletisim Hizmetleri A.S.
- ²⁾ Geocell Limited is a 40% associated company of Turkcell Iletisim Hizmetleri A.S.
- ³⁾ TOO GSM Kazakhstan is a subsidiary (51%) of Turkcell Iletisim Hizmetleri A.S.
- ⁴⁾ Lattelekom SIA has a 23% 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, total of 34.6% of Latvijas Mobilais Telefons SIA's net income is included in Sonera's result.
- ⁵⁾ UAB Omnitel is a 55% subsidiary of the holding company Amber Mobile Teleholding AB in which Sonera has a 50% interest. Shareholding in UAB Omnitel was acquired on September 2, 1998.
- ⁶⁾ The company changed into an associated company on August 14, 1998.
- ⁷⁾ Shareholding in the company was acquired on September 8, 1998. The company is treated as an associated company. See accounting principles on page 21.
- ⁸⁾ AS Eesti Telefon is a 49% associated company of the holding company Baltic Tele AB in which Sonera has a 50% interest.
- ⁹⁾ Lattelekom SIA is a 49% associated company of the holding company Tilts Communications A/S in which Sonera has a 90% interest. In the consolidated financial statements, Lattelekom SIA has been presented as a 49% associated company, and the minority's share of Lattelekom SIA's result and shareholders' equity has been presented as minority interest in the consolidated income statement and balance sheet.
- ¹⁰⁾ AB Lietuvos Telekomas is a 60% subsidiary of the holding company Amber Teleholding A/S in which Sonera has a 50% interest. Shareholding in the company was acquired on July 6, 1998.
- ¹¹⁾ The company was established in 1998.
- ¹²⁾ Sonera's ownership in the company decreased during 1998 from 27.3% to 26.8% when employees of the company subscribed for new shares in the company with the warrants attached to the employee debt with warrants.

Associated companies sold:

P Plus Communications Limited on February 24, 1998

Estonian Paging Ltd on March 11, 1998

Sonera's other shareholdings on December 31, 1998:

	Domicile	Sonera's shareholding, %	Carrying value FIM million
Advanced European Technologies N.V.	Amsterdam, The Netherlands	11.0	0
Enator AB	Stockholm, Sweden	5.0	186
Libancell S.A.L.	Beirut, Lebanon	14.0	21
Star Telecom International Holding Limited	Hong Kong	4.5	14
TelAdvent Limited Partnership	Boston, MA, USA		43
Interests in satellite operations			16
Housing and real estate			19
Other shares and stock			20
Total			319

Key Financial Indicators and per Share Data

Key financial indicators

FIM million		1994	1995	1996	1997	1998	1998
							€ million
Revenues		5,304	5,894	6,689	8,041	9,648	1,623
Change from previous year	%	n/a	11.1	13.5	20.2	20.0	20.0
Exports from and sales outside Finland, of revenues	%	1.8	2.1	2.2	3.8	4.6	4.6
EBITDA		1,970	2,119	2,498	2,906	3,492	587
In relation to revenues	%	37.1	36.0	37.3	36.1	36.2	36.2
Operating profit		965	918	1,010	1,693	1,721	289
In relation to revenues	%	18.2	15.6	15.1	21.1	17.8	17.8
Profit before extraordinary items		1,056	996	1,086	1,836	2,061	346
In relation to revenues	%	19.9	16.9	16.2	22.8	21.4	21.4
Profit after extraordinary items		995	996	1,086	1,836	2,061	346
In relation to revenues	%	18.8	16.9	16.2	22.8	21.4	21.4
Net income		742	718	761	1,306	1,494	251
In relation to revenues	%	14.0	12.2	11.4	16.2	15.5	15.5
Equity income in associated companies		22	2	33	114	351	59
Dividends received from associated companies		1	2	10	29	55	9
Return on capital employed	%	18.7	16.5	16.5	23.7	19.1	19.1
Return on shareholders' equity	%	15.3	12.3	12.0	18.0	18.4	18.4
Total assets		7,217	8,213	8,625	11,097	16,730	2,814
Capital employed		5,800	6,401	6,933	8,829	14,026	2,359
Share capital		1,800	1,800	1,800	1,800	1,805	304
Other shareholders' equity and minority interest		3,775	4,281	4,886	6,002	6,732	1,132
Equity-to-assets ratio	%	77.4	74.3	78.0	70.9	51.5	51.5
Total liabilities		1,642	2,132	1,939	3,295	8,193	1,378
Interest-bearing debt		225	320	247	1,027	5,489	923
In relation to revenues	%	4.2	5.4	3.7	12.8	56.9	56.9
Debt-to-equity ratio	%	4.0	5.3	3.7	13.2	64.3	64.3
Cash and marketable securities		1,164	1,196	179	863	553	93
Net interest-bearing debt		(939)	(876)	68	164	4,936	830
In relation to revenues	%	(17.7)	(14.9)	1.0	2.0	51.2	51.2
Net debt-to-equity ratio (gearing)	%	(16.8)	(14.4)	1.0	2.1	57.8	57.8
Net debt-to-capital employed ratio (net debt-to-book)	%	(16.2)	(13.7)	1.0	1.9	35.2	35.2
Interest-bearing loans receivable		156	112	117	464	177	30
Net interest income (expense)		62	79	46	13	(44)	(7)
Cash provided by operating activities		1,718	2,172	2,227	2,708	3,019	508
Capital expenditures		1,436	2,018	2,252	2,217	2,087	351
In relation to revenues	%	27.1	34.2	33.7	27.6	21.6	21.6
Investments in shares		185	83	787	130	5,269	886
Depreciation and amortization ¹⁾		1,005	1,201	1,488	1,213	1,771	298
Dividends declared ²⁾		185	167	225	786	361	61
Dividend payout ratio	%	24.9	23.3	29.6	60.2	24.2	24.2
Research and development expenditure (R&D)		210	230	190	270	312	52
In relation to revenues	%	4.0	3.9	2.8	3.4	3.2	3.2
Personnel, at end of year		6,877	7,393	7,621	8,290	9,068	9,068
Average during the year		6,930	7,239	7,667	7,967	8,609	8,609

¹⁾ As of the beginning of 1997, telecommunication networks have been depreciated on a straight-line method over 4 to 20 years. Previously, networks were depreciated on a 25 to 40% declining-balance method. The amount for 1998 also includes write-downs of FIM 219 million.

²⁾ Dividend amount for the fiscal year 1998 is the Board of Directors' proposal to the Annual General Meeting.

Key Financial Indicators and per Share Data

Per share data

FIM		1994	1995	1996	1997	1998	1998
							€
Earnings per share (excluding extraordinary items)		1.11	1.00	1.06	1.81	2.07	0.35
Earnings per share		1.03	1.00	1.06	1.81	2.07	0.35
Operating cash flow per share		2.39	3.02	3.09	3.76	4.19	0.70
Declared dividend per share ¹⁾		0.26	0.23	0.31	1.09	0.50	0.08
Shareholders' equity per share		7.72	8.42	9.27	10.83	11.72	1.97
Share price ²⁾							
Average for the year						68.21	11.47
Lowest during the year						59.00	9.92
Highest during the year						100.00	16.82
At end of year						90.00	15.14
Market capitalization	FIM million, € million					64,980	10,929
Price-to-earnings ratio (P/E)						43.4	43.4
Dividend yield	%					0.6	0.6
Trading volume of shares ³⁾							
Total traded value	FIM million, € million					5,020	844
Number of shares traded	in thousands					73,597	73,597
In relation to average number of shares	%					10.2	10.2
Number of shares ⁴⁾							
At end of year	in thousands	720,000	720,000	720,000	720,000	722,000	722,000
Average during the year	in thousands	720,000	720,000	720,000	720,000	720,247	720,247

¹⁾ Dividend amount for the fiscal period 1998 is the Board of Directors' proposal to the Annual General Meeting.

²⁾ Quotation of Sonera's share on HEX Helsinki Exchanges started on November 10, 1998.

³⁾ Trading on HEX Helsinki Exchanges.

⁴⁾ Number of shares between January 1, 1994 and June 30, 1998 has been presented as to comply with the outcome of the demerger of PT Finland Ltd on July 1, 1998 and the subsequent share splits. 2,000,000 new shares issued in the employee offering of 1998 were registered on November 17, 1998.

Definitions of Key Financial Indicators and per Share Data

EBITDA	=	Operating profit + depreciation and amortization	
Capital employed	=	Shareholders' equity + minority interest + interest-bearing debt	
Return on capital employed	=	$\frac{\text{Profit before extraordinary items and taxes} + \text{interest expenses} + \text{other financial expenses}}{\text{Capital employed (average for the period)}}$	x 100
Return on shareholders' equity	=	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes on ordinary operations}}{\text{Shareholders' equity} + \text{minority interest (average for the period)}}$	x 100
Equity-to-assets ratio	=	$\frac{\text{Shareholders' equity} + \text{minority interest}}{\text{Total assets} - \text{advances received}}$	x 100
Debt-to-equity ratio	=	$\frac{\text{Interest-bearing debt}}{\text{Shareholders' equity} + \text{minority interest}}$	x 100
Net interest-bearing debt	=	Interest-bearing debt – cash and marketable securities	
Net debt-to-equity ratio (gearing)	=	$\frac{\text{Net interest-bearing debt}}{\text{Shareholders' equity} + \text{minority interest}}$	x 100
Net debt-to-capital employed ratio (net debt-to-book)	=	$\frac{\text{Net interest-bearing debt}}{\text{Capital employed}}$	x 100
Dividend payout ratio	=	$\frac{\text{Dividends declared for the fiscal year}}{\text{Net income}}$	x 100
Average number of personnel	=	Average of the number of personnel at the end of each month during the period. Number of part-time employees is converted into an equivalent number of full-time employees.	
Earnings per share (excluding extraordinary items)	=	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes on ordinary operations} - \text{minority interest in income}}{\text{Average number of shares during the period}}$	
Earnings per share	=	$\frac{\text{Net income}}{\text{Average number of shares during the period}}$	
Operating cash flow per share	=	$\frac{\text{Cash provided by operating activities}}{\text{Average number of shares during the period}}$	
Dividend per share	=	$\frac{\text{Dividends declared for the fiscal year}}{\text{Number of shares at end of year}}$	
Shareholders' equity per share	=	$\frac{\text{Shareholders' equity}}{\text{Number of shares at end of period}}$	
Average share price	=	$\frac{\text{Total traded value during the year}}{\text{Number of shares traded during the year}}$	
Market capitalization	=	Number of shares at end of year x share price at end of year	
Price-to-earnings ratio (P/E)	=	$\frac{\text{Share price at end of year}}{\text{Earnings per share (excluding extraordinary items)}}$	
Dividend yield	=	$\frac{\text{Declared dividend per share}}{\text{Share price at end of year}}$	x 100

Parent Company Financial Statements

Income statement

FIM million	Note	Six months ended Dec 31, 1998
Revenues		40.7
Personnel expenses	(1)	(2.8)
Rental expenses		(0.5)
Other operating expenses		(44.3)
Operating loss		(6.9)
Financial income and expenses	(2)	65.7
Profit before extraordinary items and taxes		58.8
Accelerated tax depreciation		(0.1)
Income taxes for the period		(16.5)
Net income		<u>42.2</u>

Statement of cash flows

Operating activities		
Operating profit		(6.9)
Interest received		246.1
Interest paid		(89.4)
Income taxes paid		(3.9)
Other financial items		(35.0)
Change in working capital		
Increase in non-interest bearing receivables		(211.7)
Decrease in non-interest bearing liabilities		(42.4)
Cash used in operating activities		<u>(73.2)</u>
Investing activities		
Capital expenditure		(1.4)
Increase in long-term loans receivable		(4,305.8)
Increase in current loans receivable		(27.1)
Cash used in investing activities		<u>(4,334.3)</u>
Financing activities		
Withdrawals of long-term debt		3,342.7
Increase in current debt		1,009.0
Equity issue		81.0
Cash provided by financing activities		<u>4,432.7</u>
Net increase in cash and marketable securities		25.2
Cash and marketable securities on July 1, 1998		188.9
Cash and marketable securities on December 31, 1998		<u>214.1</u>

Balance sheet

FIM million	Note	Dec 31 1998	July 1 1998
A S S E T S			
Fixed assets and other long-term investments			
Equipment			
Machinery and equipment		0.3	–
Other tangible assets		1.1	–
		<u>1.4</u>	–
Long-term investments and receivables	(8)		
Shares in subsidiaries		3,526.3	3,526.3
Shares in associated companies		600.0	600.0
Other shares and holdings		2.2	2.2
Long-term loans receivable	(4, 5)	6,715.8	2,410.0
		<u>10,844.3</u>	<u>6,538.5</u>
Current assets			
Receivables	(4, 5)		
Loans receivable		501.1	474.1
Prepaid expenses and accrued income		149.1	37.1
		<u>650.2</u>	<u>511.2</u>
Cash and marketable securities			
Marketable securities		211.6	34.1
Cash and cash equivalents		2.5	154.8
		<u>214.1</u>	<u>188.9</u>
TOTAL ASSETS		<u>11,710.0</u>	<u>7,238.6</u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity (3)			
Share capital		1,805.0	1,800.0
Share premium fund		76.0	–
Additional paid-in capital		3,041.3	3,041.3
Retained earnings		922.1	922.1
Net income		42.2	–
		<u>5,886.6</u>	<u>5,763.4</u>
Accelerated tax depreciation		0.1	–
Liabilities (4, 5)			
Long-term debt	(6)	4,660.3	1,317.6
Current debt	(6)	1,122.0	113.0
Trade accounts payable		0.9	0.4
Accrued expenses and prepaid income		40.1	44.2
		<u>5,823.3</u>	<u>1,475.2</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		<u>11,710.0</u>	<u>7,238.6</u>

Notes

FIM million	Six months ended Dec 31, 1998
1. Personnel expenses	
Fees and salaries paid to members of the Supervisory Board, members of the Board of Directors, the President and CEO and the Senior Executive Vice President	1.2
Other salaries	1.3
Pension expenses	0.2
Other personnel expenses	0.1
Total	2.8
The average number of personnel employed by the Parent Company during the six months ended December 31, 1998 was 7.	
2. Financial income and expenses	
Interest income	
On long-term loans receivable	
From subsidiaries	128.4
From other parties	0.5
Other interest income	
From subsidiaries	2.5
From associated companies	0.6
From other parties	27.7
Total interest income	159.7
Interest expenses	
To subsidiaries	(6.8)
To other parties	(95.0)
Total interest expenses	(101.8)
Other financial expenses to parties outside the Group	(1.8)
Realized exchange gains and losses	(6.4)
Unrealized exchange gains and losses	16.0
Total financial income and expenses, net	65.7
3. Shareholders' equity	
Share capital on July 1, 1998	1,800.0
2,000,000 new shares issued in the employee offering in November 1998, nominal value of FIM 2.50 each	5.0
Share capital on December 12, 1998	1,805.0
Share premium fund on July 1, 1998	–
Proceeds in excess of nominal value from 2,000,000 new shares issued in the employee offering in November 1998, FIM 38 each	76.0
Share premium fund on December 31, 1998	76.0
Additional paid-in capital on July 1 and December 31, 1998	3,041.3
Retained earnings on July 1, 1998	922.1
Net income for the year	42.2
Retained earnings on December 31, 1998	964.3
Total shareholders' equity on December 31, 1998	5,886.6

FIM million	Dec 31 1998	July 1 1998
4. Balances with subsidiaries		
Long-term loans receivable	6,701.3	2,394.8
Current loans receivable	497.5	399.5
Prepaid expenses and accrued income	139.1	29.0
Current debt	282.5	113.0
Trade accounts payable	0.4	0.1
Accrued expenses and prepaid income	4.1	19.2
5. Balances with Sonera's associated companies		
Long-term loans receivable	0.6	1.1
Trade accounts payable	–	0.2

6. Long-term and current debt

Information for the borrowings of long-term and current debt have been presented in Note 13 to the consolidated financial statements.

7. Commitments and contingent liabilities

Assets pledged to secure own commitments	16.0	–
Guarantees on behalf of subsidiaries		
For financing	25.5	27.5
For other commitments	12.9	3.9
Guarantees on behalf of associated companies		
For financing	698.9	442.9
For other commitments	11.9	11.2
Commitment to acquire shares	101.3	–

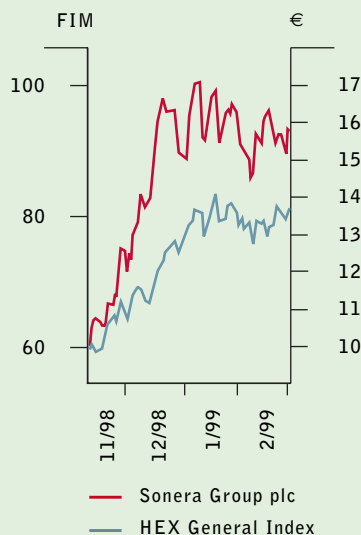
8. Shareholdings on December 31, 1998

Subsidiaries	Parent Company Domicile holding %	Book value of shares FIM million
Sonera Ltd Helsinki, Finland	100	3,375.0
Helsingin Teollisuuskatu 13 Oy Helsinki, Finland	100	131.3
PT Credit Ltd Helsinki, Finland	100	20.0
Total investments in subsidiaries		3,526.3
Associated companies		
Tieto Corporation Helsinki, Finland	26.8	600.0
Other shares and stock		2.2
Total investments in shares		4,128.5

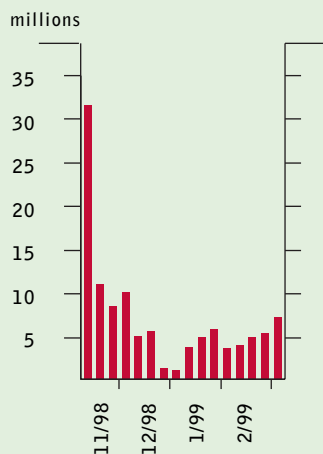
See Note 20 to the consolidated financial statements for the indirect investments in subsidiaries, associated companies and other shares.

Shares and Shareholders

SHARE PRICE AND HEX INDEX ¹⁾



WEEKLY TRADING VOLUME OF SHARES ¹⁾



¹⁾ Share price performance and trading volume on HEX Helsinki Exchanges, November 10, 1998 - March 3, 1999.

Shares and share capital

Sonera Group plc has issued 722,000,000 shares. The Company has one series of shares. The paid-in share capital which is entered in the Trade Register stood at FIM 1,805,000,000 (303,579,207.26 euro) as of December 31, 1998. By an amendment to the Articles of Association that was registered on January 25, 1999, the Company's share capital was redenominated to euro. The share capital is a minimum of 302,738,267.63 euro and a maximum of 1,210,953,070.52 euro, within which limits the share capital can be increased or decreased without amending the Articles of Association. The share does not have a nominal value, and the accounting par value of the share is about 0.42 euro.

The Company's shares belong to the electronic book-entry system. International shareholders can elect to hold their shares in a nominee register account with a custodian bank. At meetings of shareholders, only those shares which are entered in the Company's Shareholders' Register are entitled to vote.

The Company's Board of Directors does not have a valid authorization to increase the share capital or to float an issue of convertible bonds, bonds with equity warrants or to grant share options.

Shares owned by the State

Following the sale of shares and employee offering that were carried out in 1998, the Finnish State's shareholding in Sonera Group plc is 77.8%. Parliament has granted the Government authorization to reduce the State's holding such that it is nevertheless a minimum of 50.1%.

The State has given its commitment that it will not organize a new sale of shares within half a year of the sale of shares that ended on November 9, 1998, without the consent of the lead managers of the sale of shares.

Management's shareholdings

The members of the Supervisory Board and Board of Directors of Sonera Group plc as well as the President and CEO owned a total of 34,794 shares, or 0.005% of the Company's share capital and voting rights, on January 5, 1999. The members of the Management Group (with the exception of the President and CEO) owned a total of 90,708 shares.

Quotation of the share

Trading in the shares of Sonera Group plc commenced, upon application by the Company, on the Pre-List of HEX Helsinki Exchanges on November 10, 1998. Quotation on the Main List commenced on November 17, 1998. The shares are also traded within the SEAQ International trading system which is managed by the London Stock Exchange.

The trading volume on HEX Helsinki Exchanges during the period November 10 to December 31, 1998, was a total of 73.6 million shares and the aggregate value of the share trading was FIM 5,020 million.

When quotation of Sonera's share began on HEX Helsinki Exchanges on November 10, 1998, the trading price was FIM 59.00 and on the last trading day of the year it was FIM

90.00, an increase of 46%. During the corresponding period, the HEX general index for Helsinki Exchanges rose by 26%. The share had a low for the year of FIM 59.00 and a high of FIM 100.00. The average price of trades made during 1998 was FIM 68.21. The Company's market capitalization at the close of the year was FIM 64,980 million.

The largest shareholders as of December 31, 1998

Shareholder		Number of shares	Holding, %
Finnish State		562,061,220	77.8
The Local Government Pensions Institution		6,060,000	0.8
Sampo-Varma Group			
Varma-Sampo Mutual Pension Insurance Company	2,426,000		
Nova Life Insurance Company Ltd	919,100		
Sampo Insurance Company plc	607,000		
Sampo Enterprise Insurance Company Limited	607,000		
Industrial Insurance Company Ltd	606,000		
Sampo Life Insurance Company Limited	302,000		
Otso Loss of Profits Insurance Company Ltd	261,000		
Kaleva Mutual Insurance Company	151,000	5,879,100	0.8
Pohjola Group			
Ilmarinen Mutual Pension Insurance Company	3,030,000		
Suomi Mutual Life Assurance Company	800,000		
Pohjola Life Assurance Company Ltd	800,000		
Pohjola Non-Life Insurance Company Ltd	800,000	5,430,000	0.8
Fennia Group			
Mutual Insurance Company Pension-Fennia	1,996,500		
Enterprise-Fennia Mutual Insurance Company	759,900		
Fennia Life Insurance Company Ltd	121,000	2,877,400	0.4
Tapiola Insurance Group			
Tapiola Mutual Pension Insurance Company	737,000		
Tapiola General Mutual Insurance Company	369,000		
Tapiola Mutual Life Assurance Company	205,000		
Tapiola Corporate Life Insurance Company	104,500	1,415,500	0.2
PT Pension Fund		1,246,700	0.2
Sitra, the Finnish National Fund for Research and Development		1,141,400	0.2
Merita Optima Mutual Fund		640,000	0.1
The Central Church Fund		637,500	0.1
Nominee-registered shares		79,559,643	11.0
Other shareholders, total		55,051,537	7.6
Total		722,000,000	100.0

Shares and Shareholders

Shareholders by group at December 31, 1998

Group		Number of shares	Holding, %
Privately held companies		3,992,975	0.6
Publicly held companies		168,020	0.0
Financial and insurance institutions		14,337,590	2.0
Public sector entities			
Finnish State	562,061,220		
Occupational pension schemes and other social security funds	20,441,140		
Other public sector entities	153,515	582,655,875	80.7
Non-profit entities		4,462,470	0.6
Households		36,045,397	5.0
International owners		80,258,048	11.1
On the book-entry register joint account		79,625	0.0
Total		722,000,000	100.0

Breakdown of shareholdings by size of holding at December 31, 1998

Number of shares	Number of shareholders	Holding, %	Number of shares	Holding, %
1 - 100	14,420	19.4	1,306,645	0.2
101 - 500	32,289	43.4	9,840,203	1.4
501 - 1,000	23,713	31.8	18,714,600	2.6
1,001 - 10,000	3,712	5.0	7,541,240	1.0
10,001 - 100,000	207	0.3	6,478,809	0.9
100,001 - 1,000,000	65	0.1	20,578,635	2.9
over 1,000,000	7	0.0	577,900,600	80.0
Nominee-registered shares			79,559,643	11.0
On the book-entry register joint account			79,625	0.0
Total	74,413	100.0	722,000,000	100.0

Auditors' Report

To the shareholders of Sonera Group plc

We have audited the bookkeeping, the financial statements and the administration of Sonera Group plc for the financial year 1998. The financial statements prepared by the Board of Directors and the President and CEO comprise a review of operations and both the consolidated and the Parent Company income statement, balance sheet and notes to the financial statements. Based on our audit, we express an opinion on these financial statements and administration.

We have conducted our audit in accordance with generally accepted auditing standards. 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. Our audit of administration included

examining whether the Supervisory Board, the Board of Directors and the President and CEO have legally complied with the regulations of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and all other rules and regulations in force. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of both the consolidated and the Parent Company results of operations and financial position. The financial statements can be approved, and the members of the Supervisory Board and the Board of Directors as well as the President and CEO be discharged from liability for the financial year audited by us. The proposal by the Board of Directors for the distribution of profit is in compliance with the Finnish Companies Act.

We have reviewed the interim reports published during the financial year. In our view, the interim reports have been prepared in accordance with pertinent regulations.

Helsinki, Finland
March 1, 1999

Tilintarkastajien Oy - Ernst & Young
Authorized Public Accountants
Jorma Jäske, APA

Jorma Heikkinen
Authorized Public Accountant

Statement of the Supervisory Board


At its meeting held today, the Supervisory Board of Sonera Group plc has examined the Parent Company and consolidated financial statements and auditors' report for the fiscal year January 1 - December 31, 1998. The Supervisory Board advises the Annual General Meeting that it has no remarks with respect to the Parent Company and consolidated financial statements or the auditors' report. At the same time, the

Supervisory Board states that it concurs with the proposal of the Board of Directors for the disposal of the profit for the year.

Due to resign at the 1999 Annual General Meeting are the following members of the Supervisory Board: Tarmo Eskola, Ritva Rastimo, Max Mickelsson, Erik Lindfors, Max Arhippainen and Bjarne Kallis.

Helsinki, Finland
March 3, 1999

Aapo Saari
Chairman of the Supervisory Board

A man in a red shirt and brown trousers stands in a vineyard, talking on a mobile phone. He is positioned in the lower right quadrant of the frame. To his right is a stack of three cardboard boxes. The vineyard rows stretch out behind him, leading to rolling green hills in the distance under a clear sky. The overall scene is bright and sunny, with strong shadows on the ground.

SONERA OPERATES OPENLY
AND IN A SPIRIT OF COOPERATION
IN MATTERS LARGE AND SMALL.

RELIABILITY

Mobile Communications



Share of consolidated revenues 49%

The business area of mobile communications provides mobile telecommunications services to private customers, families and companies. Mobile communications utilizes modern radio and telecommunications technology and information systems, and it pursues extensive cooperation in product development and the provision of services. The business area cooperates with content providers, thereby enabling it to develop a variety of new services.

A fast-developing business environment

Revenues from mobile communications grew by 32% on the previous year and totaled FIM 4,750 million (3,603). As in previous years, the change was due to the very strong growth in the market. Mobile communications' share of Sonera's revenues rose to 49% (45). The business had excellent profitability.

Finland's mobile penetration rate, or the number of subscribers compared to the population, is the world's highest. In August, the penetration rate topped the 50% mark. In December, the number of mobile subscribers was the first in the world to exceed the number of fixed lines, and at the end of the year the penetration rate had reached 58%. In 1998, the growth in the number of GSM subscribers was the highest ever.

Factors that have contributed to the growth in the penetration rate are the strong decrease in mobile phone prices during the present decade as well as mobile call prices in Finland, which are very low by international standards. Other causes of this growth are tough competition and intensive marketing that is beamed at potential users.

Sonera is Finland's leading mobile communications operator. In 1998, Sonera had a market share of GSM services of about 67% (71), based on revenues, and of all mobile communications services its share was about 70% (76). Sonera's main competitor in nationwide GSM 900 services is Oy Radiolinja Ab.

As the penetration rate grows, competition in the market is hotting up. A particular thrust of the competition was free air-time offers pitched at new subscribers. Other means of competing were the quality of mobile phone networks as well as new value added services.

The introduction of regional GSM 1800 networks did not have an essential effect on Sonera's market share. Several local telephone companies and Oy Telia Finland Ab operate GSM 1800 networks.

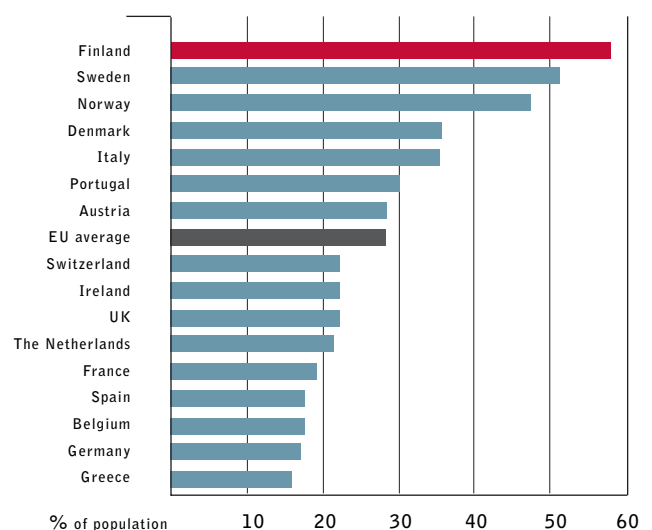
GSM roaming services were expanded further. At the end of the year, Sonera had roaming agreements with 119 operators, one of whom is the global satellite operator Iridium.

- REVENUES FIM 4,750 MILLION, UP 32%

ON THE PREVIOUS YEAR

- GROWTH FOCUSED ON CONSUMER CUSTOMERS
- NEW TEXT MESSAGE-BASED CONTENT SERVICES

MOBILE PENETRATION RATE IN WEST EUROPEAN COUNTRIES
ON DEC 31, 1998



Source: Mobile Communications 1/1999

The Sonera GSM coverage area already includes 73 countries: 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. Twenty roaming agreements covering the GSM 1800 network have already been signed.

Consumer customers bring growth

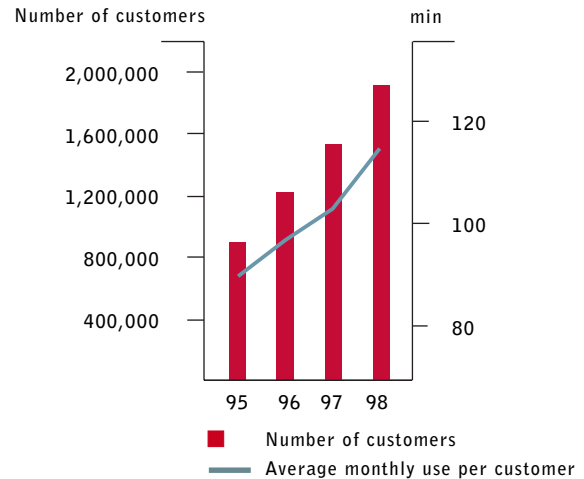
Sonera's GSM market share as measured by the number of subscribers was about 62% (65) at the end of 1998. On the basis of revenues, the market share was about 67% (71). Despite keen competition, Sonera remained the clear market leader.

Substantial outlays were made on marketing with the aim of selling new GSM subscriptions and further strengthening customer loyalty.

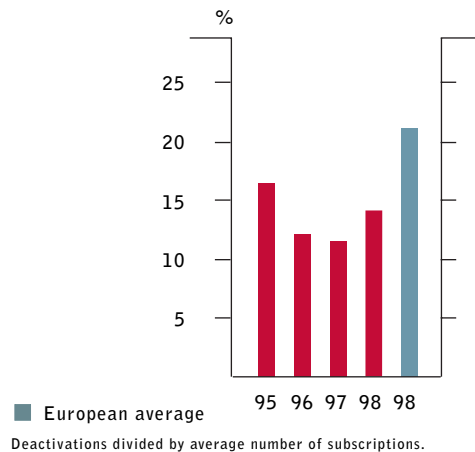
Private customers accounted for a greatly increased share of mobile phone customers, representing 92% (78) of the total growth. At the end of 1998, the number of Sonera's mobile subscriptions was 1,931,884 (1,586,102). Of holders of a subscription, 78% were private customers and 22% business customers.

The average monthly use of a mobile phone subscription grew from 103 called minutes to 116 minutes. The use of mobile phones also became more diversified and the number of transmitted short messages, i.e. text messages, grew six-fold. There was also an increase in calls from one mobile phone to another and in the setting up of a computer connection via the mobile phone network. At the end of the year,

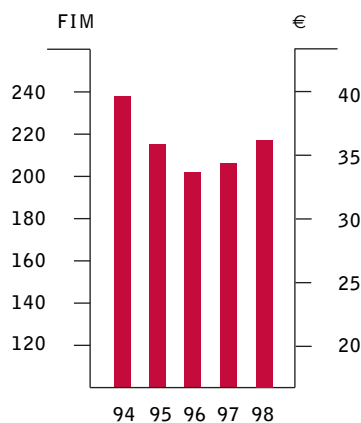
GROWTH IN THE NUMBER OF SUBSCRIPTIONS AND AVERAGE MONTHLY USE



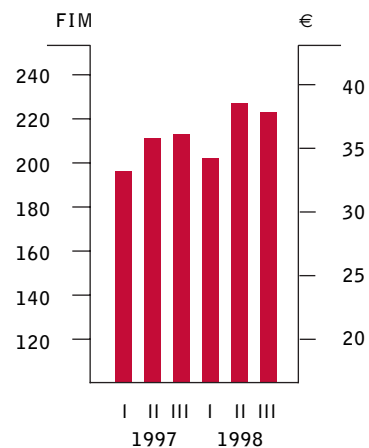
CHURN RATE FOR GSM CUSTOMERS



AVERAGE MONTHLY REVENUES PER SUBSCRIPTION ¹⁾



AVERAGE MONTHLY REVENUES PER SUBSCRIPTION BY TERTIAL ¹⁾



¹⁾ Revenues for the period of Sonera's NMT and GSM services divided by the average number of customers for the period and by the number of months in the period.

there were 1,596,897 (1,032,121) GSM customers.

The number of NMT calls declined since part of the NMT users migrated to GSM. The migration gained pace thanks to the subscription changeover offers that were made toward the end of the year. The majority of NMT network customers have become GSM customers of Sonera. At the end of the year, there were 334,987 (553,981) NMT customers.

The average monthly revenues from a mobile subscription rose to FIM 217 (206). The churn rate for GSM customers in 1998 was 14.0% (11.5).

Dual band network launched

Capital expenditures on fixed assets within mobile communications totaled FIM 984 million (1,047) during the year. The bulk of the expenditures went for increasing the GSM network capacity. During the year, investments to boost the data transmission speeds of the GSM network were also started.

During the report year, the Ministry of Transport and Communications announced that it was opening a round of applications for licenses to operate third generation UMTS mobile communications networks. In January 1999, Sonera submitted two applications for a license, one concerning nationwide general mobile communications services and the other for a regional license.

During 1998, Sonera launched a number of new services, the most important of which was the GSM Duo subscription that makes use of a dual band network. It is intended for the new dual band phones that operate everywhere in Sonera's

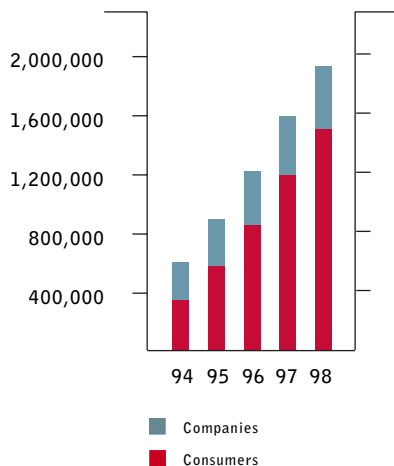
GSM 900 and GSM 1800 coverage areas in Finland and abroad. For the customer, a Duo subscription brings lower cost near zone pricing. The dual band network formed by the GSM 900 and GSM 1800 networks will ensure that Sonera has sufficient frequency capacity to handle growing numbers of users and to provide more versatile use. By the end of the year, there were 29 Duo near zones in use.

Another salient feature of the report year was the greater variety of text message-based content services that were offered and the strong growth in use of them. Particularly popular services were the Telefinder telephone directory, an account balance query for mobile phone bills, a weather service and a ringing tone ordering service named Doris. A new business that was launched was the pilot use of Kännycash applications in which a product can be purchased from a vending machine using a mobile phone and the billing is done on the mobile phone bill.

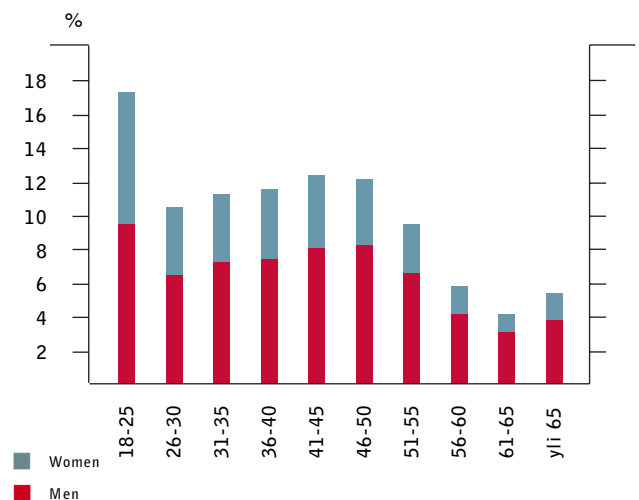
In January 1999, Sonera and RSL COM Finland Oy entered into a service operator agreement whereby RSL COM, a service operator, will purchase GSM network capacity from Sonera. During 1998, Sonera was engaged in negotiations with Telia Finland concerning national roaming on a commercial basis. The negotiations nevertheless did not lead to an agreement.

According to a customer satisfaction survey that was carried out toward the end of the year, customer satisfaction has improved further. Of the respondents, 68% reported that they considered the reliability of the Sonera mobile telephone network very good or excellent. In the opinion of 75%

NUMBER OF MOBILE PHONE CUSTOMERS



BREAKDOWN OF CONSUMER CUSTOMERS BY AGE AND SEX



of the respondents, the level of customer service was very good or excellent. 82% of the respondents considered the value added services of a mobile subscription were easy to use.

Focusing on customer service and partners

The success of mobile communications is based on good overall business operations. Sonera has a clear view of the trend in the industry and it will respond to development challenges by making use of its in-depth technical and commercial expertise.

A fundamental mainstay of the mobile communications business is a competent and motivated personnel. The payroll of the business area at the end of the year was 1,140 employees. The personnel's expertise was boosted through training and by recruiting new experts.

The growth in the sale of subscriptions was largely attributable to a broad-based distribution channel. Well functioning cooperation with independent mobile phone resellers is the starting point for Sonera's distribution network, which consists of 1,600 outlets. The partnership network was further strengthened in January 1999, when Sonera acquired a majority interest in the joint marketing company of the Päämies chain that is specialized in mobile phone sales.

Sonera continued to focus on providing high-quality customer service. Call centers offer 24-hour service every day of the week. In 1998, the centers processed more than 5 million calls. In 1999, Sonera will increase its telephone service resources further by establishing a fifth national call center in Kuusamo.

Radio network projects extended

The mobile communications business also offers paging services as well as satellite and mobile communications solutions for special requirements.

The Radio Services unit is building and operating a nationwide public authority network (VIRVE). The first section of the network was completed on schedule. At the end of the year, an agreement was signed on building and operating a second network entity. The network will become operational in the first half of 1999.

Radio Services signed a new 10-year follow-up agreement with the Finnish Maritime Administration. The agreement concerns the operation and maintenance of a private mobile radio network based on GMDSS (Global Maritime Distress and Safety System).

Sonera is participating in the international Inmarsat satellite organization, whose privatization process reached the final stages during 1998. Sonera's stake in the company will consequently become an equity investment.

The use of pagers is undergoing a transition from the relaying of call back messages to the passing on of information to private individuals and groups as well as the implementing of various kinds of control signals. The sending of Internet-based information to a pager also increased. The popularity of GSM text messages somewhat reduced the use of conventional paging. The number of customers using paging services was 40,000 (44,000) at the end of the year.

Mobile Communications

		1998	1997	Change %
Revenues ¹⁾	FIM million	4,750	3,603	32
EBITDA	FIM million	2,146	1,662	29
EBITDA, % of revenues ²⁾	%	44	44	
Depreciations and write-downs ³⁾	FIM million	826	465	78
Operating profit	FIM million	1,320	1,197	10
Capital expenditures on fixed assets	FIM million	984	1,047	(6)
Personnel, average		993	963	3

¹⁾ Share of the Group's external revenues. Sales to fixed network and other operations amounted to FIM 170 million in 1998 and FIM 156 million in 1997.

²⁾ In relation to the total revenues of the business area.

³⁾ Includes write-downs of FIM 202 million in 1998.

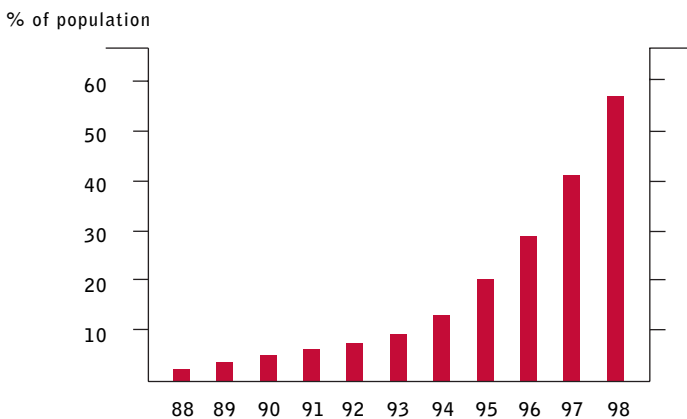
Further diversification of mobile services

The growth in the demand for mobile phone services is estimated to remain strong. It is believed that growth potential will be found among families, and especially young people under 18 years of age as well as companies. In the years ahead, a growing number of customers will use more than one subscription.

As the GSM network evolves, further improvements will be made in the possibilities of developing new services. The third generation UMTS network will provide a number of new and enhanced possibilities, such as the transmission of video and graphic or image-enhanced text messages as well as the browsing of Internet pages with a mobile phone. Different kinds of technological solutions and modes of communication will converge, meaning that the same terminal device can be used for a number of services. At the same time, individual services will become available for use with more than one terminal device.

In the future, the market will develop in an increasingly aggressive direction, placing a premium on customer loyalty and the ability to maintain it. Just as up to now, the significance of knowledgeable cooperation partners in selling subscriptions and value added services will be crucial. The importance of the Company's network of partners will nevertheless show the greatest relative growth in the areas of product development and service provision.

GROWTH OF MOBILE PENETRATION RATE IN FINLAND



SONERA SEARCHES FOR AND DEVELOPS INNOVATIVE
IDEAS THAT POINT THE WAY TO THE FUTURE.
INGENIOUS APPLICATIONS LEAD
TO ENHANCED SOLUTIONS.

LEADERSHIP



Fixed Network and Other Operations



Share of consolidated revenues 51%

Sonera's fixed network and other operations business area is comprised of several distinct lines of business, all of which occupy leading positions in the Finnish telecommunications market. The principal lines of business are fixed network voice services as well as data and media communications. In addition, Sonera is engaged in equipment sales and other operations that support its main businesses.

The revenues of the business area grew by 10% on the previous year and totaled FIM 4,898 million (4,438). Growth came mainly from data and media communications. Fixed network and other operations accounted for 51% (55) of Sonera's total revenues. The business area generated operating profit of FIM 401 million (496). The EBITDA margin remained at the previous year's level, but depreciation grew faster than EBITDA. Profitability was also weakened by the outlays on international operations as well as on new data and media services.

The capital expenditures of the business area went primarily for the construction of additional fixed network capacity and modernization of the telephone network. Investments aimed at developing operations were geared to customer service and operations control systems.

Efforts will be made to improve further the cost-effectiveness of the fixed network. Efficiency-boosting measures will also be continued in other operations with the aim of improving profitability.

Communications network of the future introduced

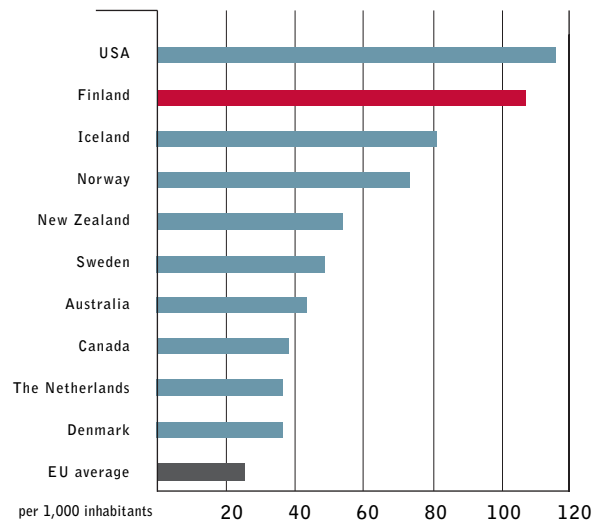
In December 1998, Sonera was the first company in Europe to introduce an IP communications network that integrates the functions of the Internet and a telephone network into the same information network. The new generation broadband IP trunk network will expand to cover Finland and Sweden during 1999. Sonera-developed communications technology won the internationally prestigious Hot Products award sponsored by Data Communications, a publication in the field.

Sonera has two business divisions that are specialized in selling and marketing its products and services. Sonera Solutions is responsible for the Group's large business customers and for the provision of corporate communications solutions based on the integration of information technology and telecommunications. Business and Residential Services offers services to residential customers, public organizations and companies.

Sonera has formed a separate division of its fixed network operator operations. The Network Services division provides the basic network services on which Sonera's business operations are built. In addition, Network Services sells network capacity to service providers outside the Group.

- REVENUES FIM 4,898 MILLION, UP 10% ON THE PREVIOUS YEAR
- RAPID GROWTH IN DATA AND MEDIA COMMUNICATIONS
- PACKAGING OF INTERNET CONTENT SERVICES WAS STARTED

COMPUTERS LINKED TO THE INTERNET



Source: Network Wizards 1/1999

FIXED NETWORK AND OTHER OPERATIONS, BREAKDOWN OF REVENUES

FIM million	1998	1997	Change %
Domestic voice services	1,497	1,456	3
International voice services	763	798	(4)
Data and media communications	1,310	952	38
Equipment sales	549	476	15
Other operations	779	756	3
Total	4,898	4,438	10

Share of the Group's external revenues.

Voice services

Revenues generated by the fixed network voice services remained at the previous year's level and were FIM 2,260 million (2,254). The services include local, long-distance and international calls as well as value added services such as call transfer and voice mail.

The level of tariffs on Finland's highly competitive voice services market is low by international standards. Price competition has increased further as new service providers enter the market.

Local call market remains steady

Revenues generated by Sonera's domestic voice services grew slightly compared with the previous year and totaled FIM 1,497 million (1,456).

The size of the local call market remained relatively unchanged in Finland and was an estimated FIM 3.4 billion. Sonera's share of local access lines was 28%, and the total number of the Company's access lines at the end of the year was 790,668 (789,319). The number of residential customers in Sonera's traditional service areas in eastern and northern Finland has fallen due to the population shift to urban areas. The attrition has been offset by the strong growth in ISDN connections in step with the spread of the Internet as well as by the growth in corporate access lines in competitors' areas.

Apart from Sonera, local voice services are provided in Finland by 46 local telephone companies that own a local network in the largest cities and densely populated areas. Competition on the local voice market has been slack because the leased line tariffs of the local telephone companies have remained high. Sonera is presently building fiber optic cable loops to the largest cities and is marketing direct access links to corporate customers in these areas.

From the beginning of the year, Sonera raised the basic

charges on local access lines by about 12% with the objective of achieving better cost matching. The tariffs for local calls remained unchanged. During the autumn Sonera gave up basic subscriptions as a specific product and changed the existing subscriptions to leased lines in accordance with European Union competition legislation. The change affected 27,600 Sonera customers.

The long-distance market diminished somewhat from the previous year's FIM 400 million. During the year Sonera's market share of called long-distance minutes was about 39% (41). Competition has already forced long-distance tariffs to such a low level that no significant changes took place in them.

Competition for international calls cuts into tariffs

Revenues generated by Sonera's international voice services declined to FIM 763 million (798) owing to the fall in the price level of calls and to lost market share. During the year Sonera's market share of called international call minutes was about 55% (60).

The international call market is estimated to have held steady at about FIM 1.2 billion. The fall in the price level was compensated by the volume of called minutes, which grew by an estimated 9%. Increased competition was attributable to small service providers that entered the market and to Telia Finland.

Data and media communications

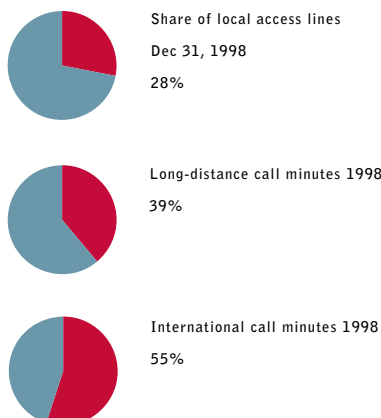
Data and media communications is one of Sonera's fastest growing businesses. Revenues were up 38% during the report year and totaled FIM 1,310 million (952). Growth has been speeded up by the favorable development of the Finnish economy and by the fast pace of technological advances.

Data and media communications mainly comprise data transmission solutions offered to corporate customers, network management services and systems as well as media services, such as Internet and cable television services, special calling services and communications solutions beamed at companies. In addition, via its international subsidiaries Sonera offers data and media communications services in the international market.

The convergence of information technology and telecommunications is moving ahead, particularly in the communications environment of large corporations. The integration of intranet and Internet applications and IP telecommunications is one of the main development areas for Sonera's service concepts.

The number of mobile phones passed up the number of fixed network access lines, and a significant portion of telephone traffic is moving to mobile phone networks. Broad-

MARKET SHARES OF SONERA'S VOICE SERVICES



FIXED NETWORK ACCESS LINES

Number of access lines at year end

	1998	1997	Change %
Standard lines	656,524	695,437	(6)
ISDN lines	24,772	12,606	97
2 Mbps lines	2,820	2,289	23
Total equivalent lines	790,668	789,319	0

In the total equivalent lines, ISDN lines are counted as two standard lines and 2 Mbps lines are counted as 30 standard lines.

BREAKDOWN OF REVENUES WITHIN DATA COMMUNICATIONS

	1994	1995	1996	1997	1998
Basic data transmission services	313	312	295	337	447
LAN and Internet services	113	141	213	325	492
Total	426	453	508	662	939

band data and media services are a future area of applications within the fixed telephone network. This trend is being driven above all by the fast growth in use of the Internet.

New services will call for faster connections than heretofore. At present, ISDN connections are gaining popularity. During the report year Sonera also began to offer broadband ADSL services to its business customers in Helsinki, Tampere and Turku. This technology makes it possible to transmit speech, data and video at a speed of several megabits a second along existing copper telephone lines. By 2000, Sonera will be able to offer ISDN connections to the majority of its customers and ADSL services to selected market segments nationwide.

LAN services boost data communications

The data communications business saw its revenues increase by 42% on the previous year, to FIM 939 million (662).

The total market for data communications continued its fast growth, which was especially weighted toward LAN interconnection and management services. Within basic data transmission services, the growth was more moderate. Sonera has a share of about half of Finland's data communications market. The customer base consists of Finnish companies and public sector bodies.

In recent years, Sonera has shifted its focus from standardized data transmission services to more advanced data services such as the development of LAN services and the provision of integrated total communications solutions to corporate customers. Sonera is also Finland's leading provider of intranet services. Versatile intranet solutions may comprise different security options, mobile and remote access, electronic commerce applications along with other extranet applications, directory services as well as e-mail, GSM, telefax and pager services.

Sonera intends to remain in the forefront of developing new data services and to concentrate on expanding data solutions that deliver added value.

Internet use spreads quickly

Revenues from media communications were up 28% on the previous year and totaled FIM 371 million (290). Growth was fueled by the strong demand for Internet services in Finland and by the outlays Sonera has made on developing Internet content services.

Media communications offers highly developed product package solutions for corporate customers' information management, communications, marketing and electronic commerce needs. Sonera is banking heavily on the rapidly developing and fast growing market for Internet, media and content business.

Growth in the use of the Internet was again buoyant in the

Fixed network and other operations

		1998	1997	Change %
Revenues ¹⁾	FIM million	4,898	4,438	10
EBITDA	FIM million	1,346	1,244	8
EBITDA, % of revenues ²⁾	%	23	23	
Depreciations and write-downs ³⁾	FIM million	945	748	26
Operating profit	FIM million	401	496	(19)
Capital expenditures on fixed assets	FIM million	1,103	1,170	(6)
Personnel, average		7,616	7,004	9

¹⁾ Share of the Group's external revenues. Sales to mobile communications amounted to FIM 946 million in 1998 and FIM 856 million in 1997.

²⁾ In relation to the total revenues of the business area.

³⁾ Includes write-downs of FIM 17 million in 1998.

report year and was accompanied by keener competition. In the spring, the price of an Internet subscription on the consumer market leveled off at FIM 49 per month, which contributed to boosting sales of Internet subscriptions. According to a survey conducted by Taloustutkimus Oy, a market research company, in October and November, 46% of Finns between the age of 15 and 74 had experience of using the Internet.

Sonera is the market leader in Internet services in Finland. Its market share of consumer subscriptions is about 35%, and it has about 39% of corporate Internet services (Taloustutkimus Oy, December 1998). In February of the report year, the number of Sonera's Internet customers topped the 100,000 customer mark, and fast growth continued throughout the year.

The renewed iNET Keskuskatu offered by Sonera strengthened its position as Finland's most popular Internet service, which is visited by more than 200,000 different users weekly. In August, Sonera established the iNET Club, becoming the first Internet operator in Finland to start packaging content. A number of innovative services were turned into Internet products, an example being the relaying of e-mail messages direct to a GSM handset.

The Internet is developing into a mass media that will enjoy very strong growth in the years ahead. Among the challenges in the future are total solutions for business, the management of large volumes and packaging of content services. Sonera is continuing to develop high-quality Internet services for both the domestic and international market.

Sonera provides cable television services to some 136,700 households in Finland via its own broadband cable television network. Television strengthened its position as an Internet terminal device in 1998. Sonera presented its new QuickNet TV service, which allows users to browse and use the Internet in a cable television network. The QuickNet service, which offers a two-way Internet access, was introduced in Nijmegen and Rotterdam, the Netherlands. In addition, Sonera was the first company in Finland to bring to market an iNETtv service, which makes it possible to establish an Internet connection by linking a television to the telephone network.

Electronic commerce is on the way

Business Media, a part of Media Communications, offers telecommunications solutions that enable companies to enhance their marketing, customer services and information exchange. Different communications technologies are utilized in its solutions.

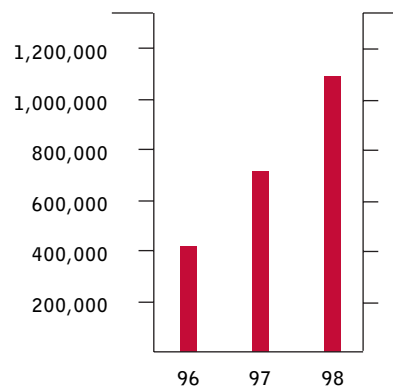
Within toll-free and toll service numbers as well as voice mail services, the competition situation got tougher, but Sonera held on to its leading market position. Strong growth especially in mobile communications brought new traffic to the service numbers. Sonera developed further its telephone

SONERA'S INTERNET MARKET SHARES IN DIFFERENT COMPANY SIZE CATEGORIES



Source: Taloustutkimus Oy, Dec 1998

NUMBER OF 15-74 YEAR OLD FINNS USING THE INTERNET EVERY WEEK



Source: Taloustutkimus Oy, Dec 1998

services for corporate marketing by rolling out, among other things, a feedback channel for marketing campaigns and by handling telephone service support functions connected with companies' loyal customer concepts.

Electronic commerce has got off to a fairly slow start in Finland despite the strong increase in Internet use. This is attributable to the timetables of companies' year 2000 upgrades and to the undeveloped state of the infrastructure connected with network commerce. For example, during the report year, legislation related to the field was still partly incomplete. Sonera launched a virtual shopping mall named Pukinkontti which is beamed at Internet consumers. This made it possible, right before Christmas, to make purchases from the assortments of dozens of merchants. During the re-

port year, agreements were also made with the national tax administration and certain electric power utilities concerning transactions via the network.

Business Media's development outlays will be focused on services that support companies' sales and marketing functions. These are areas where the Internet will be the key technology in the years ahead. Development work on network commerce and Internet-based customer service solutions will be continued in both the domestic and international markets.

Equipment sales

Sonera's subsidiary Sonera Systems Ltd sells, installs and maintains telephone systems and equipment, payment terminals, computers and other data processing and telecommunications equipment. The company also oversees the TeleRing and Data-Info retail chains.

Revenues from equipment sales were up 15% on the previous year and totaled FIM 549 million (476). Sonera Systems is Finland's leading company in the PABX and systems market.

The TeleRing chain comprises 22 Sonera-owned outlets and 44 franchising stores. Mobile phone sales are TeleRing's largest single sales segment. The Data-Info 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.

In Estonia and Latvia, Sonera pushed ahead via subsidiaries, and sales to Russia also grew thanks to several large projects.

Within sales to large business customers, the emphasis in future years will be on integrated total solutions. The integration of speech and data will also influence equipment solutions for customers. Efficient maintenance will grow in importance as equipment solutions become more complex. The aim in developing sales chains is to step up the efficiency of distribution channels.

Other operations

Sonera develops, produces and markets telecommunications and information services that support Sonera's principal business areas. Other operations include leased lines, directory services, information and operator services, safety network services, public telephones as well as network construction and maintenance services.

Revenues from other operations remained at the previous year's level and were FIM 779 million (756). Growth areas were operator services and directory services as well as leased lines, i.e. fixed point-to-point connections for voice and data traffic.

In the directory business, Sonera's market share for traditional telephone directories was about 20%, and it had a share of over half for Internet directories. Sales of media space in Sonera's telephone directories grew, and this trend is expected to continue in the years ahead. Use of the Telefinder telephone directory grew fivefold compared with the previous year, owing to increased use by companies and the fact that the directory was also developed into a GSM text message service.

Information and operator services include directory assistance and switchboard manning services. Growth in excess of ten percent in domestic directory assistance services continued for the fifth year in succession. The most important factor for the growth has been the strong increase in mobile phone subscriptions. On January 1, 1999, directory services and information and operator services became part of the Media Communications business division.

Sonera offers a SafeNet telecommunications platform for security service companies and large business customers. As part of the service, Sonera offers leased lines and server systems that make possible the reliable transmission of alarm signals and surveillance data to mobile phones, pagers and e-mail addresses.

The dramatic growth in the mobile phone penetration rate has led to a decrease in the use of public telephones, particularly in sparsely populated areas. Sonera is still the market leader in the field, although the number of public telephones operated by the Company declined by nearly one thousand during the year and totaled 8,600 at the end of the year. Of these telephones, 96 percent operate on Sonera's nationwide phone card. The first telephones that also will accept electronic cash cards were placed in use toward the end of the year. New demand is moving toward public terminals that offer an electronic transaction facility and Internet services.

Sonera provides network installation and maintenance services for both its own units and outside customers. Areas of operations include the maintenance of local networks and customer equipment, installation of cabling in buildings as well as the construction and maintenance of fixed and mobile telephone networks. Sonera is preparing to incorporate its installation and maintenance functions during 1999.

International subsidiaries

Via its subsidiaries, Sonera offers companies data and media communications services in the developed telecommunications markets in Sweden, Germany, Belgium and the Netherlands. The operations of the companies that were established in recent years are still in the start-up phase.

The international subsidiaries that are part of the fixed network and other operations business area generated revenues of FIM 261 million (152) during the report year.

SONERA IS GENUINELY INTERESTED IN
THE WORK AND OBJECTIVES OF ITS
CUSTOMERS AND PARTNERS.
BOTH BENEFIT FROM GOOD
COOPERATION.

CUSTOMER ORIENTATION



International and Other Significant Investments

On Finland's highly developed market, Sonera's market shares are large and the Company has limited growth possibilities. The Group's growth strategy calls for staking out new markets.

During the 1990s, Sonera has made a number of major investments in telecommunications companies outside of Finland. Particularly in fast-growing joint ventures in the field of mobile communications, Sonera is leveraging the commercial and technical expertise it has built up in Finland's advanced market. In the nearby Baltic countries, Sonera has also taken equity positions in national operators of fixed networks. Via its subsidiaries, Sonera offers data and media communications services on the advanced telecommunications market in Western Europe.

In the area of mobile communications, Sonera has invested in companies that are viewed to have significant growth and earnings potential. These GSM operators are engaged in business in rapidly developing and growing markets such as Turkey, Hungary, the Baltic countries and Russia as well as the United States. Sonera is participating actively in building and operating the GSM networks of its associated companies and it offers the companies its experience in sales, marketing and customer service.

By investing in fixed network companies, Sonera has obtained a strong position in Estonia, Latvia and Lithuania, in which there is large growth potential in the fixed network business.

Sonera also has a significant 27% interest in Tieto Corporation, which is Finland's leading supplier of information technology services and with which Sonera pursues close cooperation in step with the ongoing convergence of the telecommunications and information technology fields.

Sonera's equity income in associated companies grew strongly in 1998 and totaled FIM 351 million (114). The growth trend of associated companies is estimated to remain favorable and the effect of these companies on the Sonera Group's earnings is forecast to grow further.

Mobile communications companies show buoyant growth

International operations in 1998 were characterized by several major investments in foreign telecommunications companies. The total amount of these equity investments during the report year was more than FIM 5 billion, whereas Sonera's total investments made in the international market during the entire 1990s amount to about FIM 7 billion.

Sonera's mobile communications joint ventures that operate in Europe and the United States enjoyed fast growth dur-

- TOTAL REVENUES OF ASSOCIATED COMPANIES

ROSE TO FIM 11 BILLION

- EQUITY INCOME IN ASSOCIATED COMPANIES

GREW TO FIM 351 MILLION

ing the year. The companies' aggregate number of customers grew by 91% on the previous year and totaled more than 3.8 million (2.0) at the close of the year.

Sonera increased its interest in the Turkish company Turkcell to 41% when in April it bought part of LM Ericsson AB's holding in the company. Turkcell is Turkey's leading GSM operator and it has a share of about 70% of the country's GSM market. Turkcell's coverage area covers about half of Turkey's population of 64 million people and it includes the 80 largest cities.

In Turkey, both GSM operators – both Turkcell and its competitor Telsim – received new 25-year licenses in April. Turkcell paid USD 500 million for the license. The license makes possible wider business freedom, notably, in the pricing of services. Turkcell grew strongly in 1998: revenues rose to FIM 3,638 million (865) and the company doubled its number of customers, which at the end of the year numbered more than 2.3 million.

In its nearby market, Turkcell strengthened its position by acquiring a 51% holding in Kazakhstan GSM, a network operator. Turkcell previously has interests in the companies Azercell and Geocell, which are GSM operators in Azerbaijan and Georgia.

Sonera gained a presence in the United States market when in September it acquired a holding in Aerial, whose area of operations covers an area with a population of 28 million. Strong price competition prevailed on the market and during the year the young company, which is deploying GSM technology, was only able to reach the initial stage of its growth.

Another new mobile communications investment was the Lithuanian company UAB Omnitel. Acquisition of an ownership interest in Lithuania's leading GSM operator was made together with Telia AB of Sweden. In addition, Sonera increased its holding in Pannon GSM, which is Hungary's second largest mobile communications operator.

The Russian associated company North-West GSM succeeded in increasing its number of customers and operating profitably despite the country's unstable economy. The joint venture Libancell in Lebanon reached the 250,000 subscriber limit that is defined in the company's license. This factor significantly limited the company's growth possibilities.

Fixed network investments in the Baltic area

During the report year outlays were also made on the fixed network market in the Baltic countries. Thanks to new equity investments, Sonera owns significant interests in all the national Baltic operators, each of which is its country's only provider of fixed network services.

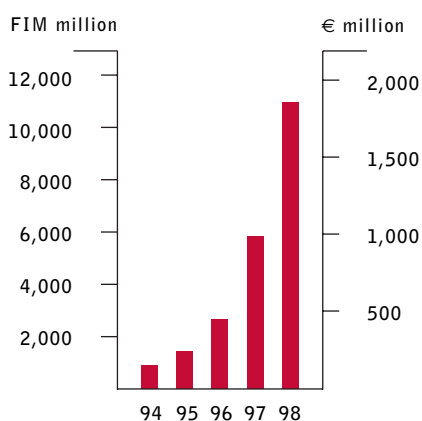
Sonera, together with Telia AB of Sweden, purchased from the Lithuanian State a 60% holding in Lietuvos Telekomas in July. The national operator had revenues in 1998 of FIM 1,214 million (904).

Sonera increased its holding in Latvia's national operator Lattelekom to 44.1% when it bought Cable and Wireless plc's holding in September. Lattelekom's revenues rose to FIM 1,060 million (882) during the report year.

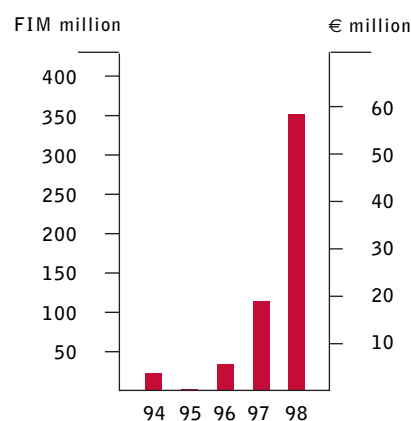
Amendments to telecommunications legislation in Estonia and Latvia began to be made as part of these countries' efforts to gain EU membership, and at the same time this set in motion the process of privatizing the area's telecommunications operators. The ownership of Estonia's associated companies was reorganized. Sonera's holdings in the companies Eesti Telefon and Eesti Mobiiltelefon will become a holding in the new Eesti Telekom parent company, which was privatized in February 1999. Following the privatization and exchange of shares, Sonera will own 24.5% of the shares in Eesti Telekom.

Operations and earnings of the fixed network joint ventures developed favorably in all the Baltic countries in 1998. The total number of customers of the fixed network associated companies was nearly 2.4 million at the end of the report year.

REVENUES OF ASSOCIATED COMPANIES



EQUITY INCOME IN ASSOCIATED COMPANIES



Market trend of foreign joint ventures

	Number of subscribers		Growth %	Penetration Market share in the country at the end of 1998	
	Dec 31, 1998	Dec 31, 1997			
Mobile communications					
Turkcell, Turkey	2,330,000	1,137,000	105	70%	5%
Aerial, USA	312,000	125,000	150	n/a	23%
Pannon GSM, Hungary	432,000	260,000	66	40%	9%
Eesti Mobiiltelefon, Estonia	152,000	102,000	49	61%	14%
Latvijas Mobilais, Latvia	125,000	61,000	105	75%	6%
UAB Omnitel, Lithuania	147,000	79,000	86	63%	8%
North-West GSM, Russia	92,000	56,000	64	63%	0.5%
Libancell, Lebanon	248,000	192,000	29	50%	14%
Total	3,838,000	2,012,000	91		
Fixed network					
Eesti Telefon, Estonia	493,000	469,000	5	100%	34%
Lattelekom, Latvia	771,000	748,000	3	100%	31%
Lietuvos Telekomas, Lithuania	1,111,000	1,048,000	6	100%	30%
Total	2,375,000	2,265,000	5		

Market shares are based on the data furnished by the companies and they are calculated on the entire mobile phone market, with the exception of Turkcell, for which the figures refer to the company's share of the GSM market.

Financial performance of foreign associated companies

FIM million	1995	1996	1997	1998	FIM million	1995	1996	1997	1998
Mobile communications					UAB Omnitel, holding %				
Turkcell, holding %	34.0	34.0	34.0	41.0	Revenues	27	122	272	489
Revenues	123	328	865	3,638	Operating profit	(9)	7	28	116
Operating profit	12	29	400	1,521	Net income	(11)	2	21	98
Net income	(22)	16	219	1,189	Sonera's share of net profit	-	-	-	12
Sonera's share of net profit	(7)	5	74	486	North-West GSM				
Aerial, holding %					holding %				
Revenues	-	-	-	19.4	Revenues	23.5	23.5	23.5	23.5
Operating profit	(33)	(202)	(1,132)	(1,496)	Operating profit	28	114	347	523
Net income	(28)	(174)	(1,282)	(1,932)	Net income	(9)	15	104	175
Sonera's share of net profit	-	-	-	(131)	Sonera's share of net profit	(8)	8	67	97
Pannon GSM, holding %					Fixed network				
Revenues	14.6	18.1	18.1	23.0	Eesti Telefon, holding %	24.5	24.5	24.5	24.5
Operating profit	290	550	887	1,583	Revenues	321	341	422	551
Net income	(74)	62	205	242	Operating profit	51	78	112	131
Sonera's share of net profit	(170)	(64)	35	(21)	Net income	30	35	82	97
Eesti Mobiiltelefon					Lattelekom, holding %				
holding %	24.5	24.5	24.5	24.5	Revenues	13.2	13.2	13.2	44.1
Revenues	127	204	334	501	Operating profit	530	654	882	1,060
Operating profit	63	77	132	174	Net income	38	68	150	237
Net income	50	39	107	119	Sonera's share of net profit	55	34	110	189
Sonera's share of net profit	12	9	26	29	Lietuvos Telekomas				
Latvijas Mobilais					holding %				
holding %	24.5	24.5	24.5	24.5	Revenues	-	-	-	30.0
Revenues	113	128	232	413	Operating profit	603	734	904	1,214
Operating profit	35	30	47	149	Net income	107	111	161	217
Net income	31	22	39	76	Sonera's share of net profit	108	84	131	98
Sonera's share of net profit	7	5	10	19	Net income				
					Sonera's share of net profit				
					-				

Sonera's share of the net profit is reported beginning with the time of acquisition.

Human Resource Development

The competence requirements in Sonera's business environment have undergone a change. This has become particularly apparent in recruitment, in the development of competence and in human resource management, and it has led to a redeployment of personnel to growing business areas and to a need to reduce the headcount in certain units.

Increased recruitment

In 1998 the payroll was on average 8,609 people, an increase of 642 employees on the previous year. Sonera recruited 893 people. New employees were needed mainly for the fast-growing or new business areas of mobile, data and media communications as well as international operations.

Human resources availability improved during the year. Job vacancies were filled despite the general shortage of available personnel in the field. A number of studies indicate that Sonera is an attractive employer thanks to the interesting job opportunities it offers, the appeal of the field it operates in and the development possibilities it offers. In an annual poll conducted by the technology and business newspaper *Tekniikka & Talous*, Sonera already ranked among Finland's ten most desirable employers.

Sonera revamped its recruitment communications model. The Company also went over to using the Internet as the main channel for taking in job applications. During the year the amount of applications made via the Internet increased to 80% of all applications (10% in 1997). This reduced the proportion of media advertising expenses and made recruitment more efficient.

Resources surveyed and developed

A Group-wide module was added to the model for surveying the competence of Sonera's personnel. The objective is to keep tabs on the state of the Group's expertise and to be able to direct and weight development actions correctly so that they support business operations.

The job atmosphere study was revised to survey Sonera's intellectual resources and to support the management of expertise. The annual study is used to ascertain strengths and development needs. In addition, the business divisions and units can utilize its results in order to obtain a more accurate picture of development needs and to support the daily management activities of supervisors.

To operate efficiently, it is important that the will of a company's management and its strategic priorities are communicated to the entire personnel. This is particularly necessary in a fast-changing business environment and at a company where business areas are in different development phases. A Group-wide training program for supervisors was launched with the aim of making performance appraisal discussions a part of the leadership system, while also unifying job performance evaluations, ensuring an effective remuneration system and systematically developing expertise.

The training program is an integral part of the introduction of the Balanced Scorecard system, ensuring a shareholder value-based way of thinking and acting and the practical implementation of training-oriented leadership.

The Group's compensation policy supports employees' job accomplishments and gives them the opportunity to measure their accomplishments in a concrete way. The salaried employees' pay system was renewed to achieve a more flexible system of rewarding accomplishments. In addition, a model was created for linking the Balanced Scorecard to the remuneration system.

Upgrading competences

In the development of human resources, the main focus was on the development of technology know-how, international business capabilities and customer expertise. As a continuation of project training, a program that builds skills required for managing demanding international projects was launched. Within the Mobile Communications and Network Services business divisions, the first development program aiming at creating joint operational models and procedures was started. After thoroughly going through joint core values, the Company's shared vision was fleshed out, and a set of targets and working procedures was defined with the aim of guiding day-to-day operations.

Of the Group-level development programs, the Telecommunications College firmly established its position in orienting new Sonera employees in the specifics of the Group's field of business. The Sonera Business School (SBS) was focused more clearly on developing strategic expertise and speeding up change, while serving as a means of supporting and producing new viewpoints and in-depth studies for the strategy process. About 60 Group experts and supervisors attend the Sonera Business School annually. All in all, each year about 35% of the target group participates in internal training courses for Sonera's key experts. Furthermore, Sonera employees participate actively in international training programs outside of the Group and they pursue studies leading to a degree.

Object College, which is primarily a training program built around courses involving object programming, was started up as part of Sonera's information technology training. The goal is to increase basic and in-depth knowledge of object modeling, technology and architectures. Within training of the installation and maintenance personnel, new learning environments that make possible distance study were developed and their use was extended to other aspects of training as well.

Because of the fast change in expertise requirements, each year about 4% of the personnel has been in a situation in which their previous expertise does not suffice to guarantee

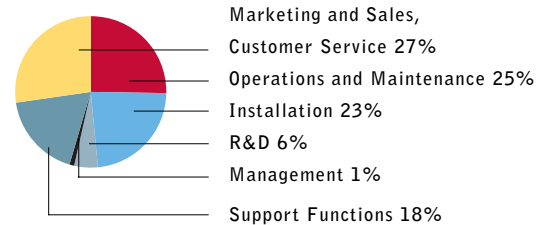
them a job. The Group makes use of a controlled adjustment model to assess the employee's individual development possibilities and to work out an action plan for the employee, while providing support in coping with the change. Of the 352 employees who required job adjustment in 1998, a common activity alternative was found for 202 already in the same year. Of these employees, 97 found a new position with Sonera, 86 left the Company and 19 retired.

Personnel services go electronic

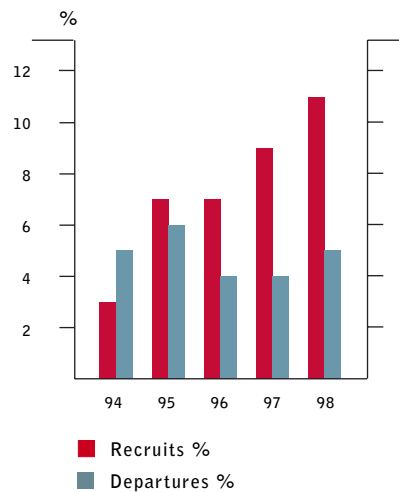
The content of the personnel services offered to all employees was expanded and developed. A new generation information system for gathering event data was introduced and the Company went over to a largely paperless procedure by implementing, for example, an electronic earnings computation. The efficiency of managing archive services was improved by putting into use an electronic document storage and management system which can later be utilized within the entire Group. Personnel services are handled on a centralized basis in Rovaniemi, Finland, where the Personnel Services unit makes use of Sonera's network expertise to serve the entire Group.

Maintaining working ability is an essential requirement in a changing operating environment. The personnel's psychic and physical stamina was monitored by means of a special questionnaire that was used at the work unit level and for individual employees. Occupational health experts and supervisors worked closely together with the aim of directing particular attention to maintaining working ability and supporting motivation and readiness to cope with changes. The objective is to provide supervisors with improved tools for achieving success in a changing operating environment.

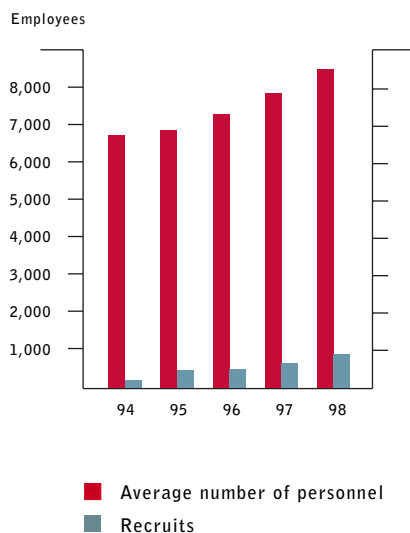
PERSONNEL BY TASK GROUP
ON DEC 31, 1998



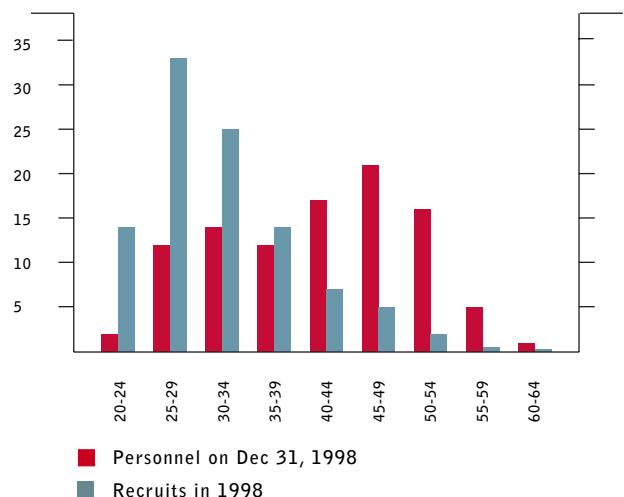
EMPLOYEE TURNOVER



TOTAL NUMBER OF EMPLOYEES
AND NEW RECRUITS



AGE BREAKDOWN OF THE PERSONNEL AND NEW RECRUITS



Administration and Business Organization

Sonera Group plc is managed by the Board of Directors and the President and CEO under the supervision of the Supervisory Board.

Current members of the Supervisory Board:

	Current term expires
Aapo Saari, Chairman, born 1944, Member of Parliament, owns 200 Sonera shares	2000
Minna Karhunen, Vice Chairman, born 1967, Member of Parliament, no Sonera shares	2000
Tarmo Eskola, born 1945, IT Director, UPM-Kymmene Corporation, owns 820 Sonera shares	1999
Ritva Rastimo, born 1939, Managing Director, Espoo Chamber of Commerce, owns 300 Sonera shares	1999
Max Mickelsson, born 1970, Special Advisor to the Minister of Finance, no Sonera shares	1999
Erik Lindfors, born 1946, Secretary, Metalworkers' Union, no Sonera shares	1999
Max Arhippainen, born 1963, Senior Economist, Pellervo Economic Research Institute, no Sonera shares	1999
Bjarne Kallis, born 1945, Member of Parliament, owns 1,640 Sonera shares	1999
Pauli Saapunki, born 1945, Member of Parliament, owns 820 Sonera shares	2000
Liisa Hyssälä, born 1948, Member of Parliament, no Sonera shares	2000
Pirjo-Riitta Antvuori, born 1945, Member of Parliament, no Sonera shares	2000
Olavi Tonteri, born 1944, Colonel, Finnish Defence Forces, no Sonera shares	2000
Leenamajja Ojala, born 1951, Docent, Pro Competence Oy, owns 200 Sonera shares	2000
Tuomas Harpf, born 1957, Managing Director, Suomen Viestintärahoitus Oy, no Sonera shares	2001
Arja Alho, born 1954, Member of Parliament, no Sonera shares	2001
Reino Ojala, born 1945, Member of Parliament, no Sonera shares	2001
Helena Vartiainen, born 1941, Member of Parliament, no Sonera shares	2001
Tarja Cronberg, born 1943, Executive Director, Regional Council of North Karelia, no Sonera shares	2001
Tapio Hintikka, born 1942, CEO, Hackman Oyj Abp, no Sonera shares	2001
Raimo Kantola, born 1955, Professor, Helsinki University of Technology, owns 1,650 Sonera shares	2001

Supervisory Board

The Supervisory Board comprises 15-24 members who are elected by the Annual General Meeting 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 in consecutive years. A person may not be elected to the Supervisory Board after having reached the age of 67 years.

The main task of the Supervisory Board is to exercise supervision of the Company's management and to assure that the Company's affairs are carried out in accordance with sound business principles, maintaining profitability and in compliance with the Articles of Association, and observing the resolutions of meetings of shareholders. In addition, the Supervisory Board can advise the Board of Directors in matters that are far-reaching or important in principle, and it submits to the Annual General Meeting a statement on the Company's consolidated financial statements and the auditors' report.

Board of Directors

The main task of the Board of Directors is to manage the Company's operations in accordance with the law and the Articles of Association. 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 right, subject to certain minor exceptions, to be present, to be heard and to vote at the meetings of the Board of Directors. Members of the Board of Directors are elected for a term of office of one year. All of the present members were elected to the Board of Directors of Sonera Group plc for the first time in 1998.

Markku Talonen, born 1946, Chairman,
Lic.Sc. (Tech.)

Chairman of the Board of Directors of PT Finland Ltd prior to the demerger in 1998, President and CEO of Orion Corporation, owns 1,650 Sonera shares

Liisa Joronen, born 1944, Vice Chairman, M.Sc. (Econ.),
Ph.D. (Pedagogy)

Member of the Board of Directors of PT Finland Ltd prior to the demerger in 1998, Chairman of the Board of Directors of SOL Services Ltd and member of the Supervisory Boards of Merita Bank plc and Ilmarinen Mutual Pension Insurance Company, owns 1,640 Sonera shares



BOARD OF DIRECTORS OF SONERA GROUP PLC

Front row, from left: Liisa Joronen and Markku Talonen. Back row, from left: Kari Vilkmán, Tapio Vaahtokivi, Erkki Bäckman, Kalevi Alestalo and Reijo Sulonen. On the far right is Aulis Salin, President and CEO of the company.

Kalevi Alestalo, born 1947, Member of the Board of Directors, M.Sc. (Econ.)
Consultant Counselor of the Ministry of Transport and Communications, owns 750 Sonera shares

Erkki Bäckman, born 1940, Member of the Board of Directors, Technician, Electrical Maintenance
Member of the Board of Directors of Telecom Finland Ltd prior to the demerger in 1998, former CEO and a member of the Board of Directors of Hartwall Oyj, owns 1,650 Sonera shares

Reijo Sulonen, born 1945, Member of the Board of Directors, D.Sc. (Eng.)
Member of the Board of Directors of PT Finland Ltd prior to the demerger in 1998, Professor at the Helsinki University of Technology, owns 800 Sonera shares

Tapio Vaahtokivi, born 1942, Member of the Board of Directors, employee representative, B.Sc. (Eng.)
Employee representative in the Board of Directors of Telecom Finland Ltd prior to the demerger in 1998, Chairman of Communications Union TTL, owns 657 Sonera shares

Kari Vilkmán, born 1951, Member of the Board of Directors, employee representative, telecommunications mechanic
Employee representative in the Board of Directors of Telecom Finland Ltd prior to the demerger in 1998, owns 869 Sonera shares

Management Group

As of January 5, 1999, the Management Group is composed of the President and CEO of the Company and four Executive Vice Presidents of Sonera Ltd. The Management Group assists the President and CEO in coordinating and implementing strategic and business objectives and is responsible for the operational management of the Group.

Aulis Salin, born 1938, LI.M., M.Sc. (Eng.)
President and CEO of Sonera Group plc and Sonera Ltd, with the Company since 1962,
owns 21,148 Sonera shares

Aimo Eloholma, born 1949, M.Sc. (Eng.)
Executive Vice President responsible for corporate planning, with the Company since 1974,
owns 22,561 Sonera shares

Matti Makkonen, born 1952, M.Sc. (Eng.)
Executive Vice President responsible for mobile communications, with the Company since 1976,
owns 9,445 Sonera shares

Kaj-Erik Relander, born 1962, M.Sc. (Econ.), MBA
Executive Vice President responsible for international operations, with the Company since 1994,
owns 21,851 Sonera shares

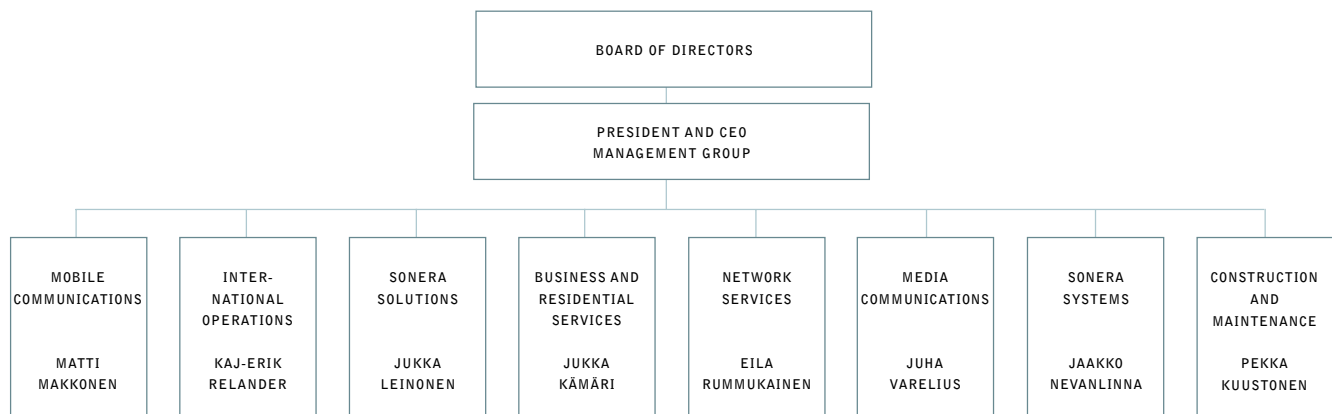
Erkki Tuominen, born 1957, M.Sc. (Econ.), MBA
Executive Vice President and CFO,
with the Company since 1994,
owns 36,851 Sonera shares



MANAGEMENT GROUP

From left: Erkki Tuominen, Matti Makkonen, Kaj-Erik Relander, Aulis Salin and Aimo Eloholma.

Business Organization



Corporate Administration

Corporate Communications, Brand and Investor Relations

Jari Jaakkola

Group Finance & Control

Kirsti Lehtovaara-Kolu

Aila Piri Feb 15 - Dec 31, 1999

Treasury

Pekka Reijonen

Corporate Finance

Esko Rytkönen

Management Assurance

Timo Helle

Legal Affairs and Administration

Maire Laitinen

Research and Technology Management

Jari Mielonen

Human Resource Management and Development

Juha Pentti

Corporate Public Relations and Regulative Issues

Pekka Takala

Internal control

The Board of Directors bears responsibility for supervising the Company's administration and business operations. The President and CEO is responsible in practice for arranging the Company's administration. The President and CEO is also responsible for seeing to it that in its operations the Company abides by the law, the Company's operational principles as well as the instructions and regulations issued by the Board of Directors.

Apart from a comprehensive internal reporting system and operational guidelines covering the organization, a central subarea of the Group's internal control is systematic risk management that is integrated into the business processes. The objective of risk management is to identify and prioritize the main risk factors that threaten the objectives of business operations as well as to allocate the responsibilities for these risks, and to plan and implement mechanisms for monitoring them. A central role in implementing risk management is played by the Board of Directors, President and CEO, Management Group, Internal Audit function as well as the Company's auditors.

The Group's Internal Audit supports the Company's management and Board of Directors in developing internal control and risk management, and it monitors the implementation of internal control and risk management objectives. Internal Audit reports on its activities to the Board of Directors and the Management Group.

The Company's audit is the responsibility of Tilintarkastajien Oy - Ernst & Young, authorized public accountants, with Mr. Jorma Jäske, Authorized Public Accountant, as the responsible auditor, and Mr. Jorma Heikkinen, Authorized Public Accountant, of the State Audit Office.

Glossary

ADSL

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 2 to 6 Mbps, a transfer speed 50 times faster than ordinary transfer technology.

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.

Dual band handsets

Handsets that operate on two bands within the same system, for example, on GSM 900 and GSM 1800 bands.

Extranet

An intranet that is extended to include certain outside businesses, organizations or individuals.

Fiber optic cable

A transmission medium constructed from extremely pure and consistent glass through which digital signals are transmitted as pulses of light. The advantages of fiber optic cable over copper cable are a greater transmission capacity and a lower level of signal distortion.

GSM (Global System for Mobile Communications)

A mobile communications system based on digital transmission and cellular network architecture.

GSM 1800

The standard for mobile communications in the 1800 MHz frequency band.

Internet

An assembly of interconnected networks that links together the entire world.

Internet Service Provider

A company providing access to the Internet and other computer based information networks through their servers.

Intranet

An internal network of an enterprise or organization, which is based on Internet technology and the Internet Protocol.

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, such as speech, text, data or graphics, simultaneously on a single telephone line.

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.

NMT (Nordic Mobile Telephone)

The mobile communications system that was originally put into use in the Nordic countries.

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.

UMTS (Universal Mobile Telephone System)

The third generation broadband mobile communications standard. UMTS utilizes CDMA technology and it has the speed and capacity to handle multimedia transmissions.

Contact Information

Sonera on the Internet: www.sonera.fi

Sonera's main offices

Head office

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Sonera Ltd

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191104 ST. PETERSBURG, Russia
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Telefax: +7 812 275 6712
www.sonera.ru

In Latvia

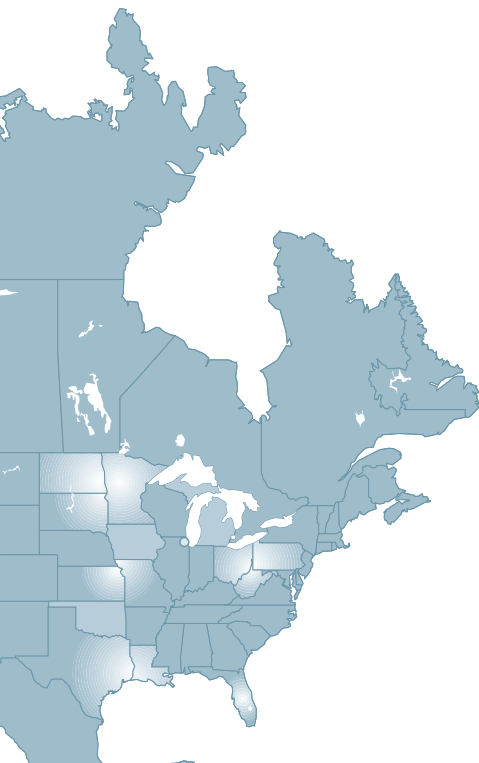
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Telephone: +1 773 714 4941
Telefax: +1 773 714 4910



Information for Investors

Annual General Meeting

The Annual General Meeting of Sonera Group plc will be held on Friday, April 23, 1999 at 1.00 p.m. at the Hartwall Arena, Areenakuja 1, Helsinki, Finland.

The deadline for registration to attend the meeting is 4 p.m. Finnish time, April 19, 1999. Shareholders can register either by sending a letter to the address Sonera Group plc, Legal Affairs, P.O.Box 106, FIN-00051 SONERA, Finland, by telefax to the number +358 2040 3414, by telephone to the number +358 2040 5730 or via Sonera's Internet pages: www.sonera.fi.

Attendance is open to shareholders who have been entered in the Company's Shareholders' Register which is kept by Finnish Central Securities Depository Ltd by April 16, 1999.

Dividend

The Board of Directors will propose to the Annual General Meeting the payment of a dividend of FIM 0.50 per share for the 1998 fiscal year. A dividend will be paid to shareholders who on the record date, April 28, 1999, have been entered in the Company's Shareholders' Register which is kept by Finnish Central Securities Depository Ltd. The Board of Directors will propose to the Annual General Meeting that the dividend be paid on May 5, 1999.

Changes of address

Shareholders are requested to make notification of changes in their personal particulars and address to the book-entry register in which they have a book-entry account.

Financial reviews

Sonera's Annual Report will be published in English, Finnish and Swedish. The Annual Report can be ordered from Sonera's Corporate Communications: telefax +358 2040 2032, telephone +358 2040 63364. Sonera's Annual Report is also available on the Internet and it can be ordered via the Internet, www.sonera.fi.

In 1999 Sonera will report on its financial performance on a quarterly basis. The Company's interim reports will come out on the following dates:

- Interim Report for January – March: April 26
- Interim Report for January – June: August 2
- Interim Report for January – September: October 25

Sonera will not publish printed interim reports but interim reports will be available in English, Finnish and Swedish on the Internet at the address www.sonera.fi or by telefax at the number +358 2040 2032.

The stock exchange and press releases which the Company publishes are also available on Sonera's Internet pages.

Investor relations

Samppa Seppälä, Corporate Communications
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Telephone: +358 2040 63416
Telefax: +358 2040 2032
e-mail: samppa.seppala@sonera.fi

The texts in the illustrations of this Annual Report tell about Sonera's new ways of working – its values – which were reviewed during the 1998 fiscal year.

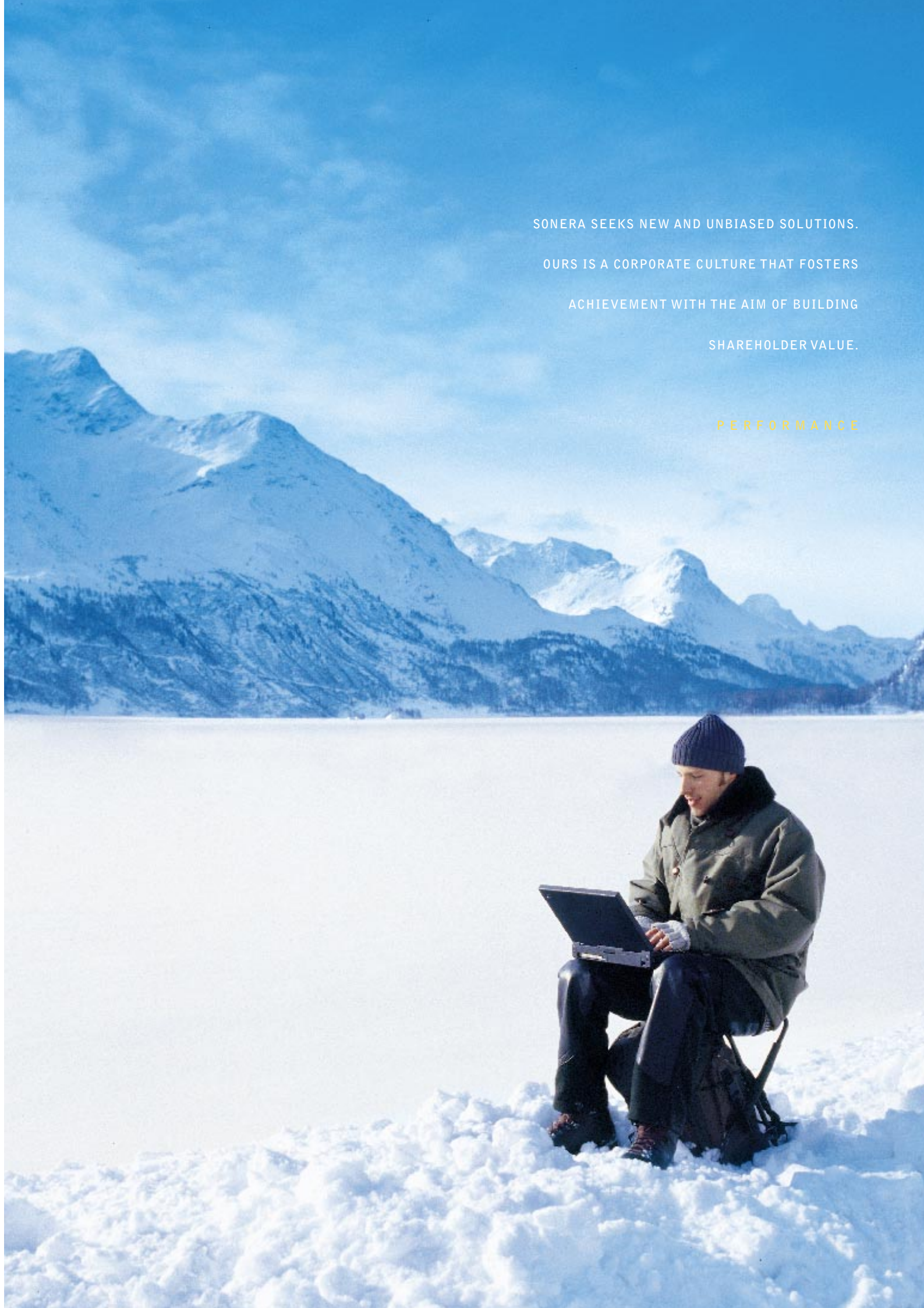
SONERA SEEKS NEW AND UNBIASED SOLUTIONS.

OURS IS A CORPORATE CULTURE THAT FOSTERS

ACHIEVEMENT WITH THE AIM OF BUILDING

SHAREHOLDER VALUE.

PERFORMANCE



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www.sonera.fi

Domicile: Helsinki, Finland
Trade register number: 740.009