TELIASONERA AB
Form 20-F
April 19, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

For the fiscal year ended December 31, 2003

Commission file number 000-50121

TeliaSonera AB

(Exact name of Registrant as specified in its charter)

Sweden
(Jurisdiction of incorporation)

Sturegatan 1, SE-106 63 Stockholm, Sweden
(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
American Depositary Shares	**Nasdaq National Market**
Shares, nominal value SEK 3.20	**Nasdaq National Market(1)**

(1) Not for trading, but only in connection with the registration of American Depositary Shares representing these shares, pursuant to the requirements of the Securities and Exchange Commission.

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

Indicate the number of outstanding shares of each of the registrant's classes of capital or common stock as of the close of the period covered by the annual report.

Shares, nominal value SEK 3.20: 4,675,232,069

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

Yes ý No o

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

Item 17 o Item 18 ý

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INTRODUCTION AND USE OF CERTAIN TERMS

TeliaSonera AB is a public limited liability company incorporated under the laws of Sweden. TeliaSonera was created as a result of the merger of Telia AB and Sonera Corporation in December 2002. Unless the context otherwise requires, as used in this annual report, (i) the terms "Group," "Company," "we," "our," "TeliaSonera" and "us" refer to TeliaSonera AB or TeliaSonera AB together with its subsidiaries depending upon the context; (ii) the term "Telia" refers to Telia AB or to Telia AB together with its subsidiaries depending upon the context, prior to December 3, 2002, and its subsequent name change to TeliaSonera and the merger of Telia and Sonera Corporation; and (iii) the term "Sonera" refers to Sonera Corporation or to Sonera Corporation together with its subsidiaries depending upon the context, prior to December 3, 2002, and the merger of Telia and Sonera.

We publish our consolidated financial statements in Swedish krona. This annual report contains our audited consolidated financial statements as of and for the years ended December 31, 2003, 2002 and 2001, which have been prepared in accordance with International Financial Reporting Standards, or IFRS/IAS. IFRS/IAS differ in certain respects from accounting principles generally accepted in the United States, or U.S. GAAP. For a discussion of the principal differences between IFRS/IAS and U.S. GAAP relevant to TeliaSonera, together with a reconciliation of net income and shareholders' equity reported under IFRS/IAS to net income and shareholders' equity under U.S. GAAP, see Note 45 to our consolidated financial statements.

Our financial statements included in this annual report include the results of Sonera and the Baltic companies UAB Omnitel, AB Lietuvos Telekomas and Latvijas Mobilais Telefons SIA as from December 3, 2002, the date at which each of these entities became consolidated subsidiaries of TeliaSonera.

In addition, we incorporate by reference in this document the consolidated financial statements of Netia S.A., previously one of our associated companies, as of and for each of the the years ended December 31, 2002 and December 31, 2001, as included in Netia S.A.'s annual report on Form 20-F that was filed with the Securities and Exchange Commission on June 27, 2003, and the consolidated financial statements of Netia S.A. as of and for the year ended December 31, 2003 as filed on Form 6-K with the Securities and Exchange Commission by Netia S.A. on March 1, 2004.

References in this annual report to "Swedish krona" and "SEK" are to the currency of Sweden. References to "euro," "euros," "€" or "EUR" are to the currency of the European Union's Economic and Monetary Union. References in this annual report to "U.S. dollar," "$" and "USD" are to the currency of the United States of America.

In this annual report, unless otherwise stated, Swedish krona amounts have been translated, solely for convenience, into U.S. dollars using the noon buying rate in New York City for cable transfers in Swedish krona, as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"), on December 31, 2003, which was SEK 7.1950 per $1.00 (SEK 1.00 per $0.1390). On March 31, 2004, the Noon Buying Rate for the Swedish krona was SEK 7.5500 per $1.00 (SEK 1.00 per $0.1324). These translations should not be construed as a representation that the U.S. dollar amounts actually represent, or could be converted into, Swedish krona at the rates indicated.

References in this annual report to "Nordic countries" are to Denmark, Finland, Norway and Sweden. References to the "Baltic States," the "Baltic countries" or "Baltic region" are to Estonia, Latvia and Lithuania.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "seek," "plan," "intend," "anticipate," "estimate," or "predict." These statements are based on current plans, estimates and projections, and, therefore, you should not place too much reliance on them. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

- risks and uncertainties with respect to our expectations about cost and capital expenditure savings and other synergy benefits related to the merger of Telia and Sonera;

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

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

- the outcome of legal and regulatory proceedings in which we are involved or may become involved;

- the effects of competition;

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

- the performance of Universal Mobile Telecommunications System (UMTS) networks and other new, enhanced or upgraded networks, systems, products and services;

- the success of our international investments;

- the amounts of future capital expenditures;

- the effects of potential mergers and consolidations within the telecommunications industry;

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

- other economic, business, competitive and/or regulatory factors affecting our business generally, including factors affecting the market for telecommunications services; and

- other factors that are described under "Item 3.D Risk Factors."

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A Selected Financial Data

Selected Consolidated Financial Data

The financial data set forth below as of and for the years ended December 31, 2003, 2002 and 2001 have been derived from our audited consolidated financial statements, which are included in Item 18 of this annual report. Financial data as of and for the years ended December 31, 2000 and 1999 have been derived from our previously published audited consolidated financial statements not included in this document. The financial data is based on our historical results, which include the results of Sonera and the new Baltic subsidiaries Omnitel, Lietuvos Telekomas and Latvijas Mobilais Telefons only for the period beginning December 3, 2002.

The audited consolidated financial statements, from which the selected consolidated financial data set forth below have been derived, have been prepared in accordance with International Financial Reporting Standards, or IFRS/IAS. For a discussion of the principal differences between IFRS/IAS and U.S. GAAP relevant to TeliaSonera, together with a reconciliation of net income and shareholders' equity reported under IFRS/IAS to net income and shareholders' equity under U.S. GAAP, see Note 45 to our consolidated financial statements.

You should read the following selected consolidated financial data in conjunction with the consolidated financial statements and "Item 5. Operating and Financial Review and Prospects," each included elsewhere in this annual report.

Solely for the convenience of the reader, Swedish krona amounts have been translated into U.S. dollars at the rate of SEK 1.00 = $0.1390 ($1.00 = SEK 7.1950), the Noon Buying Rate for the Swedish krona on December 31, 2003. On March 31, 2004, the Noon Buying Rate for the Swedish krona was SEK 1.00 = $0.1324 ($1.00 = SEK 7.5500).

	Year ended December 31,					
	2003	2003	2002	2001	2000	1999
	($)	(SEK)	(SEK)	(SEK)	(SEK)	(SEK)
	(in millions, except per share/ADS data)					
INCOME STATEMENT DATA						
IFRS/IAS						
Net sales	11,455.9	82,425	59,483	57,196	54,064	52,121
Costs of production	(6,489.0)	(46,688)	(38,182)	(40,435)	(33,028)	(31,206)
Gross income	4,966.9	35,737	21,301	16,761	21,036	20,915
Sales, administrative, and research and development expenses	(3,219.0)	(23,161)	(18,667)	(17,943)	(16,326)	(14,887)
Other operating revenues and expenses, net	243.5	1,752	(14,057)	506	8,493	(805)
Income from associated companies	53.1	382	528	6,136	(1,197)	723
Operating income	2,044.5	14,710	(10,895)	5,460	12,006	5,946
Financial net	(112.7)	(811)	(721)	(652)	(289)	34
Income after financial items	1,931.8	13,899	(11,616)	4,808	11,717	5,980
Income taxes	(535.1)	(3,850)	3,619	(2,917)	(1,447)	(1,754)
Minority interests	(134.7)	(969)	(70)	(22)	8	(4)
Net income (loss)	1,262.0	9,080	(8,067)	1,869	10,278	4,222
Earnings (loss) per share						
Basic	0.27	1.95	(2.58)	0.62	3.50	1.48
Diluted	0.27	1.95	(2.58)	0.62	3.50	1.48
Cash dividend per share(1)	0.14	1.00	0.40	0.20	0.50	0.52
Earnings (loss) per ADS(2)						
Basic	1.35	9.73	(12.91)	3.11	17.52	7.40
Diluted	1.35	9.73	(12.91)	3.11	17.52	7.40
Cash dividend per ADS(1)(2)	0.69	5.00	2.00	1.00	2.50	2.60

	Year ended December 31,					
	2003	2003	2002	2001	2000	1999
	($)	(SEK)	(SEK)	(SEK)	(SEK)	(SEK)
	(in millions, except margins, share and per share/ADS data)					
Operating margin (%)(3)	17.8	17.8	(18.3)	9.5	22.2	11.4
Return on sales (%)(4)	11.0	11.0	(13.6)	3.3	19.0	8.1
U.S. GAAP						
Net sales	11,410.6	82,099	59,336	56,957	53,849	51,931
Net income	1,477.1	10,628	(8,755)	4,443	9,991	4,218
Earnings (loss) per share						
Basic	0.32	2.28	(2.80)	1.48	3.41	1.48
Diluted	0.32	2.28	(2.80)	1.48	3.41	1.48
Earnings (loss) per ADS(2)						
Basic	1.58	11.38	(14.01)	7.40	17.03	7.40
Diluted	1.58	11.38	(14.01)	7.40	17.03	7.40
Weighted average number of shares outstanding (in thousands)						
Basic	4,667,618	4,667,618	3,124,289	3,001,200	2,932,757	2,851,200
Diluted	4,668,426	4,668,426	3,125,314	3,001,200	2,932,757	2,851,200
CASH FLOW DATA						
IFRS/IAS						
Cash flow from operating activities	3,675.2	26,443	12,449	10,416	10,152	10,715
Cash flow from investing activities	(478.5)	(3,443)	(5,553)	3,632	(37,121)	(10,701)

	Year ended December 31,					
Cash flow from financing activities	(2,281.0)	(16,412)	(10,344)	(6,608)	26,818	1,005
Cash flow for the year	915.7	6,588	(3,448)	7,440	(151)	1,019

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	At December 31,					
	2003	**2003**	**2002**	**2001**	**2000**	**1999**
	($)	**(SEK)**	**(SEK)**	**(SEK)**	**(SEK)**	**(SEK)**
	(in millions, except ratios)					
BALANCE SHEET DATA						
IFRS/IAS						
Intangible fixed assets	8,592.1	61,820	68,106	26,816	25,198	2,146
Tangible fixed assets	6,832.6	49,161	56,172	47,314	43,807	33,318
Financial fixed assets	5,845.9	42,061	48,534	20,784	22,335	18,023
Current assets	5,145.0	37,018	33,844	33,277	31,375	23,117
Total assets	26,415.6	190,060	206,656	128,191	122,715	76,604
Shareholders' equity	15,621.0	112,393	108,829	59,885	55,988	32,893
Minority interests	478.3	3,441	5,120	204	320	210
Provisions	2,126.1	15,297	18,406	13,107	11,351	10,488
Long-term debt	3,595.1	25,867	32,124	25,193	20,876	9,123
Current debt	651.4	4,687	12,608	3,931	13,166	6,934
Non-interest-bearing liabilities	3,943.7	28,375	29,569	25,871	21,014	16,956
Total shareholders' equity and liabilities	26,415.6	190,060	206,656	128,191	122,715	76,604
Capital employed(5)	19,768.6	142,235	157,035	90,971	92,374	50,936
Operating capital(6)	16,679.1	120,006	137,113	70,150	75,042	39,160
Net debt(7)	2,530.5	18,207	38,075	20,004	32,512	14,280
Net interest-bearing liability(8)	1,229.6	8,847	25,034	10,661	20,235	7,527
U.S. GAAP						
Total assets	27,906.5	200,787	217,464	132,495	123,689	77,974
Shareholders' equity	15,535.8	111,780	110,269	58,589	51,870	29,168
RATIOS						
IFRS/IAS						
Debt/equity ratio (multiple)(9)	0.08	0.08	0.23	0.18	0.37	0.24
Equity/assets ratio (%)(10)	56.7	56.7	51.8	46.2	44.4	41.0

(1) Dividends are declared and paid annually on the basis of income and retained earnings as of the end of the preceding year.

(2) Each American Depositary Share (ADS) represents five TeliaSonera shares.

(3) Operating margin is operating income expressed as a percentage of net sales.

(4) Return on sales is net income expressed as a percentage of net sales.

(5) Capital employed is total assets less non-interest-bearing liabilities and non-interest-bearing provisions, and the proposed dividend.

(6) Operating capital is non-interest-bearing assets less non-interest-bearing liabilities, including the proposed dividend, and non-interest-bearing provisions.

(7) Net debt is interest-bearing liabilities less short-term investments and cash and bank deposits.

(8) Net interest-bearing liability is interest-bearing liabilities and provisions less interest-bearing assets, but including equity participations in associated companies.

(9)
Debt/equity ratio is net interest-bearing liability divided by equity (less the proposed dividend).

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

Currency and Exchange Rate Information

We present our financial statements in Swedish krona. A significant portion of our revenues and expenses is denominated in the Swedish krona and a portion is denominated in currencies other than the Swedish krona. The table below sets forth, for the periods and dates indicated, the average, high, low and period-end Noon Buying Rates for the Swedish krona expressed in Swedish krona per U.S. dollar.

Other than for the monthly information, the average Noon Buying Rates have been calculated based on the Noon Buying Rate for the last business day of each month during the relevant period. This information is being provided to you for your convenience. These are not necessarily the rates that were used in the preparation of our financial statements and we do not make any representation that Swedish krona amounts could have been converted into U.S. dollars at the rates shown or at any other rate for such periods or at such dates.

Solely for the convenience of the reader, certain Swedish krona amounts in this annual report have been translated into U.S. dollars at the Noon Buying Rate on December 31, 2003, which was $1.00 = SEK 0.1390.

Swedish Krona Exchange Rate

Year	Average	High	Low	Period End
	(Swedish Krona per U.S. Dollar)			
1998	7.9658	8.3350	7.5800	8.1030
1999	8.3007	8.6500	7.7060	8.5050
2000	9.1735	10.3600	8.3530	9.4440
2001	10.3425	11.0270	9.3250	10.4571
2002	9.7233	10.7290	8.6950	8.6950
2003	8.0828	8.7920	7.1950	7.1950
October 2003	7.6957	7.8140	7.5970	7.8140
November 2003	7.6799	7.9150	7.5200	7.5510
December 2003	7.3464	8.2980	7.1950	7.1950
January 2004	7.2334	7.4120	7.0850	7.4120
February 2004	7.2630	7.4330	7.1295	7.4330
March 2004	7.5322	7.6620	7.3660	7.5500

3.B Capitalization and Indebtedness

Not applicable.

3.C Reasons for the Offer and Use of Proceeds

Not applicable.

3.D Risk Factors

Set forth below is a description of factors that may affect our business, results of operations and share price from time to time.

Increased competition may reduce our market share, revenues or profitability.

We face intensifying competition, especially in the Nordic market. Competition could lead to a decrease in the rate at which we gain new customers and to a decrease of our market share if customers decide to switch to other providers. Increased competition has also led to declines in the prices we charge for our services and is expected to lead to further price declines in the future, especially in our mobile services. As the largest telecommunications operator in many markets in which we operate, we may be at a competitive disadvantage in responding to changes in the market and technological developments when compared to our typically smaller competitors.

We have, for example, experienced significant price competition in mobile voice services from new market entrants such as Hi3G Access AB (operating under the brand name "3"), which owns UMTS licenses in Sweden, Norway and Denmark, and expect to experience increasing competition from such new entrants. We are also experiencing increased competition from non-traditional operators, including Mobile Virtual Network Operators (MVNOs), which are telecommunications service providers that typically do not own their own network infrastructure but, rather, lease capacity from network operators.

As mobile penetration rates increase in the markets in which we provide mobile services, the focus of competition is shifting from customer acquisition to customer retention. An inability on our part to retain customers could negatively affect our profitability, since we would experience lower revenues and would incur additional selling and marketing costs to replace customers.

With the continuation of the trend of traditional users of fixed network services switching to mobile phone services, a trend sometimes referred to as fixed-mobile substitution, our fixed network businesses are also expected to face increased competition from mobile operators. Moreover, new forms of telecommunications that do not use conventional tariff structures, such as Internet telecommunications, are expected to increase the sources of competition that we will face.

Additionally, new competition in fixed voice access in Sweden, which represents approximately ten percent of our consolidated net sales, could reduce our revenues and profitability. We currently have approximately 100 percent of the consumer fixed voice access market in Sweden due to our history as the incumbent operator, but new legislation adopted in 2003 will open up the fixed voice access market for competition, which may reduce our revenues. In the domestic fixed voice traffic market, we experienced a significant drop in our market share, from 100 percent to approximately 50 percent today, after such market was opened up to competition in Sweden. As the trend of fixed-mobile substitution continues, we also face a risk that the overall fixed access market will decline, as users may opt to use mobile services exclusively.

In the Baltic region, we already experience strong competition from rival GSM operators and expect that both our mobile and fixed line operations will lose market share as regulation favoring competition is adopted in line with European Union directives. The anticipated grant of additional GSM licenses in Turkey, Russia and certain Eurasian countries where we operate is also expected to increase competition in those markets.

Slower growth in the Nordic telecommunications market may negatively affect our revenues and profitability.

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

We operate in a regulated industry and changes in, or adverse applications of, the regulations affecting us could harm our business, financial condition and results of operations.

Our mobile and fixed line telecommunications operations are subject to regulatory and licensing requirements, either at the national level or at a transnational level, such as by the European Union. Implementation and application of these regulations are undertaken by one or more regulatory and competition authorities which, in their discretion, may challenge our compliance with the regulations. If we are found not to have complied with applicable regulations, we may be subject to damage awards, fines, penalties, injunctions or suspensions.

The regulations to which we are subject impose significant limits on our flexibility to manage our business. For example, in both Sweden and Finland, we have been designated as a party with significant

market power in certain markets in which we operate, including the fixed and mobile telecommunications markets. As a result, we are required to provide certain services on non-discriminatory, cost-based and transparent terms, which may differ from the terms on which we would otherwise have provided those services. Although we are appealing our designation as a mobile operator with significant market power on the Swedish national market for interconnection, there can be no assurance that the final outcome of the proceedings will be in our favor. In addition, the legislatures in the Baltic countries are revising their telecommunications legislations in connection with their entry into the European Union. We cannot assure you that we will not be subject to additional obligations relating to the services we provide in those countries as a result of such changes.

Additionally, the opening up for competition of fixed voice accesses in Sweden, which represent approximately ten percent of our consolidated net sales, could reduce our revenues and profitability. We currently have approximately 100 percent of consumer fixed voice accesses in Sweden due to our history as the incumbent operator, but new legislation adopted in 2003 will force us to sell our access services to other operators. We have submitted a proposal to the Swedish regulator in December 2003 to approve a plan whereby we would sell wholesale access at cost-based prices to other operators. If the Swedish regulator were to require that our wholesale pricing be set at levels below cost-based prices, our revenues and profitability could be negatively affected.

Changes in legislation, regulation or government policy affecting our business activities, as well as decisions by competition and other regulatory authorities or courts, including granting, amending or revoking of licenses to us or other parties, could harm our business, financial condition and results or operations. For example, both Sweden and Finland have adopted new laws that will significantly revise telecommunications regulation in those countries. In Finland, for example, mobile operators had to begin offering number portability by July 2003, which had a negative impact on our Finnish mobile operations in 2003. These changes may result in additional legal obligations for us, which may have a considerable adverse impact upon our business. As a result of potential changes in Finnish regulation, the current fixed to mobile price regime in Finland is also subject to change in the future. However, we are currently not in a position to assess the full impact of these changes on our business, financial condition or results of operations.

For further information regarding the regulatory regimes to which our business is subject, see "Item 4.B Business Overview Regulation."

We have only limited control of our associated companies.

We conduct some of our activities as a telecommunications operator outside of the Nordic region through associated companies in which we do not have a controlling interest, such as Turkcell Iletisim Hizmetleri A.S. in Turkey, OAO MegaFon in Russia, Lattelekom SIA in Latvia and AS Eesti Telekom in Estonia. As a result, we have limited influence over the conduct of many of our international operator businesses. Under the governing documents for certain of these entities, certain key matters such as the approval of business plans and decisions as to timing and amount of cash distributions require the agreement of our partners. The risk of disagreement or deadlock is inherent in jointly controlled entities. In 2003, for instance, we were involved in a dispute with Çukurova regarding its proposal to carry out certain affiliated party transactions with Turkcell. In Russia, certain shareholders of MegaFon are involved in a dispute relating to the ownership of a 25.1 percent interest in Megafon. Our partners may have different approaches with respect to the associated companies and we may be unable to reach agreement with our partners.

An important part of our strategy is to achieve majority control, where practical, in all of our operations by increasing our shareholdings in those associated companies which are telecommunications operators. The implementation of such strategy, however, is not always within our control, but requires, among other things, willingness on the part of other existing shareholders to dispose or accept dilution

of their shareholdings. In addition, to the extent we gain majority control of our associated companies, we cannot guarantee that we will be able to successfully manage such company or to achieve any expected synergy benefits.

In addition, the shareholding structure of our associated companies may change for reasons beyond our control. In Turkey, for example, regulatory actions affecting the Çukurova Group, the other major shareholder in Turkcell, may have an impact on the ownership structure of Turkcell, or may have a negative impact on our relationship or cooperation with the Çukurova Group. Additionally, any new partners may have strategies very different from ours. Because we do not have control of these entities, our partners may have the right to make certain decisions on key business matters with which we do not agree. In some cases, strategic partners may choose not to continue partnerships that they have with us. Any of these factors could impact our ability to pursue our stated strategies with respect to those entities and may harm our business, financial condition and results of operations.

The value of our investments in telecommunications companies outside of the Nordic and Baltic markets may be adversely affected by political, economic and legal developments in these countries.

We have made a number of significant investments in telecommunications providers with operations in countries such as Turkey, Russia, Azerbaijan, Georgia, Kazakhstan and Moldova. The political, economic and legal systems in these countries may be less predictable than in countries with more developed institutional structures. Political or economic upheaval, changes in laws and other factors, such as legal or regulatory proceedings brought against such companies, may have a material effect upon the operations of the companies in which we have invested and, in turn, the amount of income from, and the value of, these investments. Turkey, for example, has experienced severe political and economic crises in recent years, including periods of hyperinflation. In addition, the political situation in each of the Eurasian countries in which Fintur has operations remains unstable, with each of Azerbaijan, Georgia and Moldova facing regional separatist movements. Each of these nations is also experiencing financial difficulties, including weak local currencies and high external debt.

The more significant risks of operating in emerging market countries arise from the establishment or enforcement of foreign exchange restrictions, which could effectively prevent us from receiving profits from, or from selling our investments in, these countries. While none of the countries in which our international subsidiaries or associated companies are located currently have foreign exchange controls that affect them significantly, all of these countries have had such controls in the recent past and we cannot assure you that they will not reinstitute such controls in the future.

Another risk is the potential establishment of foreign ownership restrictions in the countries in which we operate. Recently, the Kazakhstan government proposed a 49 percent ownership limit restriction regarding Kazakh mobile operations. While such proposals were subsequently abandoned, we cannot assure you that similar legislative proposals will not be raised in Kazakhstan or elsewhere, which could require us to divest all or a portion of our investments in these countries.

Changes in the economic, political, legal and regulatory environment and in our business plans or the business plans of our associated companies could result in significant write-downs of asset values and could affect our ability to pay dividends.

Events in the telecommunications and technology markets, including significant declines in stock prices and market capitalizations of market participants, and negative changes in the economic, regulatory, business or political environment, as well as our ongoing review and refinement of our business plans could result in substantial write-downs of our assets in the future. In particular, we will regularly review the carrying value of assets such as the goodwill and fair value adjustments we recorded in connection with the merger of Telia and Sonera in 2002 as well as assets such as the goodwill we recorded in connection with our acquisition of NetCom, a Norwegian mobile operator, in

2000, our tangible fixed assets and our minority interests in companies such as Infonet Services Corp., a provider of data communications, and may also in the future be required to recognize impairment charges with respect to these assets if our expectations of future cash flows attributable to these assets change.

In addition, we have undertaken a number of restructuring and streamlining initiatives, including the restructuring of our Danish fixed network operations and the restructuring of our international carrier operations, which have resulted in substantial restructuring charges. While the restructuring efforts have already had a positive impact on our Danish and international carrier operations, there can be no assurance that these businesses will become profitable in the future, and we may be required to record write-downs of the assets related to these operations in the future.

Such potential write-downs may adversely affect our ability to pay dividends. Under Swedish law, the amount of dividends that we may pay is generally limited to profits and other non-restricted reserves available at the end of the preceding fiscal year for our parent company or for the consolidated group, whichever is lower. Any write-down of intangible or other assets will have the effect of reducing, or possibly eliminating, our non-restricted reserves that are available to pay dividends.

We and our associated companies are involved in a number of regulatory and legal proceedings that could have a material adverse effect upon our business, financial condition or results of operations.

We are involved in a number of regulatory proceedings in Sweden and Finland, which, if decided against us, could have a negative effect upon our results of operations. In addition, our associated company, Turkcell, is presently subject to a number of regulatory and legal proceedings relating to, among other things, license fees it pays to the Turkish authorities, interconnection fees it pays to the incumbent fixed-line provider in Turkey and national roaming, which could, if determined adversely to Turkcell, have a material adverse effect on its results of operations and financial position. Any adverse rulings against Turkcell in these matters could in turn have a negative effect upon the value of our investment in Turkcell and on our own results of operations.

We may not realize the benefits we expect to derive from our investments in licenses and new technologies, including UMTS.

We have made investments in UMTS licenses and have invested and expect to invest substantial amounts over the next several years in the upgrading and expansion of our network to support UMTS services and the roll-out of UMTS services. The success of our UMTS investments will depend to a large extent on the availability of services which utilize the greater capacity of UMTS technology and that will be attractive enough to customers to generate sufficient traffic volume, the costs associated with such services and the timing of the introduction of such services. We cannot be certain that these new services will achieve acceptance in the market, or that the demand for such services will justify the related costs to develop, upgrade and maintain our networks and to develop and promote these services. In addition, any delays in providing UMTS-based services, whether due to problems associated with suppliers of UMTS networks, difficulties in network construction, the unavailability of adequate UMTS-compatible handsets in sufficient supply, the lack of marketable services or otherwise, could adversely affect the level or timing of revenues generated by UMTS services.

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

third generation services. In addition, operators utilizing UMTS technology may face competition from other operators using other technological standards to deliver third generation services.

Under the terms of our UMTS licenses and the licenses of our international UMTS minority investments, we have agreed to make significant investments in UMTS networks. If we or our UMTS investees cannot fulfil the conditions under such UMTS licenses or obtain their modification, such licenses could be revoked or, in certain cases, we could be subject to monetary penalties.

In particular, we have significant ongoing investment and guarantee obligations in connection with our investments in Xfera Moviles S.A., our UMTS minority investment in Spain. There can be no assurance that any additional investments we make will assist Xfera in developing into a viable business or that we will not be required to make payments under the guarantees we have issued. For further information relating to our financial obligations in connection with our international UMTS joint ventures, see "Item 5.F Tabular Disclosure of Contractual Obligations."

We may experience difficulties or delays in realizing the anticipated benefits of the merger.

While we believe that the integration process of Telia and Sonera is substantially complete, it is still too early to tell whether we will be able to achieve the full level of expected synergies and other benefits of the merger within the expected timescale. Our competitors may also seek to take advantage of our focus on achieving synergy benefits to gain customers from us.

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

While we were not awarded a UMTS license in Sweden in connection with a license tender held by the Kingdom of Sweden in 2000, we have entered into a cooperation arrangement with Tele2 to build and operate a UMTS network in Sweden to exploit, through our 50 percent owned associated company Svenska UMTS-nät AB, the Swedish UMTS license originally granted to Tele2. TeliaSonera and Tele2 are significant competitors in both the mobile and fixed line telecommunications market in Sweden. As in any associated company, there is a risk that the partners may disagree on important aspects of the cooperation, including the funding of the company, and this risk may be magnified when the partners are competitors. A disagreement or deadlock regarding the company or a breach by one of the parties of the material provisions of the cooperation arrangements would result in a setback to the goal of building out and operating a UMTS network in Sweden, which, in turn, would have a negative effect on our ability to pursue our UMTS strategy. In addition, the current exemption for Svenska UMTS-nät from the prohibition against anti-competitive agreements included in the Swedish Competition Act will expire in 2007. Thereafter, a reassessment of the cooperation will be made from a competition law perspective. Accordingly, there can be no assurance that the Swedish Competition Authority will not in the future change its view on the cooperation, which could have a material adverse effect upon Svenska UMTS-nät and our operations.

In addition, we have made an aggregate capital contribution of SEK 500 million to Svenska UMTS-nät and have issued a guarantee of a maximum of SEK 3.5 billion in favor of Svenska UMTS-nät. We have also pledged our interest in Svenska UMTS-nät to its lenders. If Svenska UMTS-nät is unsuccessful, whether due to the failure of UMTS services to achieve market acceptance, its inability to build out the network in a timely fashion, disagreements between the parties or otherwise, we may face significant financial exposure with respect to our UMTS investment in Sweden.

As part of our strategy, we may seek to participate in the consolidation of the telecommunications industry through acquisitions, strategic alliances or business combinations. A failure to participate successfully in the consolidation of the industry could harm our business and our shareholders.

As part of our strategic focus, we aim to take an active role in the consolidation of the telecommunications services industry. This strategy entails a variety of risks that could negatively affect our business, our results of operations and our financial position. There is, on the one hand, the risk that, due to competition in the identification of acquisition opportunities or strategic partners, we will make an acquisition or enter into a strategic alliance on unfavorable terms. There is also the risk that we will not be able to successfully integrate and manage any acquired company or strategic alliance, that the acquisition or strategic alliance will fail to achieve the strategic benefits or synergies sought and that management's attention will be diverted away from other ongoing business concerns. In addition, any potential acquisition could negatively affect our financial position, including our credit ratings, or, if made using our shares, dilute our existing shareholders.

We are reliant upon a limited number of suppliers for the provision of support services.

We are reliant upon certain suppliers, of which there are a limited number, to manufacture and supply network equipment and related software as well as handsets in our markets, to allow us to develop our networks and to offer our services on a commercial basis. We cannot be certain that we will be able to obtain network equipment or handsets from alternative suppliers on a timely basis if our existing suppliers are unable to satisfy our requirements.

In addition, we currently outsource many of our key support services, including our network construction and maintenance and directory assistance services in Sweden and Finland, from a limited number of suppliers. In particular, in some cases, such as in connection with the sale of our entire interest in the Orbiant Group, we entered into commitments to purchase telecommunications network construction and maintenance services and certain other products and services from such divested or partially divested businesses, which may restrict our operational flexibility in the near future.

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

MegaFon, a GSM operator in Russia in which we hold a 43.8 percent interest, has significant capital needs and will have to secure additional financing if it is to implement its current strategy of becoming a provider of nationwide GSM services in Russia. In particular, MegaFon will need additional financing to build out its GSM network. We have made capital commitments to, and issued guarantees on behalf of, MegaFon. We may need to contribute additional capital to MegaFon and/or provide additional guarantees or offer forms of credit support to assist MegaFon in securing the necessary financing. If MegaFon is unable to secure such financing on satisfactory terms or if the Russian mobile market does not develop as expected, MegaFon might have to revise its strategic focus, which may adversely affect its growth prospects as well as the amount of income we derive from, and the value of, the company.

Certain of Megafon's principal shareholders are involved in disputes regarding the share ownership of Megafon. One of the shareholders of MegaFon has also brought arbitral proceedings against us for alleged breaches of MegaFon's shareholders' agreement. If the current shareholder deadlock is not resolved, the company may not be able to obtain financing necessary for its expansion from its shareholders.

Our consolidated revenues and profitability may decrease if the currencies used in our geographic areas outside of Sweden weaken against the Swedish krona.

A significant portion of our business is located outside of Sweden where the operations are conducted in currencies other than the Swedish krona. In addition, some of our associated companies, including Turkcell, operate under currencies that are relatively volatile and may therefore fluctuate greatly against the Swedish krona. Any loss in value of any such currencies against the Swedish krona will have a negative impact on the amount of income we derive from such operations, as reflected in our Swedish krona-denominated financial statements.

We may not be able to fully realize anticipated tax benefits resulting from earlier-recorded asset write-downs.

We have a significant deferred tax asset resulting from the write-down of Sonera's UMTS investments in Germany and Italy in 2002. Although we currently estimate that the deferred tax asset can be realized in seven to eight years under different scenarios, there can be no assurance of sufficient taxable income in Finland within this period. The major part of the deferred tax asset relates to tax loss carry-forwards in Finland, which expire after ten years.

In addition, we have recorded deferred tax assets principally in connection with write-downs related to our international carrier operations and our Danish operations in 2002. There can be no assurance, however, that we will be able to use these tax benefits in full to reduce our tax obligations in the future.

We may not be able to remain competitive and implement our strategy if we cannot recruit and retain skilled personnel.

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

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

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

stations, any of which could have a negative impact on our business, financial condition and results of operations.

We could be influenced by the Kingdom of Sweden and the Republic of Finland, whose interests may not always be aligned with yours.

The Kingdom of Sweden holds approximately 45 percent and the Republic of Finland holds approximately 19 percent of our shares. The Kingdom of Sweden and the Republic of Finland have, furthermore, agreed to consult each other with respect to voting on matters to be resolved by the shareholders at general meetings of the company. Accordingly, the Kingdom of Sweden, acting alone, may have and the Kingdom of Sweden and the Republic of Finland, if they should choose to act together, will have the power to influence matters submitted for a vote of shareholders, including the approval of the annual financial statements, declarations of dividends, capital increases in connection with acquisitions, investments and the election and removal of members of our board of directors. The interests of the Kingdom of Sweden and the Republic of Finland in deciding these matters and the factors they consider in exercising their votes could be different from the interests of our other shareholders.

The Kingdom of Sweden and the Republic of Finland may sell significant amounts of our shares and this could significantly depress the market price of our shares.

At the time of the merger, the Kingdom of Sweden and the Republic of Finland, which together hold approximately 64 percent of our shares, announced their intention to reduce their TeliaSonera shareholdings during the five-year period following the closing of the merger. Neither the Kingdom of Sweden nor the Republic of Finland is under any contractual commitment that would restrict their ability to sell any shares. It is currently not possible to assess the precise timing and manner of any future sales by the Kingdom of Sweden or the Republic of Finland of our shares. However, any sale by the Kingdom of Sweden or the Republic of Finland of a significant number of our shares, or the public perception that these sales could occur, may cause the market price of our shares to decline significantly and may also make it more difficult for us to issue new shares in the future.

ITEM 4. INFORMATION ON THE COMPANY

4.A History and Development of the Company

TeliaSonera

TeliaSonera AB was created as a result of the merger of Telia AB and Sonera Corporation in December 2002. The merger of Telia and Sonera brought together two of the leading telecommunications companies in the Nordic region to form the leading telecommunications group in the Nordic and Baltic regions. The formation of TeliaSonera in December 2002 was the culmination of a shared strategic vision of Telia and Sonera to create a leading telecommunications company in the Nordic countries.

Our new organization has been operational since January 1, 2003. As from January 1, 2003, we present segment information based on the following principally geographical-based reporting units: (1) Sweden, (2) Finland, (3) Norway, (4) Denmark (5) the Baltic countries, (6) Eurasia, (7) Russia, (8) Turkey, (9) TeliaSonera International Carrier, which comprises our international wholesale telecommunications operations, and (10) TeliaSonera Holding, which comprises our non-core/non-strategic operations to be restructured, wound up, liquidated or sold.

The shares of TeliaSonera are listed on the Stockholm Exchange and the Helsinki Exchanges and the ADSs of TeliaSonera are quoted on the Nasdaq National Market.

Our principal executive office is located at Sturegatan 1, SE-106 63 Stockholm, Sweden, and our telephone number is +46-8-504 550 00. Our agent in the United States is TeliaSonera International Carrier, Inc., 2201 Cooperative Way, Suite 302, Herndon, Virginia, 20171, and its telephone number is +1-703-546-4000.

For information regarding our principal divestitures and capital expenditures, see "Item 5.B Liquidity and Capital Resources Recent Acquisitions, Investments and Divestitures" and "Item 5.B Liquidity and Capital Resources Cash Flows."

Telia

Telia, the leading telecommunications company in Sweden, was originally managed directly by the Swedish State as a public service corporation, Televerket, beginning in the 1850s. In 1993, the Swedish State decided to transform Televerket into a state-owned public company through the transfer of Televerket's assets to TeleInvest AB, a limited liability company previously incorporated in 1966 that was subsequently renamed Telia AB. Telia AB became a public limited company in 1994. During the 1980s and 1990s, Telia developed from a near monopoly to a competitor in an open market for telecommunications.

Prior to June 2000, all of the shares of Telia were owned by the Swedish State. In June 2000, the Swedish State sold a 29.4 percent interest in Telia in an initial public offering to institutional and retail investors in Sweden and internationally. Telia's shares were quoted on the A-list of the Stockholm Exchange in connection with the offering. Prior to the merger of Telia and Sonera, the Swedish State held 70.6 percent of Telia's outstanding shares.

Sonera

Sonera, the leading telecommunications operator in Finland, originated as part of a state organization, the Telegraph Office of Finland, in 1917. Between 1935 and 1992, the Posts and Telecommunications of Finland, the successor to the Telegraph Office of Finland, was the only Finnish long distance and international call operator. The monopoly in long distance and international telephone services ended in 1992, when the Finnish Council of State began granting licenses to competing telephone operators.

Between 1990 and 1998, the Finnish State undertook a series of initiatives to make the structure of Posts and Telecommunications of Finland more market-oriented. This culminated in the creation of a separate telecommunications company, Telecom Finland Group plc, which eventually changed its name to Sonera Group plc in 1998. In 1999, Sonera Group plc and its principal operating subsidiary, Sonera Ltd., merged, with the merged entity assuming the name Sonera Corporation.

Prior to November 1998, all of Sonera's shares were owned by the Finnish State. In November 1998, the Finnish State sold a 22.2 percent interest in Sonera in connection with an initial public offering. In connection with the November 1998 offering, Sonera's shares were listed on the Helsinki Exchanges. Subsequent to the initial public offering, the Finnish State sold additional Sonera shares to institutional and retail investors on two separate occasions. In addition, Sonera's shares, in the form of ADSs, were quoted on the Nasdaq National Market beginning in 1999. Prior to the merger of Telia and Sonera, the Finnish State held 52.8 percent of Sonera's outstanding shares.

4.B Business Overview

We are the leading provider of telecommunications services in the Nordic and Baltic region. We are also a leading provider of mobile services in Eurasia and have significant holdings in leading mobile operators in Turkey and Russia. For the year ended December 31, 2003, our net sales amounted to SEK 82 billion and we had on average approximately 26,000 employees.

The following table sets forth a geographic breakdown of our mobile subscriptions, our fixed network access lines and our Internet subscriptions for our consolidated operations and for our associated companies as of December 31, 2003:

		Number of subscriptions			
	Operator brand	**Mobile(1)**	**Of which pre-paid**	**Fixed voice(2)**	**Internet**
		(in thousands)	**(%)**	**(in thousands)**	**(in thousands)**
Consolidated operations					
Sweden	Telia	3,838	52	6,256	1,222
Finland	Sonera	2,428	2	804	305
Norway	NetCom	1,195	48		
Denmark	Telia	525	33	172	104
Lithuania	Omnitel, Lietuvos Telekomas	1,052	34	829	60
Latvia	Latvijas Mobilais Telefons	534	25		
Eurasia	Kcell, Azercell, Geocell, Moldcell	2,385	84		
Total		11,957	44	8,061	1,691
Associated companies					
Latvia	Lattelekom			654	19
Estonia	EMT, Elion	478	38	445	57
Russia	MegaFon	6,175	36		
Turkey	Turkcell	19,000	75		
Total		25,653	65	1,099	76

(1) Excluding external service providers that operate in our networks

(2) Number of equivalent fixed network subscriptions

The following table sets forth our net sales by reporting unit for the year ended December 31, 2003, excluding Telia Mobile Finland, Telia's mobile business in Finland, and Com Hem, Telia's Swedish cable TV business, both of which have been sold:

Reporting Unit(1)	**Net sales**
	(SEK in millions)
Sweden	42,364
Finland	17,697
Norway	6,081
Denmark	3,278

Reporting Unit(1)	Net sales
Baltic countries	5,881
Eurasia	2,742
TeliaSonera International Carrier	4,892
TeliaSonera Holding	1,982
Corporate and eliminations	(3,145)
Total	81,772

(1) Our reporting units Russia and Turkey consist primarily of our interests in our associated companies MegaFon and Turkcell, respectively, which we account for under the equity method, and which do not affect our net sales.

Since the merger of Telia and Sonera in December 2002, we have substantially completed the integration of the two operations, implemented a new governance model, and at the same time reduced our cost and capital expenditure levels and improved our profitability significantly. Our efforts to gain synergies expected as a result of the merger have also progressed faster than planned at the time of the

announcement of the completion of the merger. See "Item 5.A Operating Results Synergies from the Merger."

Strategic Focus

Our principal strategic goals are:

Pursue Profitable Growth in Existing Markets. We are the leading telecommunications provider in the Nordic and Baltic region as well as a leading mobile operator in Eurasia, Turkey and Russia. Our main strategic focus is on further developing our position in these markets, where we remain committed to pursuing profitable growth.

Seek Majority Control of Associated Companies. As an important part of our strategy, we will seek, to the greatest extent practicable in light of the realities of the local markets, to increase our percentage ownership in our associated companies. We believe that obtaining a controlling interest in our operating companies is important, particularly in the Baltic region, to fully extract economies of scale, and to continue to develop our position in these markets in parallel with our position in the Nordic markets.

Fortify our Position in our Home Markets. We continue to view our home market as the Nordic and Baltic countries. In Sweden, Finland and in the three Baltic countries, we will continue to develop our offering of a full range of telecommunications services. In Norway and Denmark, we will continue to offer our customers a focused product portfolio. Our intention is to fortify our position in our home market by continuing to simplify our services and improving customer service. Our wide range of products and services, in combination with our broad customer base, lays the foundation for effective packaging and increased cross-selling of services. Through our strong local presence, we also aim at enhancing our pan-Nordic communications services.

Continue to Develop Innovative and Practical Services. We seek to continue to develop innovative service and product offerings in order to satisfy our customers' need for easy-to-use, practical services and to involve customers early on in the development process. We aim to make all of our products and services easy to understand, easy to buy and easy to use. In order to hone our competitive edge without endangering profitability, we will aim to continue to adapt our cost structures to market conditions in various customer segments.

Participate in the Consolidation of the European Telecommunications Service Industry. Our strong financial position, together with our experience in implementing a successful cross-border merger, provides a strong platform from which we aim to take an active role in the consolidation of the European telecommunications services industry. Our starting point is to build on or increase our strength in our Nordic and Baltic home market, if and when the right opportunity occurs. We only intend to pursue acquisitions that are value enhancing and fulfil our financial return requirements and which do not jeopardize our solid financial position.

Business Structure

Following the completion of the merger of Telia and Sonera, we regrouped our reporting units principally along geographical lines into: Sweden, Finland, Norway, Denmark, the Baltic countries, Eurasia, Russia, Turkey, TeliaSonera International Carrier and TeliaSonera Holding.

We operate as an integrated company with a high degree of central management which, among other things, exercises control of overall strategic issues, synergies and improvements within the different profit centers. Responsibility for profitability and day-to-day operations is, on the other hand, decentralized, and has been assigned to four geographic profit centers:

TeliaSonera Sweden,

TeliaSonera Finland,

TeliaSonera Norway, Denmark, Baltic countries, and

TeliaSonera International, which comprises Eurasia, Russia, Turkey and TeliaSonera International Carrier.

* Corporate Headquarters (which includes TeliaSonera Holding) ** Profit Centers

Our reporting unit TeliaSonera Holding is overseen by our Chief Financial Officer and included within Corporate Headquarters for management purposes.

The geographic profit centers have full operational responsibility and are responsible for customer satisfaction and profitability within their individual areas.

The profit centers TeliaSonera Sweden and TeliaSonera Finland have similar organizations. In these markets, where we offer a complete range of services, we have established four separate customer segments: Consumer, Business, Large Corporate Customers and Operators. The Consumer segment focuses on the consumer market, our Business segment is responsible for small and medium-sized companies, our Large Corporate Customer segment serves large companies and organizations, and our Operators segment targets service operators. The customer segments are responsible for the customer offerings as a whole and their task is to ensure both profitability and customer satisfaction within their own segment.

Within our profit centers TeliaSonera Sweden and TeliaSonera Finland, we have also established two functional units: (1) Products and Services and (2) Networks and Production, which have responsibility for our group-wide product range and our network platforms. The Networks and Production unit is also responsible for our Operators segment. In accordance with our commitments to the European Union, our network operations in Sweden and Finland are kept legally separated from our retail services business.

Within other geographic profit centers, our operations are organized based on our offerings in each market and vary according to the demands of the local market.

The geographic profit centers are responsible for all operational resources, including marketing, sales, product and service development as well as production and network operations. The profit centers make operational decisions within the framework of centrally established strategies, development plans and operational plans, and pricing, purchasing and investment priorities.

We have also established two Group-wide units: (1) Marketing, Products and Services and (2) Networks and Technology.

The Marketing, Products and Services unit has overall responsibility for our product and service development. This responsibility comprises objectives and strategies within the area and includes responsibility for common products and services, common research and development, brand strategies, price policies, pan-Nordic services and joint campaigns. The unit is also responsible for approving requested deviations from centrally determined plans. In an effort to enhance services to business customers in Sweden and Finland with substantial multinational operations, the Group-wide unit is also currently responsible for coordinating our activities and resources for approximately 20 of such

customers. The operational sales resources, however, fall under the responsibility of the geographic profit centers where revenues and costs are recorded for these customers.

The Networks and Technology unit has overall responsibility for our telecommunications platforms and IT systems as well as for purchasing and contracts with key suppliers.

Additionally, we have created several competence centers to focus on high-priority areas for our business. A competence center consists of specialists with expertise within a particular technology or product or service area. These include, for example, service competence centers focused on subscription products, messaging products and data networking solutions; business competence centers focused on billing, customer relationship management and enterprise resource planning systems; technical competence centers such as architecture and strategy, multiservice backbone and access and VPN; and sourcing competence centers taking care of the purchasing for the whole group. The competence centers are commissioned by the Group as a whole, but are organized under the geographic profit centers and serve to unify networks, products and services, which is essential for exploiting synergies. Competence centers provide data to the Group-wide units, which then establish strategies and development targets in different areas. The strategies and targets comprise the framework for the developmental efforts of the geographic profit centers, which is also where the costs for the competence centers are reported.

Sweden

Overview

We offer a wide range of services for businesses, consumers and organizations in Sweden and also provide wholesale services to operators and service providers. We do business on the retail market under the brands Telia and Halebop and market wholesale products under the brand Skanova. We also have extensive distribution channels in Sweden with our own customer service and retail shops, an Internet-based sales platform and a far-reaching network of resellers, from chain electronics stores to specialized retailers. We are the leader in Sweden within all our product areas. The Swedish market represented approximately half of our consolidated net sales in 2003.

Sweden has nearly nine million inhabitants. Swedish trade and industry is characterized by a large number of multinational companies and, like most developed western economies, the service sector makes up a large part of the gross domestic product (GDP). Competition on the Swedish telecommunications market is well-developed and penetration rates are high. According to our estimates, the penetration rates in Sweden at the end of 2003 were as follows: mobile communications approximately 98 percent of the population, fixed voice approximately 72 percent of the population, Internet access approximately 36 percent of the population and broadband access approximately 11 percent of the population. The Swedish fixed voice market is marked by intense competition. In recent years, there has also been a significant increase in pricing pressure in the mobile telecommunications and Internet/broadband market.

The Swedish telecommunications market continues to exhibit growth in the areas of mobile, broadband and advanced data communications. On the other hand, fixed voice services and traditional data services are declining, largely due to the migration from fixed to mobile communications and migration from traditional data communication capacity services to IP based network solutions.

Mobile Communications

We have the most extensive mobile communications network infrastructure in Sweden. Our GSM network covers nearly 100 percent of the Swedish population and 75 percent of the country geographically. Alongside the GSM network, we also operate an analog network with good coverage in the sparsely populated mountains and archipelagos of Sweden. In 2003, mobile communications represented 29 percent of our net sales in Sweden.

In 2003, we increased the number of mobile customers by 234,000 to 3,838,000 and the number of customers via service providers by 43,000 to 131,000. We strengthened our leading position on the Swedish mobile market and estimate that our market share at the end of 2003 was approximately 52 percent. Pre-paid subscriptions accounted for 53 percent of our GSM customers at the end of 2003. Our main competitors in the Swedish market are Tele2 and Vodafone.

Our average subscriber usage in Sweden decreased from 130 minutes per month in 2002 to 128 minutes in 2003, and our average revenue per user per month in Sweden decreased from SEK 277 in 2002 to SEK 272 in 2003, in both cases, principally due to the growing number of pre-paid subscriptions as a percentage of our total subscriptions.

We have access to one of four UMTS licenses awarded in Sweden through our network sharing agreement with Tele2. The network sharing agreement gives us access to the UMTS license held by Svenska UMTS-nät AB, a company we own jointly with Tele2. To secure future capacity for third generation services for the longer term, Svenska UMTS-nät intends to buy the Swedish license held by the mobile operator Orange. For a further discussion of our UMTS joint venture in Sweden, see "Item 10.C Material Contracts."

In March 2004, we launched third generation services commercially in Sweden. Our UMTS network currently covers more than 75 percent of the Swedish population. All of our Swedish GSM customers will have access to our UMTS network at no extra cost. At present, there are discussions going on between the third generation service operators and the Swedish authorities regarding the conditions of the UMTS licenses and we are actively working to achieve an understanding concerning the need for a proper balance between commercial and technical freedom in the introduction of third generation services in Sweden.

Fixed Communications

We are the leading provider of fixed communications in Sweden, including fixed access, fixed voice, wholesale, data, Internet and broadband communications.

During 2003, the number of our fixed voice subscriptions in Sweden fell by 126,000 to 5,432,000 and the number of our ISDN channel subscriptions dropped by 59,000 to 824,000. At the beginning of 2004, we acquired approximately 37,000 voice and Internet customers from the Nordic power company Fortum.

While we have gradually lost market share within the Swedish fixed voice market in recent years, we remain the leading provider in Sweden. We estimate that our market share in the Swedish fixed voice market (including the access market) was approximately 70 percent at year-end 2003. Our networks carry over 50 percent of Sweden's domestic fixed traffic and approximately 40 percent of its international traffic. Our main competitors within fixed voice are Tele2, Telenor, ACN, MCI Corporation, Glocalnet and Song Networks.

We are the leader in Sweden in both the dial-up Internet access and broadband access market, in which we estimate having a market share at the end of 2003 of approximately 44 percent. During 2003, our broadband customer base increased by 78,000 to 399,000 and our total Internet access customer base increased by 138,000 to 1,222,000 at the end of 2003.

The data communications market continues to evolve in Sweden, with integrated data network solutions based on Internet (IP) technology gaining customers at the expense of services based on traditional technologies. We estimate that our share of the data communications market at the end of 2003 was approximately 60 percent.

We own and operate one of six domestic nation-wide fixed networks in Sweden. We have the most extensive and sophisticated networks for fixed voice, data communications, Internet and broadband in Sweden. Our fixed local access network reaches essentially all households and businesses in Sweden and we can offer digital accesses to most of our customers. We have fibre-optic networks in all major cities in Sweden and a well-developed regional structure largely comprised of fibre-optic lines. We are also the leading network wholesaler in Sweden.

Finland

Overview

We are the leading telecommunications provider in the Finnish market, offering an extensive product portfolio under the Sonera brand. We are the leading provider in Finland of mobile, broadband and corporate data services and one of the three largest operators in fixed voice services. We distribute our services in Finland through our own sales force and customer service as well as through external resellers specialized in electronics and telecommunications. We distribute certain of our services in Finland in cooperation with IT companies and system integrators. Our main competitors are Elisa Communications and the Finnet Group, along with a number of smaller operators and IT providers.

Finland has well-developed trade and industry based on its traditional forestry, engineering and metal industries. The rapid-growth domestic telecommunications and electronics industries have taken a more prominent role in the last decade, however, and have expanded to employ an increasing share of the country's five million inhabitants.

Finland has an advanced telecommunications market with high penetration rates and usage of telecommunications services. According to our estimates, the penetration rates in Finland at the end of 2003 were as follows: mobile communications approximately 90 percent of the population, fixed voice approximately 50 percent of the population, consumer Internet access approximately 22 percent of the population and consumer broadband access approximately nine percent of the population. The Finnish mobile market is distinguished by its relatively low proportion of prepaid subscriptions and the fact that as many as 35 percent of households use only mobile communications.

On the Finnish telecommunications market, the growth in mobile subscription penetration witnessed in earlier years is subsiding, but there is a continuous growth trend in mobile services usage, both in voice and data services. Broadband Internet access services in Finland are exhibiting strong growth. Traditional fixed voice services in Finland have been marked by slow declines due to migration to mobile and broadband services.

Mobile Communications

We are the leading mobile operator in Finland, with a high-quality GSM network and a broad range of mobile services. Our GSM network covers 99 percent of the Finnish population and 97 percent of the geographic area. In 2003, mobile communications represented over 60 percent of our net sales in Finland.

In 2003, our mobile subscriptions in Finland decreased by 62,000 to 2,428,000, principally due to a decline in our consumer segment customers. On the other hand, the number of subscriptions of external service providers operating in our network increased by 142,000 to 177,000. In 2003, fewer than two percent of our mobile subscriptions were pre-paid subscriptions. We estimate that our market share of the Finnish mobile market at the end of 2003 was over 50 percent

In the Finnish market we compete principally with Radiolinja (Elisa) and DNA (Finnet), the largest Finnish providers having their own networks, as well as a number of service providers. Four of the Finnish mobile service providers, including the largest providers ACN and Saunalahti, buy capacity from our network. We hold one of four UMTS licenses in Finland, with the other three licenses being held by Radiolinja Origo, Suomen 3G Oy (owned by Tele2 AB) and Finnet Verkot Oy.

The implementation of number portability in Finland on July 25, 2003, led to intense activity on the market, leading operators to launch a wide range of special offers to tie in customers, including free airtime and giveaways. During the year, approximately 313,000 mobile customers switched operators.

Our average subscriber usage in Finland increased from 151 minutes per month in 2002 to 160 minutes in 2003, mainly due to the general trend of voice traffic moving from fixed to mobile. Despite increased usage, our average revenue per user per month in Finland decreased from €40.0 in 2002 to €39.2 in 2003, due in part to price erosion that outweighed the increase in usage of mobile voice and non-voice services.

To improve our competitive position, we launched Sonera One on October 1, 2003. Sonera One is a single-rate domestic calling and SMS service. In addition, to accelerate the launch of our high-speed mobile data services, we introduced EDGE (Enhanced Data rates for GSM Evolution) in the Finnish GSM network. EDGE is currently available in major urban areas, and it will increase the transmission rate of the network by two to three times compared to current high-speed mobile data services (General Packet Radio Service, GPRS). We are continuing to build and test our UMTS network in Finland and plan to open the network for commercial use as soon as the technology is sufficiently mature. We have launched precommercial UMTS network services in 18 localities in Finland and currently have over 1,000 users.

Fixed Communications

The local fixed communications market in Finland is extremely fragmented. Approximately 50 operators offer local voice on local networks within their own geographic areas. Most of these operators belong to Finnet Group or Elisa. Approximately ten providers offer domestic and international services in Finland, of which the five largest ourselves, Finnet Group, Song Networks, Saunalahti Group and Elisa have their own domestic transport networks.

Our local fixed networks were previously concentrated in the northern and eastern parts of Finland. In the beginning of 2003, our local networks covered 74 percent of the country geographically, but only 26 percent of the population. During 2003, we strengthened our local presence through the acquisition of Auria, a fixed network operator with a strong presence in south-western Finland. The acquisition gave us 126,000 new fixed-line equivalent subscriptions in Finland and our local networks now cover 31 percent of the Finnish population. The total number of fixed line equivalent subscriptions in our network in Finland was 804,000 at the end of 2003.

Our strategy in Finland is to offer a complete range of fixed line services for all customers within our own local network areas. Within other local areas, we act selectively and focus primarily on providing services to large corporate customers and business customers. We also offer long distance voice and international voice, and dial-up Internet services nation-wide. We only offer broadband Internet services in certain areas, including the Helsinki area.

In Finland, as in many other countries, the number of fixed voice subscriptions is falling as customers migrate to mobile communications. The acquisition of Auria, however, increased our number of voice subscriptions and we estimate that our market share of the total fixed voice market increased from 30 percent in 2002 to 32 percent in 2003. Within the Finnish domestic long distance and international calling market, our traffic market shares in 2003 remained stable at approximately 38 and 55 percent, respectively. We are also a major provider of traffic and network capacity on the Finnish wholesale market.

We are the leading provider of Internet access services on the Finnish market, with an estimated market share of approximately 32 percent. In 2003, the number of our broadband customers in Finland increased by 68,000 to 150,000.

Norway

We are the second largest mobile operator on the Norwegian market, where we offer a broad spectrum of mobile services through our wholly owned subsidiary NetCom. Norway has a population of approximately 4.5 million and a penetration rate of approximately 89 percent of the population at the end of 2003.

Our estimated mobile market share in Norway, where we compete principally with the incumbent provider Telenor, is approximately 30 percent. Our GSM network covers approximately 98 percent of the population. We, Telenor and 3 each have a UMTS license. Our 3G network is under construction, but we have not yet determined the timing of the launch for our 3G services.

Our mobile customer base in Norway increased by 107,000 in 2003 to 1,195,000 while the number of customers via our service providers remained unchanged at 90,000. Pre-paid subscriptions accounted for 48 percent of our Norwegian customers at the end of 2003.

Denmark

We offer both mobile and fixed services, cable TV services and broadband Internet access in Denmark. We offer mobile and fixed voice services under the Telia brand and cable TV and broadband services under the Telia Stofa brand.

Denmark has 5.4 million inhabitants. According to our estimates, the penetration rates in Denmark at the end of 2003 were as follows: mobile communications approximately 89 percent of the population, fixed voice approximately 67 percent of the population, and broadband access approximately 12 percent of the population.

We recorded growth in net sales and a significant reduction in our operating loss in Denmark in 2003 as compared to 2002.

Mobile Communications

In 2003, our mobile customer base in Denmark increased by 59,000 to 525,000 and we estimate that our share of the Danish mobile market was approximately ten percent. Our GSM network covers approximately 98 percent of the Danish population. We hold one of four licenses for 3G services in Denmark but have yet to commercially launch 3G services in Denmark.

The Danish mobile market is highly competitive. Our competitors include TDC, Sonofon, Orange and 3, each of which offer mobile services through their own networks. We also compete with a number of service providers, including Debitel and Telmore.

Fixed Communications

To improve profitability in our Danish fixed line operations, we restructured the business in 2003. We currently offer fixed voice subscriptions, pre-selection subscriptions and Internet access subscriptions to consumers and business customers. For business customers, we also offer a limited selection of data communications services, including IP-VPN. We are the third largest provider of fixed voice to end users, with 172,000 fixed line customers at the end of 2003.

Since we have a nationwide backbone network in Denmark, we also offer wholesale network services to operators and service providers. We are the second largest provider of fixed wholesale services in the Danish market.

We are Denmark's second largest cable TV operator with 195,000 cable TV customers at the end of 2003, and estimate that our share of this market was approximately 12 percent at the end of 2003. We also offer broadband Internet access. In 2003, the number of our broadband customers increased

by 23,000 to 104,000, making us the second largest broadband provider in Denmark with an estimated market share of 17 percent at the end of 2003.

The Baltic Countries

We made our first investment in the Baltic countries in 1991, and are currently the leading telecommunications company in the region. In the Baltic countries, we operate through both majority and minority owned companies, within both mobile and fixed communications, each of which are leaders in their markets.

All forms of telecommunications services in the Baltic countries are deregulated. Penetration rates in the Baltic countries for fixed communications are significantly lower than the European average, while mobile penetration rates are relatively high. GDP growth in the Baltic countries is among the highest in Europe, which has had a positive impact on the development of the telecommunications sector.

In 2003, we continued to develop our mobile operations in the Baltic countries and started to redirect our fixed line operations. With the slow-down in growth of the traditional fixed line business in the Baltic region, we have turned our focus to offering data communications, including Internet and broadband services, as well as reducing costs to increase our competitiveness.

An important part of our Baltic region strategy is to increase the ownership in our Baltic operators to enhance opportunities for synergies and economies of scale. In 2003, for instance, we purchased Motorola's interest in the Lithuanian mobile operator Omnitel and now hold 90 percent of the company. In addition, we recently made a public bid for the remaining shares of Eesti Telekom, an Estonian company in which we currently hold a 49 percent interest. The value of the bid for the remaining 51 percent, of which the Republic of Estonia holds an approximate of 27 percent, amounts to €500 million. Our bid is conditioned on us obtaining a minimum of 85 percent of the shares of Eesti Telekom and that the Estonian Competition Authority approves the transaction.

Lithuania

With a population of 3.5 million, Lithuania is the largest of the Baltic countries. According to our estimates, the penetration rates in Lithuania at the end of 2003 were as follows: mobile communications approximately 62 percent of the population, fixed line approximately 25 percent of the population, and broadband access approximately one percent of the population.

We offer telecommunications services in Lithuania through the mobile operator Omnitel, in which we hold a 90 percent interest, and the fixed line operator Lietuvos Telekomas, in which we hold a 60 percent interest. Omnitel has an estimated 50 percent share of the Lithuanian mobile market. In 2003, Omnitel increased its customer base by 202,000 to 1,052,000 customers.

Lietuvos Telekomas is the leading provider of fixed line telecommunications services in Lithuania. In 2003, the aggregate number of fixed voice customers of Lietuvos Telekomas fell by 107,000 to 829,000, while the number of Lietuvos Telekomas' broadband (ADSL) customers increased by 14,000 to 25,000. The decline in fixed voice customers was due to strong competition from the mobile sector, which also resulted in declines in price levels. We are currently working with Lietuvos Telekomas to restructure its operations and improve its operating performance. Lietuvos Telekomas is listed on the Vilnius and London stock exchanges.

Latvia

In Latvia, we offer mobile communications services through Latvijas Mobilais Telefons (LMT) and fixed line services through Lattelekom. We currently hold 60.3 percent of LMT, directly and indirectly, and 49 percent of Lattelekom.

Latvia has a population of 2.4 million. According to our estimates, the penetration rates in Latvia at the end of 2003 were as follows: mobile communications approximately 52 percent of the population, fixed line approximately 31 percent of the population, and broadband access approximately one percent of the population.

Both LMT and Lattelekom are the largest operators in Latvia in their respective markets, with estimated market shares at the end of 2003 of 48 and 99 percent, respectively. LMT's main competitors are Tele2 and Zetcom, while Lattelekom faces limited competition from small Internet service providers, cable TV operators and energy companies.

In 2003, LMT increased its customer base by 87,000 to 534,000. LMT began offering GPRS services in 2003 and expects to launch commercial 3G services in 2004. In 2003, the aggregate number of fixed voice customers of Lattelekom fell by 47,000 to 654,000, while the number of Lattelekom's broadband (ADSL) customers increased by 9,000 to 19,000. In 2003, Lattelekom successfully carried out a cost reduction program and increased its efforts to develop its Internet and data communications services.

Estonia

In Estonia, we offer mobile services through EMT and fixed line services through Elion. The companies are wholly owned by Eesti Telekom, in which we hold a 49 percent interest and have made a bid for the remaining 51 percent. Eesti Telekom is listed on the Tallinn and London stock exchanges. Both EMT and Elion are the largest operators in Estonia in their respective markets. To further strengthen their competitive position, EMT and Elion have coordinated their distribution channels and put together a joint customer offering.

Estonia is the smallest country in the Baltic region with a population of 1.4 million. According to our estimates, the penetration rates in Estonia at the end of 2003 were as follows: mobile communications approximately 77 percent of the population, fixed line approximately 33 percent of the population, and Internet and broadband access approximately 15 percent of the population.

In 2003, EMT increased its customer base by 50,000 to 478,000. We estimate that EMT had a market share of approximately 47 percent in Estonia at the end of 2003. Its main competitors are Tele2 Eesti and Radiolinja Eesti. EMT is a forerunner in creating new, innovative mobile services. For example, in 2003 EMT introduced services that enable customers to pay for local transportation, parking and other types of services. EMT holds one of three 3G licenses in Estonia and expects to launch commercial 3G services in 2005. It is expected that Estonia will auction a fourth 3G license during 2004.

In 2003, Eesti Telefon reprofiled itself and changed its name to Elion. In 2003, the aggregate number of Elion's fixed voice customers fell by 20,000 to 445,000, while the number of Elion's broadband (ADSL) customers increased by 19,000 to 49,000. We estimate that Elion has a market share of over 80 percent of the Estonian market. Elion's main competitors are Uninet and Tele2.

Eurasia

Fintur, in which we have a direct and indirect 74 percent interest, operates in four Eurasian markets: Kazakhstan, Azerbaijan, Georgia and Moldova. All four countries have low telecommunications penetration rates, and thus present good growth opportunities, especially in the mobile sector. At the end of 2003, Fintur had 2.4 million mobile customers, which represents an increase of 48 percent from year-end 2002. Fintur's other major shareholder is Turkcell, our associated company in Turkey.

Kazakhstan

Kazakhstan, the world's ninth largest country by geographic area, which has almost 16 million inhabitants, is Fintur's largest market, accounting for 49 percent of Fintur's net sales in 2003. In Kazakhstan, Fintur owns 51 percent of the country's leading mobile operator, KCell, which had a market share of over 70 percent at the end of 2003. At the end of 2003, KCell had 990,000 customers, an increase of 61 percent from year-end 2002. Kcell has the most extensive network coverage of the three mobile providers operating in the country. KCell was the first operator to introduce high-speed mobile data services (GPRS) and MMS in Kazakhstan.

Azerbaijan

Fintur owns 51.3 percent of Azercell, the leading operator in Azerbaijan, with a market share of approximately 86 percent at the end of 2003. At the end of 2003, Azercell had 912,000 customers, an increase of 36 percent from year-end 2002. Azerbaijan, with a population of eight million, has one of the highest mobile penetration rates, estimated at 13 percent of the population at the end of 2003, among the former Soviet republics. Azercell has an extensive network that covers 95 percent of the population in Azerbaijan. Azercell expects to launch MMS and GPRS services in 2004.

Georgia

Fintur owns 83.2 percent of Geocell, which is the second largest mobile operator in Georgia with an estimated market share of approximately 44 percent at the end of 2003. At the end of 2003, Geocell had 307,000 customers, an increase of 55 percent from year-end 2002. Geocell's goal is to overtake the subscriber levels of the leading mobile operator in Georgia, Magticom, in the near future.

Moldova

Fintur holds 100 percent of Moldcell, which has an estimated share of the Moldovan market of approximately 50 percent. The other provider operating in Moldova is Voxtel. At the end of 2003, Moldcell had 176,000 customers, an increase of 33 percent from year-end 2002. Moldcell plans to launch GPRS services and MMS in 2004. At the end of 2003, Moldova had approximately 3.5 million inhabitants (excluding Transnistria).

Russia

We have a combined direct and indirect 43.8 percent interest in MegaFon, the third largest mobile operator in Russia. The mobile communications market in Russia has continued to grow rapidly, as evidenced by an increase in the penetration rate level from 12 percent of the population at the end of 2002 to 25 percent at the end of 2003. At the end of 2003, MegaFon had approximately 6.2 million customers in Russia, an increase of approximately 100 percent as compared to year-end 2002.

MegaFon is a pan-Russian operator mainly concentrated in the St. Petersburg region, Moscow, the Caucasus in the Southern Region, the Volga region, and the Urals. MegaFon's nationwide GSM licenses, covering all of Russia's 89 regions, provide MegaFon access to a total population of about 145 million. MegaFon had an estimated market share of 17.5 percent in Russia at the end of 2003. The company's strongest position is the northwestern part of Russia, where its market share exceeds 50 percent. Following the launch of services in Siberia at the end of 2003 and in the Far East in March 2004, MegaFon now has commercial operations in all major regions in Russia. MegaFon's main competitors, both pan-Russian, are MTS and Vimpelcom, in which the largest foreign owners are Deutsche Telekom and Telenor, respectively.

MegaFon's strategy is to maintain its leading market position in the northwestern region, strengthen its position in Moscow and in the North Caucasus region, and expand operations and gain

market share in other regions. We aim to achieve majority control in MegaFon by increasing our shareholding in the company to the extent reasonably practicable and in keeping with our overall strategic goal of profitable growth.

In 2003, MegaFon introduced MMS, GPRS and other advanced services, including positioning services in Moscow and St. Petersburg. MegaFon aims to launch more advanced services as the market matures.

In August 2003, Alfa-Eco Group announced it had acquired a 25.1 interest stake in MegaFon through CT Mobile. In the autumn of 2003, IPOC International Growth Fund Ltd., the owner of 6.5 percent of MegaFon's shares, announced that it had a priority interest in the shares Alfa-Eco Group allegedly acquired and initiated legal proceedings asserting its right to the shares claimed by the Alfa-Eco Group. TeliaSonera is not a party in these disputes. In 2003, IPOC also brought arbitral proceedings against us for alleged breach of the shareholders' agreement relating to MegaFon. Until these shareholder issues are resolved, it may be difficult for MegaFon to seek outside financing for its growth plans.

Turkey

We have a direct and indirect 37.3 percent interest in Turkcell, the largest mobile operator in Turkey. The mobile communications market in Turkey continues to grow, as evidenced by an increase in the penetration rate level from 35 percent of the population at the end of 2002 to 40 percent at the end of 2003. At the end of 2003, Turkcell had approximately 19 million customers, an increase of approximately 3.3 million as compared to year-end 2002. Turkey has 71 million inhabitants.

The other major shareholder is Cukurova Group, an industry conglomerate in Turkey, which has a 41.8 percent interest in Turkcell. In 2003, we had a dispute with Cukurova regarding its proposal to carry out certain affiliated party transactions with Turkcell and the subsequent attempt by a Cukurova-nominated statutory auditor to change the composition of Turkcell's board of directors. We successfully opposed these initiatives and have continually aimed to adopt an appropriate corporate governance model for Turkcell. In line with our overall strategic goals, we will seek to obtain a controlling interest in Turkcell to the extent reasonably practicable and in keeping with our overall strategic goal of profitable growth.

Under the terms of its GSM license, Turkcell is obligated to pay an ongoing license fee, equal to 15 percent of its monthly gross revenues, to the Treasury of Turkey. The license also gives the Turkish Ministry of Communications certain powers to set and approve charges for GSM services provided by Turkcell. Separately, since 1999, Turkcell has also been obligated to charge subscribers a 25 percent communications tax on behalf of the Turkish government.

Turkcell offers a wide range of services, including high-speed mobile data service (GPRS) and MMS. The GSM network covers practically all areas in the country with significant numbers of inhabitants. Turkey has not yet made any firm announcements regarding the granting of UMTS licenses. Turkcell currently faces competition from Telsim and TT&TIM.

In late 2003, Turkcell decided to establish a new subsidiary in the Ukraine with a local partner which has a nationwide GSM 1800 license. In early 2004, the Turkcell-led consortium won a nationwide GSM 900/1800 license tender in Iran. The consortium expects to be awarded the license upon the payment of the license fee of €300 million and the signing of a license agreement with the regulatory authorities in Iran.

Turkcell is presently subject to a number of legal and regulatory proceedings that may have a material adverse effect on its business, financial condition and results of operations, which could, in turn, have a negative impact on our results of operations. See "Item 8.A.7 Legal and Regulatory Proceedings."

International Carrier

We are one of the leading providers of wholesale services on the European market. The merger of Telia and Sonera strengthened our position in the Nordic and Baltic regions and in the western part of Russia, where we are the largest provider of wholesale services. We also have a strong position in the wholesale telecommunications market in Central and Western Europe and with respect to trans-Atlantic traffic.

We offer international IP, capacity and voice services on a wholesale basis. We provide services principally to larger operators, service providers and system integrators that demand international wholesale telecommunications products. Our services are based on our international infrastructure, the Viking Network, which has been adapted for sophisticated broadband communications and offers connections to selected international traffic aggregation points in Europe.

Our wholesale IP services include data transit services featuring three options: (1) GlobalConnect with full access to the global Internet, (2) EuroConnect with access to European destinations only, and (3) ContentConnect with access to our directly connected Internet customer networks. We are also the first non-U.S. IP provider to offer a direct connection to the largest global Internet networks (global Tier 1 networks).

Our capacity services include SDH services, wavelength services and Ethernet services.

Our voice services include Premium Voice, which is a high quality voice service. We offer voice connections to operators using both the traditional bilateral volume service and trading services on the spot market. We offer direct international voice services to over one hundred destinations and are a successful trader in international voice minutes.

Former Telia's carrier operations were restructured in 2003, at which point we trimmed the focus of the business to concentrate on sales of IP, voice and capacity services on the profitable part of our wholly owned network in Europe and across the Atlantic. As a result of the restructuring, the profitability of our carrier operations improved substantially in 2003. Net sales, however, decreased in 2003 due to the phase-out of our Asian operations, our domestic capacity operations in the United States and our domestic voice reseller operations in the United Kingdom and Germany.

The carrier market was characterized by continued uncertainty in 2003. We expect current market conditions to prevail during 2004, with continued volume growth and substantial price erosion due to surplus capacity on the market. Our objective is to be the European international wholesale carrier of choice and a profitable provider of wholesale services.

TeliaSonera Holding

TeliaSonera Holding is responsible for the management of our non-core/non-strategic operations. Currently, TeliaSonera Holding manages approximately 200 investments, including investments in subsidiaries, associated companies and other minority holdings.

Our overall goal is to restructure, wind up, liquidate or sell all or a portion of our interest in the businesses managed by TeliaSonera Holding. In addition, we may also from time to time transfer non-core businesses from our profit centers to be managed by TeliaSonera Holding.

Some of the most significant companies managed by TeliaSonera Holding, in terms of annual revenues and customers, are the following:

Telefos Group, in which we have a 49 percent interest, includes *Swedia Networks AB* and *Validation AB*, among other companies. Swedia is a telecommunications construction company and Validation is a company that specializes in the testing and integration of products and product support systems. In 2003, the Telefos Group had net sales of SEK 4,258 million.

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Sonera Zed is a wholly owned international mobile services business. Zed's entertainment and information services are currently available through mobile operators in six countries. Zed recorded net sales of approximately SEK 750 million for the year ended December 31, 2003, mainly from SMS based services.

Sähkötaso, Veikon Kone and *Turun Konemyynti* are part of the Auria Group of companies, in which we acquired a majority interest in 2003. These three companies operate a chain of 17 retail stores in Finland that sell home electronics products and services including telecommunications services and equipment. In 2003, these three companies recorded total net sales of SEK 576 million.

SmartTrust AB specializes in providing infrastructure software for managing and securing wireless services. SmartTrust's main customers are wireless operators. SmartTrust recorded net sales of SEK 296 million for the year ended December 31, 2003, mainly from licensing fees. We hold a 46 percent interest in SmartTrust.

Unite AB, our wholly owned subsidiary, develops and maintains security services, including risk management, information security and fire protection. In 2003, Unite had net sales of SEK 137 million. Currently, TeliaSonera accounts for approximately 80 percent of Unite's annual net sales.

We presently maintain significant and continuing commercial and financial relationships with some of the companies in which we have sold our interest in part or entirely. We also have commitments to purchase pre-determined levels of products and services from some of these companies. See "Item 7.B Related Party Transactions."

In addition, TeliaSonera Holding manages our non-core investments in several telecommunications companies outside our home market. These include the following:

Infonet Services Corporation. We hold an approximate 20 percent shareholding in Infonet, a leading provider of cross-border managed data communications. Infonet provides nearly 3,000 companies worldwide with data communication services.

International Portfolio of Overseas Telecom AB. Overseas Telecom, an associated company in which we control 42 percent of the voting power, currently holds interests in mobile and fixed line operators in Namibia, Sri Lanka and Uganda, and seeks to sell these holdings.

European UMTS minority investments. We have made investments, together with partners, in UMTS licenses in Germany, Italy and Spain. We have previously written off the carrying values of these investments. We have also taken a number of steps to limit our future financial exposure to our UMTS investments. We have certain remaining commitments in relation to our European UMTS investments. See "Item 5.F Contractual Obligations."

Networks and Infrastructure

GSM Network

As of December 31, 2003, our GSM network had the following coverage in the Nordic countries:

Sweden: approximately 99 percent of the population,

Finland: approximately 99 percent of the population,

Norway: approximately 98 percent of the population, and

Denmark: approximately 98 percent of the population.

UMTS Network

We have UMTS licenses in Finland, Norway and Denmark, and access to a UMTS license in Sweden through our network sharing agreement with Tele2. In the Baltic countries, we have a UMTS license in Latvia and our associated company AS EMT has a UMTS license in Estonia. No UMTS licenses have yet been issued in Lithuania.

Our network sharing agreement in Sweden, established in 2001, gives us access to the UMTS license of our Swedish associated company, Svenska UMTS-nät. In March 2003, Svenska UMTS-nät requested the Swedish regulators to amend its UMTS license by pushing back the date by which our and Tele2's UMTS network must be completed. Svenska UMTS-nät has cited the difficulty in receiving required building permits and the unavailability of key UMTS technology as the primary reasons for its request. In March 2004, we launched third generation services commercially in Sweden. Our UMTS network currently covers more than 75 percent of the Swedish population and our build-out continues according to plan. To secure future capacity for third generation services, Svenska UMTS-nät has also expressed its willingness to acquire Orange's UMTS license, following Orange's decision not to build a UMTS network in Sweden.

In Finland, we opened our UMTS network for technical testing in January 2002. We have also launched pre-commercial UMTS network services in Finland in main cities and currently have over 1,000 users. We expect to open the UMTS network for commercial use as soon as the handset technology is sufficiently developed.

We have not yet determined the timing of the launch for our third generation services in Norway and Denmark. We expect to launch third generation services in Latvia during 2004.

Development Plan

We view the further development of our networks in the Nordic countries as an ongoing process. We intend to continue building new base stations, adding capacity to existing base stations and updating the technology and functionality of our existing networks in the Nordic countries to meet customer demands regarding coverage, capacity and quality. In addition, we have installed a number of base stations to improve the quality of our network coverage within the offices and production facilities of some of our major corporate customers.

The implementation of GPRS, EDGE, UMTS and WLAN technology is expected to enable mobile networks to transfer data at sufficient speed to support a wide range of data and media applications. We are actively evaluating the possible applications and services that such technologies will enable. For example, in Finland, we introduced EDGE (Enhanced Data rates for GSM Evolution) in the GSM network to speed up the traditional GPRS (General Packet Radio Service) transmission rates and to accelerate the launch of our high-speed mobile data services. EDGE is currently available in major urban areas in Finland. EDGE increases the transmission rate by up to two or three times the rates achieved by current high-speed mobile data services. We will also continue to build WLAN (Wireless Local Area Network) as a complement to UMTS and other mobile data solutions for Intranet/Internet access and other services. WLAN is a wireless broadband technology that links the user to a local area network.

We plan on adding additional value added service nodes, to the extent economically beneficial, to our network. We intend to develop our infrastructure in such a way that our services can be reached via a wide array of accesses, such as GSM, UMTS and WLAN. We are also participating in the development of a seamless switch between the networks such that a user will not notice when his or her terminal moves from one network to another.

Fixed-line Infrastructure

We believe that our Swedish and Finnish networks are among the most technologically advanced fixed line networks in the world. Our Swedish and Finnish fixed line networks feature:

- All-digital transmission, with regional and trunk transmission based mostly on fiber optic cable infrastructure, which features Synchronous Digital Hierarchy (also known as SDH, the European standard for high speed digital transmission using fiber optic cables) transmission systems and DWDM (Dense Wavelength Division Multiplexing) transmission systems;
- All-digital local, trunk and international switching with wide access to ISDN;
- IP/Ethernet network;
- Wide broadband access; and
- ATM and Frame Relay Network.

SDH allows for enhanced reliability. Through the use of a stand-by national network and restoration system and self-healing local rings, the SDH optical network is protected against cable failures.

DWDM technology provides an effective platform for SDH, IP and wavelength services. DWDM is a transmission technique that is capable of operating at transmissions speeds of up to 10 Gbps and is expected in the future to be able to operate at speeds of up to 40 Gbps, multiplying the fiber cable capacity.

Our existing local networks in Sweden and Finland are fully digitalized. As of December 31, 2003, we had the capability to provide approximately 93 percent of end-users in Sweden and 99 percent of the end-users in Finland in areas where we have our own local network, with ISDN access.

At the end of 2003, there were 823,000 dial-up and 399,000 broadband subscriptions connected to our Swedish network, and approximately 155,000 residential dial-up and 150,000 broadband subscriptions connected to our Finnish network.

In 2003, we have, among other things, taken the following measures to increase the functionality of our fixed network:

- We have completed the introduction of MPLS (Multi Protocol Label Switching) in the Nordic IP networks and connected the Swedish and Finnish MPLS networks to establish cross-border IP-VPNs;
- We have started to introduce SDH based cross-connects for improved utilization of the DWDM network in Sweden; and
- We have continued the deployment of an extensive fiber infrastructure in the Swedish rural network to expand our ability to offer broadband services.

International Network

We have established a high quality international fiber optic backbone network based on fiber optics and wavelength technology. Our network is based on a fully operational 19,800 kilometer long duct/cable network with repeater stations in Europe. Our network is connected to New York via the transatlantic cable system, TAT 14. In addition, our IP network is a global network with multiple high-speed links as well as extensive interconnections to other Internet carriers across Europe and the United States.

Competition

Sweden

We operate in an increasingly competitive environment in Sweden, with the result that we face strong price pressure with regard to many of our products and services. Sweden was among the first countries in Europe to have liberalized and deregulated its telecommunications market. Currently, entrants face almost no restrictions in providing telecommunications services in Sweden, and a number of non-Swedish controlled entities have entered the Swedish market.

Mobile Communications

Our major competitors for mobile communications services in Sweden are the mobile operators Tele2 (Comviq), Vodafone and Hi3G Access AB (operating under the brand name "3") and virtual network operators ACN, Chess and Djuice. In the future, we expect to face competition from additional UMTS operators and mobile service providers. Orange Sverige AB, which has a UMTS license in Sweden, has recently announced its intention to withdraw from the Swedish market. Competition in our mobile communications business in Sweden is currently based primarily on pricing and service quality, including factors such as availability of new services and network coverage.

Internet and Data Communications

Our major competitors in the Internet and broadband market in Sweden are Tele2, Telenor, B2 Bredband AB, Com Hem AB, Chello Broadband AB, UPC Sverige AB, Spray and MCI. Of these companies, our primary competitors for broadband access are B2 Bredband, Com Hem, Chello, UPC and Telenor. Our primary competitors in data communications are Telenor, Song Networks, MCI, Equant, Colt and BT Ignite.

Fixed Voice Services and Fixed Networks

Our major competitors in fixed voice services in Sweden in the retail sector are Tele2, Telenor, ACN, MCI Corporation, Glocalnet, Song Networks and Ventelo. In the fixed networks wholesale sector, our competitors are Song Networks, Telenor, MCI, Teracom, Banverket, Svenska Kraftnät, Sydkraft and local city nets. We believe that competition for fixed voice services and fixed network services in Sweden will increasingly be based on price.

Finland

The telecommunications market in Finland is highly competitive and characterized by successive promotional campaigns and price competition, with the exception of local telephone service where the market is dominated by incumbent local operators that control, with minor exceptions, the local access market.

Generally, our main competitor in Finland is Elisa Communications, which is the largest local access operator in Finland and whose traditional service area is the Helsinki metropolitan area. Elisa Communications is also the parent of a number of telecommunications companies, including Radiolinja Group, the second largest mobile operator in Finland.

Another significant competitor in Finland is the Finnet Group, an alliance of local telephone companies, which owns, among other entities, DNA Finland Oy and Finnet Verkot Oy (a mobile network operator).

Mobile Communications

Our main competitors for mobile communications services in Finland include Radiolinja Group, DNA Finland Oy and an increasing number of service operators that do not maintain their own network, such as Saunalahti Group and ACN Inc. Service operators significantly increased their share of the Finnish market in 2003. The introduction of mobile number portability in July 2003 has resulted in greater competition in the Finnish market. We consider it likely that our competitors will continue to market their services aggressively and reduce prices for their services in the future. There were four UMTS licenses awarded in Finland: the current license holders are us, Radiolinja Group (owned by Elisa Communications), Suomen 3G Oy (owned by Tele2 AB) and Finnet Group.

Internet and Data Communications

The market for Internet and data communications services in Finland is highly competitive. With respect to consumer media services in Finland, including Internet related services, we compete with the Saunalahti Group, MTV3 Oy, Elisa Communications, the Finnet Group and some cable TV operators such as HTV in the capital region, among other competitors. With respect to the provision of Internet access to business customers in Finland, we compete principally with Elisa Communications and the Finnet Group, and expect to face increasing competition from other companies in the future.

In the data communications services market in Finland, our competitors include Elisa Communications, Finnet Group and Song Networks, among others, and international telecommunications companies that provide data services to large corporate customers in Finland.

Fixed Voice Services and Fixed Networks

The local fixed communications market in Finland is extremely fragmented. Approximately 50 operators offer local voice on local networks within their geographic areas. The majority of these local operators belong to either Elisa Communications or Finnet Group. These local operators generally own their own networks and operate mainly in larger cities and towns. Traditionally, there has been only one local operator per area.

Our primary competitors for long distance voice services in Finland are the Finnet Group, Elisa Communications and Song Networks.

Our competitors in the provision of international voice services in Finland include Finnet Group, Saunalahti Group and Song Networks. The international voice service market has been characterized by aggressive promotional campaigns and price reductions. We believe that competition will continue to increase in the international telecommunications market, resulting in further reductions of tariffs. In addition, we face competition in Finland from service operators, and from international telecommunications operators.

Norway

The four mobile operators in Norway that have their own licenses include Telenor, the leading telecommunications provider in Norway, Teletopia, "3" and us. The largest service providers in Norway are Tele2, Chess, Ventelo and Sense.

Denmark

The market for mobile communications services in Denmark is highly competitive. Our main competitors in the Danish mobile communications market are TDC, Sonofon and Orange, of which TDC is the largest. In the market for Internet services in Denmark, we face competition from TDC, Tele2, Sonofon and Orange A/S (formerly, Mobilix). In the fixed network and fixed voice services market in Denmark, our major wholesale competitors are TDC, Orange, Global Connect A/S, Song

Networks, COLT and Global Crossing, and our major retail competitors are TDC, Tele2, Debitel Danmark A/S, Orange and Sonofon.

The Baltic Countries

We have been facing increasing competition in the Baltic States due to the recent deregulation of the telecommunications markets in these countries and the increase of competitors entering the market as it continues to develop and grow. In Lithuania, our competitors in the mobile communications market are Bite GSM and Tele2. Our main competitor in the Latvian market for mobile communications services is Tele2. While currently we do not have any direct major competition in the market for fixed voice services and fixed network services in Latvia and Lithuania, the fixed communications monopoly ended in Latvia and Lithuania on January 1, 2003, and we expect several new competitors to enter the market. In Estonia, our main competitors for mobile communications services are Radiolinja Eesti AS and Tele2 Eesti AS, while in fixed voice services and Internet and data communications we compete mainly with Tele2 and Uninet AS.

International Carrier

TeliaSonera International Carrier faces competition in Europe and the United States from competitors such as France Telecom, British Telecommunications plc, COLT Telecom Group plc, Global Crossing Ltd, Cable & Wireless Plc and Level 3 Communications Ltd. Competition in the international carrier segment is currently based primarily on price, although we expect that as the carrier business matures, competition will increasingly be based on quality of service.

Marketing

We are the largest telecommunications operator in the Nordic and Baltic region. To maintain and improve our market position in the Nordic and Baltic region we market our services to residential and business subscribers through sales agents, our own retailers in Sweden and Finland, independent distributors and resellers in all countries, and over the Internet via our local web sites. We believe that our Internet channels provide a lower cost means of marketing our products and services than more traditional distribution and service channels.

Sweden

On the consumer and end-customer market, TeliaSonera Sweden operates under the Telia brand. We believe that Telia is considered to be the leading brand in the area of telecommunication in Sweden.

In Sweden, we have a Telia branded retail chain that serves an important role by providing a showcase for our products and services as well as by contributing to the creation of our strong brand presence. As of December 31, 2003, our services were available through approximately 75 Telia stores and approximately 8,000 external resellers in Sweden. Through our Internet portal, *www.telia.se*, we are also able to make personalized product offerings to our on-line customers and a convenient means for new customers to subscribe to additional services provided by us.

In addition, Skanova, our Swedish wholesale operator, and TeliaSonera International Carrier are each active in the Swedish market and offer national and international network services to operators and service providers. Skanova uses a differentiated distribution channel that enables us to separately focus on large companies, public organizations and small- and medium-sized companies.

Finland

TeliaSonera Finland operates in Finland under the Sonera brand. We believe that Sonera is the leading brand in the Finnish telecommunication sector.

Our principal distributor to consumers in Finland is an independent dealer network, which has acted as the non-exclusive distributor of Sonera's mobile subscriptions since 1990. The network comprises approximately 1,000 outlets in Finland, including specialty stores for mobile communications equipment, home electronic stores and department stores. In our Internet portal, *www.sonera.net*, customers are able to modify their subscription options, and subscribe to additional services through Internet, WAP and SMS.

Norway, Denmark and the Baltic Countries

In Norway, we operate under the NetCom brand. NetCom is the second largest mobile operator behind the local incumbent Telenor. Sales of mobile services in Norway are carried out through a network of external resellers.

In Denmark, we operate under the Telia brand, providing customers with fixed, mobile, Internet and cable TV services. These services are mainly sold through external resellers. Digital cable television access in Denmark is mainly sold through our subsidiary, Telia Stofa, as well as through antenna associations. We manage our own sales of network capacity and network services to operators and service providers in Denmark.

In the Baltic countries, each of our subsidiaries and associated companies operates using its own local brand and sells its services through both its own retail stores and external resellers.

TeliaSonera International

Each of our subsidiaries in Kazakhstan, Azerbaijan, Georgia and Moldova, and our associated companies in Russia and Turkey, operates using its own local brand and sells its services through both its own retail stores and external resellers.

We offer wholesale carrier services under the TeliaSonera International Carrier brand, and sell our services primarily through our direct sales force.

Regulation

European Union

General

As member states of the European Union (EU), Sweden, Finland and Denmark are required to follow EU regulations and enact domestic legislation to give effect to EU directives. Moreover, EU decisions are directly binding on those to whom they are addressed. Recommendations and opinions are not legally binding, but they are politically important. Norway is under similar obligations as a party to the European Economic Area Agreement.

On May 1, 2004, ten new member states will join the EU, including countries where we have significant operations, such as Lithuania, Latvia and Estonia. EU law, including telecommunications-related legislation, will be applicable in these countries from the date of accession or soon thereafter, depending on the provisions of the Treaty of Accession applicable to each individual country.

Liberalization of Telecommunications Markets

The liberalization of the European telecommunications sector accelerated in June 1990, when the European Commission adopted Directive 90/388/EEC on competition in the markets for telecommunications services (the "Services Directive").

In March 1996 the Services Directive was amended by the so-called "Full Competition Directive" (96/19/EC), which enabled alternative infrastructure providers, such as cable companies, railroads and utility companies, to offer liberalized telecommunications services or resell capacity on their networks for the provision of such services.

In September 2002 the European Commission adopted Directive 2002/77/EC on competition in the markets for electronic communications networks and services (the "Consolidated Competition Directive"), which consolidates, clarifies and repeals the Services Directive, as amended. The Consolidating Competition Directive entered into force in October 2002, and EU member states had to implement it by July 2003.

New Communications Framework

Following a review of the telecommunications regulatory framework initiated in 1999, the European Parliament and the Council adopted a new regulatory framework for electronic communications networks and services (the "Communications Framework") in 2002. The Communications Framework consists of the following key instruments:

- five harmonization directives, including a framework directive 2002/21/EC and four specific directives on (1) authorization, (2) access and interconnection, (3) universal service and users' rights and (4) privacy in electronic communications;

- a decision on EU radio spectrum policy; and

- a regulation on the unbundling of the local loop (adopted in 2000).

The Communications Framework applies to all forms of communications networks carrying publicly available communications services, whether used for voice, fax, data or images, including fixed and mobile telecommunications networks, cable television networks, networks used for terrestrial broadcasting, satellite networks and networks using Internet protocol. It aims to bring the sector-specific rules for electronic communications more into line with the general competition rules. For example, the Framework Directive bases the notion of significant market power on the concept of a dominant position used in EU competition law. The new form of significant market power embraces single company dominance and joint dominance. *Ex ante* regulatory measures are designed to redress identified competition concerns on the market.

In July 2002, the European Commission published guidelines on market analysis and the assessment of significant market power. The European Commission supplemented these guidelines with a recommendation on relevant product and service markets, issued in February 2003 (the "Relevant Market Recommendation"). National regulatory authorities ("NRAs") are expected to take the markets listed in the Relevant Market Recommendation as the starting point for their own market analyses. NRAs then determine and designate companies having significant market power. They can also impose or maintain *ex ante* sector-specific obligations when *ex post* remedies of competition law are not adequate to meet the market problems identified.

The Relevant Market Recommendation may have a material effect on our business. Much will depend on (i) how the relevant regulatory authority defines the market, and (ii) what measures it takes to address a particular competition problem identified on these markets. The European Commission will examine the need for any update to the Relevant Market Recommendation no later than June 30, 2004.

Directive 2002/20/EC on the authorization of electronic communications networks and services (the "Authorization Directive") aims to create a legal framework to ensure the freedom to provide electronic communications networks and services. It provides that all services and networks should be covered under a general authorization, and that specific rights of use should be limited to the assignment of frequencies and numbers only.

Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and associated facilities (the "Access Directive") establishes rights and obligations for operators and for seeking interconnection and/or access to their networks or associated facilities. It requires EU member states to ensure there are no restrictions that prevent entities from negotiating agreements on arrangements for access and/or interconnection. When an NRA has carried out a market analysis in light of the Relevant Market Recommendation and designated an operator as having significant market power, it may then impose proportionate obligations on that operator, such as a non-discrimination obligation, a requirement for accounting separation, an access requirement for specific facilities, price control and cost accounting obligations or a requirement for transparency of accounting information, technical specifications, network characteristics, terms and conditions, and prices.

Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services (the "Universal Service Directive") defines the minimum service to which all end-users must have access at an affordable price, namely connection at a fixed location to the public telephone network enabling the end-user to make and receive local, national and international telephone calls, facsimile communications and data communications (sufficient to permit functional Internet access). End-users should also have access to public telephone services, including directory enquiries and directories. When an NRA considers that the provision of universal services represents an unfair burden on entities designated to provide that service, EU member states are obliged to share the net cost between providers of electronic communications networks and services, or to arrange funding via the state budget. NRAs may maintain or impose obligations on entities identified as having significant market power, including price caps on retail services. NRAs should require carrier selection and carrier pre-selection to be provided by operators having significant market power in the market for connection to and use of fixed telephony.

The Framework Directive, the Authorization Directive, the Access Directive and the Universal Service Directive were to be implemented by EU member states by July 25, 2003.

Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (the "Privacy and Electronic Communications Directive") requires the provider of a publicly available electronic communications service to safeguard the security of its services. It prohibits the interception and surveillance of communications without the consent of users unless legally authorized, although communications and traffic data may be recorded in the course of lawful business practices as evidence of a commercial transaction. Traffic data must be erased or made anonymous when no longer needed for transmission or billing, and may be used for marketing only with the user's consent. Subscribers have the right to receive non-itemized bills, to restrict calling line identification, to object to the processing of location data and to decide whether their personal data should be included in a public directory. The Privacy and Electronic Communications Directive prohibits the sending of unsolicited communications by fax, automatic calling machines or electronic mail without the prior consent of the subscriber. It was required to have been implemented into national law by the end of October 2003.

Unbundling of the Local Loop

In December 2000 the European Parliament and the Council adopted Regulation 2887/2000 on unbundled access to the local loop (the "ULL Regulation"), which entered into force in January 2001. Local loop unbundling means the granting by incumbent operators of full unbundled access, and shared

access, to the twisted metallic pair circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network local loop.

Under the ULL Regulation, operators with significant market power must publish and keep updated a reference offer for unbundled access to their local loops and related facilities. They must meet reasonable requests for unbundled access to their local loops under fair conditions, and except if specifically exempted, prices charged for unbundled access to the local loop must be cost-oriented.

Radio Spectrum Policy

In March 2002 the European Parliament and the Council adopted Decision 676/2002/EC on a regulatory framework for radio spectrum policy in the European Community (the "Radio Spectrum Decision"). The Radio Spectrum Decision facilitates the development of spectrum policy in the EU, sets up procedures for the adoption of technical implementation measures, provides for the coordination of spectrum policy decisions among EU member states and aims to ensure the efficient use of the radio spectrum.

Electronic Commerce and Liability of Internet Service Providers

In June 2000, the European Parliament and the Council adopted Directive 2000/31/EC on certain legal aspects of information society services, in particular electronic commerce in the internal market (the "Electronic Commerce Directive"). The Electronic Commerce Directive regulates the legal recognition of electronic contracts, the formation of electronic contracts, the information to be provided by the service provider to the consumer, and solicited and unsolicited commercial communications with consumers. It also contains rules that limit the liability of intermediary service providers acting as a provider of mere conduit, as well as for caching and hosting activities.

Sweden

Overview

In March 2003 the Swedish Government proposed a new Act on Electronic Communication to replace the Telecommunications Act and the Radio Communications Act. The new Act on Electronic Communication entered into force on July 25, 2003, and implements the legislation relating to the new EU Communications Framework. See "European Union New Communications Framework."

The new Act on Electronic Communication has been designed to create a more flexible system for the supervision of the telecommunications market. Consequently, under the Act, fewer obligations will flow directly from the law. For example, the Act abandons the general requirement to obtain a license to conduct telecommunications activities. Instead, the Swedish National Post and Telecommunications

Agency or the NPTA, the Swedish regulatory authority, will be given the authority to render specific binding decisions imposing obligations on operators who have significant market power. The NPTA is currently preparing those decisions, which are expected to be rendered in summer 2004. Meanwhile certain provisions of the Telecommunications Act are still in force, such as those on interconnection, carrier pre-selection and national roaming.

While the new Act will bring significant changes to telecommunications regulation in Sweden, we are not currently in a position to assess the impact of these changes on our business, financial condition or results of operations.

Licensing Requirements

Currently, we have four mobile licenses (NMT 450 service, GSM 900 and other mobile services, GSM 1800 service and terrestrial flight telecommunications service). On March 31, 2004 the NPTA decided to prolong our GSM licenses until 2010. Our NMT license will expire on December 31, 2007. In addition, we own 50 percent of Svenska UMTS-nät, which has a wholly owned subsidiary that holds a UMTS license.

A license under the Act on Electronic Communications may be revoked, in whole or in part, if the operator violates the terms of the Act or any condition of the license. However, the NPTA must notify the operator and provide him with an opportunity to rectify the violation before revocation can take effect. The NPTA may also impose conditional fines on license-holders in connection with injunctions and prohibitions to ensure compliance with the conditions set forth in the licenses.

Universal Service

Under an NPTA interim measure, we are required to provide a connection to our publicly available fixed-line network on similar terms and conditions to anyone requesting the service. We can satisfy this requirement with our fixed line and NMT 450 services. Currently, no other fixed telecommunications operator in Sweden is required to provide this universal service.

Under the Act on Electronic Communication, the universal services requirement will no longer be a licensing condition. However, the NPTA may oblige any appropriate telecommunications operator to provide universal services. The NPTA has not yet decided on universal service obligations under the Act.

Retail Price Regulation

The Act on Electronic Communication increased the NPTA's power to regulate prices applied by telecommunications operators with significant market power on an end-user market. The NPTA will have the power to impose a lowest or highest price on an operator, or oblige an operator to apply a specific price within a certain geographical area. However, the NPTA will only have the power to regulate the prices applied by an operator if it is clear that other measures such as interconnection obligations are insufficient to ensure effective competition and satisfy the public interest on the end-user market. There is no general rule under the Act requiring tariffs for basic fixed-line telecommunications and leased lines to be cost-based. However, the NPTA will have the power to impose a requirement for cost-based services on operators with significant market power.

Access to Infrastructure

Interconnection

Until the NPTA decides on new access and interconnection provisions, the interconnection provisions of the Telecommunications Act remain in force. One underlying principle is that a notified or licensed telecommunications service provider must allow interconnection to its network and services by other service providers. A service provider holding a significant market position must offer interconnection on a non-discriminatory basis, and in particular may not put other service providers in a worse position than its internal departments or affiliates. In Sweden, both fixed-line and mobile interconnection access and rates are subject to regulation. If operators are unable to negotiate voluntary interconnection agreements, the NPTA has the power to mediate and decide the matter. The Telecommunications Act requires operators with significant market power to meet certain conditions, which include publishing tariffs for fixed interconnection services and offering equivalent terms to operators requesting interconnection services. In addition, all the interconnection rates we charge for fixed and mobile telecommunications must be cost-based. We are also required to maintain separate accounts for our fixed interconnection business in Sweden. The Telecommunications Act imposes cost-based pricing requirements for traffic terminating on mobile networks of operators with significant market power in the national market for interconnection. TeliaSonera is the only operator under the Telecommunications Act that has significant market power.

The Act on Electronic Communication does not include a general obligation for operators of public communication networks to allow interconnection to their network by other service providers. Instead, the NPTA will have the power to impose an obligation on operators controlling access to end-users to allow interconnection to their network at market prices. The NPTA may also impose additional obligations on an operator with significant market power, in order to ensure efficient competition. For example, an operator with significant market power may be required to apply cost-based prices when allowing interconnection or other forms of access to its network.

Carrier Pre-selection

The NPTA requires license holders operating fixed networks to implement carrier pre-selection. Carrier pre-selection refers to the ability of a user to choose a local, long-distance, mobile or international carrier independent of its local loop provider. Currently carrier pre-selection is available for all national, international and fixed-to-mobile calls in Sweden. In February 2002 carrier pre-selection for local calls was introduced in Sweden. There is no regulation of carrier pre-selection for mobile calls.

The Act on Electronic Communication did not introduce any substantial amendments for TeliaSonera as regards carrier pre-selection.

Number Portability

Number portability for fixed telecommunications access, premium rate calls and free-phone services were made available in December 1999. Mobile number portability was implemented in September 2001. The regulations apply to all operators offering digital mobile telecommunications subscription.

The Act on Electronic Communication allows a service provider transferring a number to recover the entire costs incurred by the transfer.

Regulatory Institutions

Responsibility for regulating the telecommunications sector and the promotion of fair and open competition in Sweden has been allocated among several regulatory bodies. Under the Act on Electronic Communications, the principal body is the NPTA, which is responsible for the day-to-day supervision of the telecommunications sector in Sweden. For various administrative purposes the NPTA falls under the responsibility of the Swedish Government (Ministry of Industry, Employment and Communications).

Finland

Overview

We are subject to the comprehensive regulatory regime applicable to the Finnish telecommunications industry under the Finnish Communications Market Act 393/2003, as amended (the "Communications Market Act"), and related regulations, decrees and administrative decisions.

The Communications Market Act came into effect as from July 25, 2003 and implements the EU regulatory framework for electronic communications networks and services.

Under the Communications Market Act, the obligations imposed on telecommunications operators will apply principally to telecommunications operators with significant market power. The Finnish Communications Regulatory Authority (FICORA) is given the authority to decide, based on its market analysis, which obligations should be applied to telecommunications operators. Until FICORA has completed those market analyses and decided on obligations under the Communications Market Act, the provisions of the preceding Act remain applicable.

According to a FICORA decision of February 6, 2004, Sonera Carrier Networks Oy, a subsidiary of TeliaSonera Finland, has significant power in the markets for (i) call origination on the public telephone network provided at a fixed location, (ii) call termination on individual public telephone networks provided at affixed location, and (iii) wholesale unbundled access; while Sonera Mobile Networks Oy, a subsidiary of TeliaSonera Finland, has significant power in the market for voice call termination on individual mobile networks. Also according to FICORA decisions, Sonera Carrier Networks and Sonera Mobile Networks respectively are subject to obligations on (i) interconnection, (ii) publishing of delivery terms and tariff information, (iii) setting cost-oriented and non-discriminatory prices, (iv) use of cost-accounting procedures, and (v) separation of accounts.

According to a FICORA decision of March 5, 2004, TeliaSonera Finland has significant market power, in all geographical areas where Posts and Telecommunications of Finland had an unrestricted right to provide local telephony in December 31, 1993, in the following product markets; (i) access to the public telephone network at a fixed location for residential customers, (ii) access to the public telephone network at a fixed location for non-residential customers, (iii) publicly available local telephone services provided at a fixed location for residential customers, and (iv) publicly available local telephone services provided at a fixed location for non-residential customers. TeliaSonera Finland is subject to certain obligations in these markets, including (i) the obligation to offer end-users the right to a subscription to the fixed network, (ii) the obligation to offer end-users the right to select a telephone service provider, and (iii) the obligation to publish general delivery terms and tariff information.

FICORA's decisions may be appealed to the Supreme Administrative Court. Such appeal has been made with regard to FICORA's decision of February 6, 2004 relating to the market of voice call termination on individual mobile networks.

We are currently not in a position to assess the impact of these changes on our business, financial condition or results of operations. See "European Union New Communications Framework."

Licensing Requirements

Under the Communications Market Act, a license from the Council of State is required for the provision of telecommunications network services in the public mobile network. Licenses are granted for a maximum of 20 years and are renewable. Our current GSM license was granted in 1997 and is in force until 2017. The license covers the DCS, GSM 900 and GSM 1800 networks in Finland.

In 1999 we received a third generation mobile license for a term of 20 years (UMTS license). Our license currently covers the operation of a public third generation mobile network throughout Finland.

Universal Service

Under the Communications Market Act, an operator with significant market power in a fixed network in a particular area has a universal service obligation to provide a subscriber connection at the user's permanent place of residence/location, at a reasonable price. We have this obligation in our traditional operating area (mainly the eastern and northern parts of Finland). The connection provided is required to allow outgoing and incoming local, long-distance, international and other ordinary calls, as well as outgoing and incoming facsimile transmissions and an appropriate Internet connection.

Access to Infrastructure

Interconnection

Under the Communications Market Act, operators of public telecommunications networks in Finland have an obligation to negotiate interconnection agreements with each other for the purpose of offering their telecommunications services. Interconnection should be granted without delay at the requested interface. FICORA may require a telecommunications operator with significant market power to connect a communications network or service to the communications network or service of another telecommunications operator. FICORA may also require a telecommunications operator to set the interconnection prices in such a way that they are either cost-oriented, non-discriminatory or cost-oriented and non-discriminatory.

The fixed-to-mobile interconnection model in Finland is different from the model used in most other EU member states. According to the Communications Market Act, a telecommunications operator is not obliged to specify a separate termination price for incoming traffic if the connection is made from a fixed telephone network to a mobile network. The Commission has stated that FICORA's draft decision regarding voice call termination in individual mobile networks is not compatible with the Framework Directive and the Access Directive. As a result of the

Commission's statement, the current fixed-to-mobile price regime is subject to a potential change.

Because FICORA has not fully concluded its market analysis and imposed final obligations on operators under the Communications Market Act (393/2003) and because some of its decisions imposing interconnection obligations have been appealed, we are currently not in a position to assess the impact of the new interconnection regulation in the Communications Market Act on our business, financial condition or results of operations.

National Roaming

A holder of third-generation mobile telecommunications licenses has the right to allow its subscribers to roam on the GSM network of operators with a significant market power if its own third generation network covers at least one-fifth of the population in the licensed area.

FICORA has not yet taken a final decision regarding possible national roaming obligations based on the current Communications Market Act.

Should national roaming be mandated on terms and conditions that do not provide an adequate return on our investment in our GSM networks, the business, financial condition and results of operations of our mobile communications operations in Finland could be materially adversely affected.

Carrier Pre-selection

Carrier selection refers to the ability of a user to choose a local, long-distance, mobile or international carrier independent of its local loop provider. This can be achieved by: (1) pre-selection, where the carrier is chosen by the user; or (2) call-by-call procedures, where the user typically inserts a prefix before a dialed number.

Fixed network operators with significant market power must offer carrier pre-selection on request. Thus a call dialed without an operator prefix or with the "00" prefix is automatically routed to a local, long-distance or international telecommunications service operator selected by the user. The proportional allocation system previously used was terminated at the beginning of 2004, since which time a fixed network operator with significant market power is entitled to allocate such traffic to a long-distance or international service provider of its choice. Mobile operators with significant market power may be required by a FICORA decision to offer carrier selection and pre-selection for international calls.

Number Portability

Mobile number portability was introduced in July 2003. Local number portability (within an existing numbering area), and nation-wide number portability using a separately allocated numbering area in the fixed-line network has been mandatory in the whole of Finland since September 1998. In March 2004, FICORA issued a new decision that gradually enlarges the fixed-line number portability, among others, in the corporate segment.

Norway and Denmark

The regulatory environment in Norway and Denmark is similar to that in Sweden and Finland. Both Norway, as a party to the European Economic Area Agreement, and Denmark, as a member of the EU, have implemented the EU's new regulatory framework for electronic communications.

The Baltic Countries

As countries acceding to the EU, Lithuania, Latvia and Estonia have agreed to implement the 1998 EU regulatory framework for telecommunications in their national legislation. They are also required to implement the new regulatory framework before May 1, 2004, their scheduled date of entry into the EU. It is not certain whether their new legislation will enter into force on or before the accession date. There can be no assurance that the interpretation and implementation of the new telecommunications legislation in the Baltic countries will have no adverse effects on our business, financial condition or operating results in the Baltic region.

Competition Laws

We are subject to the competition laws of the countries in which we operate, in particular Swedish, Finnish and EU competition laws.

The European Union

The EU competition rules set out in the EC Treaty and EU legislation are binding on EU member states and are therefore applicable to our operations in the EU. If those rules are breached, the European Commission may impose fines of up to ten percent of a company's revenues on a consolidated basis in the preceding financial year. Regulation 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty, which enters into force on May 1, 2004, may lead to a more rigorous application of the EU competition rules at national level. The European Commission has prepared notices and guidelines implementing Regulation 1/2003. The EU competition rules will remain applicable to restrictions on competition which may have an appreciable effect on trade between member states. Under the new regulation, it is no longer possible to notify agreements which may at first sight be considered as anti-competitive to the European Commission, with a view to obtaining an individual exemption.

So long as the Kingdom of Sweden exercises a significant influence over our company, the European Commission will have the authority to address individual decisions to the Kingdom of Sweden to ensure that we comply with the EU competition rules. The European Commission could bring proceedings against us directly, under Articles 81 and 82 of the EC Treaty, or bring proceedings against the Kingdom of Sweden under Article 86 of the EC Treaty. This means that we might face two different proceedings, the latter of which we could not directly influence and to which we would not be a party.

Given that the Swedish State and the Finnish State hold 45.3 percent and 19.1 percent of our shares, respectively, there is always a risk that our competitors might allege that our transactions with the Finnish State or the Swedish State involve an element of state aid, or that the European

Commission may launch a formal investigation of such a transaction on its own initiative. The EU state aid rules are designed to prevent EU member states from granting aid that distorts or threatens to distort competition. The European Commission has the power to order suspension of aid payments and require the recovery of aid already granted, including accrued interest. These rules do not apply when a state contributes capital in circumstances that would be acceptable to a private investor operating under normal market economy conditions.

Sweden

In July 1993, a new Competition Act entered into effect in Sweden. The Swedish Competition Authority is empowered to issue injunctions, and to enjoin a party to discontinue immediately practices that are not permitted under the Competition Act. The Swedish Competition Authority and the NPTA cooperate to facilitate investigations of anti-competitive behavior in the telecommunications services sector. The Competition Act will be amended in order to harmonize it with Regulation 1/2003. Those amendments are expected to enter into force in July 2004.

Finland

In February 2004 the Finnish Government submitted to the Parliament a bill aimed at harmonizing the Act on Competition Restrictions with Regulation 1/2003. According to the bill, decisions terminating a prohibited procedure would be taken by the Finnish Competition Authority. The Market Court would have the power to impose pecuniary penalties on parties that have committed infringements.

International Obligations

Over 70 member countries of the World Trade Organization (WTO), representing over 90 percent of the world's basic telecommunications revenues, including the United States and the EU member states, have entered into a Basic Telecommunications Agreement (BTA), to provide market access to some or all of their basic telecommunications services. The BTA, which took effect in February 1998, is the fourth protocol to the General Agreement on Trade in Services, which is administered by the WTO. Under the BTA, Sweden and Finland, like the other signatories have made commitments to provide "market access," which require them to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors, and to provide "national treatment" by ensuring that foreign telecommunications service suppliers are accorded the same treatment as national service suppliers. In addition, a number of signatories, including Sweden and Finland, have agreed to abide by certain pro-competitive principles set forth in a reference paper relating to the prevention of anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and non-discriminatory allocation of scarce resources.

Environmental Matters

The principal environmental impact of our operations arises from vehicle use, travel, transport, energy use and the consumption and use of materials. Our waste and residue products are handled by environmentally certified contractors and source-sorting is applied in all large office buildings.

Historically, we have operated sites in Finland that have been used for impregnating telephone poles. We have cleaned up the majority of these sites and have plans to clean up the remainder of those sites in co-operation with Finnish environmental authorities. The responsibilities for costs are usually determined on a case-by-case basis. TeliaSonera Finland has assessed that the clean up costs of the sites would not exceed €1.5 million, even in the event we were to bear such costs alone.

In Sweden we have also investigated the possible environmental effect of lead sheathed cables and impregnated poles used in our operations. These investigations have indicated that any spread of substances from lead cables or impregnated poles is essentially negligible.

Pursuant to European Union legislation, we may be responsible for the recycling costs of used telephone poles in several of the jurisdictions in which we operate. We do not believe that such costs will be material.

As mobile phone use has increased, an active debate has emerged on the possible health risks posed by electromagnetic fields (EMF) from mobile handsets or base stations. See "Item 3.D Risk Factors" for a discussion of the possible health risks associated with mobile phone use.

4.C Organizational Structure

TeliaSonera AB is the ultimate parent company of the TeliaSonera group and is also responsible for carrying out our Swedish fixed network operations. TeliaSonera carries out the remainder of its operations through subsidiaries, the most significant of which are listed below:

Name of company	Domicile	Ownership (%)	External net sales for the year ended December 31, 2003
			(SEK in millions)
Parent Company:			
TeliaSonera AB	Stockholm, Sweden		4,750
Significant Subsidiaries:			
TeliaSonera Sverige AB	Stockholm, Sweden	100.0	27,372
TeliaSonera Finland Oyj	Helsinki, Finland	100.0	14,232
NetCom AS	Oslo, Norway	100.0	6,011
TeliaSonera Mobile Networks AB	Nacka, Sweden	100.0	5,955(1)
Telia Communications AB	Stockholm, Sweden	100.0	4,160
Fintur Holdings B.V.	Rotterdam, the Netherlands	74.0(2)	2,740
AB Lietuvos Telekomas	Vilnius, Lithuania	60.0	2,020
UAB Omnitel	Vilnius, Lithuania	90.0	1,911
Latvijas Mobilais Telefons SIA	Riga, Latvia	60.3(2)	1,835
Sonera Carrier Networks Oy	Helsinki, Finland	100.0	1,389
TeliaSonera International Carrier AB	Stockholm, Sweden	100.0	1,336
Sonera Mobile Networks Oy	Helsinki, Finland	100.0	1,058

(1) Includes Nordic branches.

(2) Includes direct and indirect holdings.

4.D Property, Plants and Equipment

TeliaSonera's principal executive offices are located at Sturegatan 1 in Stockholm, Sweden, where we lease approximately 5,000 square meters of office space.

As of December 31, 2003, our real estate fixed assets had a carrying value of SEK 3,670 million. Our real estate holdings include some 4,000 properties, mainly in Sweden and Finland. The substantial majority of these properties are used solely for technical facilities, such as network installations, computer installations, research centers and service outlets.

We also own a limited number of office premises. Most of our office space is leased rather than owned. At the end of 2003, our office space and technical site leases covered approximately 967,000

square meters. Apart from certain short-term leases, our lease terms range mainly between 3 and 15 years, with an average term of approximately 6 years. Each of our leases has been entered into on conventional commercial terms. Certain contracts include renewal options for various periods of time. We engage in some limited subleasing of office space.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with our consolidated financial statements and the related notes that are included elsewhere in this document.

5.A Operating Results

Introduction

We are the leading provider of telecommunications services in the Nordic and Baltic region. We are also a leading provider of mobile services in Eurasia and have significant holdings in leading mobile operators in Turkey and Russia. Our company, TeliaSonera, was created as a result of the merger of Telia AB and Sonera Corporation in December 2002.

The discussion of our operating results that follows is intended to provide information that will assist in understanding our consolidated financial statements and the changes in certain key items from year to year, as well as how certain accounting policies and estimates affect our consolidated financial statements.

The historical results section below presents a discussion of our operating results using our historical audited financial statements as of and for the years ended December 31, 2003, 2002 and 2001. These financial statements represent the results of operations of the newly merged group beginning December 3, 2002. Consequently, TeliaSonera's historical financial statements for the years ended December 31, 2002 and 2001 are not representative of the business of the newly merged company. Therefore, to provide additional insight into our operating results, prior period trends and current position, we also present a combined company results section, discussing our combined operating results as if Telia and Sonera had been a combined company in 2002 and 2001.

The discussion of our results of operations at the consolidated level is followed by a more detailed analysis of results of operations by reporting segment. This analysis is presented on a historical basis, including the results of operations of the newly merged group beginning December 3, 2002. In order to provide additional insight into our segment operating results, prior period trends and current position, we also present combined company information, as if Telia and Sonera had been a combined company in 2002 and 2001.

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS/IAS). The principal differences between IFRS/IAS and U.S. GAAP that affect our net income or loss, as well as our shareholders' equity, relate to the treatment of revenue from access, connection and similar fees, impairment charges, sale and leasebacks, restructuring costs, associated companies in hyperinflationary economies, amortization of goodwill and fair value adjustments. See note 45 to our consolidated financial statements for a description of these principal differences and for a description of the anticipated impact of the adoption of recently issued U.S. GAAP accounting standards.

In the three-year period ended December 31, 2003, the following factors have had an especially significant effect on our operating results, cash flows and financial condition:

We have taken several actions to streamline our operations and improve our efficiency, which have impacted our results negatively through restructuring charges, provisions and related write-downs, principally in 2002. These actions have, however, subsequently had the effect of

improving the operations of the restructured business and have had a positive effect on our results of operations, especially in 2003.

The merger of Telia and Sonera had a significant impact on our size, our business operations and our geographical coverage. In 2003, we made significant progress in integrating the two companies' operations.

In 2003, subsequent to the merger, we reduced our cost and capital expenditure levels and improved our results of operations and cash flows significantly, especially in Sweden. Our efforts to gain synergies expected as a result of the merger have also progressed faster than planned at the time of announcement and the completion of the merger.

As a result of our improved cash generation from operations and asset sales, we have significantly reduced our net debt as compared to 2002.

Our business has been and continues to be heavily influenced by the regulatory regime applicable to telecommunications service providers in our home markets, as well as in other countries where we operate. In particular, laws and regulations covering the pricing of fixed network services, interconnection access and pricing, unbundling of the local loop, carrier pre-selection and number portability have affected our business and results of operations.

The Merger of Telia and Sonera

The merger of Telia and Sonera, first announced on March 26, 2002, was carried out through an exchange offer in which Sonera shareholders received shares in Telia. Upon completion of the exchange offer in December 2002, Telia changed its name to TeliaSonera. TeliaSonera owns 100 percent of the shares in Sonera (subsequently renamed TeliaSonera Finland).

We have accounted for the merger as an acquisition by TeliaSonera of Sonera using the purchase method of accounting. Under the purchase method of accounting, as of December 31, 2003, we have allocated the approximately SEK 59.1 billion to acquire the Sonera shares, including transaction costs, to Sonera's assets and liabilities based on their respective fair values. We have made the determination of fair values on the basis of an independent appraisal. The financial results of Sonera and the new Baltic subsidiaries, Omnitel, Lietuvos Telekomas and Latvijas Mobilais Telefons, which became consolidated entities as a result of the merger, have been included in TeliaSonera's consolidated financial statements since December 3, 2002.

In 2003, we finalized the preliminary purchase price allocation included in our consolidated financial statements as of December 31, 2002. In that connection, we came to the conclusion that certain deferred taxes included in the preliminary purchase price allocation would never materialize and, accordingly, we decided to reverse deferred tax liabilities of SEK 3,919 million and deferred tax assets of SEK 545 million. We also finalized the allocation of goodwill to the various businesses directly and indirectly acquired in the merger with Sonera which resulted, among other things, in a reduction of goodwill allocated to the interest we acquired in Turkcell by SEK 2,618 million with a commensurate increase in residual group goodwill. Other adjustments to the preliminary purchase price allocation mainly reflect the acquisition of the remaining five percent of Sonera's outstanding shares in early 2003.

See Note 40 to our consolidated financial statements for more details regarding the purchase price allocation used in connection with the merger of Telia and Sonera.

Synergies from the Merger

In connection with the merger between Telia and Sonera, we estimated that we would derive significant synergies as a result of the merger and we identified and quantified cost and capital expenditure synergies within a number of areas. We estimated that synergies would be derived mainly from the combined company's wholly owned operations in the Nordic countries.

We define synergies as savings in costs and capital expenditures, or increases in revenues, which could not have been achieved by either Telia or Sonera on a stand-alone basis. Synergy implementation costs are one-off costs that are a direct result of actions taken to achieve synergies. These costs are usually in the form of write-downs, redundancy expenses, or other restructuring expenses related to the elimination of overlapping activities or assets.

In connection with the merger, we quantified and estimated the magnitude of the expected synergies as follows:

With respect to the cost synergies, we estimated that savings in annual operating expenses would amount to SEK 2.3 billion by the end of 2005. Measured on a monthly basis, we expected to achieve approximately 20 percent of this annual level by the end of 2003, and 50 percent by the end of 2004.

With respect to the capital expenditure synergies, we estimated that savings in annual capital expenditure would amount to approximately SEK 0.6 billion by the end of 2005. Measured on a monthly basis, we expected to achieve approximately 30 percent of this annual level by the end of 2003, and 60 percent by the end of 2004.

We did not quantify the expected revenue synergies.

We further estimated that the one-off expenses (excluding transaction expenses) resulting from the merger would total approximately SEK 2 billion over the years 2003-2005, of which approximately one-third would be in the form of capital expenditure. Most of the estimated one-off expenses related to the elimination of overlapping activities and most of the one-off capital expenditure related to investments in telecommunications and IT systems.

We have established a process whereby, as of January 1, 2003, we determine and report the synergy implementation decisions taken each month. To qualify as a synergy decision in our reporting, such decisions must meet certain criteria, and must be accompanied by a detailed implementation plan and the appropriation of resources to carry out the decision. We also determine and report the impact of these decisions in our operating expenses and capital expenditure.

Currently, we expect to reach the synergy goals announced in connection with the merger between Telia and Sonera. The actions we had taken by the end of 2003 are expected to yield, by the end of 2005, annual cost savings of SEK 1,751 million and annual capital expenditure savings of SEK 374 million. We expect to be able to take further actions in 2004 and 2005 so that our synergy targets (annual level of SEK 2.3 billion for cost synergies and SEK 0.6 billion for capital expenditure synergies by the end of 2005) will be reached. One-off costs for the implementation of the decisions already taken are estimated to be approximately SEK 952 million in the aggregate.

The initiatives taken during 2003 include the following:

Within product and service development, we have achieved cost savings through the coordination of our resources for research, development and product management, including the phase-out of overlapping operations.

For existing products and services, we utilize best practice by introducing existing services and service platforms used in one or more of our markets to other markets.

We have introduced shared service platforms to decrease network operations and production costs. The merger has also resulted in reduced roaming prices and the diminished need to lease capacity from other operators. One example of reduced capacity leasing is the integration of

Telia's and Sonera's carrier operations, where traffic previously carried on leased lines can now be carried in our own network.

We have also identified synergies within our IT systems and infrastructure, in part through directing our development focus on group-wide systems rather than on parallel development projects in different countries.

We have enhanced our strength when negotiating terms of purchasing services and products as a result of the merger. We have already begun to derive synergy benefits through renegotiating supplier contracts for network equipment, service platforms and IT consulting services.

During 2003, the first full year subsequent to the merger, actual cost savings from these initiatives totaled SEK 882 million and capital expenditure savings totaled SEK 481 million, while implementation costs totaled SEK 685 million. Therefore, the savings for the first year after the merger exceeded the targets we set in connection with the merger.

The following table sets forth a breakdown of our realized and expected synergy savings from decisions that we have taken through the end of 2003:

	Synergies Achieved in 2003	Annual Synergies Expected by the end of 2005(1)
	(SEK in millions)	
Operating expenditure		
Product and service development	205	529
IT systems and infrastructure	100	276
Purchasing	254	303
Network operations	178	490
Corporate functions	145	153
Total	882	1,751
Capital expenditure		
Product and service development	46	13
IT systems and infrastructure	53	22
Purchasing	348	324
Network operations	34	15
Total	481	374

(1) Calculated by annualizing the synergy savings recorded on a monthly basis at the end of 2005.

Restructuring Costs and Write-downs

Since the beginning of 2001, we have taken several actions to streamline our operations and improve our efficiency, which have had a negative impact on our results of operations, especially in 2002. These actions mainly relate to:

Closing down of satellite-related activities in 2001,

Streamlining our core business in 2002,

Strategic refocusing of our International Carrier operations in 2002,

Refocusing our Danish fixed network operations in 2002,

Eliminating redundancies in our Swedish, Finnish and Lithuanian operations in 2003, and

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Implementating post-merger integration synergies in our International Carrier operations in 2003.

We have recorded significant restructuring costs and provisions for future cash outflows in relation to these actions, which reduced our operating income by SEK 0.5 billion in 2001 and SEK 5.9 billion in 2002. In 2003, our operating income increased by SEK 0.1 billion, mainly due to a partial reversal of the provision for the refocusing of our International Carrier operations, based on lower than expected restructuring costs in France and Sweden.

The most extensive actions and the largest restructuring expenses have related to former Telia international carrier operations and our Danish fixed network operations, each of which has struggled in recent years and recorded significant losses.

Our former Telia international carrier operations have undergone extensive restructuring and we have integrated Telia's and Sonera's carrier operations. We believe that these measures have built a foundation for TeliaSonera International Carrier to achieve renewed growth and to further improve profitability. Operating income turned positive for our integrated international carrier operations in the fourth quarter of 2003.

In our Danish fixed network operations, we have scaled back our offering to areas were we can compete successfully and, in so doing, we have significantly reduced our costs. These measures have resulted in substantial improvement in the results of our Danish fixed network operations in 2003. In the fourth quarter of 2003, our Danish fixed network operations recorded positive operating income.

For a detailed discussion of each of these restructuring efforts, see Note 37 to our consolidated financial statements.

Since the beginning of 2001, we have also recorded significant non-cash write-downs, mainly related to:

Former Telia International Carrier operations in 2001 and 2002,

Minority investment in Netia in 2001,

Danish fixed network operations in 2002,

Former Sonera SmartTrust software subsidiary in 2002,

German, Italian and Spanish 3G operations in 2002, and

Minority investment in Infonet Services Corporation in 2003.

Of these, the write-downs related to SmartTrust and the German, Italian and Spanish 3G operations in 2002 are not included in our consolidated financial statements, since the write-downs were recorded by Sonera before the merger. However, they are included in our combined company information. See " Results of Operations (Combined Company Results)."

The aggregate amount of these write-downs in our historical consolidated financial statements was SEK 4.8 billion in 2001, SEK 9.2 billion in 2002 and SEK 1.0 billion in 2003. The aggregate amount of write-downs, on a combined company basis and including write-downs recorded by Sonera before the merger, would have totalled SEK 4.8 billion in 2001 and SEK 48.7 billion in 2002.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

The following discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with IFRS/IAS. The preparation of these financial statements requires management to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses, and related disclosure of our contingent assets and liabilities. We base these estimates on historical experience and various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements.

After discussing the development and selection of the critical accounting estimates, and related disclosure with respect to our operating and financial review and prospects, with the audit committee of our board of directors, management believes that the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of our consolidated financial statements.

Revenue recognition

Our recording of net sales is described in Note 6 to our consolidated financial statements. We maintain a reserve for doubtful receivables for estimated losses that result from the inability of our customers to make required payments. We base our reserve on the likelihood of recoverability of accounts receivable based on past experience and taking into account current collection trends. If economic or specific industry conditions worsen beyond our estimates, we could increase our reserve by recording additional expense. See also the section entitled "Credit risk" in Note 30 to our consolidated financial statements for a description of how we mitigate credit risks related to our trade receivables and our bad debt expense in relation to our consolidated net sales in the latest three-year period.

Service and construction contract revenues are recognized using the percentage of completion method. Assessment of the degree of completion is based on the value of contractual phases completed as a percentage of total undertakings.

Within our international carrier operations, sales of Indefeasible Rights of Use (IRU) regarding fibre and duct are recognized as revenue over the period of the agreement. See the section entitled "TeliaSonera as operating lessor" in Note 28 to our consolidated financial statements. Within our international carrier operations, we also sign swap contracts for infrastructure and capacity with other carriers. See Note 6 to our consolidated financial statements for a detailed description of our accounting treatment of evenly balanced and unbalanced swap-deals, as well as the cash and non-cash parts of the deals.

Valuation of Intangible and Other Long-lived Assets

Our long-term assets represent approximately 80 percent of our total assets. The carrying value of intangible fixed assets is mainly attributable to goodwill and other intangible fixed assets arising from the merger of Telia and Sonera in December 2002 and the acquisition of NetCom in June 2000. See Note 40 to our consolidated financial statements for a description of the purchase price allocation in connection with the merger of Telia and Sonera. Other intangible fixed assets consist mainly of trade names, licenses and contractual agreements. Our tangible fixed assets consist mainly of fixed and mobile telecommunications equipment and related assets.

Intangible and tangible fixed assets are recorded in the balance sheet at acquisition value less accumulated scheduled amortization and write-downs. New installations under construction are valued at the expense already incurred, including interest during the installation period. To the extent a legal or constructive obligation to a third party exists, the acquisition cost for a tangible asset includes estimated costs of dismantling and removing the asset and restoring the site. See Notes 15 and 16 to our consolidated financial statements for a more detailed description and information about the distribution of the carrying values with respect to our intangible and tangible fixed assets.

Our financial fixed assets mainly consist of investments in associated companies, financial and operating leasing receivables and deferred tax assets. See " Income Taxes" below. The carrying value of investments in associated companies is accounted for using the equity method. Individual carrying values of investments in associated companies are presented in Note 41 to our consolidated financial statements. Financial leasing receivables comprise information technology related equipment leased to customers under financial leasing contracts. These assets are reported at the gross investment cost in the lease, less unearned financial revenues. Some of our leasing receivables have been securitized. Based on the terms of the securitization contracts, the leasing receivables have been included in our consolidated balance sheets. See also Note 28 to our consolidated financial statements.

Amortization and depreciation of intangible and tangible long-lived assets are based on the assets' historical acquisition value, with appropriate adjustments for impairment and taking into account the estimated economic life of the assets. For assets acquired during a year, amortization and depreciation is calculated from the date of acquisition. Amortization and depreciation is mainly recorded on a straight-line basis. See also Note 10 to our consolidated financial statements.

We review our long-lived assets for impairment at least annually and else whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, by analyzing individual assets or classes of assets that naturally belong together. If an analysis indicates that the value recorded is too high, the asset's recoverable value is set, which is the higher of the net realizable value of the asset and its value in use. Value in use is measured based on the expected future discounted cash flows (DCF model) attributable to the asset. A write-down consists of the difference between the carrying value and recoverable value of the asset.

As a result of such impairment analysis we recorded significant write-downs in the years ended December 31, 2003, 2002 and 2001. See also Notes 10 and 11 to our consolidated financial statements.

A number of significant assumptions and estimates are involved in the application of a DCF model to forecast operating cash flows, including market growth rates, revenue volumes, market prices for telecommunications services, costs to maintain and develop communications networks and working capital requirements. Our forecasts of future cash flows are based on our best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other available information. These assumptions are subject to review by management and the audit committee of our board of directors. Our cash flow forecasts are adjusted by an appropriate discount rate derived from our cost of capital plus a reasonable risk premium at the date of evaluation.

If our projections for future cash flows for any of our long-lived assets change as a result of changes in business model or strategy, competitive pressures, or regulatory environment, we may have to recognize impairment charges on our intangible, tangible and financial fixed assets.

Restructuring

We have engaged, and may in the future need to engage, in restructuring activities, which require management to utilize significant estimates related to realizable values of assets made redundant or

obsolete (see " Valuation of Intangible and Other Long-lived Assets" above) and expenses for severance and other employee separation costs, lease cancellation and other exit costs, which we recorded as write-downs or provisions at the time of the restructuring decision. Should the actual amounts differ from our estimates, our future results could be materially impacted. For a description of our restructuring activities, see Note 37 to our consolidated financial statements.

Provisions for Pensions

Our recording of pension provisions is described in Note 22 to our consolidated financial statements. Almost all of our employees in Sweden, Finland and Norway are covered by defined benefit plans. Provisions for these benefits represent obligations that will not be definitively settled for a long period of time. Pension obligations are calculated annually, on the balance sheet date, based on actuarial principles. Our obligations for defined benefit plans in these countries are mainly secured by pension fund arrangements. The assets of the funds, consisting primarily of various fixed income instruments, constitute plan assets for pensions and are valued at fair market value. See also the section entitled "Strategic asset allocation" in Note 22 to our consolidated financial statements.

Management has to make a number of significant assumptions in connection with the calculation of pension benefit obligations. The most significant assumptions that management makes in connection with the actuarial calculation of pension obligations and pension expenses are the discount rate, the expected rate of compensation increase, the employee turnover rate, the average expected remaining working-life, the increase in income base amount, the annual adjustments to pensions, and the expected return on plan assets. See the section entitled "Actuarial calculation assumptions" in Note 22 to our consolidated financial statements for a detailed discussion of this process and actual estimates we have used for the last three years. A change in any of these key assumptions may have a significant impact on our projected benefit obligations, funding requirements and periodic pension cost. See the section entitled "Pension obligation risk" in Note 30 to our consolidated financial statements for a sensitivity analysis related to a change in the weighted average discount rate in calculating pension provisions.

Income Taxes

Significant management judgment is required in determining current tax liabilities and assets as well as provisions for deferred tax liabilities and assets, in particular as regards valuation of deferred tax assets. As part of this process, we have to estimate our income taxes in each of the jurisdictions in which we operate. The process involves estimating the actual current tax exposure together with assessing temporary differences resulting from the different valuation of certain assets and liabilities in our financial statements and tax returns. Management must also assess the likelihood that the deferred tax assets will be recovered from future taxable income. Actual results may differ from these estimates due to, among other factors, future changes in business environment, currently unknown changes in income tax legislation or results of the final review of tax returns by tax authorities or by courts of law.

Deferred tax assets are reduced by means of a valuation allowance, to the extent that the ability of realizing the underlying tax asset within the foreseeable future is not likely. To the extent the likely recovery of a deferred tax asset changes, the effect of such changes is recorded in the income statement for the relevant period. See also Note 14 to our consolidated financial statements.

Litigation and Contingent Liabilities

Determination of the treatment of contingent liabilities in our consolidated financial statements is based on management's view of the expected outcome of the applicable contingency. Management consults with legal counsel on matters related to litigation and other experts both within and outside the company with respect to matters in the ordinary course of business. A provision is recognized if an adverse outcome is probable and the amount is estimable. If the likelihood of an adverse outcome is

less than probable but reasonably possible, or an estimate is not determinable, the matter is disclosed in the notes to our consolidated financial statements provided that the contingency is material. See also Note 31 to our consolidated financial statements.

RESULTS OF OPERATIONS (Historical Results)

The following discussion compares our historical audited results, which include the results of operations of Sonera and our newly consolidated Baltic subsidiaries, Omnitel, Lietuvos Telekomas and Latvijas Mobilais Telefons, only for the period beginning December 3, 2002. Therefore, the fluctuations in the historical operating results in 2003 as compared to 2002 and 2001 are due principally to the merger of Telia and Sonera.

	Year ended December 31,		
	2003	2002	2001
	(SEK in millions)		
Net sales	82,425	59,483	57,196

	Year ended December 31,		
Cost of sales	(46,688)	(38,182)	(40,435)
Gross income	35,737	21,301	16,761
Selling, administrative and research and development expenses	(23,161)	(18,667)	(17,943)
Other operating revenues and expenses	1,752	(14,057)	506
Income from associated companies	382	528	6,136
Operating income	14,710	(10,895)	5,460
Financial revenues and expenses	(811)	(721)	(652)
Income after financial items	13,899	(11,616)	4,808
Income taxes	(3,850)	3,619	(2,917)
Minority interests	(969)	(70)	(22)
Net income	9,080	(8,067)	1,869

Analysis of Components within Operating Income

Our total net sales increased by 39 percent in 2003 and by four percent in 2002, in both cases primarily due to the merger with Sonera, which resulted in the inclusion of net sales from Finland, certain Baltic subsidiaries, Eurasia, as well as certain subsidiaries included within TeliaSonera Holding beginning December 3, 2002. In 2002, the increase in net sales due to the merger with Sonera was SEK 2,345 million. Increases in total net sales in 2003 and 2002 were partially offset by the divestiture of many non-core operations. See Note 34 to our consolidated financial statements.

The following table sets forth our operating expenses by function and the percentage change in operating expenses for the periods indicated:

	Year ended December 31,			Change	
	2003	2002	2001	2003/2002	2002/2001
	(SEK in millions)			(%)	
Cost of sales(1)	46,688	38,182	40,435	22.3	(5.6)
Selling	12,786	9,225	8,738	38.6	(5.6)
Administration	7,832	8,275	7,902	(5.4)	4.7
Research and development	2,543	1,167	1,303	117.9	(10.4)
Total	69,849	56,849	58,378	22.9	(2.6)

(1) Cost of sales includes all costs for services and products sold as well as for installation, maintenance, service and support.

The following table sets forth our operating expenses by type of cost and the percentage change in operating expenses for the periods indicated:

Year ended December 31,	Change

	2003	2002	2001	2003/2002	2002/2001
	(SEK in millions)			(%)	
Total goods and services purchased	26,013	22,736	18,822	14.4	20.8
Personnel expenses	12,401	9,933	13,158	24.8	(24.5)
Depreciation, amortization and write-downs	17,655	12,356	13,921	42.9	(11.2)
Other expenses	13,780	11,824	12,477	16.5	(5.2)
Total	69,849	56,849	58,378	22.9	(2.6)

Total operating expenses in 2003 were higher than in 2002 due to the inclusion of Sonera and the new Baltic subsidiaries in the consolidated financial statements beginning December 3, 2002, partly offset by lower restructuring costs and write-downs recorded in 2003 as compared to 2002. Operating expenses in 2002 were lower than in 2001 primarily due to divestments, reductions in personnel and the amount of consultant work in 2002, as well as lower depreciation and amortization, partly offset by the inclusion of Sonera and the new Baltic subsidiaries in the consolidated financial statements beginning by December 3, 2002. See Note 7 to our consolidated financial statements.

The increase in personnel expenses in 2003 was primarily attributable to the inclusion of Sonera and the new Baltic subsidiaries in the consolidated financial statements beginning December 3, 2002, partly offset by divestitures of our non-core business operations and other reductions of personnel. The decrease in personnel expenses in 2002 was primarily attributable to the divestiture of our non-core operations and other reductions in personnel as part of our refine and focus initiative. See Notes 7 and 36 to our consolidated financial statements.

The following table sets forth other operating revenues and expenses for the periods indicated:

Year ended December 31