

23. SONERA CORPORATION

23.1 COMPANY INFORMATION

Exhibit 42 – Sonera Corporation at a glance

Ownership	<ul style="list-style-type: none">• State owned, authorised to sell 52.8%• Domestic institutions and retail 13.0%• Foreign investors 34.0%
CEO	Aimo Eloholma (acting CEO) Harri Koponen (from October 2001)
Year Established	1994 as Telecom Finland; 1998 became Sonera
Revenue 2001	€2.19 billion
Major subsidiaries	<ul style="list-style-type: none">• Sonera Telecom• Sonera Entrum• Sonera Carrier Networks• Sonera Solutions• Sonera Zed• Sonera SmartTrust• Sonera Plaza• Sonera Living• Sonera Juxto• Sonera Info Communications
Headquarters	Helsinki
Branches	Belgium, Sweden, Germany, Russia, Estonia, Latvia, Netherlands, Hong Kong
Employees 2001	10,500

(Source: Paul Budde Communication based on company data)

Formerly known as Telecom Finland, partly state-owned telecommunications provider, Sonera Corporation is the largest telecommunications provider in all sectors. It has subsidiaries and associated companies in 14 countries and is an international player in mobile, data and media communications. Its key business areas remain fixed voice and data services, and wireless voice and data services, with Internet applications spread across these infrastructures.

In 1990, the State authority Posts and Telecommunications became a business enterprise and the telecommunications business was Telecom Finland. Privatisation began in 1997 with a 22.2% sale by the Finnish Government of the newly named Sonera to private citizens and institutional investors from Finland and overseas.

A further sell-off to institutional investors occurred in March 2000, reducing the State's holding from 57% to 54.5%. In June 2000, the Finnish Parliament authorised a reduction in State ownership to zero, and by October 2000, the State owned 52.8%.

23.1.1 Year 2001 results

Consolidated revenues were €2.19 billion, up 6%. After correcting for acquisitions and disposals, the comparable increase was 8%. Revenues from the Group's international subsidiaries totalled €57 million (down 28%). Exports from Finland amounted to €92 million (up 30%).

EBITDA was down 37% to €1.28 billion Reported operating profit was €951 million (down 46%), or up 14% to €230 million in comparable terms.

The reported profit before extraordinary items and taxes was €445 million (down 76%), but the comparable result was a loss of €4 million compared with a profit of €314 million in 2000. The comparable result was weakened principally by the loss-making result of the associated companies.

Table 82 – Revenue for years ending December – 1995-2001

Year	Revenue (€ millions)
1995	991
1996	1,125
1997	1,352
1998	1,623
1999	1,849
2000	2,057
2001	2,187

(Source: Paul Budde Communication based on company data)

Table 83 – Revenue by segment – 2000

Segment	Proportion	Annual change
Mobile	45%	+15%
Sonera Zed, SmartTrust & other media	10%	+45%
Fixed network voice & data	32%	+10%
Equipment sales and other operations	13%	-27%

(Source: Paul Budde Communication, based on company data)

23.2 TELIA- SONERA MERGER ANALYSIS – OCTOBER 2002

23.2.1 Overview

The Swedish and Finnish incumbents, Telia and Sonera, announced in March 2002 that they would merge to become the Nordic region's largest operator and Europe's first merger of national incumbents. The combined entity would create the largest telecommunications group in the Nordic and Baltic regions with combined revenues of about €9 billion, 34,000 employees, 15 million mobile and 1.2 million fixed-line subscribers. Both governments supported the merger, and each was also a majority shareholder in both companies: 70% of Telia and 53% of Sonera.

In October 2002, Telia issued a prospectus detailing the buy-out of Sonera.

23.2.2 The proposal

Telia offered to buy Sonera in an all-share deal, worth €7.4 billion, representing a 16% premium on Sonera's share value in March 2002. By mid-2002, when the EU gave its approval to the deal, subsequent share market changes meant the deal was worth €4.6 billion and at a premium of 6% for Sonera. By the October 2002 prospectus for the merged company, this value had fallen even further.

The merger would be accomplished by means of a share swap, with Sonera shareholders receiving a 16% premium, with the original Telia shareholders holding 64% of the combined company. The new company will be based in Stockholm, will retain its listing in Stockholm and seek secondary listings in Helsinki and New York. The chairman will be the chairman of Sonera. It was later announced that the CEO will be Anders Igel, a Telia board member.

The merged company, named TeliaSonera, will retain the brand names Telia in Sweden and Denmark, Sonera in Finland and NetCom in Norway. Three of the jointly owned Baltic assets, namely UAB

Omnitel, AB Lietuvos Telekomas and Latvijas Mobilais Telefons SIA, will become consolidated subsidiaries of the combined entity.

23.2.3 Anticipated cost savings

Telia and Sonera expect to derive significant cost and capital expenditure synergies as a result of the combination. Restructuring costs to combine the companies are expected to be in the order of €250 million during 2002 and 2003, leading to annual savings of approximately €300 million after 2005.

In addition, Telia has operated a Finnish business since 1998, but every year since then it has recorded a loss, and the merger with Sonera is regarded as one way to leave the unsuccessful business. The European Commission (EC) requirements include the sale of Telia's Finnish mobile business.

In September 2002, Telia announced its restructuring plan for its loss-making international carrier business prior to the merger. It involves the closure of Telia's Asian operations and its UK voice resale business, with the loss of 400 jobs. Additionally, US capacity services will be terminated and administrative work will be centralised to Sweden.

23.2.4 EC conditions

The EC approved of the merger between Telia and Sonera in July 2002. However, the approval was based on the following conditions agreed by Telia and Sonera:

- Telia agreed to sell the mobile operations, dealership chain and wireless LAN business in Finland;
- the merged company agreed to provide to the purchaser of its mobile operations in Finland national roaming on commercial terms and at a fair price if the purchaser did not already have a nationwide GSM network in Finland;
- Telia also agreed to sell its comhem AB cable business and related network in Sweden;
- the combined company committed to ensure that its fixed and mobile network businesses in Sweden and Finland are held in separate legal entities, which are distinct from related retail activities. The network companies' boards of directors will include an external director appointed according to corporate law. This commitment can be revised after five years;
- the merged company further agreed to provide regulated wholesale fixed and mobile network products and international GSM roaming in Sweden and Finland to other operators on a non-discriminatory basis compared to the terms on which they are offered internally within the combined company;
- the Swedish fixed operator, Skanova, and the Finnish mobile networks were already operated separately. The Finnish fixed network was operated in a subsidiary, Sonera Carrier Network Ltd, which would have to be separated.

23.2.5 Government support

As both Swedish and Finnish Governments were majority shareholders at the time of the proposal and EC approval, there was a view that the combined entity would result in a share price high enough to make the respective governments' reduction to minority holdings politically acceptable. The market conditions in 2000 and 2001 were not conducive to reduced holdings, and both governments had expressed interest in reducing their holdings in the future.

23.2.6 The region

The Nordic region had been the subject of consolidation for some time. Sonera, the region's smaller player, had admitted that its size inhibited growth prospects and even survival on its own. Telia, on the other hand, was the region's largest operator with ambitions of being the dominant player in the Nordics and the Baltics. Another neighbour, Norway's Telenor, had tried to merge with Telia in 1999. That deal failed amid disagreements about siting mobile business divisions in Sweden or Norway. And

while Telenor was not involved in the Telia-Sonera talks - merging two companies is already a major exercise, let alone three - there were still expectations that Telenor could join the group at a later stage.

23.2.7 Regional consolidation

Consolidation in the region is more likely with the TeliaSonera entity in the fray, with Norway's Telenor, and Denmark's TDC chief suspects. Consolidation is to be expected because of the need for TeliaSonera to grow their service offerings in Norway and Denmark, while Telenor and TDC come under competitive pressure from the larger TeliaSonera. All of the region's incumbents are aware of the increasing saturation in their home markets and the need for growth other than organic means.

23.2.8 Existing businesses

In Sweden, Finland and the Baltic countries, TeliaSonera aims to provide the full range of telecoms services to its customers, whereas in Norway and Denmark the combined company will initially offer only a selected range of services - those likely to be delivered profitably. However, according to Telia, if the right expansion opportunities develop, TeliaSonera intends to become a provider of a full range of services in its home markets as well.

23.2.9 Growth

Sonera has had the better growth performance of the two companies, riding on the success of its domestic mobile market, with Telia's growth suffering from margin squeeze in its domestic operations and losses in its international carrier division, though this improved in 2001. Also, Finland's mobile market is nigh on saturated, limiting growth prospects on that score. In addition, the merger implicitly accepts that growth for both companies will not come solely from organic growth. The following advantages are foreseeable:

- Telia may benefit from leaving its unsuccessful Finnish mobile business, allowing it to refocus on its strengths in Sweden;
- Sonera may gain growth from the added scale of operations with Telia;
- both companies may benefit from consolidated Baltic activities.

The October 2002 prospectus for the new company made it clear that the growth strategy focussed on the international markets.

23.2.10 Baltic interests

The international operations of the two countries hold more promise for growth going forward than the saturated domestic markets in Western Europe.

Sonera and Telia have interests in the Baltics, notably in Latvia. Three of the jointly owned Baltic assets, namely UAB Omnitel, AB Lietuvos Telekomas and Latvijas Mobilais Telefons SIA, will become consolidated subsidiaries of the combined entity. The Baltics are a growth area given intentions to join the European Union (EU) by 2004, and consolidating the various Baltic interests into the merged company is likely to improve on the 5% contribution (for Telia) to group revenues in 2001.

The merged entity, TeliaSonera, wants to develop its Russian mobile businesses to become part of its domestic operations, as well as developing mobile activities in Turkey, Kazakhstan and Azerbaijan. TeliaSonera also seeks growth in a 'refocused' international carrier business.

23.3 OPERATIONS

Sonera's key businesses areas are in fixed and mobile telephony, data and Internet services. Internet services are integrated into wireless applications, though Sonera Plaza Ltd is an Internet Service Provider (ISP) in Finland.

Table 84 – Sonera's fixed-line network operating statistics – 1995-2001

Year	Total fixed lines	Standard lines	ISDN lines	2Mb/s lines	Broadband lines	Internet subscribers
1995	785,000	n/a	n/a	n/a	n/a	n/a
1996	785,000	n/a	n/a	n/a	n/a	n/a
1997	789,000	n/a	n/a	n/a	n/a	n/a
1998	791,000	n/a	n/a	n/a	n/a	n/a
1999	770,000	592,000	36,000	3,500	n/a	n/a
2000	742,000	542,000	46,000	3,800	600	239,000
2001	753,000	532,000	51,000	3,900	12,500	502,000

(Source: Paul Budde Communication based on company data.)

Table 85 – Sonera's mobile operating statistics – 1995-2001

Year	Total subscribers (million)	GSM subscribers (million)	NMT subscribers	Average monthly use (mill. minutes)	Average monthly SMS messages	Annual GSM churn
1995	0.89	0.25	637,000	90	0.4	16.5%
1996	1.21	0.58	628,000	97	1.1	12.1%
1997	1.59	1.03	554,000	103	3.7	11.5%
1998	1.93	1.60	335,000	116	13.0	14.0%
1999	2.14	1.94	198,000	130	21.0	14.6%
2000	2.34	2.28	56,000	139	25.0	12.4%
2001	2.46	2.42	38,000	145	26.0	10.1%

(Source: Paul Budde Communication based on company data.)

23.3.1 Fixed voice and data

In June 2001, Sonera restructured to concentrate its fixed network voice and data services into a wholly owned subsidiary, Sonera Telecom Oy. Sonera Telecom business comprises Sonera subsidiaries Sonera Entrum Ltd, which offers voice and data services to consumer customers and SMEs; Sonera Solutions Ltd, which provides data network solutions for large companies; Sonera Carrier Networks Ltd, which operates the backbone network; Primatel Ltd, which attends to installation and maintenance of telecommunications and data networks; Sonera Gateway Ltd; Sonera Systems Ltd; international subsidiaries Sonera Sverige AB and ZAO Sonera Rus; some minor business operations; subgroup administration; and support functions:

- **Sonera Telecom** – is responsible for Sonera's fixed network operations in Finland and in regions neighbouring Finland. Through its subsidiaries the company provides its customers with voice and data services. Sonera Telecom Ltd consists of companies which it owns either wholly or jointly with a partner;
- **Sonera Entrum Ltd** – provides fixed network voice and data services to consumers, corporations and organizations, locally and regionally. The company operates its own access network in Finland and is also in charge of the fixed network joint ventures in the Baltic States;
- **Sonera Solutions Ltd** – develops and provides telecommunications and information technology services for major corporations and organisations. It provides its customers with modular voice, mobile, data, media and telecommunications systems that make use of the Internet and mobile technology;
- **Sonera Carrier Networks Ltd** – is responsible for the operation of Sonera's entire backbone network. It is Finland's largest and most international network operator. Besides Finland, Carrier

Networks' market area covers north-western Russia, northern and central Europe, and the east coast of North America. The company's customers include not only Sonera, but also many other international operators, ISPs, corporate network suppliers and local and mobile operators;

- **Primatel Ltd** (www.primatel.com) – installs and maintains telecommunications and information networks as well as security and passage-control systems. In addition, underwater cabling is included in the business. The company's main customer base consists of telecommunications operators, enterprises, industry, and public administration;
- **Sonera Living Ltd** – was a joint venture of Sonera (51 %) and YIT Corporation for home networking business. The joint venture networks new and old housing properties with broadband data networks. The company provides the inhabitants with terminal equipment and data solutions and produces new housing-related services to homes. Sonera bought all of the company in November 2001;
- **Isoworks Oy** (www.isoworks.fi) – is jointly owned by Sonera and ICL Invia Oy. IsoWorks specializes in installation and maintenance services for telecommunications and IT equipment. DataInfo is a specialized IT chain consisting of 45 outlets;
- Sonera was the first European operator to introduce commercial Asynchronous Transfer Mode (ATM) services in 1994 and has continued to develop the service ever since;
- In February 2000, the company was granted a licence for the commercial launch of a fibre optic cable linking St Petersburg and Moscow;
- The Sonera Voice over IP service uses the VoIP (Voice over Internet Protocol) technology that enables users to interconnect the telephone systems and the data system and to transmit voice traffic over the information network. Sonera VoIP does not use the public IP network, but calls are transferred on Sonera's own IP network. The test traffic of Sonera VoIP started in October 2000 – the pilot was the first in Finland.

Corporate services:

- **Sonera FastNet** – a managed and controlled network package covering all telephony services, on top of which other services can be built up;
- **Sonera DataNet** – is a Local Area Network (LAN) interconnection service based on Frame Relay (FR) and ATM technologies.
- **Sonera Contact Centre** – an answering service;
- **Freephone** – provides free calling time;
- **Split Rate** – enables the caller to call throughout Finland with local call charge. The called party providing the number will pay for the rest of the call. Split Rate Service is targeted at companies;
- International Calling Card;
- Premium Rate;
- **Vipgate IVPN** – a virtual international intranet for telephony services;
- Telephone Conference.

23.3.2 Mobile

Sonera operates GSM and NMT networks in Finland and provides a range of value-added wireless services, integrating data and Internet services on several wireless platforms:

- **Sonera Zed** – a mobile portal for both consumer and corporate environments. Sonera Mobile Portal combines the Internet and mobile worlds, offering relevant content, tools and services for both business and consumer use - on the desktop as well as mobile devices;
- **Sonera Positioning Services** - comprehensive service supporting the whole value chain of positioning needsd
- **Sonera SmartTrust** – a wireless Internet service and secure mobile commerce service, Sonera SmartTrust addresses the security issues surrounding mobile e-commerce;
- **Sonera FleetWare** – is a wireless solution for linking people on the road to databases, central computer systems, and third-party services. Real-time links improve productivity and efficiency by delivering information when and where it is needed;
- **Sonera Mobile Pay** – allows mobile phone users to pay with their mobile phone. Sonera Mobile Pay business areas are vending machines and automatic tellers, fast food and parking;
- **GSM RemoteNet** – allows basic GSM service with one or more base transceiver stations in areas where it is impossible or costly to implement an ordinary fixed or mobile telephone network. In

addition to ordinary GSM voice services, a range of value added services can be included. The service can be built into operation in a relatively short time. The system aimed at projects with a limited time of usage or for remote areas with little usage, including pipeline installation, on-site construction, oil industry, peace keeping and observation projects, humanitarian and disaster aid.

- SMS;
- WAP;
- GPRS;

Mobile entertainment services:

- Sonera Mobile Marketing Solutions;
- Sonera Games Solutions;
- Sonera Mobile Music Solutions;
- Sonera Gaming Solutions.

23.3.2.1 Finland

Sonera is the leading mobile communications operator in Finland. Sonera had nearly 2.3 million mobile subscriptions at the end of 2000 and its market share of GSM subscriptions was over 58%. The company operates a GSM and two NMT networks across the country. The company announced that the NMT 450 network would close in December 2002. The NMT 450 network will continue to operate for almost 18 months in Finland, but no new NMT 450 subscriptions will be opened after August 2001.

23.3.2.2 International

Sonera has associated companies that provide GSM services in five countries: Turkey, Estonia, Latvia, Lithuania and Russia. In addition, Sonera has a minority stake in Lebanese mobile operator Libancell. Sonera is also present in 3G markets in Germany (Group 3G), Spain (Xfera) and Italy (Ipe 2000). These market areas comprise a total of more than 180 million people in Europe.

In January 2001, Sonera Corporation concentrated its network operator holdings and businesses outside Finland, and their development, in its wholly-owned subsidiary, Sonera Holding B.V. of the Netherlands. The Sonera International Mobile unit, responsible for Sonera's international 2G and 3G business, will continue its operations directly under Sonera Holding B.V.

Holdings in third generation (3G) mobile network operator companies managed by Sonera Holding:

- BroadBand Mobile ASA, Norway - 50.0% (announced liquidation in August 2001);
- Marabou GmbH (Group 3G), Germany - 42.8%;
- Xfera SIA, Spain - 14.0%;
- Ipe 2000, Italy - 12.55%.

Holdings in second generation (2G) mobile network operator companies managed by Sonera Holding:

- Turkcell Iletisim Hizmetleri AS, Turkey - 37.3%;
- ZAO Sonik Duo, Russia - 35.0%;
- UAB Omnitel, Lithuania - 27.5%;
- AS Eesti Mobiiltelefon, Estonia - 24.5%;
- Latvijas Mobilais Telefons SIA, Latvia - 24.5%;
- North-West GSM A/O, Russia - 23.5%;
- Pannon GSM Rt, Hungary - 23.0% (sale announced July 2001).

23.3.3 Internet

Internet services are typically integrated into wireless applications, though Sonera Plaza Ltd is an ISP:

- **Sonera Plaza Ltd** (www.soneraplaza.fi) – is Finland's leading ISP, with about 240,000 subscribers and over 1.5 million unique visitors per month at the beginning of 2001. The

company's objective is to develop into a leading Internet transaction centre that will link together e-transactions, commerce, financial services, media and entertainment;

- **Sonera SmartTrust** is a wireless Internet service;
- **VoIP** – launched in 2000;
- **Sonera Internet** – Internet services for the corporate market;
- **Sonera Firewall** – External security service;
- **Juxto Live** – Sonera's multimedia service, Sonera Live, enables the distribution of on-demand as well as live audio and video over the Internet and intranets;
- In April 2001, Sonera launched **Sonera CA**. Sonera CA grants and manages certificates and enables strong authentication and digital signatures. The service is targeted at companies and public sector organizations for the management of information security services. Sonera's partners in the technical implementation of the Sonera CA service are Certall Finland Oy and Sonera SmartTrust Ltd;
- **Sonera SecureWeb** is a user management and information security service which is based on the use of certificates and which has been implemented by means of Sonera CA. Using Sonera SecureWeb, a company can build a secure network application, such as an online trading site, that operates via the Internet. Sonera SecureWeb allows secure connections to be built for remote users of the online service and for subcontractors and partners. The company can also manage the users of its Internet services. Sonera SecureWeb provides online services with strong encryption and strong user authentication and authorisation.

23.3.4 Broadband

- Sonera develops and provides broadband Integrated Services Digital Network (ISDN) and Asymmetric Digital Subscriber Line (ADSL) connections for consumers and corporate customers.
- Sonera launched residential broadband services to metropolitan areas in April 2001. Services are provided by Sonera Entrum Ltd and Sonera Living Ltd under separate Sonera Home ADSL subscriptions or Sonera Shared Broadband Access. The latter is available to residences where five or more households request broadband services.

23.3.5 Application Service Provider

Sonera Juxto, an Application Service Provider (ASP), was incorporated in June 2000, focussing on wireless applications. Sonera Juxto Ltd aims to become an internationally prominent provider of application and management services. Sonera Juxto began offering ASP services to companies in Sweden from the beginning of 2001.

23.3.6 Directories

Sonera Info Communications Ltd is a directory service for mobile and fixed-line operators, content providers, mobile portals, ISPs and other service providers. The company provides directory services to meet the needs of different customer segments, including GSM-, WAP- and Internet-based directory services as well as operator-assisted and automated directory services. Sonera Info Communications operates in the European, North American and Asian market areas. The company is the leading provider of electronic and operator-assisted directory services in Finland.

23.3.7 Broadcasting

Sonera Cable TV is the second largest cable TV provider in Finland with 80 networks. By 2001 Sonera's cable TV operations were not part of its key businesses however.

In 1996, Sonera built the country's first two-way interactive cable TV network in Lappeenranta, and began rolling out its Cabinet Internet access service using Zenith cable modems. Sonera began converting its cable system in Kouvola for two-way interactive services and launched a video on

demand service (VoD), which also provides fast Internet access. The video is served via ATM over both cable TV and telephone network connections.

In August 2000, Sonera withdrew from a deal to buy 34% of Digita Oy, a wholly owned subsidiary of the Finnish Broadcasting Company. The deal was approved by the Finnish Competition Council provided Sonera did not bid for a terrestrial digital TV licence or for a transfer of a licence to itself.

Sonera applied for a digital TV licence in October 2000 to develop its Sonera Plaza services. It applied for a licence unsuccessfully in 1999 when digital TV licences were granted. No digital TV licences have been granted to Sonera or any other telecommunications operators.

23.4 INTERNATIONAL ACTIVITIES

Sonera provides international consultancy to telecommunications providers across the range of telecom services, with projects in more than 40 countries in Europe, Asia and Africa. The company has targeted the Baltic and Eastern European markets, with minority shareholdings in a number of companies outside Finland.

Exhibit 43 – Key subsidiaries and joint ventures – December 2001

Service	Company	Country	Stake
Mobile communications	Turkcell İletişim Hizmetleri AS	Turkey	37.3%
	Fintur mobile companies	Netherlands	35.3%
	AS Eesti Mobiiltelefon	Estonia	24.5%
	SIA Latvijas Mobilais Telefons	Latvia	24.5%
	UAB Omnitel	Lithuania	27.5%
	MegaFon	Russia	26.0%
3G joint ventures	Libancell SAL	Lebanon	14.0%
	Marabu GmbH	Germany	42.8%
	Ipse 2000 SpA	Italy	12.6%
Fixed network operations	Xfera MovilesvSA	Spain	14.3%
	AS Eesti Telefon	Estonia	24.5%
	Lattelekom SIA	Latvia	49.0%
Other	AB Lietuvos Telekomas	Lithuania	30.0%
	Tieto Corporation Oyj	Finland	<20%

(Source: Paul Budde Communication, based on company data)

23.5 OTHER DEVELOPMENTS

23.5.1 Year 2002

January

- Sonera purchased the remaining 10% of Tilts Communication;
- Sonera purchased 5% of the shares of Loimaan Seudun Puhelin Oy.

February

- Sonera sold its 23% stake in Hungarian wireless operator Pannon to Telenor Mobile Communications;
- Sonera agreed to increase its holding to majority in Fintur's Eurasian GSM business, and to sell its Fintur new media business stake.

March

- Sonera sold all of its remaining Deutsche Telekom shares;
- Notification of proposed merger of Sonera and Telia;
- Sonera Info Communications Ltd was sold to the consortium led by 3i.

April

- Sonera sold its holding in Primatel Ltd to YIT corporation;
- Sonera exercised the put option to convert its Eliska ownership to Deutsche Telekom shares.

May

- Sonera completed the sale of Gateway Ltd's financing business and shares in Primatel Ltd.

July

- The European Commission approved the merger between Telia and Sonera with conditions;
- Sonera sold its 14% holding in the Lebanese GSM operator LibanCell to Lebanese Telecommunications Company.

August

- Sonera agreed to sell its 15% stake in Zed, a wireless content provider, to Yahoo.

23.6 CONTACT DETAILS

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